

**NISHOKU TECHNOLOGY INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017**

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The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of NISHOKU TECHNOLOGY INC. as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, NISHOKU TECHNOLOGY INC. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: NISHOKU TECHNOLOGY INC.

Chairman: B. F. Chen

Date: February 27, 2019



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Independent Auditors' Report

To the Board of Directors of Nishoku Technology Inc.:

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in 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 of our opinion.

Key Audit Matters

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

1. Impairment assessment of accounts receivable

Please refer to Note 4(g) “Financial instruments” and Note 5(a) “Significant accounting assumptions and judgments, and major sources of estimation uncertainty” of the consolidated financial statements.

Description of key audit matter

The Group do business primarily with customers who are involved in the manufacture of mold and electronic parts with credit term, which make the Group vulnerable to credit risk. The default of the client may lead to impairment loss of the receivables. The assessment of impairment loss involves subjective judgments of the management, which is the major source of estimation uncertainty. Therefore, this whole matter needed to be taken into serious consideration.

How the matter was addressed in our audit

Our principal audit procedures included: assessing whether the Group's impairment of accounts receivable has been set aside in accordance with the Group's policy, including inquiring from the management if they had identified the debtors who have financial difficulties ; selecting a moderate number of samples from the account aging statements to ensure the accuracy of the statements, and understanding the reason on overdue accounts; assessing the uncollectable accounts receivable for the appropriateness of impairment assessment of accounts receivable; assessing the appropriateness and adequacy for doubtful accounts made by the management based on the subsequent collection of accounts receivable.

2. Evaluation of inventory

Please refer to Note 4(h) "Inventory" and Note 5(b) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty" of the consolidated financial statements.

Description of key audit matter

Evaluation of inventory is one of the key judgmental areas for our audit, the Group is primarily involved in the design, manufacture, and sale of mold and electronic parts. As different series or models of electronic products are rapidly being replaced by new ones, it may impact the inventory of the older ones to be slow-moving, or worse yet, stagnant; thus, may result the cost of inventory to be higher than the net realized value. The assessment of impairment loss requires subjective judgments of the management, which is the major source of estimation uncertainty. Therefore, this whole matter needed to be taken into serious consideration.

How the matter was addressed in our audit

Our principal audit procedures included: understanding the inventories valuation of the Group; inspecting whether those policies are applied; examining the accuracy of the aging of inventories by sampling and analyzing the changes of the aging of inventories by comparison; retroactively inspecting the reasonability for allowance provided on inventory valuation in the past and compare it to the current year to ensure that the measurements and assumptions are reasonable; sampling the inventories sold in the subsequent period to assess whether the allowance for inventories are reasonable.

Other Matter

Nishoku Technology Inc. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Cheng-Chien Chen and Yung-Hua Huang.

KPMG

Taipei, Taiwan (Republic of China)
February 27, 2019

Notes to Readers

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

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

| | | 2018 | | 2017 | |
|------|--|-------------------|------------|------------------|------------|
| | | Amount | % | Amount | % |
| 4110 | Operating revenues (note 6(o)) | \$ 4,285,754 | 102 | 4,092,690 | 102 |
| 4170 | Less: Sales returns and allowances | <u>66,912</u> | <u>2</u> | <u>73,182</u> | <u>2</u> |
| | Net Operating revenues | 4,218,842 | 100 | 4,019,508 | 100 |
| 5000 | Operating costs (notes 6(d), (j) and 12) | <u>3,421,025</u> | <u>81</u> | <u>3,025,468</u> | <u>75</u> |
| | Gross profit from operations | <u>797,817</u> | <u>19</u> | <u>994,040</u> | <u>25</u> |
| 6000 | Operating expenses: (notes 6(c), (j), (m), (p) and 12) | | | | |
| 6100 | Selling expenses | 68,560 | 2 | 62,440 | 2 |
| 6200 | Administrative expenses | 294,023 | 7 | 249,625 | 6 |
| 6300 | Research and development expenses | 104,695 | 2 | 85,059 | 2 |
| 6450 | Expected Credit Loss | <u>12,284</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | | <u>479,562</u> | <u>11</u> | <u>397,124</u> | <u>10</u> |
| | Net operating income | <u>318,255</u> | <u>8</u> | <u>596,916</u> | <u>15</u> |
| | Non-operating income and expenses: | | | | |
| 7010 | Other income (notes 6(q) and (s)) | 95,863 | 2 | 68,213 | 2 |
| 7020 | Other gains and losses, net (notes 6(r) and (s)) | 71,281 | 2 | (149,166) | (4) |
| 7050 | Finance costs | <u>(25,408)</u> | <u>(1)</u> | <u>(17,405)</u> | <u>-</u> |
| | Total non-operating income and expenses | <u>141,736</u> | <u>3</u> | <u>(98,358)</u> | <u>(2)</u> |
| 7900 | Profit before tax | 459,991 | 11 | 498,558 | 13 |
| 7950 | Less: Income tax expense (note 6(k)) | <u>218,239</u> | <u>5</u> | <u>62,664</u> | <u>2</u> |
| | Profit | <u>241,752</u> | <u>6</u> | <u>435,894</u> | <u>11</u> |
| 8300 | Other comprehensive income (loss): | | | | |
| 8360 | Items that may be reclassified subsequently to profit or loss | | | | |
| 8361 | Exchange differences on translation of foreign operations | (22,664) | (1) | (172,716) | (4) |
| 8399 | Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(k)) | <u>4,533</u> | <u>-</u> | <u>29,362</u> | <u>1</u> |
| 8300 | Other comprehensive income (after tax) | <u>(18,131)</u> | <u>(1)</u> | <u>(143,354)</u> | <u>(3)</u> |
| 8500 | Total comprehensive income | <u>\$ 223,621</u> | <u>5</u> | <u>292,540</u> | <u>8</u> |
| | Profit, attributable to: | | | | |
| 8610 | Profit, attributable to owners of parent | <u>\$ 241,752</u> | <u>6</u> | <u>435,894</u> | <u>11</u> |
| | Comprehensive income attributable to: | | | | |
| 8710 | Comprehensive income, attributable to owners of parent | <u>\$ 223,621</u> | <u>5</u> | <u>292,540</u> | <u>8</u> |
| | Basic earnings per share | | | | |
| 9750 | Basic earnings per share (NT dollars) (note 6(n)) | <u>\$ 3.35</u> | | <u>5.50</u> | |
| 9850 | Diluted earnings per share (NT dollars) (note 6(n)) | <u>\$ 3.33</u> | | <u>5.47</u> | |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

| | Equity attributable to owners of parent | | | | | | Total other equity interest | Total equity attributable to owners of parent |
|---|---|-----------------|---------------|-----------------|----------------------------------|---|-----------------------------|---|
| | Share capital | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Exchange differences on translation of foreign financial statements | | |
| Balance at January 1, 2017 | 793,033 | 1,363,943 | 376,396 | - | 2,288,348 | (38,354) | 4,783,366 | |
| Profit for the year ended December 31, 2017 | - | - | - | - | 435,894 | - | 435,894 | |
| Other comprehensive income for the year ended December 31, 2017 | - | - | - | - | - | (143,354) | (143,354) | |
| Total comprehensive income for the year ended December 31, 2017 | - | - | - | - | 435,894 | (143,354) | 292,540 | |
| Appropriation and distribution of retained earnings: | | | | | | | | |
| Legal reserve appropriated | - | - | 60,207 | - | (60,207) | - | - | |
| Special reserve appropriated | - | - | - | 38,354 | (38,354) | - | - | |
| Cash dividends of ordinary share | - | - | - | - | (475,819) | - | (475,819) | |
| Capital surplus at cash dividends | - | (158,606) | - | - | - | - | (158,606) | |
| Stock option compensation cost | - | 1,817 | - | - | - | - | 1,817 | |
| Balance at December 31, 2017 | 793,033 | 1,207,154 | 436,603 | 38,354 | 2,149,862 | (181,708) | 4,443,298 | |
| Profit for the year ended December 31, 2018 | - | - | - | - | 241,752 | - | 241,752 | |
| Other comprehensive income for the year ended December 31, 2018 | - | - | - | - | - | (18,131) | (18,131) | |
| Total comprehensive income for the year ended December 31, 2018 | - | - | - | - | 241,752 | (18,131) | 223,621 | |
| Appropriation and distribution of retained earnings: | | | | | | | | |
| Legal reserve appropriated | - | - | 43,589 | - | (43,589) | - | - | |
| Special reserve appropriated | - | - | - | 143,354 | (143,354) | - | - | |
| Cash dividends of ordinary share | - | - | - | - | (237,910) | - | (237,910) | |
| Capital surplus at cash dividends | - | (237,910) | - | - | - | - | (237,910) | |
| Stock option compensation cost | - | 4,228 | - | - | - | - | 4,228 | |
| Treasury stock acquired | (158,607) | - | - | - | - | - | (112,016) | |
| Capital reduction by cash | (11,464) | (17,483) | - | - | (80,203) | - | (109,150) | |
| Treasury stock retired | - | - | - | - | - | - | - | |
| Balance at December 31, 2018 | 622,962 | 955,989 | 480,192 | 181,708 | 1,886,558 | (199,839) | 3,927,570 | |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows****For the years ended December 31, 2018 and 2017****(Expressed in Thousands of New Taiwan Dollars)**

