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TAIWAN KONG KING CO., LTD.

Annual Report
2018

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（http://mops.twse.com.tw/）

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   Title: General Manager

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2. Deputy Spokesman

   Name: CHEN MEI-FEN

   Title: Vice General Manager of the Management Division

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3. Company address and tel.

   Head office: 5F.-4, No. 66, Sec. 2, Nankan Rd., Luzhu Dist., Taoyuan City, Taiwan (R.O.C.)

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5. Recent annual report accountant

   Ernst & Young

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   Address: 9F., No. 333, Sec. 1, Keelung Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.) (TWTC International Trade Building)

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6. The name of the trading place where Company’s listed overseas securities are listed for trading and the way to inquire about the overseas securities information: not applicable

Company Website: http://www.tkk.com.tw

TAIWAN KONG KING CO., LTD.

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I. Letter to Shareholders

Dear shareholders and distinguished guests:

Welcome to this general meeting of shareholders, I hereby announce the start of the 2019 shareholders' meeting of Taiwan Kong King Co., Ltd.

It is expected that the prosperity of Taiwan's electronics industry will only maintain stable due to the saturation of the terminal product market in the coming year. As a professional agent in the electronics industry, in order to be the most solid backing for our customers, in addition to maintain the distributorship of existing advanced equipment, materials and key components, we will also actively step into the new manufacturing process of the electronics industry. We are eager to have a place in the rapidly changing electronics industry and grow together with our customers and suppliers.

The performance in 2018 grew significantly compared with the previous two years. In the future, we will continue to adhere to the solid operation, and endeavor to maintain profitability by controlling operating costs and improving business performance. The results of the 2018 business are as follows:

The consolidated operating income of the Company as of December 31, 2018 was NTD 1,136.575 million, an increase of 43.94% compared with NTD 789.602 million in 2017. The net profit attributable to owners of the parent company was NTD 59.165 million, which was 141.53% increase from NTD 24.496 million in 2017.The earnings per share was NTD 1.63, an increase of 139.71% from NTD 0.68 in 2017.

1. 2018 Consolidated Business Results:

A. Operational implementation results

Units: NT$ in thousands, %

Item	2018	2017	Diff	Diff%
Operating income	1,136,575	789,602	346,973	43.94
Operating gross profit	335,166	276,881	58,285	21.05
Operating net income	59,969	20,437	39,532	193.43
Net rofit before tax	75,619	32,134	43,485	135.32
Net profit	57,059	26,108	30,951	118.55
Net profit attributable to owners of the parent company	59,165	24,496	34,669	141.53
Basic earnings per share (NT$)	1.63	0.68	0.95	139.71

B. Consolidated Financial income and expenditures

Units: NT$ in thousands

Item	2018	2017
Cash flow from operating activities	95,513	61,067
Cash flow from investment activities	(3,069)	(18,153)
Cash flow from financing activities	(110,963)	(66,046)
Gains (losses) on cash and cash equivalents	(18,633)	(39,315)
Cash and cash equivalents at the beginning of the period	497,147	536,462
Cash and cash equivalents at the end of the period	478,514	497,147

C. Profitability

Item		2018	2017
Return on assets (%)		5.33	2.30
Return on equity (%)		6.75	2.88
Ratio to paid-in capital (%)	Operating profit margin	16.52	5.63
	Income before Tax	20.83	8.86
Net Profit Margin (%)		5.02	3.31
EPS (NT$)		1.63	0.68

2. 2019 Business Plan

A. Enhance customer satisfaction and provide instant service.

B. Develop new product distributorship that respond to customer needs.

C. Update information architecture and process optimization continuously to improve management performance with computer systems.

D. Strengthen employee education and training to serve customers with professional employees.

E. Steady operation and increase shareholders' equity.

3. The Future Development Strategy of The Company

A. Seeking local and international strategic alliance partners, and distribute products in high-tech fields.

B. Establish a talent network in the high-tech field and find talented employees to serve customers.

C. Strict and reasonable implementation of credit control and continuous strengthening of risk control.

4. The influence of external competitive environment, regulatory environment and overall business environment:

Under the global concern about corporate social responsibility and environmental protection issues, Taiwan Kong King will fulfill its corporate social responsibility with a sense of mission to society. In order to protect the earth, we will continue to introduce the most advanced green energy equipment, materials and key technologies from the electronics industry to the Taiwan market to provide products with low energy consumption and high production value.

Finally, I would like to thank all the shareholders of Taiwan Kong King. With the long-term support of the shareholders and the efforts of the company's employees, I believe Taiwan Kong King can continue to grow in stability. I wish you good health and good luck!

Chairman HO SHU-CHAN

General Manager LIAO HUNG-YING

II. Company Profile

1. Date of incorporation: June 14, 1975

2. Company history

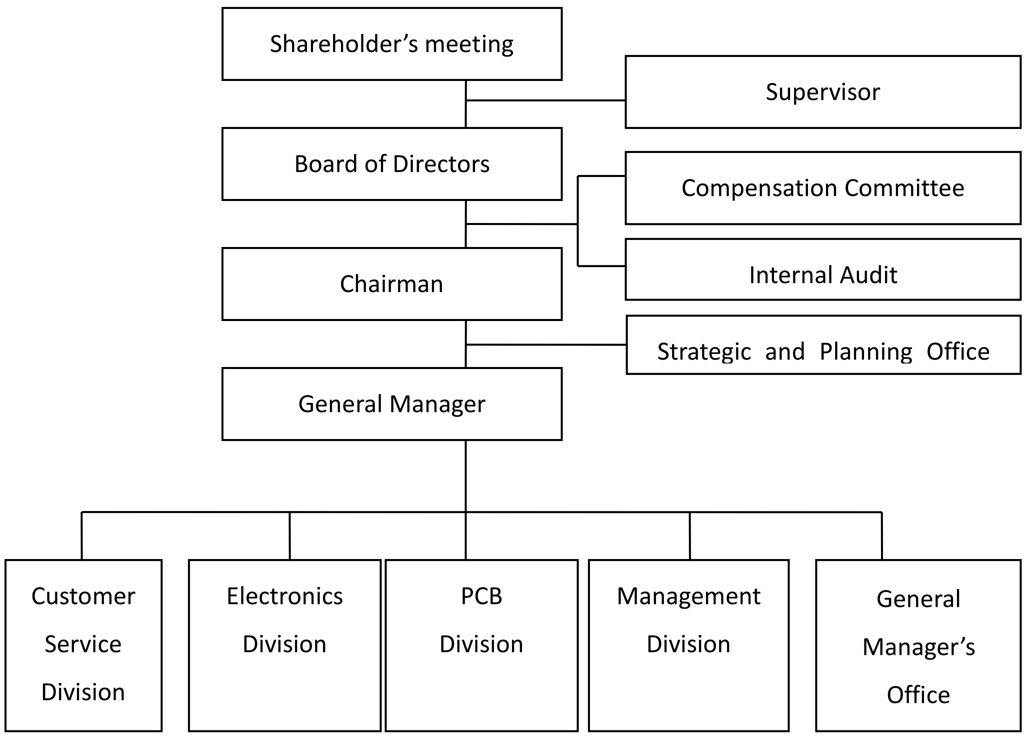
1977	Taiwan Kong King was established and entered into the PCB industry.
1983	The Taipei office moved to Luzhu, Taoyuan.
1989	Established Kaohsiung Office.
1994	Entered into SMT industry.
1995	Purchased and moved to the new office building (Zhongzheng International Building, Luzhu, Taoyuan)
1996	Expanded the services for semiconductor industry equipment
1998	ISO 9002 certified
1998	Established Hsinchu Office.
1999	Developed photoelectric industry equipment business.
2000	Public issuance. Developed new precision printed circuit board testing business
2001	Established TKK HIOKI Co., Ltd. with Japanese company Hioki E.E. Corp.
2002	Expanded HDI board testing business.. Re-investmented Hiking Technology Co., Ltd.
2002	Verified by ISO 9001:2000.
2003	Re-investmented Technology Kong King Electronics Co., Ltd. (Shanghai)
2004	Established Southern Taiwan Science Park Office
2005	Listed in the OTC market on June 17, with the stock code 3093 and capital of NT$272,734,000.
2006	Introduced ERP system. Established THT Technology Co., Ltd. with Japanese company Hioki E.E. Corp.
2007	Introduced CSM system.
2008	Re-investmented The Kong King Technology Co., Ltd. (Suzhou) Awarded Evergreen Enterprise "Special Contribution Award" by Taoyuan City Government.
2009	The capital increased NT$17,280,420, total paid-up capital became NT$362,888,940.
2010	Verified by ISO 9001:2008.
2011	Awarded "A+ Club" by Global Views Monthly for the third year in a row, and was promoted as a five-star company.
2012	Hiking Technology Co., Ltd. added a new precision printed circuit board fixture manufacturing business.
2013	Received “Happy Enterprise Award” from Taipei City Government and “Service Quality Excellence Award” from Taoyuan City Government.

2015	Ranked top 5% of all OTC companies from the first corporate governance review.
2015	Selected as one of the top 100 giants in the 2015 CSR Corporate Citizenship Awardsof the CommonWealth Magazine
2016	Selected as one of the top 100 giants in the 2016 CSR Corporate Citizenship Awardsof the CommonWealth Magazine.
2018	The subsidiary TKK HIOKI Co., Ltd. was renamed to TKK Precision Co., Ltd.

III. Corporate Governance Report

1. Organizational Structure

(1) Organizational Chart



(2) Department functions

Department	Functions
General Manager's Office	Includes secretary, MIS, development team, project development and overseas development department. Secretary: Assist in handling the day-to-day administrative business. MIS: Related operations such as company computer maintenance and information system management. Development team, project team: New product introduction and market development, project equipment distribution negotiation. Overseas Development Department: Responsible for overseas market sales and after-sales service related business.
Internal Audit	Formulate the company's annual audit plan, audit the implementation of the company's various departments' rules and regulations, check and evaluate whether the company's internal operations are appropriate and sound, in order to obtain effective internal control at a reasonable cost.
Management Division	The division includes the Finance Department, Management Department, Procurement Department and Sales and Marketing Department. Finance Department: Cashier and accounting matters. Management Department: Import and export operations, general affairs and personnel management operations. Procurement Department: Responsible for company procurement matters. Sales and sales department: Sales management of inventory sales and
PCB Division	PCB equipment and materials sales planning, market research, operating activities and market development plans, development and implementation.
Electronics Division	SMT, semiconductor and optical communications sales planning, market research, operating activities and market development plans, development and implementation.
Customer Service Division	Equipment installation and related warranty, after-sales service and control of inventories.

2. Information on the company's directors, supervisors, general manager, assistant general managers, associates, and the supervisors of all the company's divisions and branch units

A. Information of thedirector and supervisor

March 26, 2019

Title	Name	Gender	Nationality or Place of Registration	Inauguration date	Term (year)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Current Shareholding		Current Shareholdi ng in the name of others		Experience (Education)	Current Positions at The Company and Other Companies	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	Wong's Kong King International (Holdings)	-	Bermuda	104.06.11	3	66.06.14	24,473,836	67.44	24,473,836	67.44	0	0.00	0	0.00	-	-	-	-	-
Chairman	Wong's Kong King International (Holdings) Limited Representative：HO SHU-CHAN	Male	Hong Kong	104.06.11	3	66.06.14	24,473,836	67.44	24,473,836	67.44	0	0.00	0	0.00	Wong's Kong King International (Holdings) Limited	TKK: Chairman： Other companies: CFO of Wong's Kong King International (Holdings) Limited	-	-	-
Director	Wong's Kong King International (Holdings) Limited, Representative：HSU HUNG-CHIEH	Male	R.O.C.	104.06.11	3	90.03.11	24,473,836	67.44	24,473,836	67.44	0	0.00	0	0.00	TKK's Chairman and general manager	TKK: None Other companies: None	-	-	-
Director	Wong's Kong King International (Holdings) Limited Representative：SENTA WONG	Male	Canada	104.06.11	3	66.06.14	24,473,836	67.44	24,473,836	67.44	0	0.00	0	0.00	2000 chairman of Tung Wah Group of Hospitals	TKK: None Other companies: Chairman of Wong's Kong King International (Holdings) Limited	-	-	-
Director	Wong's Kong King International (Holdings) Limited Representative：TSUI YING-CHUN	Male	Hong Kong	104.06.11	3	66.06.14	24,473,836	67.44	24,473,836	67.44	0	0.00	0	0.00	Wong's Kong King International (Holdings) Limited	TKK: None Other companies: Group Chairman and Chief Executive Officer Executive Director of Wong's Kong King International (Holdings) Limited	-	-	-

Title	Name	Gender	Nationality or Place of Registration	Inauguration date	Term (year)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Current Shareholding		Current Shareholdi ng in the name of others		Experience (Education)	Current Positions at The Company and Other Companies	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	Wong's Kong King International (Holdings) Limited Representative：CHANG JUI-SHUM	Male	Hong Kong	104.06.11	3	98.06.16	24,473,836	67.44	24,473,836	67.44	0	0.00	0	0.00	General Manager of WKK distribution ltd.	TKK: None Other companies: General Manager of WKK distribution ltd.	-	-	-
Director	LIAO HUNG-YING	Male	R.O.C.	104.06.11	3	97.01.18	188,798	0.52	188,798	0.52	8,112	0.02	0	0.00	TKK General Manager The 31st NCCU entrepreneurship academy	TKK: General Manager Other companies: Chaiman of Hiking Technology Co., Ltd. Chaiman of The Kong King Technology Co., Ltd, (Suzhou) Chaiman ofTHT Technology Co., Ltd. Chaiman ofTKK Precision Co., Ltd.	-	-	-
Director	CHEN MEI-FEN	Female	R.O.C.	104.06.11	3	90.03.11	287,035	0.79	287,035	0.79	466	0.00	0	0.00	TKK Deputy General Manager Department of Business AdministrationChung Yuan Christian University	TKK: Deputy General Manager Other companies: Supervisor of TKK Precision Co., Ltd. Supervisor of THT Technology Co., Ltd. Supervisor of The Kong King Technology Co., Ltd, (Suzhou) Supervisor of Top Range Machinery Co., Ltd. Director of Leetech International	-	-	-
Independent Director	LOK ARTHUR K.	Male	Hong Kong	104.06.11	3	91.07.25	0	0.00	0	0.00	0	0.00	0	0.00	Director of APEX INSURANCE LTD	TKK: None Other companies: Director of APEX INSURANCE LTD	-	-	-
Independent Director	HUANG WEN-YUEAN	Male	R.O.C.	104.06.11	3	98.06.16	1,050	0.00	1,050	0	1,050	0	0	0.00	EMBA of Electronics Engineering, NCTU	TKK: None Other companies: None	-	-	-