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|------------------|
| Cash flows from (used in) operating activities: | | |
| Profit before tax | \$ 459,991 | 498,558 |
| Adjustments: | | |
| Adjustments to reconcile profit (loss): | | |
| Depreciation and amortization expense | 255,600 | 235,648 |
| Expected credit loss | 12,284 | - |
| Interest expense | 25,408 | 17,405 |
| Interest income | (79,247) | (53,056) |
| Stock option compensation cost | 4,228 | 1,817 |
| Net gain on financial assets at fair value through profit or loss | (13,293) | (3,485) |
| Loss (gain) on disposal of property, plan and equipment | 3,458 | (1,113) |
| Recognition losses on inventory valuation and obsolescence | 20,102 | 1,526 |
| Provision for bad debt expense | - | 993 |
| Total adjustments to reconcile profit | <u>228,540</u> | <u>199,735</u> |
| Changes in operating assets and liabilities: | | |
| Changes in operating assets: | | |
| Financial assets at fair value through profit and loss | 369,701 | (264,251) |
| Notes and accounts receivable | (18,431) | 101,076 |
| Inventories | (37,760) | (78,997) |
| Other current assets and financial assets | 25,456 | (29,873) |
| | <u>338,966</u> | <u>(272,045)</u> |
| Changes in operating liabilities: | | |
| Notes and accounts payable | 34,589 | 26,853 |
| Other current liabilities | (29,958) | (25,618) |
| | <u>4,631</u> | <u>1,235</u> |
| Total adjustments | <u>572,137</u> | <u>(71,075)</u> |
| Cash inflow generated from operations | 1,032,128 | 427,483 |
| Interest received | 79,247 | 53,056 |
| Interest paid | (25,083) | (17,326) |
| Income taxes paid | (96,238) | (166,724) |
| Net cash flows from operating activities | <u>990,054</u> | <u>296,489</u> |
| Cash flows from (used in) investing activities: | | |
| Acquisition of property, plant and equipment | (418,006) | (385,932) |
| Proceeds from disposal of property, plant and equipment | 3,196 | 5,291 |
| Increase in refundable deposits | (1,652) | (4,864) |
| Decrease in other financial assets | (6,121) | (15,128) |
| Net cash flows used in investing activities | <u>(422,583)</u> | <u>(400,633)</u> |
| Cash flows from (used in) financing activities: | | |
| Increase in short-term borrowings | 368,160 | 94,060 |
| Increase in short-term notes and bills payable | 50,000 | 49,982 |
| Proceeds from long-term borrowings | 1,800,000 | 650,000 |
| Repayments of long-term borrowings | (2,300,000) | - |
| Increase (decrease) in guarantee deposits received | 332 | (463) |
| Cash dividends paid | (475,820) | (634,425) |
| Treasury stock acquired | (112,016) | - |
| Capital reduction by cash | (155,741) | - |
| Net cash flows from (used in) financing activities | <u>(825,085)</u> | <u>159,154</u> |
| Effect of exchange rate changes on cash and cash equivalents | (5,839) | (144,808) |
| Net decrease in cash and cash equivalents | (263,453) | (89,798) |
| Cash and cash equivalents at beginning of period | <u>3,606,496</u> | <u>3,696,294</u> |
| Cash and cash equivalents at end of period | <u>\$ 3,343,043</u> | <u>3,606,496</u> |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

(1) Company history

NISHOKU TECHNOLOGY INC. (the “Company”) was incorporated in year 1980, as a company limited by shares and registered under the Ministry of Economic Affairs, ROC. The Company conducted an IPO on the Taiwan Stock Exchange (TWSE) on October 5, 2011. The Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) primarily are involved in the manufacture and sale of plastic injection mold, tooling manufacturing and general import and export Trade, please refer to note 14.

(2) Approval date and procedures of the consolidated financial statements:

These consolidated financial statements were authorized for issuance by the board of directors on February 27, 2019.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective date per IASB</u> |
|--|--------------------------------|
| Amendment to IFRS 2 “Clarifications of 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 |
| Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative” | January 1, 2017 |
| Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses” | January 1, 2017 |
| Amendments to IAS 40 “Transfers of Investment Property” | January 1, 2018 |
| Annual Improvements to IFRS Standards 2014–2016 Cycle: | |
| Amendments to IFRS 12 | January 1, 2017 |
| Amendments to IFRS 1 and Amendments to IAS 28 | January 1, 2018 |
| IFRIC 22 “Foreign Currency Transactions and Advance Consideration” | January 1, 2018 |

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

The Group applied this standard retrospectively to each prior reporting period on its consolidated financial statements.

(ii) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment, and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group’s approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(g).

The adoption of IFRS 9 did not have any significant impact on its accounting policies on financial liabilities.

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets, and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(g).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

· Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

· The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

· If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on its asset will not increase significantly since its initial recognition.

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group’s financial assets as of January 1, 2018. The classification and carry amount of financial liabilities did not change.

| | IAS39 | | IFRS9 | |
|----------------------------|-------------------------------|------------------------|-------------------------------|------------------------|
| | <u>Measurement categories</u> | <u>Carrying Amount</u> | <u>Measurement categories</u> | <u>Carrying Amount</u> |
| Financial Assets | | | | |
| Cash and cash equivalents | Loans and receivables | 3,606,496 | Amortized cost | 3,606,496 |
| Non derivative instruments | Held-for-trading | 620,298 | Mandatorily at FVTPL | 620,298 |

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | IAS39 | | IFRS9 | |
|---|------------------------|-----------------|------------------------|-----------------|
| | Measurement categories | Carrying Amount | Measurement categories | Carrying Amount |
| Account receivable, net | Loans and receivables | 1,342,527 | Amortized cost | 1,342,527 |
| Other financial assets (Guarantee deposits paid) | Loans and receivables | 22,826 | Amortized cost | 22,826 |

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|-------------------------|
| IFRS 16 “Leases” | January 1, 2019 |
| IFRIC 23 “Uncertainty over Income Tax Treatments” | January 1, 2019 |
| Amendments to IFRS 9 “Prepayment features with negative compensation” | 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 |
| Annual Improvements to IFRS Standards 2015–2017 Cycle | January 1, 2019 |

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items.

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as lease in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, there is no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and official vehicles. The Group estimated that the right-of-use assets and the lease liabilities to increase by \$80,887 thousand on January 1, 2019.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the Group estimated the application of the amendment has no significant impact.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective date per IASB</u> |
|--|---|
| 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” | Effective date to be determined by IASB |
| IFRS 17 “Insurance Contracts” | January 1, 2021 |
| Amendments to IAS 1 and IAS 8 “Definition of Material” | January 1, 2020 |

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Those which may be relevant to the Group are set out below:

| Issuance / Release Dates | Standards or Interpretations | Content of amendment |
|-------------------------------------|---|---|
| October 22, 2018 | Amendments to IFRS 3 “Definition of a Business” | <p>The IASB has issued narrow-scope amendments to IFRS 3 to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets.</p> <p>The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the IASB has provided supplementary guidance.</p> |
| October 31, 2018 | Amendments to IAS 1 and IAS 8 “Definition of Material” | <p>The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.</p> |

The Group is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

The consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language consolidated financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies are applied consistently throughout the periods presented in the consolidated financial statements.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter, referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

(b) Basis of preparation

(i) Basis of measurement

Except for the financial instruments measured at fair value through profit or loss are measured at fair value, the consolidated financial statements have been prepared on a historical cost basis.

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars, which is the Company’s functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Changes in the Group’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group’s share of net assets before and after the change and any consideration received or paid are adjusted to equity attributable to stockholders of the Company.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) List of subsidiaries in the consolidated financial statements

| Name of investor | Name of subsidiary | Principal Activities | Percentage of shareholding (%) | |
|------------------|---|--|--------------------------------|-------------------|
| | | | December 31, 2018 | December 31, 2017 |
| The Company | NISHOKU BOUEKI CO., LTD. (NISHOKU BOUEKI) | Trading Company | 100 % | 100 % |
| " | NISHOKU TECHNOLOGY VIETNAM CO., LTD. (NISHOKU VIETNAM) | Manufacture and Sale of tooling and plastic products | 100 % | 100 % |
| " | SUN NICE LIMITED (SAMOA) (SUN NICE (SAMOA)) | Holding Company | 100 % | 100 % |
| SUN NICE (SAMOA) | SAME START LIMITED (Anguilla) (SAME START Anguilla) | Trading Company | 100 % | 100 % |
| " | NISHOKU HONG KONG HOLDING LIMITED (NISHOKU HK) | Holding Company | 100 % | 100 % |
| " | SUN NICE LIMITED (BVI) (SUN NICE (BVI)) | Holding Company | 100 % | 100 % |
| NISHOKU (HK) | NISHOKU PLASTIC MOLD (SHENZHEN) CO., LTD. (NISHOKU (SHENZHEN)) | Manufacture and Sale of mold and plastic products | 100 % | 100 % |
| " | KUNSHAN NISHOKU PLASTIC ELECTRONIC CO., LTD. (NISHOKU KUNSHAN PLASTIC) | Manufacture and Sale of mold and plastic products | 71.49 % | 71.49 % |
| SUN NICE (BVI) | KUNSHAN NISHOKU PLASTIC ELECTRONIC CO., LTD. (NISHOKU KUNSHAN) | Manufacture and Sale of mold and plastic products | 28.51 % | 28.51 % |

(d) Foreign currencies

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transaction.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the reporting currency at the exchange rates at the reporting date. The income and expenses of foreign operations, are translated to the Group's functional currency at the average rate. Translation differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or a joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

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

An asset is classified as current under one of the following criteria, and all other assets are classified as noncurrent.

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash in bank, and 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, which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes, should be recognized as cash equivalents.

(g) Financial instruments

(i) Financial assets (policy applicable from January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL :

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements**

3) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, other receivables, guarantee deposit paid and other financial assets).

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL :

- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

(ii) Financial assets (policy applicable before January 1, 2018)

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

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held for trading or is designated as such on initial recognition.

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. The Group designates financial assets, other than those classified as held for trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- b) Performance of the financial asset is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent valuation is based on fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables and other receivables. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment 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 events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than the those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for accounts receivable, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment was recognized at the reversal date.

Impairment losses and recoveries of accounts receivable are recognized in profit or loss; impairment losses and recoveries of other financial assets are recognized in non-operating revenue and profit or loss.

4) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the assets are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

2) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payables, are measured at fair value, plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in financial costs under non-operating income or expenses.

3) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in other gains and losses under non-operating income or expenses.

4) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iv) Derivative financial instruments (policy applicable from January 1, 2018)

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in other gains and losses under non-operating income and expenses.

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Derivative financial instruments (policy applicable before January 1, 2018)

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures, and the Group applies the same accounting policies as applicable from January 1, 2018.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization.

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 shall be depreciated separately unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized in profit or loss, under net other income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment are as follows:

- 1) Buildings: 20~50 years
- 2) Accessory equipment of buildings: 5~10 years
- 3) Machinery and equipment: 3~8 years
- 4) Office and other equipment: 2~8 years

The depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from previous estimates, the change is accounted for as a change in accounting estimates.