Title	Name	Gender	Nationality or Place of Registration	Inauguration date	Term (year)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Current Shareholding		Current Shareholdi ng in the name of others		Experience (Education)	Current Positions at The Company and Other Companies	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Independent Director	CHAN CHUN-YEN	Male	R.O.C.	104.06.11	3	92.06.01	0	0.00	0	0.00	0	0.00	0	0.00	Chairman of Keng Di ltd.	TKK: None Other companies: Chairman of Keng Di ltd. Independent director of MKS CORP.	-	-	-
Supervisor	Top Range Machinery	-	R.O.C.	104.06.11	3	91.07.25	378,484	1.04	378,484	1.04	0	0.00	0	0.00	-	-	-	-	-
Supervisor	Top Range Machinery Representative： KEN CHOU	Male	R.O.C.	104.06.11	3	91.07.25	0	0.00	0	0.00	0	0.00	0	0.00	Chairman of Top Range Machinery Co., Ltd.	TKK：None Other companies: Chairman of Top Range Machinery Chairman of Hsiang Yi Industrial Co., Ltd	-	-	-
Supervisor	WU KUO-HSIEN	Male	R.O.C.	104.06.11	3	91.07.25	0	0.00	0	0.00	0	0.00	0	0.00	Chairman of the Maxtron Corporation	TKK：None Other companies: Chairman of the Maxtron Corporation	-	-	-
Supervisor	TSAI CHIH-WEI	Male	R.O.C.	104.06.11	3	98.06.16	0	0.00	0	0.00	0	0.00	0	0.00	Accountant of Chianye EMBA of NTU Master degree of the NCCU accounting department	TKK：None Other companies: Accountant of Chianye	-	-	-

Table 1: Major shareholders of institutional shareholders

March 26, 2019

Name of Institutional Shareholder	Major Shareholders	Shareholdings (%)
Wong's Kong King International (Holdings) Limited	Greatfamily Inc.[Note]	28.15
	Greatguy(PTC) Inc.[Note]	28.15
	Senta Wong (BVI) Limited	16.53
	HSBC International Trustee Limited	6.19
	Mr. Wong Chung Yin	5.89
Top Range Machinery Co., Ltd.	Yontex Investment Limited	16.80
	Niensheng Investment Limited	14.41
	Hong Kong Taiwan Kong King Limited	9.03
	Jin-Ji Chou	8.81
	Ken Chou	7.88
	Yueh-Chu Chan	7.50
	Ying-Nan Chou	6.97
	Zhen-Fong Hong	4.52
	Hsin-Hsien Chou	4.19
	Huang-Hsueh Chou	3.96

Note: Greatfamily Inc. is registered in the name of Rewarding Limited, which is wholly-owned by a discretionary trust owned by Greatfamily Inc. (a wholly owned by Greatguy (PTC) Inc.). The shares owned by Greatfamily Inc. refer to the same shares as the shares owned by Greatguy (PTC) Inc.

Table 2： Major shareholders of the Company’s major institutional shareholders in table 1

March 26, 2019

Name of Institutional Shareholder	Major Shareholders	Shareholdings (%)
Greatfamily Inc.	Greatguy(PTC) Inc.	100.00
Senta Wong (BVI) Limited	Mr. Senta Wong	50.25
	Ms. Wong Wu Lai Ming Lily	49.75
Yontex Investment Limited	Ken Chou	29.23
Niensheng Investment Limited	Jin-Ji Chou	37.22
Hong Kong Taiwan Kong King Limited	Taiwan Kong King Co., Ltd.	99.99

Information about director and supervisor (2)

Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Attribute (See Note 2 Below)										Number of Holding Concurrent Independent Director Position in Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
HO SHU-CHAN			✓			✓	✓			✓	✓	✓		0
SENTA WONG			✓			✓	✓			✓	✓	✓		0
HSU HUNG-CHIEH			✓			✓	✓	✓		✓	✓	✓		0
TSUI YING-CHUN			✓			✓	✓			✓	✓	✓		0
CHEN MEI-FEN			✓			✓	✓	✓		✓	✓	✓	✓	0
LIAO HUNG-YING			✓			✓	✓	✓		✓	✓	✓	✓	0
CHANG JUI-SHUM			✓	✓		✓	✓	✓		✓	✓	✓		0
LOK ARTHUR K.			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
HUANG WEN-YUEAN			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
CHAN CHUN-YEN			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
WU KUO-HSIEN			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
KEN CHOU			✓	✓	✓	✓	✓	✓		✓	✓	✓		0
TSAI CHIH-WEI		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note 1: The Directors and Supervisors comply with the following conditions from two years before being elected and appointed, and during his term of office, please "tick" the appropriate corresponding boxes.

(1) Not an employee of this Company or its affiliates. Not a Director or Supervisor of the Company or its affiliates. (However,

this does not apply, in cases where the person is an Independent Director of the company or its parent company,subsidiary are set up according to this Act or local country ordinances).

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

(3) Not a spouse, second-degree relative or third-degree relative of those listed in the above three items.

(4) Not a director, supervisor, or employees of a corporate shareholder that directly holds five percent or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.

(5) Not a director, supervisor, manager or a shareholder holding five percent or more of the shares of a company or institution that has a business or financial relationship with the Company.

(6) Not a professional individual who provides services or consultation in business, legal, finance, or accounting to the Company or its any related companies, nor an owner, partner, director, supervisor, officer or spouse of a sole proprietorship.

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

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

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

B. Information of the general manager, assistant general manager, senior managers of departments and branches:

March 26, 2019

Title	Nationality	Name	Gender	Inauguration date	Shareholding		Spouses & Minor Shareholding		Current Shareholding in the name of others		Current Positions at Other Companies	Current Positions at Other Companies	Managers who are spouses or within two degrees of kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	R.O.C.	HO SHU-CHAN	Male	104.06.11	24,473,836	67.44	0	0.00	0	0.00	Wong's Kong King International (Holdings) Limited	CFO of Wong's Kong King International (Holdings) Limited	-	-	-
General Manager	R.O.C.	LIAO HUNG-YING	Male	96.10.04	188,798	0.52	8,112	0.02	0	0.00	Managing Supervisor of the TPCA Environment Foundation St. John's University The 3rd, 4th, 5th and 6th Supervisor of the Taiwan Printed Circuit Association The 31st NCCU entrepreneurship academy	Chairman of Hiking Technology Co., Ltd. Chairman of The Kong King Technology Co., Ltd, (Suzhou) Chairman of THT Technology Co., Ltd. Chairman of TKK Precision Co., Ltd.	-	-	-
Senior deputy general Manager of Customer Service	R.O.C.	FAN DING-CHI	Male	86.05.01	0	0.00	0	0.00	0	0.00	Department of Electronics Engineering of Lunghwa University of Science and Technology	General Manager of TKK Precision Co., Ltd. Director of Hiking Technology Co., Ltd. Director of The Kong King Technology Co., Ltd, (Suzhou)	-	-	-
Senior deputy general Manager of the Management Division	R.O.C.	CHEN MEI-FEN	Female	96.03.01	287,035	0.79	466	0.00	0	0.00	Department of Business AdministrationChung Yuan Christian University	Supervisor of TKK Precision Co., Ltd. Supervisor of THT Technology Co., Ltd. Supervisor of The Kong King Technology Co., Ltd, (Suzhou) Supervisor of Top Range Machinery Co., Ltd. Director of Leetech International	-	-	-
Deputy General Manager of the PCB Division	R.O.C.	CHENG FU-WEN	Male	96.07.01	495	0.00	0	0.00	0	0.00	Department of Electronics Engineering of ChungYuan Christian University	Director and General Manager of Hiking Technology Co., Ltd. Deputy CEO of The Kong King Technology Co., Ltd, (Suzhou)	-	-	-

Title	Nationality	Name	Gender	Inauguration date	Shareholding		Spouses & Minor Shareholding		Current Shareholding in the name of others		Current Positions at Other Companies	Current Positions at Other Companies	Managers who are spouses or within two degrees of kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Deputy General Manager of the PCB Division	R.O.C.	LIAO DE-HSIANG	Female	96.07.01	25,340	0.07	14,512	0.04	0	0.00	Chemical engineering of the Ta Hwa University of Science and Technology	-	-	-	-
Senior manager of customer service	R.O.C.	CHANG JUN-GU	Male	96.04.01	10,799	0.03	8,016	0.02	0	0.00	Electronics Engineering of the Taipei City University of Science and Technology	-	-	-	-
Senior manager of customer service	R.O.C.	LIU REN-JIEN	Male	103.04.01	11,420	0.03	0	0.00	0	0.00	Electronics Engineering of the NCU	-	-	-	-
Senior manager of Management Division	R.O.C.	CHOU TSUI-HSIA	Female	93.11.01	0	0.00	0	0.00	0	0.00	Accounting and statistics department of Ling Tung University	-	-	-	-
Senior manager of PCB Division	R.O.C.	TSOU REN-ZHE	Male	94.06.01	0	0.00	0	0.00	0	0.00	EMBA of NCU	-	-	-	-
Senior manager of PCB Division	R.O.C.	HSU JI-TSUN	Male	99.07.01	12,546	0.03	203	0.00	0	0.00	Masters degree on chemical engineering of ChungYuan Christian University	-	-	-	-
Senior manager of PCB Division	R.O.C.	HSU YUAN-HSUN	Male	103.04.01	0	0.00	12,000	0.03	0	0.00	Department of Electronics Engineering of ChungYuan Christian University	-	-	-	-
Senior manager of PCB Division	R.O.C.	YANG ZHU-HONG	Male	90.10.29	0	0.00	0	0.00	0	0.00	Japanese language department of Tamkan University	-	-	-	-
Senior manager of PCB Division	R.O.C.	LIN JUN-DE	Male	88.03.16	9,961	0.03	0	0.00	0	0.00	Department of Electronics, Minghsin University of Science and Technology	-	-	-	-
Senior manager of the South Office	R.O.C.	CHUANG HONG-YI	Male	90.04.01	0	0.00	0	0.00	0	0.00	Electrical, electronics, instrument and control department of National United University	-	-	-	-

Title	Nationality	Name	Gender	Inauguration date	Shareholding		Spouses & Minor Shareholding		Current Shareholding in the name of others		Current Positions at Other Companies	Current Positions at Other Companies	Managers who are spouses or within two degrees of kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Senior manager of Electronics Division	R.O.C.	WU SHANG-WEN	Male	96.04.01	207	0.00	0	0.00	0	0.00	Business Mathematics of the Soochow University	-	-	-	-
Senior manager of Electronics Division	R.O.C.	PAN CHING-LUNG	Male	89.07.18	4,000	0.01	0	0.00	0	0.00	Electronics Engineering of the Oriental Institute of Technology	-	-	-	-

C. Remuneration paid during the most recent fiscal year to directors (including independent directors), supervisors, the general manager, and assistant general managers

(1) Remunerations of Directors (including independent directors)

December 31, 2018/Unit: NT$Thousand

Title	Name	Remunerations of Directors								Ratio of Total Remuneration (A+B+C+D) to Net Income (%) (Note 10)		Relevant remuneration received by directors who are also employees								Ratio of total compensation (A+B+C+D+E+F + G) to net income (Note 10)		Compensati on paid to directors from an invested company other than the company's subsidiary (Note 11)
		Compensati on (A) (Note 2)		Severance Pay (B)		Directors Compensation (C)(Note 3)		Allowances (D)(Note 4)				Salary, Bonuses and Allowances (E) (Note 5)		Severance Pay (F)		Employee Compensation (G) (Note 6)						
		The Compa ny	All companies in the consolidat ed financial statement (Note 7)	The Compa ny	All companies in the consolidat ed financial statement (Note 7)	The Compa ny	All companies in the consolidat ed financial statement (Note 7)	The Compa ny	All companies in the consolidat ed financial statement (Note 7)	The Compa ny	All companies in the consolidat ed financial statement (Note 7)	The Compa ny	All companies in the consolidat ed financial statement (Note 7)	The Compa ny	All companies in the consolidat ed financial statement (Note 8)	The Compa ny		All companies in the consolidat ed financial statement (Note 8)		The Company	All companies in the consolidat ed financial statement (Note 7)	
																Cash	Stock	Cash	Stock			
Chairman	HO SHU-CHAN	0	0	0	0	588	1,038	0	0	0.99%	1.75%	9,207	12,134	0	0	0	0	0	0	16.56%	22.26%	-
Director	SENTA WONG																					
Director	TSUI YING-CHUN																					
Director	HSU HUNG-CHIEH																					
Director	CHEN MEI-FEN																					
Director	LIAO HUNG-YING																					
Director	CHANG JUI-SHUM																					
Independent Director	LOK ARTHUR K.																					
Independent Director	HUANG WEN-YUEAN																					
Independent Director	CHAN CHUN-YEN																					

Note :1. The above mentioned figures has included the emoluments of the Company's directors and supervisors in 2018, of which the surplus distribution reveals the proposed number of surplus distribution in 2018

2.The ratio of the total amount to the net profit after tax is calculated based on the net profit o after tax in 2018.

Range of Remunerations

Range of remuneration	Names of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company (Note 8)	Companies in the consolidatedfinancial statements (Note 9)H	The company(Note 8)	Companies in the consolidated financial statements (Note 9)I
Under NT$ 2,000,000	Wong's Kong King (SENTA WONG ,HSU HUNG-CHIEH , TSUI YING-CHUN , HO SHU-CHAN , CHANG JUI-SHUM), CHEN MEI-FEN , LIAO HUNG-YING, LOK ARTHUR K. , HUANG WEN-YUEAN , CHAN CHUN-YEN	Wong's Kong King (SENTA WONG , HSU HUNG-CHIEH , TSUI YING-CHUN , HO SHU-CHAN , CHANG JUI-SHUM), CHEN MEI-FEN , LIAO HUNG-YING, LOK ARTHUR K. , HUANG WEN-YUEAN , CHAN CHUN-YEN	Wong's Kong King (SENTA WONG , TSUI YING-CHUN , HO SHU-CHAN , CHANG JUI-SHUM , HSU HUNG-CHIEH) ,LOK ARTHUR K. , HUANG WEN-YUEAN , CHAN CHUN-YEN	Wong's Kong King (SENTA WONG , TSUI YING-CHUN ,HO SHU-CHAN , CHANG JUI-SHUM , HSU HUNG-CHIEH), LOK ARTHUR K. , HUANG WEN-YUEAN , CHAN CHUN-YEN
NT$2,000,000 (included) ~ NT$5,000,000 (excluded)			CHEN MEI-FEN , LIAO HUNG-YING	CHEN MEI-FEN , LIAO HUNG-YING
NT$5,000,000 (included) ~ NT$10,000,000 (excluded)				
NT$10,000,000 (included) ~ NT$15,000,000 (excluded)				
NT$15,000,000 (included) ~ NT$30,000,000 (excluded)				
NT$30,000,000 (included) ~ NT$50,000,000 (excluded)				
NT$50,000,000 (included) ~ NT$100,000,000 (excluded)				
Over NT$100,000,000				
Total	10	10	10	10

Note 1: The names of directors should be separately listed (institutional shareholders should list their names and their representatives separately), and disclose the total amount of each payment. If the director is also the general manager or assistant general manager, the above table and table (3-1) or (3-2) should be filled out.

Note 2: This table refers to the remuneration of directors in the most recent year (including directors' salary, professional allowance, severance pay, various awards and bonuses).

Note 3: The amount of directors' remuneration distributed by the board of directors in the most recent year is included.

Note 4: This table refers to the relevant business execution expenses of directors in the most recent year (such as traveling expenses, special expenses, various allowances, housing expenses, car and other physical supplies). In the case of expenditures of housing, motor vehicles and other means of transport or for exclusive individuals, the nature and cost of the assets, the actual or fair market price, rents, fuel cost and other payments should be disclosed. If there is a driver, please note the company's payment for the driver without remuneration.

Note 5: This table refers to the salary, professional allowance, severance pay, various awards and bonuses, traveling expenses, special expenses, various allowances, housing expenses, car and other physical supplies of the directors as concurrent employees in most recent years (including concurrent general manager, assistant general manager, other managers and employees). In the case of expenditures of housing, motor vehicles and other means of transport or for exclusive individuals, the nature and cost of the assets, the actual or fair market price, rents, fuel cost and other payments should be disclosed. If there is a driver, please note the company's payment for the driver without remuneration. The salary expenses recognized in accordance with the "Share-based payment" of IFRS 2, which includes obtaining employee stock option certificates, new restricted employee shares and participating in the subscription shares of cash capital increase, shall also be included in the remuneration.

Note 6: This table refers to the directors as concurrent employees in most recent years (including concurrent general manager, assistant general manager, other managers and employees) who obtain employee compensation (including stocks and cash), and should disclose the amount of compensation paid by the board of directors in the most recent year. If it cannot be estimated, the proposed distribution amount for this year will be calculated based on the proportion of the actual distribution amount last year, and should be added to table (1-3).

Note 7: The total amount of emoluments paid by all companies (including our company) to the directors of the company should be disclosed.

Note 8: The table shows the total amount of each director's remuneration paid by the company, and exposes the name of the director in the ownership rank.

Note 9: The total remuneration of each director of all the companies (including our company) in the consolidated report should be disclosed, and the name of the director should be exposed in the ownership rank.

Note 10: The "net profit after tax" refers to the after-tax net profit in the most recent year; if the international financial reporting standard has been adopted, the "net profit after tax" is the after tax net profit of an individual or an individual financial report in the most recent year.

Note 11: a. This column should clearly state the amount of remuneration for directors of the company to receive the remuneration from re-invested companies other than its subsidiaries.

b. If the director of the company receives remuneration from re-invested companies other than its subsidiaries, the director shall incorporate the remuneration into the “I” column of the remuneration scale, and change the name of the column to “all re-invested companies”.

c. Remuneration is the bonus (including bonuses of employees, directors and supervisors) and business execution expenses of the when the directors of the company serve as directors, supervisors or managers of the re-invested companies other than its subsidiaries.

* The contents of the remuneration disclosed in this table are different from the concept of the Income Tax Act. Therefore, the purpose of this table is for information disclosure and is not taxable.

(2) Remunerations of Supervisors

December 31, 2018/Unit: NT$Thousand

Title	Name	Remuneration of Supervisors: Base Compensation (A) (Note 2): The company	Base Compensation (A) (Note 2): Companies in the consolidated financial statements(Note 5)	Allowances (B): The company	Allowances (B): Companies in the consolidated financial statements(Note 5)	Business execution cost (C) (Note 4): The company	Business execution cost (C) (Note 4): Companies in the consolidated financial statements(Note 5)	Ratio of Total Remuneration (A+B+C) to Net Income (%)(Note 8): The company	Ratio of Total Remuneration (A+B+C) to Net Income (%)(Note 8): Companies in the consolidated financial statements(Note 5)	Compensation Paid to Supervisors from an Invested Company Other than the Company's Subsidiary (Note 9)
Supevisors	KEN CHOU	0	0	176	176	0	0	0.30%	0.30%	-
Supevisors	WU KUO-HSIEN									
Supevisors	TSAI CHIH-WEI									

Note 1.The above mentioned figures has included the emoluments of the Company's directors and supervisors in 2018, of which the surplus distribution reveals the proposed number of surplus distribution in 2018
2.The ratio of the total amount to the net profit after tax is calculated based on the net profit o after tax in 2018.

Range of Remunerations

Range of Remuneration	Name of Supervisors — Total of (A+B+C): The company(Note 6)	Name of Supervisors — Total of (A+B+C): Companies in the consolidated financial statements(Note 7)D
Under NT$ 2,000,000	Top Range Machinery(CHOU KEN), WU KUO-HSIEN, TSAI CHIH-WEI	Top Range Machinery(CHOU KEN), WU KUO-HSIEN, TSAI CHIH-WEI
NT$2,000,001 ~ NT$5,000,000	0	0
NT$5,000,001 ~ NT$10,000,000	0	0

Range of Remuneration	Name of Supervisors	
	Total of (A+B+C)	
	The company(Note 6)	Companies in the consolidated financial statements(Note 7)D
NT$10,000,001 ~ NT$15,000,000	0	0
NT$15,000,001 ~ NT$30,000,000	0	0
NT$30,000,001 ~ NT$50,000,000	0	0
NT$50,000,001 ~ NT$100,000,000	0	0
Total	3	3

Note 1: The names of supervisors should be separately listed (institutional shareholders should list their names and their representatives separately), and disclose the total amount of each payment.

Note 2: This table refers to the remuneration of supervisors in the most recent year (including supervisors' salary, professional allowance, severance pay, various awards and bonuses).

Note 3: The amount of supervisors' remuneration distributed by the board of directors in the most recent year is included.

Note 4: This table refers to the relevant business execution expenses of supervisors in the most recent year (such as traveling expenses, special expenses, various allowances, housing expenses, car and other physical supplies). In the case of expenditures of housing, motor vehicles and other means of transport or for exclusive individuals, the nature and cost of the assets, the actual or fair market price, rents, fuel cost and other payments should be disclosed. If there is a driver, please note the company's payment for the driver without remuneration.

Note 5: The total amount of emoluments paid by all companies (including our company) to the supervisors of the company should be disclosed.

Note 6: The table shows the total amount of each director's remuneration paid by the company, and exposes the name of the director in the ownership rank.

Note 7: The total remuneration of each supervisor of all the companies (including our company) in the consolidated report should be disclosed, and the name of the supervisor should be exposed in the ownership rank.

Note 8: The "net profit after tax" refers to the after-tax net profit in the most recent year; if the international financial reporting standard has been adopted, the "net profit after tax" is the after tax net profit of an individual or an individual financial report in the most recent year.

Note 9: a. This column should clearly state the amount of remuneration for supervisors of the company to receive the remuneration from re-invested companies other than its subsidiaries.

b. If the supervisor of the company receives remuneration from re-invested companies other than its subsidiaries, the supervisor shall incorporate the remuneration into the “D” column of the remuneration scale, and change the name of the column to “all re-invested companies”.

c. Remuneration is the bonus (including bonuses of employees, directors and supervisors) and business execution expenses of the when the supervisors of the company serve as directors, supervisors or managers of the re-invested companies other than its subsidiaries.

* The contents of the remuneration disclosed in this table are different from the concept of the Income Tax Act. Therefore, the purpose of this table is for information disclosure and is not taxable.

(3) Remunerations of General manager and assistant general manager

December 31, 2018/Unit: NT$Thousand

Title	Name	Salary(A) (Note 2)		Severance Pay (B)		Bonuses and Allowances (C) (Note 3)		Profit Sharing- Employee Bonus (D) (Note 4)				Ratio of total compensation (A+B+C+D) to net income (%) (Note 8)		Compensation paid to the President and Vice President from an Invested Company Other Than the Company's Subsidiary (Note 9)
		The company	Companies in the consolidated financial statements (Note 5)	The company	Companies in the consolidated financial statements (Note 5)	The company	Companies in the consolidated financial statements (Note 5)	The company		Companies in the consolidated financial statements (Note 6)		The company	Companies in the consolidated financial statements (Note 5)	
								Cash	Stock	Cash	Stock			
Chairman	HO SHU-CHAN	8,361	12,677	232	232	4,338	5,140	0	0	0	0	21.86%	30.51%	-
General Manager	LIAO HUNG-YING													
Senior vice president	FAN DING-CHI													
Senior vice president	CHEN MEI-FEN													
Deputy General Manager	CHENG FU-WEN													
Deputy General Manager	LIAO DE-HSIANG													

*Regardless of the title, if the position is equivalent to the general manager, assistant general manager (for example: president, CEO, director...etc.), then they should be disclosed in the above table.

Further Explanation:

- The above mentioned figures has included the emoluments of the Company's directors and supervisors in 2018, of which the surplus distribution reveals the proposed number of surplus distribution in 2018.
- The ratio of the total amount to the net profit after tax is calculated based on the net profit o after tax in 2018.
- The actual amount of retired pension in 2018 or the amount of retirement pension recognized or distributed:
  - The actual amount of retirement pension in 2018: NT$0
  - The number of retired pension expenses or the number of withdrawals: old pension NT$90,486, new pension NT$142,128, distribution to the manager NT$0.

Range of Remuneration

Range of Remuneration for General Manager and Deputy General Manager	General Manager and Deputy General Manager	
	The company（Note 6）	Companies in the consolidated financial statements (Note 7)E
Under NT$ 2,000,000	CHENG FU-WEN, HO SHU-CHAN	-
NT$2,000,001 ~ NT$5,000,000	LIAO HUNG-YING , CHEN MEI-FEN FAN DING-CHI, LIAO DE-HSIANG	CHEN MEI-FEN , LIAO DE-HSIANG FAN DING-CHI, CHENG FU-WEN
NT$5,000,001 ~ NT$10,000,000	-	LIAO HUNG-YING
NT$10,000,001 ~ NT$15,000,000	-	-
NT$15,000,001 ~ NT$30,000,000	-	-
NT$30,000,001 ~ NT$50,000,000	-	-
NT$50,000,001 ~ NT$100,000,000	-	-
Over NT$100,000,000	-	-
Total	6	5

Note 1: The names of the general manager and assistant general manager should be separately listed (institutional shareholders should list their names and their representatives separately), and disclose the total amount of each payment. If the director is also the general manager or assistant general manager, the above table and table (1-1) or (1-2) should be filled out.

Note 2: This table refers to the salary, professional allowance, severance pay of the general manager and assistant general manager.

Note 3: This table refers to the traveling expenses, special expenses, various allowances, housing expenses, car and other physical supplies of the general manager and assistant general manager in the most recent year. In the case of expenditures of housing, motor vehicles and other means of transport or for exclusive individuals, the nature and cost of the assets, the actual or fair market price, rents, fuel cost and other payments should be disclosed. If there is a driver, please note the company's payment for the driver without remuneration. The salary expenses recognized in accordance with the “Share-based payment” of IFRS 2, which includes obtaining employee stock option certificates, new restricted employee shares and participating in the subscription shares of cash capital increase, shall also be included in the remuneration.

Note 4: The amount of remuneration (including stocks and cash) of the general manager and assistant general manager distributed by the board of directors in the most recent year is included. If it cannot be estimated, the proposed distribution amount for this year will be calculated based on the proportion of the actual distribution amount last year, and should be added to table (1-3).The "net profit after tax" refers to the after-tax net profit in the most recent year; if the international financial reporting standard has been adopted, the "net profit after tax" is the after tax net profit of an individual or an individual financial report in the most recent year.

Note 5: The total amount of emoluments paid by all companies (including our company) to the general manager and assistant general manager of the company should be disclosed.

Note 6: The table shows the total amount of remuneration of the general manager and assistant general manager paid by the company, and exposes the name of the general manager and assistant general manager in the ownership rank.

Note 7: The total remuneration of the general manager and assistant general manager of all the companies (including our company) in the consolidated report should be disclosed, and the name of the general manager and assistant general manager should be exposed in the ownership rank.

Note 8: The "net profit after tax" refers to the after-tax net profit in the most recent year; if the international financial reporting standard has been adopted, the "net profit after tax" is the after tax net profit of an individual or an individual financial report in the most recent year.

Note 9: a. This column should clearly state the amount of remuneration for the general manager and assistant general manager of the company to receive the remuneration from re-invested companies other than its subsidiaries.

b. If the general manager and assistant general manager of the company receives remuneration from re-invested companies other than its subsidiaries, the general manager and assistant general manager shall incorporate the remuneration into the "E" column of the remuneration scale, and change the name of the column to "all re-invested companies".

c. Remuneration is the bonus (including bonuses of employees, directors and supervisors) and business execution expenses of the when the general manager and assistant general manager of the company serve as directors, supervisors or managers of the re-invested companies other than its subsidiaries

* The contents of the remuneration disclosed in this table are different from the concept of the Income Tax Act. Therefore, the purpose of this table is for information disclosure and is not taxable.