(j) Lease

Leases are operating leases and are not recognized in the Group's statement of financial position.

Payments made under operating leases (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

(k) Research and development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

- (i) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (ii) The intention to complete the intangible asset and use or sell it.
- (iii) The ability to use or sell the intangible asset.

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (iv) How the intangible asset will generate probable future economic benefits.
- (v) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.
- (vi) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

(l) Impairment of non-financial assets

Non-financial assets, except for inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the Group shall estimate the recoverable amount of the asset. If it is not possible to determine the recoverable amount for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less costs to sell, or its value in use. If the recoverable amount of an individual asset or a cash-generating unit is less than its carrying amount, the carrying amount of the individual asset or cash-generating unit shall be reduced to its recoverable amount; and that reduction is accounted for as an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. An impairment loss recognized in prior periods for an individual asset or a cash-generating unit shall be reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount but should not exceed the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(m) Treasury stock

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares should be recognized under "capital reserve – treasury share transactions". Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted average of different types of repurchase.

During the cancellation of treasury shares, "capital reserve – share premiums" and "share capital" should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; losses on cancellation of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Revenue recognition

(i) Revenue from contracts with customers (policy applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods to a customer. The Group recognizes revenue when it transfers control of a good to a customer. The accounting policies for the Group's main types of revenue are explained below.

1) Sale of goods

The Group manufactures and sells plastic goods and molds. The Group recognizes revenue when control of the products has transferred, a point in time when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's 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 customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered, since this is the point in time when the Group has a right to receive an amount of consideration unconditionally.

2) Financing components

The Group does not expect to have any contracts which the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(ii) Revenue (policy applicable before January 1, 2018)

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that a discount will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For international shipments, transfer occurs upon loading the goods onto the relevant carrier at the client's designated location. Generally for such products, the customer has no right of return.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(p) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Regarding to non-vesting conditions, the measurement on the fair value of share-based payment on grant date has been considered to reflect such conditions, and there is no need for any adjustment for differences between expected and actual outcomes.

(q) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) Assets and liabilities that are initially recognized but are not related to a business combination and have no effect on net income or taxable gains (losses) at the time of the transaction.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, which are normally the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) The taxing of deferred tax assets and liabilities fulfills one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of the expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences are also revaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

- (r) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary shareholders of the Company. The calculation of basic earnings per share is the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is the profit attributable to ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

- (s) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

There are no critical judgment made in applying the accounting policies that have significant effects on amounts recognized in consolidated financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment with the following year is as follows:

(a) The loss allowance of accounts receivable

The Group has estimated the loss allowance of trade receivable that is based on the risk of a default occurring and the rate of expected credit loss. The Group has considered historical experience, current economic conditions and forward-looking information at the reporting date to determine the assumptions to be used in calculating the impairments and the selected inputs. The recognition of impairment loss, please refer to note 6(c).

(b) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be changes in the net realizable value of inventories.

The Group's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss.

The Group's financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value. The Group strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

- (a) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (c) Level 3: inputs for the assets or liability that are not based on observable market data.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to note 6(s) for assumptions used in measuring fair value.

(6) Explanation of significant accounts:

(a) Cash and cash Equivalents

| | December 31, 2018 | December 31, 2017 |
|---|------------------------------|------------------------------|
| Cash and demand deposits | \$ 1,690,919 | 1,994,474 |
| Time deposits | 1,553,050 | 1,447,114 |
| Bond acquired under repurchase agreement | 99,074 | 164,908 |
| Cash and cash equivalents in the consolidated statement of cash flows | <u>\$ 3,343,043</u> | <u>3,606,496</u> |

Please refer to note 6(s) for the interest rate risk and sensitivity analysis of the financial assets and liabilities of the Group.

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

| | December 31, 2018 | December 31, 2017 |
|---|------------------------------|------------------------------|
| Mandatorily measured at fair value through profit or loss | | |
| Fund investments | \$ 12,091 | - |
| Principal guaranteed financial instruments | 245,966 | - |
| Overseas corporate bonds | 5,833 | - |
| | <u>263,890</u> | <u>-</u> |
| Financial assets held-for-trading | | |
| Principal guaranteed financial instruments | - | 614,276 |
| Overseas corporate bonds | - | 6,022 |
| Total | <u>\$ 263,890</u> | <u>620,298</u> |

The Group uses derivative financial instruments to hedge the certain foreign exchange risk, which arose from its operating activities. As of December 2018, there is no balance on the derivative financial instruments. The gain or loss arising from transaction of derivative financial instruments please refer to note 6(s).

(c) Notes and accounts receivable

| | December 31, 2018 | December 31, 2017 |
|-----------------------|------------------------------|------------------------------|
| Notes receivable | \$ 53,025 | 70,909 |
| Accounts receivable | 1,319,541 | 1,290,321 |
| Less : Loss allowance | (23,892) | (18,703) |
| | <u>\$ 1,348,674</u> | <u>1,342,527</u> |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
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The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision as of December 31, 2018, was determined as follows:

| | <u>Gross carrying amount</u> | <u>Weighted- average loss rate</u> | <u>Loss allowance provision</u> |
|---------------------------|----------------------------------|--|-------------------------------------|
| Current | \$ 1,267,287 | -% | - |
| 1 to 120 days past due | 28,695 | 0%~1% | 333 |
| More than 1 year past due | <u>7,490</u> | 100% | <u>7,490</u> |
| Total | <u>\$ 1,303,472</u> | | <u>7,823</u> |

After assessment, there is default risk on individual customer, and the gross carrying amount and loss allowance provision of the customer both amounted to \$16,069 thousand.

As of December 31, 2017, the Group applies the incurred loss model to consider the loss allowance provision of notes and accounts receivable, and the aging analysis of notes and accounts receivable, which were past due but not impaired, was as follows:

| | <u>December 31, 2017</u> |
|-------------------------|------------------------------|
| Overdue 1 to 120 days | \$ 110,896 |
| Overdue 121 to 270 days | 6,725 |
| Overdue 271 to 365 days | <u>49</u> |
| | <u>\$ 117,670</u> |

The movement in the allowance for notes and accounts receivable was as follows:

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|------------------------------|
| Balance on January 1, 2018 and 2017 per IAS 39 | \$ 18,703 | 18,151 |
| Adjustment on initial application of IFRS 9 | <u>-</u> | |
| Balance on January 1, 2018 per IFRS 9 | 18,703 | |
| Impairment losses recognized | 12,284 | 993 |
| Amounts written off | <u>(7,095)</u> | <u>(441)</u> |
| Balance on December 31, 2018 and 2017 | <u>\$ 23,892</u> | <u>18,703</u> |

(d) Inventories

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|-----------------|------------------------------|------------------------------|
| Raw materials | \$ 182,089 | 150,930 |
| Work in process | 183,199 | 188,535 |
| Finished goods | <u>133,232</u> | <u>141,397</u> |
| | <u>\$ 498,520</u> | <u>480,862</u> |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
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For the years ended December 31, 2018 and 2017, raw material, consumables, and changes in the finished goods and work in progress recognized as cost of sale amounted to \$3,421,025 thousand and \$3,025,468 thousand, respectively. For the years ended December 31, 2018 and 2017, the Group recognized the losses on inventory valuation and obsolescence as cost of goods sold amounting to \$20,102 thousand and \$1,526 thousand, respectively.

As of December 31, 2018 and 2017, the Group did not provide any inventories as collateral for its loans.

(e) Property, plant and equipment

The cost, depreciation and impairment loss of the property, plant and equipment of the Group for the years ended December 31, 2018 and 2017, were as follows:

| | Land | Building | Machinery and equipment | Office and other equipment | Construction in progress and testing equipment | Total |
|---|-------------------|----------------|-------------------------------|----------------------------------|---|------------------|
| Cost or deemed cost: | | | | | | |
| Balance on January 1, 2018 | \$ 179,672 | 722,490 | 1,848,475 | 460,189 | 221,508 | 3,432,334 |
| Additions | - | 9,308 | 248,807 | 75,899 | 83,066 | 417,080 |
| Reclassifications | - | 202,661 | 46,654 | 15,414 | (229,299) | 35,430 |
| Disposals | - | - | (20,508) | (64,694) | - | (85,202) |
| Effect of movements in exchange rates | - | (7,032) | (23,562) | (8,214) | (2,229) | (41,037) |
| Balance on December 31, 2018 | <u>\$ 179,672</u> | <u>927,427</u> | <u>2,099,866</u> | <u>478,594</u> | <u>73,046</u> | <u>3,758,605</u> |
| Balance on January 1, 2017 | \$ 179,672 | 734,276 | 1,826,269 | 471,709 | 75,845 | 3,287,771 |
| Additions | - | 195 | 108,014 | 24,234 | 200,453 | 332,896 |
| Reclassifications | - | 3,524 | 38,289 | 26,390 | (55,104) | 13,099 |
| Disposals | - | - | (85,313) | (54,891) | - | (140,204) |
| Effect of movements in exchange rates | - | (15,505) | (38,784) | (7,253) | 314 | (61,228) |
| Balance on December 31, 2017 | <u>\$ 179,672</u> | <u>722,490</u> | <u>1,848,475</u> | <u>460,189</u> | <u>221,508</u> | <u>3,432,334</u> |
| Depreciation and impairments loss: | | | | | | |
| Balance on January 1, 2018 | \$ - | 310,310 | 1,262,780 | 363,408 | - | 1,936,498 |
| Depreciation | - | 46,936 | 159,617 | 37,507 | - | 244,060 |
| Reclassifications | - | 177 | 22,706 | 14,058 | - | 36,941 |
| Disposals | - | - | (18,331) | (60,217) | - | (78,548) |
| Effect of movements in exchange rates | - | (3,158) | (20,515) | (6,028) | - | (29,701) |
| Balance on December 31, 2018 | <u>\$ -</u> | <u>354,265</u> | <u>1,406,257</u> | <u>348,728</u> | <u>-</u> | <u>2,109,250</u> |
| Balance on January 1, 2017 | \$ - | 272,753 | 1,220,239 | 377,217 | - | 1,870,209 |
| Depreciation | - | 42,686 | 151,801 | 31,012 | - | 225,499 |
| Reclassifications | - | - | - | 14,853 | - | 14,853 |
| Disposals | - | - | (82,190) | (53,836) | - | (136,026) |
| Effect of movements in exchange rates | - | (5,129) | (27,070) | (5,838) | - | (38,037) |
| Balance on December 31, 2017 | <u>\$ -</u> | <u>310,310</u> | <u>1,262,780</u> | <u>363,408</u> | <u>-</u> | <u>1,936,498</u> |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | Land | Building | Machinery and equipment | Office and other equipment | Construction in progress and testing equipment | Total |
|------------------------------|-------------------|----------------|-------------------------------|----------------------------------|---|------------------|
| Carrying amounts: | | | | | | |
| Balance on December 31, 2018 | \$ <u>179,672</u> | <u>573,162</u> | <u>693,609</u> | <u>129,866</u> | <u>73,046</u> | <u>1,649,355</u> |
| Balance on December 31, 2017 | \$ <u>179,672</u> | <u>412,180</u> | <u>585,695</u> | <u>96,781</u> | <u>221,508</u> | <u>1,495,836</u> |

As of December 31, 2018 and 2017, the property, plant and equipment of the Group had not been pledged as collateral.