(4) The distribution of employees' compensation and the name of managers who are responsible: not applicable.

(5) The name, title and employee compensation of the top ten employees who have obtained employee compensation: not applicable.

D. Analysis of the proportion of the total remuneration of directors, supervisors, general managers and assistant general managers paid by the Company and all companies in the consolidated financial statement to net profit after tax in individual financial statements of the recent two years. Explanation of remuneration policies, standards and packages, the procedure for determining remuneration, and its linkage to operating performance

(1) Analysis of the proportion of the total remuneration of directors, supervisors, general managers and assistant general managers paid by the Company and all companies in the consolidated financial statement to net profit after tax in individual financial statements of the recent two years：

Total remuneration as a percentage of net profit after tax of the directors, supervisors, general managers and assistant general managers of the company in 2017 and 2018 are as follows:

Year	The company	Companies in the consolidated financial statements
2018	24.97%	34.38%
2017	56.26%	79.56%

(2) Explanation of remuneration policies, standards and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure:

i. The remuneration of the directors and supervisors of the company is stipulated in the company's regulations: the remuneration of directors and supervisors shall be paid in less than one percent.

ii. In addition to the salary, the remuneration of the general manager and the assistant general manager are distributed according to the profit performance of the profit center. “Performance” is the most appropriate decision-making plan made under the risk factors that the company may face. It refers to the performance of the operating sector and is also reflected in profitability. Thus the remuneration of the general manager and the assistant general manager are related to future risks.

iii. The profit or loss after the tax in the denominator is the number in individual financial statements.

3. The state of the company's implementation of corporate governance

A. The state of the board of directors

Board of directors held 6 (A) meetings in the recent year, the attendance of the Committee are shown as follows:

Title	Name	Company name	In person attendance	By proxy	In person attendance rate (%)	Remarks
Chairman	HO SHU-CHAN	Wong's Kong King	6	0	100%	None
Director	SENTA WONG	Wong's Kong King	5	0	83%	None
Director	HSU HUNG-CHIEH	Wong's Kong King	6	0	100%	None
Director	TSUI YING-CHUN	Wong's Kong King	1	0	17%	None
Director	CHANG JUI-SHUM	Wong's Kong King	4	0	67%	None
Director	LIAO HUNG-YING		6	0	100%	None
Director	CHEN MEI-FEN		6	0	100%	None
Independent Director	LOK ARTHUR K.		4	0	67%	None
Independent Director	HUANG WEN-YUEAN		6	0	100%	None
Independent Director	CHAN CHUN-YEN		6	0	100%	None
Supervisor	KEN CHOU	Top Range Machinery	1	0	17%	None
Supervisor	WU KUO-SHIEN		5	0	83%	None
Supervisor	TSAI CHIH-WEI		5	0	83%	None

	Other mentionable items: 1. During operations of the Board of Directors, the meeting date, period, content, the qualified opinions/resolutions made by any independent director shall be specified: (1) Matters specified in Article 14.3 of the Taiwan Securities and Exchange Act. (2) Unless otherwise stated, other Independent Directors who expressed opposition or qualified opinions that were recorded or declared in writing: For matters of the board of directors that are subject to Article 14-3 of the Securities Exchange Act, please refer to page 37 for details; on the above-mentioned major issues and other matters, the three independent directors have not expressed any objection or reservation to the resolutions passed. 2. To avoid conflict of interest among directors, the Director's name, meeting content, and reason for avoiding conflict of interest and participation in the voting process must be properly recorded: None. 3. Strengthening the functions of the board in the current and recent fiscal years (e.g. establishing the Audit Committee, promoting information transparency, etc.) and conducting performance assessment: 1. The Company has established the "Provisions of the Board of Directors Meetings" of the Company in accordance with the "Regulations Governing Procedure for Board of Directors Meetings of Public Companies" to follow the guidelines, and enter the directors attendance in the Board of Directors' meeting at the Market Observation Post System to expose the major resolutions of the Board of Directors on the Company's website. 2. Establishment of the Compensation Remuneration Committee: The Company formed the third Remuneration Committee by three independent directors on 20 June 2018. Main responsibilities: (1) After reference to the peers, the Remuneration policies for Directors, Supervisors and Managers are scheduled and regularly reviewed. (2) Regular assessment and determination of remuneration of directors and supervisors (traveling expenses) and remuneration of managers (including cash remuneration, stock options, dividends, retirement benefits, resignation payments, various allowances and various rewards). 3. Establishment of independent directors: The Company has established three independent directors in accordance with the law to strengthen the independent and objective functions of professional directors and supervise the operation of the board of directors. Since 2017, no objections or reservations have been raised against the proposals. 4. Since July 28, 2017, there was at least one independent director who personally attended the board of directors' meeting. 5. Communication of related parties: The company has a spokesman and a deputy spokesman, which can be used as a way of communication by interested parties. Each year, the shareholders' meeting accepts the shareholder proposal according to the time schedule, and the shareholders who have the right to make the proposal can apply for it during the acceptance period. The company will convene the board of directors for review according to relevant regulations. In addition, the website has a shareholder Q & A section, which will answer on shareholder's problems.

B. The state of the audit committee or the supervisor's participation in the operation of the board:

(1) The company currently has no audit committee

(2) Board of directors held 6 meetings in the recent year, the attendance of the Committee are shown as follows:

Title	Name	In person attendance (B)	In person attendance rate (%) (B/A)	Remarks
Supervisor	KEN CHOU	1	0%	None
Supervisor	WU KUO-SHIEN	5	83%	None
Supervisor	TSAI CHIH-WEI	5	83%	None

Other mentionable items:

1. Composition and responsibilities of the supervisor:
   (1) Communication between the supervisor and the company's employees and shareholders.
      A. The supervisor should understand the company's operating status to the company's employees when necessary.
      B. The supervisor answers the questions of the shareholders during the shareholders meeting.
   (2) Communication between the supervisor and the internal audit supervisor and accountant.
      A. An audit report is made by the internal audit supervisor to the supervisor on a quarterly basis.
      B. The supervisor may have access to the financial and operational status of the company at any time and may ask the accountant to provide a statement. The board of directors will also provide timely advice during the accountant’s and the supervisor’s attendance.
2. If the supervisor has a statement at the board of directors’ meeting, the meeting date, period, content, the qualified opinions/resolutions made by any independent director shall be specified: None.

C. The state of the company's implementation of corporate governance, any departure of such implementation from the Corporate Governance Best-Practice Principles for TSEC/TPEx Listed Companies, and the reason for any such departure:

Items	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions	
1. Does the company implement and disclose corporate governance in accordance with the Corporate Governance Best-Practice Principles for TSEC/TPEx Listed Companies?	V		The company has implemented corporate governance in accordance with the Corporate Governance Best-Practice Principles for TSEC/TPEx Listed Companies, and disclosed in the company's website (www.tkk.com.tw).	No Difference
2. Company shareholding structure and shareholders' equity (1) Does the company stipulate internal operating procedures to deal with shareholders' suggestions, doubts, disputes and litigation matters, and implement them according to procedures?	V		(1) Taiwan Port Construction Company has a spokesman to deal with shareholders' rights. The remaining subsidiaries are dealt with by the chairman; if there is any dispute, they will be appointed by the legal counsel. Shareholders who have any shareholder issues (opening accounts, stock transfer, change of address, etc.) can contact the company's stock agency or the company's management office, and the contact information are disclosed in the company's website and annual report.	No Difference

Items	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Descriptions	
(2) Does the company have a list of the ultimate controllers of the major shareholders and major shareholders of the actual controlling company?	V		(2) Wong’s Kong King International (Holdings) Ltd., a major shareholder of the Company, holds 67.44% of the shares. The ultimate controller of this company is the director Mr. SENTA WONG and his family; subsidiary major shareholder details, special items - matters of related companies.	
(3) Does the company establish, implement and control the risk control and firewall mechanism between the enterprises?	V		(3) The management rights and responsibilities of personnel, assets and finance between the Company and its subsidiaries are clearly distinguished and controlled by relevant personnel such as the Management division and the Audit department.	
(4) Does the company stipulate internal regulations to prohibit insiders from using the undisclosed information on the market to buy and sell securities?	V		(4) The Company has established “Information and Rules for the Prevention of Insider Trading”.	

Items	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Descriptions	
3. Composition and duties of the board of directors (1) Does the board of directors formulate a diversified policy and implement it in terms of membership composition? (2) Does the company voluntarily set up other functional committees in addition to the remuneration committee and the audit committee? (3) Does the company stipulate the performance appraisal methods of the board of directors and their assessment methods, and conduct performance evaluations regularly every year?	 V V V		(1) The board of directors of the Company is composed by various needs, with diverse members and women participating in the Board of Directors, which meets the actual needs of the company's operations and development and the Corporate Governance Best-Practice Principles. (2) The company has not voluntarily set up other functional committees except for the establishment of the remuneration committee according to law. (3) The self-assessment was completed by the first board of directors in February 2, 2018 by self-assessment questionnaire. The assessment included the mastery of the company's goals and tasks, the cognition of directors' duties, degree of participation in operations of the company, the internal relationship communication and management, director's professionalism and continuing education and internal	No major differences except for (2) the proposed development of other functional committees.

Items	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions	
			control are all aspects of the evaluation. All the directors are competent and in compliance with the company's practical needs.	
(4) Does the company regularly assess the independence of the visa accountant?	V		(4) The company shall review the independence of the accountant at least once a year by the audit office in accordance with the relevant provisions of the "CPA code of professional ethics No.10", together with the statement of the accountant's declaration of non-compliance with independence, and report it to the board of directors for evaluation. The independence assessment in 2018 was adopted by the sixth board of directors (11/08). The independence assessment process includes financial interests, guarantees, business relationships, personal and family relationships, and employment relationships. After comprehensive	

Items	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions	
			evaluation, no violations of independence have been found.	
4. Whether the listing company has set up a corporate governance special (part-time) unit or personnel responsible for corporate governance related matters (including but not limited to providing information required by directors and supervisors to conduct business, handling matters related to the board of directors and shareholders meeting, handling company registration and changes in registration, proceedings of the board of directors and shareholders' meeting, etc.)	V		(1) The company is responsible for corporate governance related matters by the management office, and carries out the division of tasks for each transaction. (2) The information required for the supervisor's execution of the business shall be provided by the auditing supervisor, and the rest of the matters shall be co-ordinated by the management division.	No Difference

Items	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions	
5. Does the company establish communication channels with related parties (including but not limited to shareholders, employees, customers and suppliers), set up regions for related parties on the company's website, and respond appropriately to important corporate social responsibility issues concerning related parties?	V		The company has a spokesman to handle matters related to the spokesman regulations, and the chairman is responsible for communicating with related parties of the subsidiary. A region for related parties is set up on the company's website and the Corporate Social Responsibility Report is exposed to respond to issues concerning related parties.	No Difference
6. Does the company appoint a professional stock agency to handle the proceedings of the shareholders' meeting?	V		It is appointed to SinoPac Securities Corporation to on handling the proceedings of the shareholders' meeting.	No Difference
7. Information disclosure (1) Does the company set up a website to expose financial business and corporate governance information? (2) Does the company adopt other methods of information disclosure (such as setting up an English website, designating a person to be responsible for the collection and disclosure of	 V V		 (1) The Company has set up a website for investors to inquire about business and financial status. (2) The language of choice on the company's website includes Chinese, Japanese, English and Simplified Chinese. The designated person shall, according to the regulations of the competent authority, place the	No Difference

Items	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions	
company information, implementing the spokesman system, and expose the legal person briefing process on the company website)?			information disclosed on the Market Observation Post System or irregularly on the company website for inquiry.	
8. Does the company have other important information that helps to understand the operation of corporate governance (including but not limited to employee benefits, employee care, investor relations, supplier relationships, rights of related parties, director and supervisor training, risk management) The implementation of policy and risk measurement standards, the implementation of customer policies, the company's purchase of liability insurance for directors and supervisors, etc.)	V		(1)Employees' Rights and Interests: The Company has always treated employees with integrity and attached great importance to labor relations, and established good relationships with employees through various welfare measures, education and training. (2)Employee care: The company pays great attention to the safety and health of employees, provides the most comfortable and safe working environment for employees, and regularly performs disinfection to improve the quality of the working environment. Provide free health checkups for employees every year and pays attention to the health of employees. (3)Investor Relations: The Company has a spokesman, an agent spokesman and the	No Difference

Items	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions	
			company's stock agent "Securities Trading Agency department of the SinoPac Securities Corporation" to provide consultation for shareholders and investors. (4)Supplier Relationship: The Company maintains a good relationship with its suppliers to maintain cost and supply stability. (5)Relevant information on the continuing education of directors and supervisors is disclosed in detail in the Market Observation Post System and the annual report.	

9. Please explain the improvement of the company's corporate governance evaluation results released by the Corporate Governance Center of the Taiwan Stock Exchange Co., Ltd. in the most recent year, and propose priorities and measures for those who have not yet improved. (Not required for companies not being evaluated).

Item No.	**Improved Items**	**Improvement Status**
2.2	Does the Company stipulate board members diversification policies and disclose the implementation of the policies in the annual report and the Company's website?	Annual report of the most recent fiscal year has completed its content description.
2.9	Does the company disclose the opinions of Independent Directors on the board's major proposals and the company's implementation of the Independent Director's	Annual report of the most recent fiscal year has completed its content description.

Items	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Descriptions	

	opinions in its annual report?	
2.19	Is the average attendance rate of the board of directors over 80% of all the directors in the year assessed by an average of over 80%?	Videoconferencing system was introduced in 2018 to increase the attendance rate of directors.
Item No.	**First Priority Improvement Items**	**First Priority Improvement Measures**
2.24	Whether the directors and supervisors of the company have completed the training according to the number of hours specified in the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies".	Continue to provide various high quality courses for the directors and supervisors, and supervise on their completion of the required number of training hours according to schedule.
2.25	Whether the independent directors of the company have completed the training according to the number of hours specified in the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies".	Continue to provide various high quality courses for the independent directors, and supervise on their completion of the required number of training hours according to schedule.
3.5	Does the company website or the MOPs disclose annual report (including financial statements and notes) in English?	The annual financial report (including financial statements and notes) is scheduled to be disclosed in English in 2019.
3.17	Does the company's website disclose relevant information on finance, business and corporate governance?	Information on financial, business and corporate governance is scheduled to be disclosed on the company's website in 2019.

Note: Regardless of whether the implementation status is "Yes" or "No", it should be stated in the summary description column.

D. If the company has a compensation committee in place, the composition, duties, and operation of the compensation committee shall be disclosed:

i. Information on members of the Compensation Committee

Identity (Note1)	Condition / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Attribute (Note2)								Concurrent compensation committee position in other publicly listed companies	Remarks (Note 3)
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8		
Independent director	HUANG WEN-YUEAN			V	V	V	V	V	V	V	V	V	0	None
Independent director	CHAN CHUN-YEN			V	V	V	V	V	V	V	V	V	1	None
Independent director	LOK ARTHUR K.			V	V	V	V	V	V	V	V	V	0	None

Note 1: Fill in the Identity with directors, independent directors or others.

Note 2: All members comply with the following conditions from two years before being elected and appointed, and during his term of office, please tick the appropriate corresponding boxes.

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

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

（3） Independent directors of subsidiaries of the company that have direct and indirect voting rights of more than 50% of the shares are not included.

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

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

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

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

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

（9） Not a person of any conditions defined in Article 30 of the Company Act

Note 3: If the members are respectively directors, please indicate whether they meet the requirements of Article 6(5) of the “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is listed on the Stock Exchange or traded over the counter”.

ii. The responsibility of Compensation Committee: In accordance with the “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter”, the scope of duties and responsibilities of the remuneration committee is:

- Review the procedures regularly and propose amendments.
- Sets and periodically reviews the evaluation of the directors and managers performance and compensations’ policy, system, criteria and structure
- Periodically evaluate and set the compensation for the directors and managers

iii. Operation status of the Compensation Committee

- There are 3 members in the Company's Compensation Committee.
- Current Term: From June 20, 2018 to June 19, 2021.

2. Compensation Committee held 2 meetings in the recent year up to the date of printing of the annual report, the qualifications and attendance of the Committee are shown as follows:

Title	Name	In person attendance (Ｂ)	By proxy	In person attendance rate (%)(Ｂ/Ａ) (Note)	Remarks
convenor	HUANG WEN-YUEAN	2	0	100%	None
members	CHAN CHUN-YEN	2	0	100%	None
members	LOK ARTHUR K.	2	0	100%	None
Other mentionable items: 1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (note: the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): The board of directors passed all the recommendations of the remuneration committee. 2. Resolutions of the remuneration committee objected to by members or expressed reservations and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.					

Note:

(1) When there is resignation of members of the remuneration committee before the end of the year, the date of resignation is indicated in the remarks column, and the actual attendance rate (%) shall be calculated based on the number of meetings of the remuneration committee during their employment and their actual attendance.

(2) Before the end of the year, if there is re-election of the remuneration committee, the new and old remuneration committee members shall be filled in, and the remarks column shall indicate the member as the old, new or re-elected, and the re-election date should also be indicated. The actual attendance rate (%) is calculated based on the number of meetings of the remuneration committee during its incumbency and its actual attendance.

E. The state of the company's performance of corporate social responsibilities:

Items	Implementation Status (Note 1)			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions (Note 2)	
1. Corporate Governance Implementation				
(1) Does the company declare its corporate social responsibility policy and examine the results of the implementation?	V		(1) Regulations of the Practice for Corporate Social Responsibility have been established and is reviewed regularly and checked for update requirements.	No Difference
(2) Does the company provide educational training on corporate social responsibility on a regular basis?	V		(2) The company continuously advocates and educates employees on the concept of social responsibility, such as resource recovery, water conservation, energy conservation and carbon dioxide reduction.	No Difference
(3) Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?	V		(3) The Management division of the company is responsible for promoting and implementing social responsibility, and reporting to the Board of Directors on a regular basis.	No Difference
(4) Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	V		(4) The Company has the "Provisions for Performance Management" and a "Professional Level Table and Salary Management Regulations", in which the performance appraisal system of employees is combined with the provisions of social responsibility.	No Difference

Items	Implementation Status (Note 1)			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions (Note 2)	
2. Sustainable Environment Development				
(1) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		(1) The company improves resource utilization efficiency and reduces environmental load by comprehensively replacing energy-saving lighting T5 and LED lamps, promoting waste sorting, oil subsidies to encourage energy-saving vehicles, and promoting comprehensive resource recovery and rewarding employees' energy-saving proposals.	No Difference
(2) Does the company establish proper environmental management systems based on the characteristics of their industries?	V		(2) There is no large amount of waste generated by the company's related products, and the remaining wastes are classified according to the relevant regulations of the Management Committee of the Building.	No Difference
(3) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	V		(3) The management office is responsible for environmental maintenance and management of electricity and water used by the company to achieve energy conservation, carbon reduction and greenhouse gas reduction.	No Difference

Items	Implementation Status (Note 1)			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions (Note 2)	
3. Preserving Public Welfare (1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights? (2) Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions? (3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis? (4) Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	V V V V		Preserving Public Welfare: (1) The company's management office pays attention to the update of labor regulations and provides the latest information to the subsidiaries. (2) The Company has a complaints mailbox. The representation mechanism and related requirements are set out in Article 21 of the Company's Regulations of Good Faith Management, and the appeals can be properly handled and replied. (3) A staff for labor and environmental safety are set up in responsible for planning, education, training and supervision. In addition, employee health checks are regularly implemented and group insurance is insured for each employee. (4) Regular meetings between Representatives of the company's labor and management are held to communicate and place the results of the meeting in Notes for employees' review. Regular employee health checks are held.	No difference. However, the company will set policies and procedures for maintaining social welfare at an appropriate time, establish an effective development training plan for employees, and indicate the terms of corporate social responsibility policy in contract with the supplier.

Items	Implementation Status (Note 1)			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions (Note 2)	
(5) Does the company provide its employees with career development and training sessions?	V		(5) Regularly evaluate the educational training needs of each department, and find internal and external lecturers to train according to the needs to promote the development of staff capabilities.	
(6) Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	V		(6) The company is an equipment agent, importing the ISO system to implement the sales and service processes of the company, and providing customer service messages on the website for customers to provide opinions or appeals.	
(7) Does the company advertise and label its goods and services according to relevant regulations and international standards?	V		(7) The products sold by the company have passed the relevant product certification, and the labels are in compliance with relevant regulations.	
(8) Does the company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships?	V		(8) The company collects relevant information before signing a contract with the supplier and has an annual evaluation measure for the supplier.	
(9) Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the	V		(9) The Company and the supplier contract are subject to an annual contract and will be subject to the following clauses when	

Items	Implementation Status (Note 1)			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions (Note 2)	
corporate social responsibility policy and cause appreciable impact on the environment and society?			renewing the contract.	
4. Enhanced information disclosure (1) Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	V		Timely disclosure of company information on the MOPS and company website and regular compilation of corporate social responsibility reports. The report was also disclosed in the investor section of the company's website (www.tkk.com.tw).	No Difference
5. If the Company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the Principles and their implementation: No difference.				
6. Other important information to facilitate better understanding of the company's corporate social responsibility practices(such as the company's systems and measures and implementation of environmental protection, community participation, social contribution, social services, social welfare, consumer rights, human rights, safety and health and other social responsibility activities): In addition to the regular donation charity group (Youth Care Foundation), the company's general manager also serves as the standing supervisor of the TPCA Environment Foundation.				
7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: None				

F. Ethical Corporate Management:

Items	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions	
1. Establishment of ethical corporate management policies and programs				
(1) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	V		(1) Since the establishment of the company, we have adopted the "Honest" and "Trust" policies and signed an "Integrity Letter of Commitment" with our suppliers. We also promoted the management of "Honest" and "Trust" in various conferences and education training policies.	No Difference
(2) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?	V		(2) The company has established an "Ethical Behaviour Principles" (the full text of the guidelines, please refer to the company's website http:// http://tkk.com/tw), the "Ethical Corporate Management Best-Practice Principles" and the "Practice principles for Corporate Social Responsibility" as an employee. Guidelines and specifications for performing company operations. The employees of the Company	No Difference

Items	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions	
			and its subsidiaries comply with this standard regardless of their position, rank and location. To prevent all illegal activities inside and outside the company.	
(3) Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?	V		(3) For the Directors and Managers, there is the "Ethical Corporate Management Best-Practice Principles" and the "Internal Major Information Processing and Prevention of Internal Transactions Management Regulations" to prevent conflicts of interest from avoiding self-interest and fair trade. The company is committed to providing a safe and healthy working environment, a fair opportunity, and will strive to maintain a fair and legal long-term relationship between customers and suppliers to achieve a win-win partnership.	No Difference

Items	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions	
2. Fulfill operations integrity policy				
(1) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?	V		(1) The company signs the "Integrity Letter of Commitment" with the supplier。	No Difference
(2) Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity? Does the Company work out policies to prevent conflicts of interest and provide proper statement channels?	V		(2) The Company is responsible for promoting the concept and policy of the Company's integrity management and reporting to the Board of Directors on a regular basis.	No Difference
(3) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	V		(3) If the directors are interested in the proposals listed in the board of directors, they should be able to make comments and answer questions, and should be avoided in discussions and votings. When employees encounter conflicts of interest in the execution of their business, they should report to the supervisor directly.	No Difference
(4) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	V		(4) The Company has established an accounting system and an internal control system in accordance with relevant laws and regulations, including paying attention to	No Difference

Items	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions	
(5) Does the company regularly hold internal and external educational trainings on operational integrity?	V		related party transactions, establishing a bargaining system, and a multiple authorization review system. The Audit Office also regularly reviews the compliance of the accounting system and the internal control system and reports to the Board of Directors. (5) The company regularly conducts education and training related to integrity management on employees during company seminars.	No Difference
4. Operation of the integrity channel (1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	V		(1) The company has an integrity hotline and a mailbox, and any complaints can be directly submitted to the head of the management department and receive a reply.	No Difference
(2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases?		V	(2) A specific reporting and reward system has been established in the Ethical Corporate Management Best-Practice Principles, and if applicable, it will be handled in accordance	No Difference

Items	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Descriptions	
(3) Does the company provide proper whistleblower protection?	V		with the regulations. (3) The complaints mailbox can be chosen to be undisclosed. This can prevent the prosecutor from being improperly disposed of due to incorrect accusations.	No Difference
4. Strengthening information disclosure （一）Does the company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS?	V		(1) On the company's website (http://www.tkk.com.tw), a designated person regularly collects and update information related to the Ethical Corporate Management Best-Practice Principles on the website.	No Difference
5. the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies, please describe any discrepancy between the policies and their implementation: No Difference, descriptions are in the company's website.				
6. Other important information to facilitate a better understanding of the company's ethical corporate management policies (such as review and revision of regulations): In line with the amendments to the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies, the contents of the Ethical Corporate Management Best-Practice Principles were revised in early 2016, and the ethics-related clauses was added in accordance with regulations in 2019.				

G. If the company has established provisions for corporate governance and related regulations, it should disclose its method of inquiry:

(1) The Company has established the following relevant rules and regulations in accordance with the "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies":

(1) Shareholders' meeting procedure rules

(2) Rules of procedure for the board of directors' meetings.

(3) Procedures for the election of directors and supervisors

(4) Regulations of Acquisition or Disposal of Assets

(5) Regulations of making Endorsements and Guarantees

(6) Operating Procedures for the loaning of funds.

(7) Operating Procedures for the supervision on re-investment

(8) TKK regulations on transaction between related parties

(9) Regulations on Financial and non-financial information

(10) Information and Rules for the Prevention of Insider Trading

(11) Ethical Corporate Management Best Practice Principles

(12) Self-Inspection and Statement on Internal Control

(13) Best Practice Principles for Corporate Social Responsibility

(14) Codes of Ethical Conduct.

H. The Company has established "Information and Rules for the Prevention of Insider Trading" and its announcement methods:

The "Information and Rules for the Prevention of Insider Trading" are approved by the Board of Directors on April 30, 2009. The Board of Directors announced the procedures to all the directors and supervisors, and requests them to abide by the relevant provisions of the Regulation. For internal aspects of the company, after the board of directors is acknowledged, this procedure and precautions are placed on the company's internal network announcement area and the company website, available for company's managers and colleagues, in order to avoid violations or internal transactions.

I. Other important information that is sufficient to enhance the understanding of the operation of corporate governance must be disclosed as follows:

(1)The Company's new incumbent directors, managers and other internal personnel have allotted the latest edition of "The relevant laws and regulations and the precautions for the internal ownership of GTSM Listed Companies and Unlisted Companies".

(2)MOPS: http://newmops.tse.com.tw

(3)Company Website: http://www.tkk.com.tw/, for investors.

J. Internal Control System Execution Status:

(1) Statement of Internal Control System:

Taiwan Kong King Co., Ltd.
Statement of Internal Control System

Date: March 5, 2019

Based on the findings of a self-assessment, Taiwan Kong King Co., Ltd.states the following with regard to its internal control system during the year 2018:

a. The Company's board of directors and management are responsible for establishing, implementing, and maintaining an adequate internal control system, and has already established it. Its purpose is: i. to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance and safeguarding of assets); ii. The report has reliability, timeliness, transparency; iii. It is compliance with applicable rulings, laws and regulations.

b. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its three stated objectives above. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and the Company takes immediate remedial actions in response to any identified deficiencies.

c. The Company evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the "Regulations Governing the Establishment of Internal Control Systems by Public Companies" (herein below, the Regulations). The criteria adopted by the Regulations identify five key components of managerial internal control: i. Control environment. ii. Risk assessment. iii. Control activities. iv. Information and communication. v. Monitoring activities.

d. The Company has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.

e. Based on the findings of such evaluation, the Company believes that, on December 31, 2018, it has maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with applicable rulings, laws and regulations.

f. This Statement is an integral part of the Company's annual report and prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.

g. This statement was passed by the board of directors in their meeting held on March 5, 2019, with none of the nine attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Taiwan Kong King Co., Ltd

Chairman: HO SHU-CHAN General Manager: LIAO HUNG-YING

(2) If CPA was engaged to conduct a Special Audit of Internal Control System, its Audit Report should be provided: None.