(f) Short-term borrowings

The short-term borrowings were summarized as follows:

| | December 31, 2018 | December 31, 2017 |
|-------------------------|----------------------|----------------------|
| Credit loans, no pledge | \$ <u>805,720</u> | <u>437,560</u> |
| Interest rate range | <u>0.90%~2.98%</u> | <u>0.92%~2.08%</u> |

(g) Short-term notes and bills payable

The short-term notes and bills payable were summarized as follows:

| | December 31, 2018 | | |
|---|---|--------------------------------|------------------|
| | Guarantee or acceptance institution | Range of interest rates (%) | Amount |
| Commercial paper payable | Mega Bills | 0.682% | \$ 100,000 |
| Less: Discount on short-term notes and bills payable | | | (15) |
| Total | | | <u>\$ 99,985</u> |
| | December 31, 2017 | | |
| | Guarantee or acceptance institution | Range of interest rates (%) | Amount |
| Commercial paper payable | Mega Bills | 0.662% | \$ 50,000 |
| Less: Discount on short-term notes and bills payable | | | (18) |
| Total | | | <u>\$ 49,982</u> |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(h) Long-term borrowings

The detail were as follows:

| December 31, 2018 | | | |
|--------------------------|--------------------------------|----------------------|----------------------------|
| Currency | Interest rate range | Maturity year | Amount |
| Unsecured bank loans | NTD | 1.19%~1.20% | 2020 |
| | | | \$ <u>900,000</u> |
| December 31, 2017 | | | |
| Currency | Interest rate range | Maturity year | Amount |
| Unsecured bank loans | NTD | 1.19%~1.41% | 2018~2020 |
| Less: current portion | | | \$ 1,400,000 |
| Total | | | <u>(200,000)</u> |
| | | | \$ <u>1,200,000</u> |

Please refer to note 6(s) for the exchange rate risk, the interest rate risk, and the sensitivity analysis of the financial assets and liabilities of the Group.

(i) Operating lease

Non-cancellable operating lease rentals payable were as follows:

| | December 31, 2018 | December 31, 2017 |
|----------------------------|------------------------------|------------------------------|
| Less than one year | \$ 56,487 | 37,847 |
| Between one and five years | 23,907 | 34,451 |
| | \$ <u>80,394</u> | <u>72,298</u> |

(i) The Group leases factories and dormitories under operating leases. The lease terms are between one and three years. There was no provision for contingent rent under the operating lease agreement. During years 2018 and 2017, operating lease expenses recorded under comprehensive income or loss amounted \$48,491 thousand and \$37,983 thousand, respectively.

(ii) The Group does not participate in the residual value of the land and buildings. As a result, it was determined that substantially all the risks and rewards of the land and buildings are with the landlord.

(j) Employee benefits

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The consolidated entities set up overseas have defined contribution plans. These plans are funded in accordance with the regulations of their respective countries, and recognized as the contribution in the current period.

The pension costs incurred from the contributions to the Labor Insurance amounted to \$38,816 thousand and \$38,604 thousand for the years ended December 31, 2018 and 2017, respectively.

(k) Income taxes

(i) According to the amendments to the “Income Tax Act” enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018.

(ii) The components of income tax in the years 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|-------------------|---------------|
| Current tax expense | \$ 90,147 | 147,901 |
| Deferred tax expense (income) | 33,669 | (85,237) |
| Adjustment in tax rate | 94,423 | - |
| | <u>\$ 218,239</u> | <u>62,664</u> |

(iii) The amounts of income tax profit recognized in other comprehensive income or loss for 2018 and 2017 was as follows:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-----------------|
| Foreign currency translation differences for foreign operations | \$ <u>(4,533)</u> | <u>(29,362)</u> |

(iv) Reconciliation of income tax and profit before tax for 2018 and 2017 was as follows:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|---------------|
| Profit excluding income tax | \$ 459,991 | 498,558 |
| Income tax using the Company’s domestic tax rate | 93,406 | 121,099 |
| Adjustment in tax rate | 94,423 | - |
| Effect of tax rates in foreign jurisdiction | 20,907 | (1,814) |
| Effects of exchange rate changes on overseas investment gain | - | (51,089) |
| Undistributed earnings additional tax of 10% | 1,104 | 2,769 |
| Prior year’s income tax adjustment and others | 8,399 | (8,301) |
| | <u>\$ 218,239</u> | <u>62,664</u> |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

The Group's unrecognized deferred tax assets were all temporary differences in respect of the following items:

| | December 31, 2018 | December 31, 2017 |
|---------------------------------------|------------------------------|------------------------------|
| Depreciation period difference | \$ 51,169 | 52,525 |
| Loss on inventory valuation | 36,297 | 32,395 |
| The carryforward of unused tax losses | 19,804 | 12,225 |
| Other | <u>16,427</u> | <u>14,578</u> |
| | <u>\$ 123,697</u> | <u>111,723</u> |

As of December 31, 2018, the unused prior-year tax loss carry-forward of the consolidated entities set up overseas amounted to \$264,051 thousand, and the deductible taxes calculated by the local tax authorities amounted to \$19,804 thousand.

2) Recognized deferred tax liabilities

Changes in the amounts of deferred tax liabilities for 2018 and 2017 were as follows:

| | Investment income recognized under the equity method | Foreign currency translation differences for foreign operations | Others | Total |
|---|---|--|-----------------|-----------------------|
| Deferred tax liabilities | | | | |
| Balance on January 1, 2018 | \$ 605,477 | - | - | 605,477 |
| Recognized in profit or loss | 160,060 | (42,442) | - | 117,618 |
| Recognized in other comprehensive income or loss | <u>-</u> | <u>(4,550)</u> | <u>-</u> | <u>(4,550)</u> |
| Balance on December 31, 2018 | <u>\$ 765,537</u> | <u>(46,992)</u> | <u>-</u> | <u>718,545</u> |
| Balance on January 1, 2017 | \$ 678,344 | 606 | 143 | 679,093 |
| Recognized in profit or loss | (72,867) | - | (143) | (73,010) |
| Recognized in other comprehensive income or loss | <u>-</u> | <u>(606)</u> | <u>-</u> | <u>(606)</u> |
| Balance on December 31, 2017 | <u>\$ 605,477</u> | <u>-</u> | <u>-</u> | <u>605,477</u> |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Recognized deferred tax assets

Changes in the amounts of deferred tax assets for 2018 and 2017 were as follows:

| | Investment income recognized under the equity method | Loss on inventory valuation | Foreign currency translation differences for foreign operations | Unused tax losses carry forwards | Bad debts in excess of tax limit and others | Total |
|---|--|-----------------------------------|--|--|--|-----------------|
| Deferred tax assets | | | | | | |
| Balance on January 1, 2018 | \$ (29,917) | (449) | (36,950) | (6,711) | (4,000) | (78,027) |
| Recognized in profit or loss | (30,615) | (22) | 35,922 | 3,487 | 1,702 | 10,474 |
| Recognized in other comprehensive income or loss | - | - | 17 | - | - | 17 |
| Balance on December 31, 2018 | <u>\$ (60,532)</u> | <u>(471)</u> | <u>(1,011)</u> | <u>(3,224)</u> | <u>(2,298)</u> | <u>(67,536)</u> |
| Balance on January 1, 2017 | \$ (25,573) | (530) | (8,194) | - | (2,747) | (37,044) |
| Recognized in profit or loss | (4,344) | 81 | - | (6,711) | (1,253) | (12,227) |
| Other comprehensive income | - | - | (28,756) | - | - | (28,756) |
| Balance on December 31, 2017 | <u>\$ (29,917)</u> | <u>(449)</u> | <u>(36,950)</u> | <u>(6,711)</u> | <u>(4,000)</u> | <u>(78,027)</u> |

(vi) The Company and NISHOKU BOUEKI income tax returns have been examined by the tax authority through the years up to 2016.

(l) Capital and other equity

As of December 31, 2018 and 2017, the total value of authorized ordinary shares were amounted to \$1,500,000 thousand, \$20,000 thousand of which were reserved for the exercising of employee stock options, with par value of \$10 per share represents 150,000 thousands of ordinary shares. As of that date, 62,296 thousands and 79,303 thousands of shares were issued, respectively. All issued shares were paid up upon issuance.

(i) Ordinary shares

Reconciliation of shares outstanding for 2018 and 2017, was as follows (in thousands of shares):

| | Ordinary shares | |
|---------------------------|-----------------|---------------|
| | 2018 | 2017 |
| Balance on January 1 | 79,303 | 79,303 |
| Capital reduction by cash | (15,861) | - |
| Treasury stock retired | (1,146) | - |
| Balance on December 31 | <u>62,296</u> | <u>79,303</u> |

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
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A resolution was passed during the general meeting of shareholders held on 14 June 2018 for the reduction of ordinary shares by cash in order to adjust the capital structure and to increase the rate of return on equity, with the number of shares issued of 20%, and the reduction amount is amounted to \$158,607 thousand. The Company has received approval from the Financial Supervisory Commission for this capital reduction on 3 August 2018, with 6 August 2018 as the date of capital reduction. The relevant statutory registration procedures have been completed on 16 August 2018. The Company had canceled treasury stock \$11,464 thousand (1,146 thousand shares) in November, 2018. The related registration procedure were also completed.