K. From 2018 to the date of publication of the annual report, any sanctions imposed by the company upon its internal personnel for violations of internal control system provisions, principal deficiencies, and the state of any efforts to make improvements: None.

L. Material resolutions of a shareholders meeting or a board of directors meeting from 2018 to the date of publication of the annual report:

(1) Stockholders' meetings

Date of meeting	Major Resolutions
Jun 15, 2018	1. Approved the 2017 Business Plan and financial report. 2. Approved the 2017 Earnings Distribution. 3. Approved the modification of the Company's "Artcles of Incorporation". 4. Election of the 14th Director (including independent directors) and the supervisor

(2) Board of Directors' meetings

Date of meeting	Major Proposals	Resolutions
Feb 2, 2018	1. Approval of the 2018 Social Responsibility (CSR) Report execution plan	Approved by all attendees with no objection.
March 23, 2018	**1. Approval of the company's 2017 annual individual and consolidated financial report (subject to Article 14 paragraph 3 of The Securities Exchange Act)** 2. Proposal of the 2018 Internal Audit Statement **3. Approval of stock buyback by joint venture (subject to Article 14 paragraph 3 of The Securities Exchange Act)** 4. Approval of the date and matters of the Company's 2017 annual shareholders' meeting. 5. Approval of the complete re-election of directors and supervisors in the Company's 2017 annual shareholders' meeting. 6. Approved the 2017 Earnings Distribution. 7. Approved the 2018 compensation distribution plan and annual salary benchmark for employees and directors.	Approved by all attendees with no objection.
May 9, 2018	1. Agreement on the Company's consolidated financial statements for the firs quarter of 2018. 2. Proposal of reviewing shareholders holding more than 1% of total shares. 3. Approved the modification of the Company's "Artcles of Incorporation". 4. Approved the lifting of restrictions on the prohibition of competition between managers and directors.	Approved by all attendees with no objection.
Jun 15,	1. Decide on the ex-right, ex-dividend date and the distribution date.	Approved by

Date of meeting	Major Proposals	Resolutions
2018	2. Election of Chairman. 3. Election of members of the 4th Remuneration Committee	all attendees with no objection.
Aug 10, 2018	1. Agreement on the Company's consolidated financial statements for the second quarter of 2018.	Approved by all attendees with no objection.
Nov 9, 2018	1. Approval of the 2019 extension of financial quota. 2. Agreement on the Company's consolidated financial statements for the third quarter of 2018. **3. Approval of the 2019 budget and annual business plan (subject to Article 14 paragraph 3 of The Securities Exchange Act)**	Approved by all attendees with no objection.
Jan 18, 2019	1. Approval of the 2019 Social Responsibility (CSR) Report execution plan 2. Replacement of the appointed accountant (internal rotation of the accounting firm)	Approved by all attendees with no objection.
March 5, 2019	**1. Approval of the company's 2017 annual individual and consolidated financial report (subject to Article 14 paragraph 3 of The Securities Exchange Act)** 2. Proposal of the 2018 Internal Audit Statement 3. Approval of the date and matters of the Company's 2017 annual shareholders' meeting. 4. Approved the 2018 Earnings Distribution. 5. Approved the 2018 compensation distribution plan and annual salary benchmark for employees and directors.	Approved by all attendees with no objection.

M. From the most recent fiscal year to the date of publication of the annual report, a director or supervisor has expressed a dissenting opinion with respect to a material resolution passed by the board of directors, and said dissenting opinion has been recorded or prepared as a written declaration, disclose the principal content thereof: None

N. From the most recent fiscal year to the date of publication of the annual report, an independant director has expressed a dissenting opinion with respect to a material resolution passed by the board of directors, and said dissenting opinion has been recorded or prepared as a written declaration, disclose the principal content thereof: None

O. Resignations and dismissals of the company's chairman, general manager, principal accounting officer, principal financial officer, chief internal auditor, and principal research and development officer, from the most recent fiscal year to the date of publication of the annual report:

Title	Name	Date Elected	Date of Dismissal	Reason for resignation or dismissal
Internal Audit Manager	DONG YU-SHIN	Feb 7, 2015	Apr 1, 2019	Resignated due to personal career plannings

P. The implementation of the resolutions of the 2018 shareholders' meeting:

Resolution Items	Implementation
1. Approval of the 2017 business report and final accounts.	Announced in the MOPS after the resolution of the shareholders' meeting.
2. Approval of the 2017 surplus distribution proposal.	According to the resolution of the shareholders' meeting: Cash dividend of NT$19,958,892 was distributed to the shareholders, whereas the compensation to employees was NT$298,888, and compensation to directors and supervisors was NT$298,888. The company has distributed remunerations according to the content of the resolution, and distributed cash dividend to shareholders on August 8, 2018.
3. Approved the modification of "Articles of Incorporation".	Implement measures in accordance with the modified "Articles of Incorporation" after the resolution of the shareholder's meeting.

4. Information on CPA professional fees

Information on CPA professional fees

CPA Firm	Name of accountant		Period Covered by CPA's Audit	Remarks
Ernst and Young	HSU JUNG-HUANG	LIN LI-HUANG	Jan 01, 2018~ Dec 31, 2018	

Units: NT$Thousand

Fee Range \ Fee Items		Audit Fee	Non-audit Fee	Total
1	Under NT$ 2,000,000	0	200	200
2	NT$2,000,001 ~ NT$4,000,000	2,400	0	2,400
3	NT$4,000,001 ~ NT$6,000,000	0	0	0
4	NT$6,000,001 ~ NT$8,000,000	0	0	0
5	NT$8,000,001 ~ NT$10,000,000	0	0	0
6	Over NT$100,000,000	0	0	0

A. The non-audit fee paid to certified CPA, certified Office of CPA and affiliated companies accounts for over 1/4 to audit fee: N/A

B. Whether the company and the former accountant have different opinions on the accounting principles or practices, or the disclosure of financial reports and the scope or steps of the verification: None.

C. Alter the CPA Firm and the audit fee in altering year is less than that in the previous year: None

D. The audit fee is reduced by over 15% compared with the previous year, the reduction in the amount of audit fees, reduction percentage, and reason(s) therefor shall be disclosed: None

5. Information on replacement of certified public accountant

A. About the Former CPA: None.

B. About Successor CPAs: None.

C. The Reply of Former CPAs on Article 10.5.1 and Article 10.5.2.3 of the Standards: None.

6. Information on Service of the Company's Chairman, President, and Financial or Accounting Managers at the Accounting Firm or Its Affiliates : None

7. Any transfer of equity interests and/or pledge of or change in equity interests by a director, supervisor, managerial officer, or shareholder with a stake of more than 10 percent during the period from the most recent fiscal year to the date of publication of the annual report:

   A. Changes of directors, supervisors, managers or shareholders holding greater than a 10 percent stake in the company:

Title	Name (Note 1)	2018 (Note 2)		Current year to Mar 26,2019 (Note 3)	
		Shareholding Increase/ Decrease	Pledged Shares Increase/ Decrease	Shareholding Increase/ Decrease	Pledged Shares Increase/ Decrease
Chairman	Wong's Kong King-HO SHU-CHAN	0	0	0	0
Director	Wong's Kong King-SENTA WONG	0	0	0	0
Director	Wong's Kong King-TSUI YING-CHUN	0	0	0	0
Director	Wong's Kong King-HSU HUNG-CHIEH	0	0	0	0
Director	Wong's Kong King-CHANG JUI-SHUM	0	0	0	0
Director	LIAO HUNG-YING	0	0	0	0
Director	CHEN MEI-FEN	0	0	0	0
Independent Director	LOK ARTHUR K.	0	0	0	0
Independent Director	CHAN CHUN-YEN	0	0	0	0
Independent Director	HUANG WEN-YUEAN	0	0	0	0
Supervisor	Top Range Machinery-KEN CHOU	0	0	0	0
Supervisor	WU KUO-HSIEN	0	0	0	0
Supervisor	TSAI CHIH-WEI	0	0	0	0
Manager	FAN DING-CHI	0	0	0	0
Manager	ZHENG FU-WEN	0	0	0	0
Manager	LAIO DE-HIANG	0	0	5,000	0
Shareholder	Wong's Kong King International (Holdings) Ltd.	0	0	0	0

Note1: Shareholders holding more than 10% of the company's shares should be identified as major shareholders and presented separately.

Note 2: The increase (decrease) in shareholding by the listed internal personnel from December 2017 to December 2018.

Note 3: The increase (decrease) in shareholding by the listed internal personnel from December 2018 to March 2019.

B. Information on counterparties of equity transfer that are related parties: None.

C. Information on counterparties of share pledges that are related parties: None.

8. Relationship information, if among the company's 10 largest shareholders any one is a related party or a relative within the second degree of kinship of another:

Mar 26, 2019; Units: Shares, %

Name	Current Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Wong's Kong King	24,473,836	67.44	0	0.00	0	0.00	-	-	
Wong's Kong King Representative：HSU HUNG-CHIEH	178,615	0.49	4,716	0.01	0	0.00	Wong's Kong King	Director	
Wong's Kong King Representative：SENTA WONG	1	0.00	0	0.00	0	0.00	Wong's Kong King	Chairman	
							Wong's Kong King Representative：CHANG JUI-SHUM	Son in law	
Wong's Kong King Representative：TSUI YING-CHUN	1	0.00	0	0.00	0	0.00	Wong's Kong King	Director	
Wong's Kong King Representative：HO SHU-CHAN	1	0.00	0	0.00	0	0.00	Wong's Kong King	Director	
Wong's Kong King Representative：CHANG JUI-SHUM	0	0.00	0	0.00	0	0.00	Wong's Kong King Representative：SENTA WONG	Father in law	
YU SHU MAN	412,000	1.14	0	0.00	0	0.00	LI CHIN SHENG	Husband	
							LI KUAN RE	Daughter	
LI CHAO YUAN	383,000	1.06	0	0.00	0	0.00	LI CHENG YUEH CHIN	Wife	
							LI CHANG YO	Son	
							LI CHIN SHENG	Son	
							LI KUAN RE	Grand daughter	
Top Range Machinery	378,484	1.04	0	0.00	0	0.00	-	-	
LI KUAN RE	361,617	1.00	0	0.00	0	0.00	LI CHENG YUEH	Grand	

Name	Current Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
							CHIN	daughter	
							LI CHAO YUAN	Grandson	
							LI CHIN SHENG	Father	
							YU SHU MAN	Daughter	
							LI CHANG YO	Niece	
LI CHENG YUEH CHIN	322,081	0.89	0	0.00	0	0.00	LI CHAO YUAN	Husband	
							LI CHANG YO	Son	
							LI CHIN SHENG	Son	
							LI KUAN ER	Grand daughter	
SHI SHENG YUAN	303,000	0.83	8,112	0.02	0	0.00	-	-	
CHEN MEI-FEN	287,035	0.79	466	0.00	0	0.00	Top Range Machinery	Director	
LI CHIN SHENG	222,000	0.61	0	0.00	0	0.00	YU SHU MAN	Wife	
							LI CHENG YUEH CHIN	Mother	
							LI CHAO YUAN	Son	
							LI CHANG YO	Brother	
							LI KUAN RE	Daughter	
LIAO HUNG-YING	188,798	0.52	0	0.00	0	0.00	-	-	

9. The total number of shares and total equity stake held in any single enterprise by the company, its directors and supervisors, managers, and any companies controlled either directly or indirectly by the company:

December 31, 2018; Units: Shares, %

Affiliated Enterprise（Note 1）	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
TKK Precision Co., Ltd.（Note 2）	6,237,000	100.00%	0	0.00%	6,237,000	100.00%
Hong Kong Taiwan Kong King Ltd.	26,209,999	99.99%	1	0.01%	26,210,000	100.00%
Headway Holdings Ltd.	1,100,000	100.00%	0	0.00%	1,100,000	100.00%
THT Technology Co., Ltd.	3,125,000	62.50%	100,000	2.00%	3,225,000	64.50%

Note 1: Company's long-term equity investment by the equity method
Note 2: Renamed after the share buyback, the original name is「TKK Precision Co., Ltd.」

IV.Capital Raising Activities

1. Capital and Shares

A. Source of capital stock

Mar 26, 2019; Units: Shares/NT$

Year/month	Par Value	Authorized capital stock		Paid-in capital		Remarks		
		Shares	Amount	Shares	Amount	Source of capital (NT$1,000)	Capital Increased by Assets Other Than Cash	Others
1977/06	10	200,000	2,000,000	200,000	2,000,000	established	-	-
1985/12	10	210,000	2,100,000	210,000	2,100,000	Capital increase 100 by cash	-	-
1986/05	10	1,000,000	10,000,000	1,000,000	10,000,000	Capital increase 7,900 by cash	-	-
1988/10	10	1,450,000	14,500,000	1,450,000	14,500,000	Capital increase 4,500 by cash	-	-
1995/12	10	2,175,000	21,750,000	2,175,000	21,750,000	Capital increase 7,250 by cash	-	-
1995/12	10	2,900,000	29,000,000	2,900,000	29,000,000	Capital increase 7,250 by cash	-	-
1997/10	10	4,350,000	43,500,000	4,350,000	43,500,000	Capital increase 14,500 by capital reserve	-	-
1998/11	10	10,000,000	100,000,000	10,000,000	100,000,000	Capital increase 27,800 by capital reserve. Capital increase 28,700	-	-
2000/08	10	13,000,000	130,000,000	13,000,000	130,000,000	Capital increase 30,000 by earnings	-	-
2001/01	10	30,000,000	300,000,000	17,500,000	175,000,000	Capital increase 45,000 by cash	-	-
2001/10	10	30,000,000	300,000,000	20,125,000	201,250,000	Capital transfer 26,250 by earnings	-	-
2002/10	10	30,000,000	300,000,000	22,137,500	221,375,000	Capital transfer 20,125 by earnings	-	-
2003/10	10	30,000,000	300,000,000	24,351,250	243,512,500	Capital transfer 22,137 by earnings	-	-
2004/09	10	30,000,000	300,000,000	27,273,400	272,734,000	Capital transfer 29,221.5 by earnings	-	-
2005/09	10	38,000,000	380,000,000	30,000,740	300,007,400	Capital transfer 27,273.4 by earnings	-	-
2006/09	10	38,000,000	380,000,000	34,560,852	345,608,520	Capital transfer 45,601.12 by earnings	-	-
2009/09	10	45,000,000	450,000,000	36,288,894	362,888,940	Capital transfer 17,280.42 by earnings	-	-

Type of Stock	Authorized Capital			Remarks
	Issued Shares (Note 1)	Un-issued Shares	Total	
Common Stock	36,288,894	8,711,106	45,000,000	

Note 1: Shares of GTSM Listed Companies.

General information about the reporting system:

Type of Stock	Estimated Issuance		Issued Shares		Purpose and expected benefits of issued shares	Estimated issue date for un-issued shares	Remarks
	Total Shares	Authorized Amount	Shares	Price			
None							

B. Shareholder structure

Mar 26, 2019

Shareholder structure	Government Agencies	Financial Institutions	Other Juridical Persons	Local Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	0	7	4	1,772	10	1,793
Shareholding (shares)	0	718,884	6,841	11,009,526	24,553,731	36,288,894
Percentage	0	1.98%	0.02%	30.34%	67.66%	100%

C. Diffusion of ownership

(1) Common stock (Par value of NT$10)

Mar 26, 2019

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	560	88,478	0.24
1,000 ~ 5,000	919	1,776,209	4.89
5,001 ~ 10,000	143	1,063,695	2.93
10,001 ~ 15,000	52	627,224	1.73
15,001 ~ 20,000	30	525,109	1.45
20,001 ~ 30,000	17	430,740	1.19
30,001 ~ 50,000	27	1,094,377	3.02
50,001 ~ 100,000	24	1,691,840	4.66
100,001 ~ 200,000	12	1,848,169	5.09

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage
200,001 ~ 400,000	7	2257,217	6.22
400,001 ~ 600,000	1	412,000	1.14
600,001 ~ 800,000	-	-	0.00
800,001 ~ 1,000,000	-	-	0.00
1,000,001 or over	1	24,473,836	67.44
Total	1,793	36,288,894	100.00

(2) Preferred Share: None.

D. Major Shareholders

Shareholding / Shareholder's Name	Shares	Percentage
Wong's Kong King International (Holdings) Ltd.	24,473,836	67.44
LI CHENG YUEH CHIN	412,000	1.14
YU SHU MAN	383,000	1.06
LI CHAO YUAN	378,484	1.04
LI CHIN SHENG	361,617	1.00
LI KUAN RE	322,081	0.89
Top Range Machinery Co., Ltd.	303,000	0.83
SHI SHENG YUAN	287,035	0.79
CHEN MEI-FEN	222,000	0.61
LIAO HUNG-YING	188,798	0.52

Note: List of names of the top ten shareholders, specifying the number of shares and stake held by each shareholder on the list.

E. Information on share prices, net worth per share, earnings per share and dividends per share:

Item		Year	2017	2018
Market Price per Share (Note 1)	Highest Market Price		37.80	30.55
	Lowest Market Price		27.50	23.50
	Average Market Price		31.34	26.20
Net Worth per Share (Note 2)	Before Distribution		21.58	22.44
	After Distribution		21.03	-
Earnings per Share	Weighted Average Shares		36,288,894	36,288,894
	Earnings Per Share (Note 3)		0.68	1.63
Dividends per Share	Cash Dividends		0.55	1.30
	Bonus Shares	Dividends from Retained Earnings	-	-
		Dividends from Capital Surplus	-	-
	Accumulated Undistributed Dividends (Note 4)		-	-
Return on Investment	Price / Earnings Ratio (Note 5)		46.09	16.07
	Price / Dividend Ratio (Note 6)		56.98	20.15
	Cash Dividend Yield Rate (Note 7)		1.75	4.96

* If there is a capital transfer by surplus or capital reserve, the company shall disclosed the market price and cash dividend information that is adjusted retrospectively based on the number of shares to be issued.

Note 1: List the highest and lowest market prices of common stock for each year, and calculate the average market price for each year by the annual turnover and volume.

Note 2: Please fill in the number of shares that have been issued at the end of the year and the allocation according to the resolution of the shareholders' meeting of the next year.

Note 3: If there are retrospective adjustments due to reasons such as free allotments, the pre-adjusted and adjusted earnings per share should be presented.

Note 4: For equity issuance, if dividends that are not distributed in the current year are allowed to be accrued to a year of surplus, the accumulated unpaid dividends should be disclosed separately.

Note 5: P/E ratio = current year average closing price per share /earnings per share

Note 6: Price-dividend ratio= current year average closing price per share / cash dividend per share

Note 7: Cash dividend yield= cash dividend per share/ current year average closing price per share

Note 8: The net value per share and earnings per share should be filled in with the information reviewed (audited) by the accountant in the most recent quarter of the date of publication of the annual report. The remaining fields should be filled in with information in the most recent year of the date of publication of the annual report.

F. Company's dividend policy and implementation thereof

(1) Dividend Policy provided in the Articles of Incorporation

Article 19:

a. After the company has paid its tax and has made up for past loss. When distributing surplus, the first 10% shall be for the legal reserve, and the remainder is added with accumulated undistributed surplus. The special reserve is distributed in accordance with the Securities Exchange Act., and the rest are the accumulated distributable surplus earnings. The above accumulated distributable surplus earnings is used to measure the necessity for the surplus to meet capital demands. The distribution method and the amount of surplus reserve or distribution are determined according to the basic principle of the company's dividend policy, and a surplus distribution proposal is submitted to the shareholders meeting for resolution. The distribution shall be distributed according to the following proportions: the compensation of the directors and supervisors is less than 1%, employees' compensation is 1% to 8%, and the remaining proportion is for shareholder dividends.

b. The company's dividend policy is based on the consideration of the capital budgeting and the dilution of earnings per share. The amount of dividends from shareholders should be higher than 50% of distributable surplus earnings for the current year. The dividends are distributed in cash dividends of no less than 30%. The dividend payout ratio depends on the profit and capital status of the current year. After the board of directors proposes a distribution plan, it will be adjusted after the resolution of the shareholders' meeting.

(2) 2018 Distribution of stock dividends at the Shareholders' Meeting

2018 Earnings Distribution

Units: NT$

2018 Net profit	
2018 Net profit after tax	59,165,293
- : Legal reserve	(5,916,529)
- : Special reserve	(12,271,402)
+ : Other comprehensive income (actuarial losses and gains arising from information about employee benefits)	2,560,467
+ : Effects of retrospective application and retrospective restatement	4,684,196
2018 Distributable Earnings	48,222,025
+ : Beginning Distributed Surplus Earnings	99,232,600
Distributable Earnings in the current period	147,454,625
Assign Items	
- : Shareholder Dividends - Cash (1,300 per thousand share)	(47,175,562)
Undistributed Surplus Earnings In the End of the Period	100,279,063

Chairman: HO SHU-CHAN , General Manager: LIAO HUNG-YING, Accountant Manager: CHOU TSUI-HSIA

G. Effect upon business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting:

The company does not need to disclose the 2018 annual financial forecast according to the regulations, so the changes in business performance, the proposed earnings per share and the P/E ratio are not applicable.

H. Compensation of employees, directors, and supervisors

(1) Ratio or scope of compensation for employees, directors, and supervisors, as set forth in the Company's Articles of Incorporation: If there is a balance, it will be handled in accordance with the following arrangements for employees' compensation and directors' reward:

a. Tax Payment.

b. Make up for past losses.

c. After deducting paragraphs (A) and (B), a 10% is required for legal reserves and, if necessary, a special reserve is required in accordance with the Securities Exchange Act.

d. After deducting paragraphs (A) to (C), the compensation of the directors and supervisors is less than 1%, employees' compensation is 1% to 8%, and the remaining proportion is for shareholder dividends.

Note: Employees' compensation is distributed according to the performance bonus system of the Company and its subsidiaries, performance bonus is based on the recent year's profit and loss and the contribution of each profit center, and the bonus is distributed according to the employee performance appraisal.

(2) The estimated amount of compensation for employees, directors, and supervisors for the current period shall be calculated based on number of employee shares of stock considering any accounting discrepancy between the actual distributed amount of employee stock dividend and estimated figure: Employee compensation and rewards of directors and supervisors are based on the amount of money that may be disbursed based on past experience and are calculated by multiplying net profit (after deducting the employee's remuneration and rewards of directors and supervisors) by 1%. After the end of the year, if there is a significant change in the amount of the resolutions of the board of directors, the change will be adjusted to the original annual cost. If the amount still changes at the resolution date of the shareholders' meeting, it will be handled according to the accounting estimates and adjusted in the resolution of the shareholders' meeting. If the shareholders' meeting decides to distribute stock as employee compensation, the bonus shares are determined by dividing the amount of dividends by the fair value of the stock. The fair value of the stock refers to the closing price at the day before resolution of the shareholders' meeting (after considering the impact of the ex-right and ex-dividend).

(3) Information on the amount of compensation for distribution as approved by the Board of Directors:

- The compensation of employees, directors and supervisors is distributed in the form of cash dividend or stock dividend. If there is any discrepancy between the actual distributed amount and figure, the difference, reason and response should be disclosed. The amount of employees' compensation approved by the Board of Directors was NT$763,764, and compensation to directors was NT$763,764.

There was no discrepancy with the actual amount in 2018.

- The amount of stock dividend and ratio of the total net profit after-tax and individual employee compensation or separate financial report for the current period: The company's current employee compensation is all in cash, thus it is not applicable.
- In consideration of the proposed distribution of employee compensation and the earnings per share of the directors and supervisors after the remuneration: The employee compensation and the rewards of directors and supervisors have been expensed, thus they have no impact on earnings per share.

(4) The actual distribution of compensation for employees, directors, and supervisors in the previous fiscal year (including number of shares, monetary amount, stock price, shares distributed) and any discrepancy between the actual distributed amount and amount of compensation for employees, directors, or supervisors. The discrepancy, cause, and response should be stated:

Unit: NT$Thousand

	2018			
	Number of distributed shares according to the resolution of the shareholders meeting	Number of distributed shares according to the approval of the board of directors meeting	Diff	Reasons for diff.
Distribution status：				
a.Employee cash bonus	764	764	-	-
b. Employee stock bonus				
(a)Share (Thousand Shares)	-	-	-	-
(b)Amount	-	-	-	-
(c)Percentage of total outstanding company shares %	-	-	-	-
c.Compensation to directors and spervisors	764	764	-	-

I. Share repurchases: None.

2. Corporate Bonds: None

3. Preferred Shares: None

4. Global Depository Receipts (GDR) : None
5. Employee Stock Warrants: None.
6. New Restricted Employee Shares: None.
7. Status of New Shares Issuance in Connection with Mergers and Acquisitions:None
8. The Status of Implementation of Capital Allocation Plans:
   A. Plan: Previously issued or privately held securities that have not been completed or have been completed in the last three years but planned benefits have not yet been revealed in the latest quarter to the date of publication of the annual report: None.
   B. Implementation: For the purposes of the various plans in the preceding paragraph, the analysis and comparisons of the implementation situation and the original expected benefit as of the first quarter to the date of publication of the annual report: None.

V.Operational Highlights

1. Business Activities

A. Scopes of the business:

(1) The main operational categories of the company

a. Electronic parts and their products (except pipe products), garments, textiles, hardware machinery, etc. and the import and export business.

b. Sales and the import and export of electroplating chemicals (excluding pipe products), electronic printing materials (except pipe products), and electronic printing machinery (excluding pipe products).

c. Factory automation computer software and computer integration design, manufacturing, sales and service.

d. Production of negative films for industrial printed circuit boards.

e. Test computer program and fixture manufacturing for automated test equipment of printed circuit boards.

f. The quotation and bidding of the products of Local and foreign manufacturers before the agency.

g. Electronic assembly processing and sales (except pipe products).

h. CB01010 Machinery and equipment manufacturing.

i. CB01020 Office Machines Manufacturing.

j. CC01030 Electrical appliance manufacturing.

k. CC01050 Data Storage Media Units Manufacturing.

l. CC01060 Wired Communication Equipment and Apparatus Manufacturing.

m. CC01070 Wireless Communication Equipment and Apparatus Manufacturing.

n. CC01080 Electronic Parts and Components manufacturing.

o. CD01050 Manufacture of Bicycles and Parts.

p. CE01010 Precision Instruments Manufacturing.

q. C802120 Industrial Catalyst Manufacturing.

r. C802030 Paints and Varnishes Manufacturing.

(2)Sales proportion

UNIT: NT$ thousand

Business Item	Sales in 2018	2018 (%) of Total Sales
Electronic components, equipment and materials	1,009,816	88.85%
Service revenue + Maintenance revenue	73,670	6.48%
Commissions revenue	53,089	4.67%
Total	1,136,575	100%

(3) The company's current product (service) collections

The business model of the Company and its subsidiaries is to introduce new process equipment and application technology sales to the electronic technology industry and to provide customer service, electronic parts production, machine equipment manufacturing and assembly.