(ii) Capital surplus

The balances of capital surplus as of December 31, 2018 and 2017, were as follows:

| | December 31, 2018 | December 31, 2017 |
|------------------------|------------------------------|------------------------------|
| Share capital | \$ 949,944 | 1,205,337 |
| Employee share options | 6,045 | 1,817 |
| | <u>\$ 955,989</u> | <u>1,207,154</u> |

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

The Company's appropriations of capital surplus had been approved by the shareholders' meeting held on June 14, 2018 and June 14, 2017, respectively. The appropriations were as follows:

| | 2018 | | 2017 | |
|-----------------------------------|-------------------------------|-----------------------|-------------------------------|-----------------------|
| | Dividend per share | Amount | Dividend per share | Amount |
| Capital surplus at cash dividends | <u>\$ 3.0</u> | <u>237,910</u> | <u>2.0</u> | <u>158,606</u> |

(iii) Retained earnings

The Company's article of incorporation stipulate that, when allocating the profit for each fiscal year, the Company shall first offset its losses in previous years. Of the remaining profit, 10% is to be appropriated as legal reserve, and then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
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Before the distribution of dividends, the Company shall first take into consideration its operating environment, industry developments, and the long-term interests of stockholders, as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals in determining the stock or cash dividends to be paid. After the above appropriations, current and prior-period earnings that remain undistributed will be proposed for distribution by the board of directors, and a meeting of shareholders will be held to decide on this matter. The cash dividends shall not be more than 10% of total dividends.

1) Legal reserve

According to the amendment of the ROC Company Act in January 2012, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be set aside as special earnings reserve during earnings distribution. The amount to be set aside should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be set aside as special earnings reserve (and can not be distributed) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions. As of December 31, 2018, special earnings reserve amounted to \$181,708 thousand.

3) Earnings distribution

Earnings distribution for 2017 and 2016 were decided via the general meeting of shareholders held on June 14, 2018, and June 14, 2017, respectively. The relevant dividend distributions to shareholders were as follow:

| | <u>2017</u> | | <u>2016</u> | |
|--------------------------|-----------------------------|----------------|-----------------------------|----------------|
| | <u>Payout per share</u> | <u>Amount</u> | <u>Payout per share</u> | <u>Amount</u> |
| Dividend to shareholders | | | | |
| Cash | \$ 3.0 | <u>237,910</u> | 6.0 \$ | <u>475,819</u> |

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Treasury shares

In 2018, in accordance with the requirements under section 28(2) of the Securities and Exchange Act, the Company repurchased 1,433 thousand shares, with a total value of \$112,016 thousand as treasury shares in order to protect the Company's integrity and shareholders' equity. In addition, a resolution was passed during the general meeting of shareholders held on 14 June 2018 for the reduction of ordinary shares by cash, with the number of shares issued of 20%, and the reduction amount is amounted to \$2,866 thousand. A resolution was also passed during the general meeting of shareholders held on November 1, 2018 for the cancellation of 1,146 thousand shares of treasury shares, with November 5, 2018 as the date of cancellation.

In accordance with Securities and Exchange Act requirements as stated above, the number of shares repurchased should not exceed 10 percent of all shares outstanding. Also, the value of the repurchased shares should not exceed the sum of the Company's retained earnings, share premium, and realized capital reserves.

In accordance with the requirements of Securities and Exchange Act, treasury shares held by the Company should not be pledged, and do not hold any shareholder rights before their transfer.

(m) Share-based payment

(i) The Company issued 600 units of employee stock options, at 1,000 shares per unit, to its employees and its subsidiaries' who met certain requirements on July 28, 2017. The duration of the employee stock options is five year. 50%, 75%, and 100% of the stock options are exercisable 2 years, 3 years, and 4 years, respectively, after the grant date. Those qualified employees are entitled to purchase the shares at the closing price of ordinary shares of the Company on the same day. After the grant of the stock options, any changes in the ordinary shares of the Company, the exercise price of the share options will be adjusted according to the prescribed formula.

(ii) Details of the employee stock options were as follows:

| | <u>2018</u> | | <u>2017</u> | |
|--|--|------------------------------|--|------------------------------|
| | <u>Weighted average exercise price</u> | <u>Number of options</u> | <u>Weighted average exercise price</u> | <u>Number of options</u> |
| Outstanding at January 1 | \$ 81.80 | 600 | 81.80 | 600 |
| Granted during the year | - | - | - | - |
| Forfeited during the year | - | (40) | - | - |
| Exercised during the year | - | - | - | - |
| Outstanding at December 31 | 99.75 (note) | <u>560</u> | 81.80 | <u>600</u> |
| Exercisable at December 31 | | <u>-</u> | | <u>-</u> |
| The weighted average price of the stock options | | <u>\$ 18.15</u> | | <u>18.15</u> |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(Note) The Company adjusted the exercise price of stock options according to its requirements for issuance stock options due to the reduction of ordinary shares by cash this year.

The details of the stock options of the Group as of December 31, 2018 and 2017 were as follows:

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|------------------------------|------------------------------|
| Weighted average of remaining contractual period (years) | 3.57 | 4.57 |

- (iii) The Company used the Black-Scholes pricing model in measuring the fair value of the share-based payment at the grant date. The measurement inputs were as follows:

| | <u>2017</u> |
|--|---------------|
| Exercise price (NT dollars) | 81.8 |
| Share price at grant date (NT dollars) | 81.8 |
| Expected dividend | - % |
| Expected volatility (%) | 26.78%~27.89% |
| Risk-free interest rate (%) | 0.67%~0.73% |
| Expected life (years) | 5 |

- (iv) For the years ended December 31, 2018 and 2017, the expenses attributable to share based payment amounted to \$4,228 thousand and \$1,817 thousand, respectively.

(n) Earnings per share

- (i) Basic earnings per share

The calculation of basic earnings per share for the years ended December 31, 2018 and 2017, was based on the profit attributable to ordinary shareholders of the Company and the weighted-average number of ordinary shares outstanding, calculated as follows:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|----------------|
| Profit attributable to ordinary shareholders of the Company | \$ <u>241,752</u> | <u>435,894</u> |
| Weighted-average number of ordinary shares (thousand shares) | <u>72,194</u> | <u>79,303</u> |
| Basic earnings per share (NT dollars) | \$ <u>3.35</u> | <u>5.50</u> |

- (ii) Diluted earnings per share

The calculation of diluted earnings per share for the year ended December 31, 2018 and 2017, were based on the profit attributable to the ordinary shareholders of the Company and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|----------------|
| Profit attributable to ordinary shareholders of the Company (diluted) | \$ <u>241,752</u> | <u>435,894</u> |

(Continued)

NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Weighted-average number of ordinary shares (diluted) (thousand shares)

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Weighted-average number of ordinary shares (basic) | 72,194 | 79,303 |
| Effect of employee stock bonus | <u>356</u> | <u>380</u> |
| Weighted-average number of ordinary shares (diluted) | <u>72,550</u> | <u>79,683</u> |
| Diluted earnings per share | <u>3.33</u> | <u>5.47</u> |

(o) Revenue from contracts with customers

(i) Details of revenue

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|----------------------------|-------------------------|
| <u>Primary geographical markets</u> | | |
| North America | \$ 1,918,503 | 1,896,525 |
| Asia | 921,836 | 1,098,439 |
| Europe | <u>1,378,503</u> | <u>1,024,544</u> |
| | <u>\$ 4,218,842</u> | <u>4,019,508</u> |
| <u>Major products</u> | | |
| Plastic injection | \$ 3,794,661 | 3,666,899 |
| Mold | 423,629 | 340,119 |
| Others | <u>552</u> | <u>12,490</u> |
| | <u>\$ 4,218,842</u> | <u>4,019,508</u> |

(ii) Contract balances

For details on accounts receivable, please refer to note 6 (c).

(p) Employee, board of directors', and supervisors' compensation

In accordance with the Articles of incorporation the Company should contribute no less than 1% of the profit as employee compensation and not exceed 5% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The amount of remuneration of each director and supervisor and of compensation for employees entitled to receive the abovementioned employee compensation is approved by the board of directors. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017, the Company estimated its employee remuneration amounting to \$17,563 thousand and \$23,620 thousand, and directors' and supervisors' remuneration amounting to \$6,140 thousand and \$7,000 thousand, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating. If the Board of Directors decide to distribute compensation for employees by shares, the numbers of shares to be distributed would be calculated based on the closing price of the Company's ordinary shares one day before the date of the meeting of Board of Directors. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2018 and 2017.

(q) Other revenue

| | <u>2018</u> | <u>2017</u> |
|----------------------|------------------|---------------|
| Interest income | \$ 79,247 | 53,056 |
| Other income, others | <u>16,616</u> | <u>15,157</u> |
| Total other income | <u>\$ 95,863</u> | <u>68,213</u> |

(r) Other gains and losses

The other gains and losses for the years ended December 31, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|---|------------------|------------------|
| Foreign exchange gains (losses) | \$ 61,607 | (152,437) |
| Gains (Losses) on financial assets at fair value through profit or loss | 13,293 | 3,485 |
| Gains (Losses) on disposals of property, plant and equipment | (3,458) | 1,113 |
| Others | <u>(161)</u> | <u>(1,327)</u> |
| Net gains and losses | <u>\$ 71,281</u> | <u>(149,166)</u> |

(s) Financial Instruments

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, which arises from the Group's accounts receivable and investments.

1) Accounts receivable and others receivables

For credit risk exposure of note and accounts receivable, please refer to note 6(c).

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. These criterias are reviewed periodically.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Investment

The credit risk exposure in bank deposits, fixed-income investment, and other financial instruments is measured and monitored by the Group's finance department. As the Group deals with banks and other external parties with good credit standing and with financial institutions, corporate organizations, and government agencies which are graded above investment level, the management believes their counterparts do not have significant default risk, therefore, the credit risk is insignificant.

3) Credit risk exposure

As of December 31, 2018 and 2017, the Group's maximum exposure to credit risk was mainly from the carrying amount of financial assets recognized in the consolidated statements of financial position and amounted to \$4,962,509 thousand and \$5,584,119 thousand, respectively. The Groups had deposited these bank deposits in different financial institutions, and the Group believes that there is no significant credit risk from the above mentioned financial institutions.

4) Concentration of credit risk

The credit risk exposure of the Group comes from the credit of individual customers, and the industry of the customer also have effect on credit risk. For the years ended December 31, 2018 and 2017, sales to the individual customers whose revenue constituting over 10% of net revenue are 29% and 32% of total revenues respectively. As of December 31, 2018 and 2017, 23% and 31%, respectively, of accounts receivable were for those customers.

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>within 1 year</u> | <u>1-2 years</u> | <u>2-5 years</u> |
|--------------------------------------|----------------------------|-----------------------------------|--------------------------|------------------|------------------|
| December 31, 2018 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term borrowings | \$ 805,720 | 809,432 | 809,432 | - | - |
| Short-term notes and bills payable | 99,985 | 100,000 | 100,000 | - | - |
| Long-term borrowings | 900,000 | 920,860 | 10,755 | 910,105 | - |
| Notes and accounts payable | 601,303 | 601,303 | 601,303 | - | - |
| Other financial liabilities | 39,708 | 39,708 | 39,708 | - | - |
| | <u>\$ 2,446,716</u> | <u>2,471,303</u> | <u>1,561,198</u> | <u>910,105</u> | <u>-</u> |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>within 1 year</u> | <u>1-2 years</u> | <u>2-5 years</u> |
|--|----------------------------|-----------------------------------|--------------------------|------------------|------------------|
| December 31, 2017 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term borrowings | \$ 437,560 | 439,706 | 439,706 | - | - |
| Short-term notes and bills payable | 49,982 | 50,000 | 50,000 | - | - |
| Long-term liabilities, current portion | 200,000 | 202,408 | 202,408 | - | - |
| Long-term borrowings | 1,200,000 | 1,229,350 | 15,060 | 760,806 | 453,484 |
| Notes and accounts payable | 566,714 | 566,714 | 566,714 | - | - |
| Other financial liabilities | <u>50,666</u> | <u>50,666</u> | <u>50,666</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 2,504,922</u> | <u>2,538,844</u> | <u>1,324,554</u> | <u>760,806</u> | <u>453,484</u> |

The Group does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Market risk

1) Exchange rate risk

The Group's significant exposure to foreign currency risk on financial assets and liabilities was as follows:

| | <u>December 31, 2018</u> | | | <u>December 31, 2017</u> | | |
|------------------------------|-----------------------------|--------------------------|------------|-----------------------------|--------------------------|------------|
| | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>NTD</u> | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>NTD</u> |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary Items</u> | | | | | | |
| USD | \$ 58,004 | 30.715 | 1,781,593 | 94,038 | 29.760 | 2,799,809 |
| CNY | 15,349 | 4.472 | 68,641 | 17,963 | 4.560 | 82,000 |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary Items</u> | | | | | | |
| USD | 1,375 | 30.715 | 42,224 | 1,629 | 29.760 | 48,484 |

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, accounts payable, and other payables that are denominated in foreign currency.

A weakening (strengthening) of 1% of the NTD against the USD and CNY at December 31, 2018 and 2017, would have increased or decreased the net profit before tax by \$18,080 thousand and \$28,333 thousand, respectively. The analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for both periods.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
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Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years 2018 and 2017, foreign exchange gain (including realized and unrealized portions) amounted to \$61,607 thousand and \$(152,437) thousand, respectively.

2) Interest rate analysis

The details of financial instruments exposed to interest rate risk were as follows:

| | Carrying amount | |
|----------------------------|--------------------------|-------------------------|
| | December 31, 2018 | December 31, 2017 |
| Fixed-rate instruments: | | |
| Financial assets | \$ 1,652,124 | 1,612,022 |
| Financial liabilities | <u>(736,772)</u> | <u>(413,142)</u> |
| | <u>\$ 915,352</u> | <u>1,198,880</u> |
| Variable-rate instruments: | | |
| Financial assets | \$ 1,690,271 | 1,993,866 |
| Financial liabilities | <u>(1,068,933)</u> | <u>(1,474,400)</u> |
| | <u>\$ 621,338</u> | <u>519,466</u> |

The following sensitivity analysis is based on the exposure to the interest rate risk of nonderivative financial instruments on the reporting date. Regarding liabilities with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases 1 basis points when reporting to management internally, which also represents the Group management's assessment of the reasonably possible interest rate change.

If the interest rate had increased / decreased by 1 basis points, the Group's net income would have increased / decreased by \$1,553 thousand and \$1,299 thousand for the years ended December 31, 2018 and 2017, with all other variable factors remaining constant. This is mainly due to the Group's borrowing at variable rates and bank deposits in variable-rate bills.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
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(iv) Fair value of financial instruments

1) Fair value of financial instruments

The fair value of financial assets at fair value through profit or loss is measured on a recurring basis. The carrying amount and fair value of the Group's financial assets, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

| | December 31, 2018 | | | | |
|---|---------------------|---------------|--------------|----------------|----------------|
| | Carrying amounts | Fair Value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets at fair value through profit or loss | | | | | |
| Non derivative financial assets mandatorily measured at fair value through profit or loss | \$ 263,890 | 12,091 | 5,833 | 245,966 | 263,890 |
| Subtotal | <u>\$ 263,890</u> | <u>12,091</u> | <u>5,833</u> | <u>245,966</u> | <u>263,890</u> |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | \$ 3,343,043 | | | | |
| Notes and accounts receivable, net | 1,348,674 | | | | |
| Other financial assets-current | 6,902 | | | | |
| Refundable deposits | <u>24,479</u> | | | | |
| | <u>\$ 4,723,098</u> | | | | |
| Financial liabilities carried at amortized cost | | | | | |
| Long and short term borrowings | \$ 1,705,720 | | | | |
| Short-term notes and bills payable | 99,985 | | | | |
| Notes and accounts payable | 601,303 | | | | |
| Other payables | <u>39,708</u> | | | | |
| | <u>\$ 2,446,716</u> | | | | |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | December 31, 2017 | | | | |
|---|---------------------|------------|--------------|----------------|----------------|
| | Carrying amounts | Fair Value | | | Total |
| Level 1 | | Level 2 | Level 3 | | |
| Financial assets at fair value through profit or loss | | | | | |
| Held-for-trading financial assets | \$ <u>620,298</u> | - | <u>6,022</u> | <u>614,276</u> | <u>620,298</u> |
| Loans and receivables | | | | | |
| Cash and cash equivalents | \$ 3,606,496 | | | | |
| Notes and accounts receivable, net | 1,342,527 | | | | |
| Other financial assets-current | <u>14,798</u> | | | | |
| | <u>\$ 4,963,821</u> | | | | |
| Financial liabilities carried at amortized cost | | | | | |
| Long and short term borrowings | \$ 1,837,560 | | | | |
| Short-term notes and bills payable | 49,982 | | | | |
| Notes and accounts payable | 566,714 | | | | |
| Other payables | <u>307,498</u> | | | | |
| | <u>\$ 2,761,754</u> | | | | |

2) Valuation techniques for financial instruments measured at fair value

a) Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

b) Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques generally accepted by market participants. Fair value of forward currency is usually determined by the forward currency exchange rate.

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3) Reconciliation of Level 3 fair values

The following table shows a reconciliation of the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

| | <u>At fair value through profit or loss</u> | |
|------------------------|---|--|
| | Derivative mandatorily measured at fair value through profit or loss (held-for-trading financial assets) | Non-derivative mandatorily measured at fair value through profit or loss (held- for-trading financial assets) |
| January 1, 2018 | \$ - | 614,276 |
| In profit or loss | 16,108 | 33,142 |
| Purchased | - | 1,766,482 |
| Derecognized or repaid | <u>(16,108)</u> | <u>(2,167,934)</u> |
| December 31, 2018 | <u>\$ -</u> | <u>245,966</u> |
| January 1, 2017 | \$ - | 161,637 |
| In profit or loss | - | 24,448 |
| Purchased | - | 2,050,285 |
| Derecognized or repaid | <u>-</u> | <u>(1,622,094)</u> |
| December 31, 2017 | <u>\$ -</u> | <u>614,276</u> |

The aforementioned total gains and losses were recognized in “other income” and “other gains and losses”. There were no transfers from all Levels for the years ended December 31, in 2018 and 2017.

4) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Group’s financial instruments that use Level 3 inputs to measure fair value are “financial assets measured at fair value through profit or loss – principal guaranteed financial instrument” and derivative financial assets. The financial assets’ fair value are using the prior transaction price before adjustments or third-party pricing information. The unobservable inputs are not set up as the Group measures fair value, therefore the quantified information of significant unobservable inputs are not disclosed.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Financial risk management

(i) Structure of risk management

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect any changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The board of directors monitors the management to ensure compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The board of directors is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the board of directors.

(ii) The Group have exposed to the following risks from its financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

For more disclosures about the quantitative effects of these risks exposures and the Group's objectives, policies and processes for measuring and managing the above mentioned risks, please refer to note 6(s).

(u) Capital management

The Group manages capital to safeguard the capacity to continue to operate and to safeguard the certainty and stability of its financial resources. The management uses the asset-liability ratio to manage capital. As of December 31, 2018 and 2017, the Group's asset-liability ratios were 53% and 56%, respectively. In addition, a resolution was passed during the general meeting of shareholders held on 14 June 2018 for the reduction of ordinary shares by cash in order to adjust the capital structure and to increase the rate of return on equity, except for above mentioned, there were no changes in the Group's approach to capital management as of December 31, 2018.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(7) Related-party transactions:

(a) Transaction of key management personnel

(i) Key management personnel compensation

Key management personnel compensation comprised:

| | <u>2018</u> | <u>2017</u> |
|------------------------------|------------------|---------------|
| Short-term employee benefits | \$ 33,274 | 38,791 |
| Post-employment benefits | 216 | 216 |
| Termination benefits | - | - |
| Other long-term benefits | - | - |
| Share-based payments | - | - |
| | <u>\$ 33,490</u> | <u>39,007</u> |

(8) Pledged assets

The carrying values of pledged assets were as follows:

| <u>Pledged assets</u> | <u>Object</u> | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---|-------------------------------|------------------------------|------------------------------|
| Demand deposits (classified under other current financial assets) | Guarantee for project | \$ - | 1,566 |
| // | Guarantee for customs | 447 | 8,336 |
| // | Guarantee for carbon emission | 26 | 1,849 |
| // | Guarantee for litigation | <u>3,130</u> | <u>-</u> |
| | | <u>\$ 3,603</u> | <u>11,751</u> |

(9) Significant Commitments and Contingencies:

(a) Unrecognized contractual commitments

(i) The Group's unrecognized contractual commitments to the purchase of equipments were as follows:

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|------------------------------|------------------------------|
| Acquisition of property, plant and equipment | <u>\$ 85,227</u> | <u>79,772</u> |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
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(ii) The amounts of guarantee notes issued as collateral for bank loans were as follows:

| | December 31, 2018 | December 31, 2017 |
|-----------------------------|------------------------------|------------------------------|
| Outstanding guarantee notes | \$ 2,342,910 | 2,186,648 |
| Purchasing guarantee | 15,358 | 14,880 |
| | \$ 2,358,268 | 2,201,528 |
| Actual usage amount | \$ 261,078 | 252,440 |

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:None

(12) Other:

(a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

| By item | 2018 | | | 2017 | | |
|----------------------------|----------------|--------------------|-----------|----------------|--------------------|---------|
| | Operating cost | Operating expenses | Total | Operating cost | Operating expenses | Total |
| Employee benefit expenses | | | | | | |
| Salary | 812,304 | 215,259 | 1,027,563 | 752,752 | 182,413 | 935,165 |
| Labor and health insurance | 21,123 | 9,088 | 30,211 | 19,276 | 8,512 | 27,788 |
| Pension | 31,712 | 7,104 | 38,816 | 30,574 | 8,030 | 38,604 |
| Others | 21,179 | 11,971 | 33,150 | 19,826 | 12,618 | 32,444 |
| Depreciation | 206,355 | 37,705 | 244,060 | 196,976 | 28,523 | 225,499 |
| Amortization | 6,782 | 4,758 | 11,540 | 5,748 | 4,401 | 10,149 |

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

(i) Loans to other parties:

| No. | Name of lender | Name of borrower | Account name | Related party | Highest balance of financing to other parties during the period (Note 3) | Ending balance (Note 3) | Actual usage amount during the period | Interest rate | Nature of financing | Transaction amounts | Reason for short-term financing | Allowance for bad debt | Collateral | | Financing limit for each borrowing company | Maximum financing limit for the lender |
|-----|-----------------------|------------------|---------------------------|---------------|--|-------------------------|---------------------------------------|---------------|---------------------------------|---------------------|---------------------------------|------------------------|------------|-------|--|--|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | SAME START (Anguilla) | NISHOKU VIETNAM | Other accounts receivable | Yes | 247,640 | 245,720 | 230,363 | 2.12%-2.74% | Necessary to loan other parties | - | Operating capital | - | - | - | 1,766,687 (Note 1) | 1,766,687 (Note 1) |

Note 1: The individual amount and the total amount for lending to a company shall not exceed 10% and 40% of the lending company’s net worth in the latest financial statement, respectively. The Company for lending to the Company directly or indirectly holds 100% of their shares, with the loan amount not limited and the total amounts not exceeding the lending company’s net worth in the last financial statement.

Note 2: Related transaction have been eliminated during the preparation of the consolidated financial statements.

Note 3: Amount actually draw in foreign currencies were translated based on the exchange rate at the reporting date.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Guarantees and endorsements for other parties:

| No. | Name of guarantor | Counter-party of guarantee and endorsement | | Limitation on amount of guarantees and endorsements for a specific enterprise (note 1) | Highest balance for guarantees and endorsements during the period | Balance of guarantees and endorsements as of reporting date (Note 3) | Actual usage amount during the period | Property pledged for guarantees and endorsements (Amount) | Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements | Maximum amount for guarantees and endorsements | Parent company endorsements/ guarantees to third parties on behalf of subsidiary | Subsidiary endorsements/ guarantees to third parties on behalf of parent company | Endorsements/ guarantees to third parties on behalf of companies in Mainland China |
|-----|-------------------------|--|--|--|---|--|---------------------------------------|---|---|--|--|--|--|
| | | Name | Relationship with the Company (Note 2) | | | | | | | | | | |
| 0 | The Company | SAME START (Anguilla) | 3 | 1,178,271 | 1,002,942 | 995,166 | - | - | 25.34 % | 3,927,570 | Y | N | N |
| " | " | NISHOKU VIETNAM | 2 | 1,178,271 | 1,216,314 | 1,216,314 | 245,720 | - | 30.97 % | 3,927,570 | " | " | " |
| " | " | NISHOKU BOUEKI | 2 | 1,178,271 | 131,430 | 131,430 | - | - | 3.35 % | 3,927,570 | " | " | " |
| 1 | NISHOKU KUNSHAN PLASTIC | SAME START (Anguilla) | 1 | 765,570 | 15,478 | 15,358 | 15,358 | - | 0.60 % | 2,551,901 | N | " | " |

Note 1: The amount and the total amount of the guarantee to a company shall not exceed 30% and 100%, respectively, of the Company net worth in the latest financial statements. The total amount of the guarantee that the Company and its subsidiaries to a company shall not exceed 100%, of the Company's net worth in the latest financial statement. The Company directly or indirectly holds 100% of their shares, the guarantee amounts not limited by the Company's net worth in the latest financial statement.

Note 2: The relationship of guarantor and endorsements to related parties were as follows:

- 1) Business relationship between the Company
- 2) The Company directly or indirectly holds over 50% of subsidiaries' shares;
- 3) The parent company and its subsidiaries holds over 50% of investees' shares
- 4) A subsidiary jointed owned over 50% by the Company and the Company's directly-owned subsidiary.

Note 3: Amount actually draw in foreign currencies were translated based on the exchange rate at the reporting date.

(iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):

| Name of holder | Nature and name of securities | Relationship with the securities issuer | Account name | Highest balance during the year | | Ending balance | | | Fair value | Note |
|-------------------------|---|---|---|---------------------------------|-----------------------------|--------------------------|----------------|-----------------------------|------------|------|
| | | | | Shares/Units (thousands) | Percentage of ownership (%) | Shares/Units (thousands) | Carrying value | Percentage of ownership (%) | | |
| SAME START (Anguilla) | Oversea corporate bonds | None | Financial assets at fair value through profit or loss - current | - | - % | - | 5,833 | - % | 5,833 | |
| " | PineBridge preferred securities income fund | " | " | - | - % | - | 12,091 | - % | 12,091 | |
| NISHOKU SHENZHEN | Principal guaranteed financial instruments | " | " | - | - % | - | 156,524 | - % | 156,524 | |
| NISHOKU KUNSHAN PLASTIC | " | " | " | - | - % | - | 89,442 | - % | 89,442 | |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
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- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:

| Name of company | Category and name of security | Account name | Name of counter-party | Relationship with the company | Beginning Balance | | Purchases | | Sales | | | | Ending Balance | |
|-------------------------|--|---|--|-------------------------------|-------------------|---------|-----------|---------|--------|---------|---------|-------------------------|----------------|---------|
| | | | | | Shares | Amount | Shares | Amount | Shares | Price | Cost | Gain (loss) on disposal | Shares | Amount |
| NISHOKU KUNSHAN PLASTIC | Principal guaranteed financial instruments | Financial assets at fair value through profit or loss | China Citic Bank | None | - | 228,259 | - | 447,210 | - | 679,939 | 675,469 | 4,470 | - | - |
| " | " | " | Agricultural Bank of China | " | - | - | - | 357,768 | - | 269,807 | 268,326 | 1,481 | - | 89,442 |
| " | " | " | Wells Fargo Asset Management (Shanghai) | " | - | - | - | 223,605 | - | 226,792 | 223,605 | 3,187 | - | - |
| NISHOKU SHENZHEN | Principal guaranteed financial instruments | " | Wells Fargo Asset Management (Shanghai) | " | - | - | - | 715,537 | - | 593,233 | 581,374 | 11,859 | - | 134,163 |
| " | " | " | GF Asset Management (Guangdong) Co., Ltd | " | - | 296,737 | - | - | - | 307,835 | 296,737 | 11,098 | - | - |

- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock:

| Name of company | Related party | Nature of relationship | Transaction details | | | | Transactions with terms different from others | | Notes/Accounts receivable (payable) | | Note |
|-----------------------|-------------------------|---|---------------------|-----------|-------------------------------------|---------------|---|---------------|-------------------------------------|---|--------|
| | | | Purchase/Sale | Amount | Percentage of total purchases/sales | Payment terms | Unit price | Payment terms | Ending balance (Note 1) | Percentage of total notes/accounts receivable (payable) | |
| The Company | SAME START (Anguilla) | The Company indirectly invest through SUNNICE (SAMOA) | Purchase | 197,797 | 86 % | Note 1 | Note 1 | Note 1 | (89,732) | (85)% | Note 2 |
| SAME START (Anguilla) | The Company | " | Sale | (197,797) | (15) % | Net 90 days | " | " | 89,732 | 21% | " |
| " | NISHOKU SHENZHEN | Associate | Purchase | 167,930 | 20 % | " | " | " | (46,670) | (21)% | " |
| " | NISHOKU KUNSHAN PLASTIC | " | Sale | (909,420) | (70) % | " | " | " | 220,253 | 53% | " |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| Name of company | Related party | Nature of relationship | Transaction details | | | | Transactions with terms different from others | | Notes/Accounts receivable (payable) | | Note |
|-------------------------|-----------------------|------------------------|---------------------|-----------|-------------------------------------|---------------|---|---------------|-------------------------------------|---|--------|
| | | | Purchase/Sale | Amount | Percentage of total purchases/sales | Payment terms | Unit price | Payment terms | Ending balance (Note 1) | Percentage of total notes/accounts receivable (payable) | |
| SAME START (Anguilla) | NISHOKU BOUEKI | Associate | Purchase | 167,632 | 20 % | Net 90 days | Note 1 | Note 1 | (49,073) | (22)% | Note 2 |
| " | NISHOKU VIETNAM | " | Sale | (113,346) | (9) % | " | " | " | 25,431 | 6% | " |
| NISHOKU SHENZHEN | SAME START (Anguilla) | " | Sale | (167,930) | (22) % | " | " | " | 46,670 | 16% | " |
| NISHOKU KUNSHAN PLASTIC | SAME START (Anguilla) | " | Purchase | 909,420 | 54 % | " | " | " | (220,253) | (36)% | " |
| NISHOKU BOUEKI | SAME START (Anguilla) | " | Sale | (167,632) | (84) % | " | " | " | 49,073 | 100% | " |
| NISHOKU VIETNAM | SAME START (Anguilla) | " | Purchase | 113,346 | 41 % | " | " | " | (25,431) | (60)% | " |

Note 1: The subsidiaries did not purchase or sale same product from third parties, so the purchase (sale) price can not be compared. In addition, the receipt terms of related parties were not significant different to third parties.

Note 2: Transactions within the Group were eliminated in the consolidated financial statements.

(viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

| Name of company | Counter-party | Nature of relationship | Ending balance | Turnover rate | Overdue | | Amounts received in subsequent period | Allowance for bad debts |
|-----------------------|-------------------------|------------------------|----------------|---------------|---------|--------------|---------------------------------------|-------------------------|
| | | | | | Amount | Action taken | | |
| SAME START (Anguilla) | NISHOKU KUNSHAN PLASTIC | Associate | 220,253 | 5.98 | - | | 92,378 | - |

Note 1: Until February 25, 2018.

Note 2: Transactions within the Group were eliminated in the consolidated financial statements

(ix) Trading in derivative instruments: Please refer to notes 6(s).

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (x) Business relationships and significant intercompany transactions with amounts exceeding NT\$ 10 million:

(In Thousands of New Taiwan Dollars)

| No. (Note 1) | Name of company | Name of counter-party | Nature of relationship (Note 2) | Intercompany transactions, | | | Percentage of the consolidated net revenue or total assets |
|-----------------|-----------------------|-------------------------|------------------------------------|----------------------------|---------|---------------------|--|
| | | | | Account name | Amount | Trading terms | |
| 0 | The Company | SAME START (Anguilla) | 1 | Purchase | 197,797 | Note 3 | 5% |
| " | " | " | 1 | Accounts Payable | 89,732 | " | 1% |
| 1 | NISHOKU BOUEKI | " | 3 | Sales | 167,632 | " | 4% |
| " | " | " | 3 | Commission revenue | 31,695 | " | 1% |
| " | " | " | 3 | Accounts receivable | 49,073 | " | 1% |
| 2 | SAME START (Anguilla) | NISHOKU SHENZHEN | 3 | Purchase | 167,930 | " | 4% |
| " | " | " | 3 | Accounts Payable | 46,670 | " | 1% |
| " | " | " | 3 | Sales | 75,571 | " | 2% |
| " | " | " | 3 | Accounts receivable | 19,684 | " | -% |
| " | " | NISHOKU KUNSHAN PLASTIC | 3 | Purchase | 97,445 | " | 2% |
| " | " | " | 3 | Accounts Payable | 56,331 | " | 1% |
| " | " | " | 3 | Sales | 909,420 | " | 21% |
| " | " | " | 3 | Accounts receivable | 220,253 | " | 3% |
| 2 | SAME START (Anguilla) | NISHOKU VIETNAM | 3 | Sales | 113,346 | " | 3% |
| " | " | " | 3 | Accounts receivable | 25,431 | " | -% |
| " | " | " | 3 | Other receivable | 232,914 | Loans and interests | 3% |

Note 1: "0" represents the parent company, and the others represent the subsidiaries.

Note 2: "1" represents the transactions from parent company to subsidiary.

"2" represents the transactions from subsidiary to parent company.

"3" represents the transactions between subsidiaries.

Note 3: The trading price and product that purchase or sale from related parties that did not purchase or sale from third parties, so can not be compared.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2018 (excluding information on investees in Mainland China):

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount | | Highest balance during the year | | Balance as of December 31, 2018 | | | Net income (losses) of investee | Share of profits/losses of investee | Note |
|------------------|-----------------------|----------|--|------------------------------------|------------------------------------|---------------------------------|-------------------------|---------------------------------|-------------------------|----------------|---------------------------------|-------------------------------------|------|
| | | | | December 31, 2018 | December 31, 2017 | Shares (thousands) | Percentage of ownership | Shares (thousands) | Percentage of ownership | Carrying value | | | |
| The Company | SUN NICE (SAMOA) | SAMOA | Holding | 1,774,490 | 1,774,490 | 56,282 | 100 % | 56,282 | 100.00 % | 5,568,578 | 469,382 | 469,382 | 1 |
| " | NISHOKU BOUEKI | Taiwan | Purchase and sales of plastic raws and parts | 1,000 | 1,000 | 6,300 | 100 % | 6,300 | 100.00 % | 145,821 | 51,642 | 48,922 | 1 |
| " | NISHOKU VIETNAM | Vietnam | Manufacture and sale of tooling and plastic products | 267,314 (USD 8,500 thousand) | 267,314 (USD 8,500 thousand) | - | 100 % | - | 100.00 % | (49,752) | (126,678) | (126,678) | 1 |
| SUN NICE (SAMOA) | SAME START (Anguilla) | Anguilla | Purchase and sale of mold and plastic products | 634,278 | 634,278 | 21,814 | 100 % | 21,814 | 100.00 % | 1,766,687 | 391,132 | 391,132 | 1 |
| " | NISHOKU HK | HK | Holding | 1,800,361 (USD 57,915 thousand) | 1,800,361 (USD 57,915 thousand) | 62,298 | 100 % | 62,298 | 100.00 % | 3,068,878 | 57,140 | 57,140 | 1 |
| " | SUN NICE (BVI) | BVI | " | 585,292 (USD 17,948 thousand) | 585,292 (USD 17,948 thousand) | 15,697 | 100 % | 15,697 | 100.00 % | 730,377 | 19,679 | 19,679 | 1 |

Note 1: Transactions within the Group were eliminated in the consolidated financial statements

(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

| Name of investee | Main businesses and products | Total amount of paid-in capital | Method of investment | Accumulated outflow of investment from Taiwan as of January 1, 2017 | Investment flows | | Accumulated outflow of investment from Taiwan as of December 31, 2018 | Net income (losses) of the investee | Percentage of ownership | Investment income (losses) (Note 1) | Book value (Note 1) | Accumulated remittance of earnings in current period |
|-------------------------|---|---------------------------------|--|---|------------------|--------|---|-------------------------------------|-------------------------|-------------------------------------|---------------------|--|
| | | | | | Outflow | Inflow | | | | | | |
| NISHOKU SHENZHEN | Manufacture and sale of mold and plastic products | USD23,288 thousand | Indirect investment through third area | 703,870 (USD22,939 thousand) | - | - | 703,870 (USD22,939 thousand) | 7,576 | 100.00% | 7,576 | 1,216,554 | 475,841 |
| NISHOKU KUNSHAN PLASTIC | Manufacture and sale of mold and plastic products | USD53,310 thousand | " | 1,674,270 (USD52,524 thousand) | - | - | 1,674,270 (USD52,524 thousand) | 74,597 | 100.00% | 69,248 | 2,551,901 | 473,544 |

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
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(ii) Limitation on investment in Mainland China:

| Accumulated Investment in Mainland China as of December 31, 2018 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|--|--|------------------------------|
| 2,378,140 | 2,378,140 | (Note 2) |

Note 1: The above investment income (loss) in Mainland China were based on financial statements reviewed by the Company's auditors.

Note 2: The Company has received the certificate issue by the Industrial Development Bureau, Ministry of Economic Affairs, allowing it to start operating of its headquarters. As a result, there is no limitation on investment to Mainland China for the Company.

Note 3: Transaction within the Group were eliminated in the consolidated financial statements.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".

(14) Segment information:

(a) General information

The Group identifies its operating segments based on the decision of the chief operating decision maker (CODM). The Group's operating segments are in United States, Asia and Europe, etc. Those operating segments are all reportable segments. The revenue comes from manufacturing and supplying electronic parts to clients. Since the strategy of each segment is different, it is necessary to manage them separately.

(b) Information about reportable segments and their measurement and reconciliations

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, but not including any extraordinary activity and foreign exchange gain or losses because taxation, extraordinary activity, and foreign exchange gain or losses are managed on a group basis, and hence they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to those described in note 4 "significant accounting policies".

The Group treated intersegment sales and transfers as third-party transactions. They are measured at market price.

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NISHOKU TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group's operating segment information from geographical clients are as follows:

| | 2018 | | | | |
|--|----------------------------|-------------------------|-------------------------|--------------------|-------------------------|
| | North America | Asia | Europe | Elimination | Total |
| Revenue from external customers | \$ <u>1,918,503</u> | <u>921,836</u> | <u>1,378,503</u> | <u>-</u> | <u>4,218,842</u> |
| Reportable segment profit or loss | \$ <u>232,595</u> | <u>19,220</u> | <u>66,440</u> | <u>-</u> | <u>318,255</u> |
| | 2017 | | | | |
| | North America | Asia | Europe | Elimination | Total |
| Revenue from external customers | \$ <u>1,896,525</u> | <u>1,098,439</u> | <u>1,024,544</u> | <u>-</u> | <u>4,019,508</u> |
| Reportable segment profit or loss | \$ <u>407,689</u> | <u>97,416</u> | <u>91,811</u> | <u>-</u> | <u>596,916</u> |

(c) Product and service information

Revenue from external customers of the Group was as follows:

| <u>Product and Services</u> | <u>2018</u> | <u>2017</u> |
|------------------------------------|----------------------------|-------------------------|
| Plastic injection | \$ 3,794,661 | 3,666,899 |
| Mold | 423,629 | 340,119 |
| Others | 552 | 12,490 |
| Total | \$ <u>4,218,842</u> | <u>4,019,508</u> |

(d) Major customers

Sales to individual clients constituting over 10% of total revenue in 2018 and 2017 are summarized as follows:

| <u>Customer</u> | <u>2018</u> | |
|------------------------|----------------------------|---------------------------------------|
| | <u>Amount</u> | <u>Percentage of net sales</u> |
| Company A | \$ <u>1,230,397</u> | <u>29</u> |
| | <u>2017</u> | |
| <u>Customer</u> | <u>Amount</u> | <u>Percentage of net sales</u> |
| Company A | \$ 869,640 | 22 |
| Company B | 419,909 | 10 |
| Total | \$ <u>1,289,549</u> | <u>32</u> |