Main business items: Printed circuit board equipment and technical services, chemical materials, semiconductor packaging test equipment, electronic assembly equipment, optoelectronic production equipment, solar energy industry related equipmen. Also, the assembly, production, sales and customer service of the above equipment and components. The main commodities and related industries of the company and its subsidiaries of the end of the year are described as follows:

a. Printed circuit board

AOI automatic optical inspection machine, AVI automatic visual inspection machine, exposure machine, wet film coating (inner layer/anti-welding), abrasive belt grinding machine, brush grinding machine and other wet process equipment and ceramic brush, RTR plating line, VCP plating related Process equipment, short/break tester, high-density test fixture, solder ball inspection equipment, electroplating liquid analyzer, metal surface film thickness analyzer, film/glass mask foundry, short circuit/open circuit test OEM and patent and IC Analysis services, vacuum plasma/sputtering equipment, etc.

b. Semiconductor package

Transfer type hot plate reflow/baking equipment, circulating electroplating liquid analyzer, near-infrared light concentration monitor, wafer surface cleaner, wafer coater, wafer surface contaminant inspection machine, X-Ray inspection equipment, wafer surface organic inspection machine, chip package inspection machine, high-end package die bonding machine, automated wafer transfer arm, high-end package precision printer, high-end package precision ball mounter, 3D surface profile measurement, SMD Chip Counter, plasma surface cleaning, dust-free and oxygen-free ovens, and ball milling equipment.

c. Optical communication

Precision placement machine, automatic coupling equipment, photoelectric test equipment, optical lens.

d. Solar industry

Solar cell screen printing line, screen printing machine, silver glue and aluminum glue.

e. SMT electronic assembly

Selective soldering furnace, reflow oven, placement machine, fully automatic visual printing machine, desktop automatic optical inspection machine, parts counter, X-RAY inspection machine, solder paste inspection equipment.

(4) New product (services) development projects:

- High-end packaging process equipment.
- Green energy and industrial automation related equipment.
- New process and high-end process equipment that meet customer needs.
- Materials that meet customer needs.
- Continuous tracking of new products in the market (not limited to the electronics industry)

B. Brief description on industries of the company’s main products:

The business model of the Company and its subsidiaries introduces new process equipment and application technology to Taiwan's electronic technology industry.

With the printed circuit board as the main axis, it will be extended upwards and downwards to form a complete sales service system. It will also span the semiconductor packaging and testing equipment, electronic assembly industry, optoelectronic industry and solar energy industry related equipment. Current status and development of industries of the company’s main products (the printed circuit board industry, semiconductor industry and optical communication industry) are as follows:

1. Printed circuit board industry

- **Market development**

(1) 18Q3 output value and 18Q4 estimations:

Since the shipments of the main application terminal products of the 18Q3 circuit board have increased compared with the same period of last year (except for low-end functional mobile phones), the demand boomed and the proportion of high-end circuit board applications continues to increase, and the effect of the price increase drives up the output value of the circuit board. According to the survey results, the 18Q3 output value of Taiwan's circuit board reached NT$182.6bn, with continuing growth momentum in the second quarter, showing a more prosperous industrial situation in the peak season. Therefore, the 18Q2 production growth rate reached a new high at 24.4%, and was at 8.4% compared with the same period last year. In the view of the current market demand, there is still possibility that the fourth-quarter output value would be in a double recession by quarter and by year. Overall, due to the new high output value in the first three quarters of 2018, although market conditions in the fourth quarter are not as good as the first three seasons, but the FY18 is estimated to have a output value at a new high of approximately NT$656.4bn.

(2) Product structure and sales growth rate

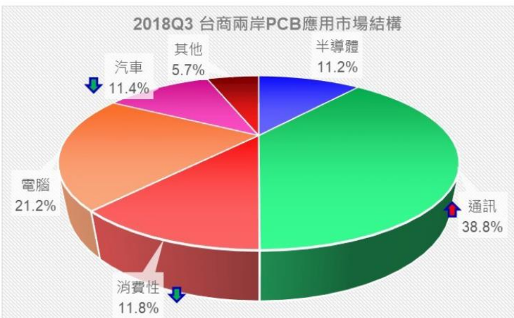
Benefiting from the fact that demand on computers is no longer plummeting and is slightly warming up, as well as the high-performance computers driven by factors such as AI, cloud computing, and e-sports, the demand for

ABF high-end carrier boards continues to grow. Due to the higher specifications of ABF carrier boards, the average unit price is also higher than that of the general BT material carrier board, thus the output value of the carrier board is 5.1% higher than the same period last year

(3) Application market structure and sales growth rate

According to the WSTS survey statistics, the global semiconductor market 18Q3 sales value of was at US$122.7 billion, up 13.8% from the same period of last year (17Q3), and sales volume reached 265.6bn, up 8.3% from the same period last year (17Q3). The IC packaging industry in Taiwan grew by 7.5% compared with the same period last year (17Q3), which also led to an annual growth rate of 5.1% for circuit board semiconductor applications.

3C applications have always been the main application areas of circuit boards, and the rise of mobile communication has caused the growth of communication applications year by year. Even in the IoT applications, although more consumer appliances have increased networking functions, the newly added networked module boards, are classified as communication products by most of the application classification surveys. Thus the proportion of communication and consumer applications is even more pronounced.



註：數據統計範疇為台灣地區之台商與外商在台生產PCB之總體產值比重

代表2018Q3應用市場產值所佔比重之增減

資料來源:TPCA;IEK Consulting(2018/11)

(4) Trends in the location selection of Taiwanese manufacturers

Although China's production advantage is not as good as before, except for a few manufacturers, most of the current manufacturers' capacity expansion is still dominated by China. Due to the current impact of China-US trade war and environmental pollution control, relevant manufacturers have begun to assess the possibility of setting up factories in other countries or returning to Taiwan to reduce the potential risks of production sites being too concentrated in China.

- **Industry Overview**

(1) Sales growth

18Q3 enters the peak season of the year, the quarterly sales of the manufacturers have grown substantially in comparison with the second quarter, and the annual growth rate has also increased. According to all the surveyed companies, 75% of the 18Q3 sales have a positive YoY. The growth momentum of hard-board manufacturers including HDI and multi-layer boards driven by the recovery of computer demand have performed well.Soft board manufacturers are still the group with the highest growth rate of all product categories.

As for the carrier board, its demand growth continued in the first half of the year. However, the reasons for growth was different, it was mainly due to the increase in demand for RAM and the significant increase in shipments. In 18Q3, the growth in carrier board was pumped up by the ABF carrier board required for high-end computer processors, its high specification ramps up average price, which drives the output value of the carrier board to grow by about 5%.

	平均	第 25 百分位數	第 75 百分位數	最低	最高
硬板	6.2%	-1.6%	20.3%	-31.4%	52.7%
軟板	18.1%	12.0%	13.4%	-3.4%	26.5%
載板	5.1%	廠商家數不足表示		4.3%	10.1%

資料來源: TPCA;IEK Consulting(2018/11)

2. <u>Semiconductor industry</u>

- **Industry Overview**

According to WSTS statistics, of the global semiconductor market’s 18Q1 sales was at US$111.3bn, down 2.3% from 17Q4 and up 20.3% from the 17Q1. Sales volume reached 238bn, down 0.1% from 17Q4 and up 7.7% from 17Q1. ASP was US$0.468, down 2.2% from 17Q4 and up 11.7% from 17Q1. 18Q1 sales of the US semiconductor market reached US$24.3bn, down 9.6% from 17Q4 and up 35.7% compared with 17Q1. Japan semiconductor market sales value reached US$9.6bn, down 0.9% from 17Q4 and up 13% compared with 17Q1. The sales value of the European semiconductor market reached US$10.8bn, up 6.9% from 17Q4 and up 21.9% from 17Q1. The sales value of the semiconductor market in Asia reached US$66.6bn, down 1.0% from the previous quarter 17Q4 and up 16.3% from the same period last year 17Q1.

Among them, the sales in Chinese market reached US$36bn, up 0.2% from 17Q4 and up 19.2% from 17Q1. According to WSTS statistics, the global semiconductor market's 18Q2 sales value was at US$117.9 billion, up 6.0% from the previous quarter 18Q1 and up 20.5% from 17Q2. Sales volume reached 253.7bn, up 6.6% from 18Q1 and up 10.0% compared with 17Q2. ASP was US$0.465, a 0.6% decline from the previous quarter (18Q1) and a 9.5% increase from 17Q2. US semiconductor market's 18Q2 sales value reached US$25bn, up 3.1% from 18Q1 and up 26.7% compared with 17Q2. Japan semiconductor market sales value reached NT$10.2bn, up 5.7% from 18Q1, and up 14.0% compared with 17Q2. The sales value of the European semiconductor market reached US$11billion, up 1.8% from 18Q1 and 15.9% from 17Q2. The sales value of the semiconductor market in Asia reached US$71.7bn, up 7.7% from 18Q1 and 20.1% from 17Q2. Among them, the mainland China market was US$40.8bn, up 13.3% from 18Q1 and 30.7% from 17Q2.

According to WSTS statistics, the global semiconductor market sales value of 18Q3 was US$122.7bn, up 4.1% from 18Q2 and 13.8% from 17Q3. The sales volume reached 265.6bn, up 4.7% from 18Q2, and 8.3% compared with 17Q3. ASP was US$0.462, a 0.6% decline from 18Q2 and an increase of 5.1% from 17Q3. US semiconductor market's 18Q3 sales value reached US$27.6bn, up 10.2% from 18Q2 and up 15.1% from 17Q3. Japan semiconductor market sales value reached US$10.1bn, which is 0.8% lower than 18Q2 and grew by 7.2% compared with 17Q3. The sales value of the European semiconductor market reached US$10.7bn, a 2.7% decline from 18Q2 and 8.8% from 17Q3. Sales value of the semiconductor market in Asia reached 74.3bn, which grew by 3.6% from 18Q2 and 15.0% from 17Q3. Among them, the Chinese market reached US$43.1bn, up 5.6% from 18Q2 and

26.3% from 17Q3. According to WSTS estimates, the total annual sales value of the global semiconductor market in 2018 reached US$477bn, a 15.7% increase from 2017.

- **Capital expenditure trends**

The SEMI International Semiconductor Industry Association announced the latest Billing Report. In September 2018, North American semiconductor equipment manufacturers’ total shipment was US$2.09bn, down 6.5% from the final data of August 2012 to arrive at US$2.37bn, but it grew 1.8%c ompared to US$2.05bn in September 2017 (previous year). Due to the industry's traditional off-season effect, North American semiconductor equipment shipments in September 2018 fell compared to August 2018, but is still better than the same period in 2017. Under the trend of continuous expansion of advanced processes and production capacity, we can still maintain optimism on the amount of investment in semiconductor equipment from the fourth quarter of 2018 to the end of 2018. The Billing Report published by SEMI is based on the average global shipments of North American semiconductor equipment manufacturers over the past three months.

The International Semiconductor Industry Association (SEMI)'s "World Fab Forecast" in September 2018 pointed out that global fab equipment investment will increase by 14% in 2018, reaching US$62.8bn, and would rise by 7.5% in 2019 to reaching US$67.5bn. In addition to four consecutive years of growth, it also set a record for the highest amount of fab equipment investment over the years. The report currently tracks a total of 78 new fabs and production lines that have been or will be starting construction between 2017 and 2020, and the demand for related fab equipment will eventually exceed US$220bn. South Korea's fab equipment investment forecast is ahead of other regions, reaching US$63bn (2017 to 2020), China is second, at US$62bn (2017 to 2020), Taiwan ranks third with US$40bn (2017 to 2020), Japan ranks fourth at US$22bn (2017 to 2020), while North and South America was at US$15 billion (2017 to 2020).

Europe and Southeast Asia both rank at sixth with an investment of US$8bn (2017 to 2020). Among these fabs, 60% belong to the RAM factory, which has the highest proportion of 3D NAND, followed by DRAM. About 30% is a wafer

OEM. Among the 78 fabs and production lines that started between 2017 and 2020, 59 were constructed in 2017 and 2018, and another 19 were planned to start its construction during 2019 and 2020.

According to the latest IC Insights report, global capital expenditures (including fabs and packaging and testing plants) reached US$102bn in 2018, up 9% from US$93.3bn in 2017. In terms of the country of the manufacturer (where the headquarters is located), the total capital expenditure of Korean manufacturers ranked first in 2018, at US$32.5bn. The total capital expenditure of US manufacturers is US$29.8bn, ranking second. Taiwanese manufacturers have a total capital expenditure of US$14.3bn, ranking third.

- **Future outlook**

Taiwan's IC industry's upstream and downstream industry chain is in a complete form, from the upstream IC design to the latter stage of IC manufacturing (including wafer OEM and RAM companies) and IC packaging and testing. The professional specialization of labor is unique. Taiwan's IC industry employs approximately 225,000 people (including IC design, IC manufacturing and IC packaging and testing companies). In 2018, the total IC output value reached NT$2.63 trillion, ranking third in the world (the market share accounted for nearly 20%), which is just behind the United States and South Korea. Taiwan's IC design output value ranks second in the world (the city accounts for about 20%), which is just behind the United States (about 60%), and is more than China (about 10%). Taiwan's wafer output value ranks firs in the world (about 70% of the market share), the world's top leader, the advanced process enters the research and development of 5nm manufacturing process and other more advanced processes. Taiwan's RAM production ranks 4th in the world (about 10% of the market share), with DRAM as the main products, followed by NOR Flash and Mask ROM. Ranking just behind Korea, the United States, and Japan. Whereas Taiwan's IC packaging and output value ranks 1st in the world (about 50% of the market share).

The government promotes the top ten industrial innovations, including Asian Silicon Valley, Biotech, Green Energy Technology, Smart Machinery, Defense Aerospace, New Agriculture, Circular Economy, Cultural Technology, Digital

Economy, Wafer Design and Semiconductor. The government said that the semiconductor industry is Taiwan's "national industry". Without the support of the semiconductor industry, these industrial innovations cannot be truly successful. The research and development and manufacturing energy of semiconductors can support the innovation development of the above mentioned industries. In contrast, the development of these key industries in the future will also drive the application needs of semiconductors. It is expected that the future government will assist semiconductor industry and key industry players to reflect deeper cooperation and jointly shape the overall development strategy of Taiwan's industry. It is estimated that the output value of Taiwan's semiconductor industry will have a chance to break through NT$3trillion in 2020.

3. <u>Optical Communication Industry</u>

- Industry Overview

The demand for global data centers has not diminished. In 2017, the overall market size was about US$2.2 trillion, an increase of 2.9% YOY. The application of technological innovation and cloud computing has greatly promoted market enthusiasm. The overall industrial planning of Taiwan Communications also reached NT$1.49 trillion in 2017, a slight decrease of 0.5% YOY. The government policy, broadband speed and rapid development of the Internet industry have promoted the rapid development of the data centers, combined with the overall environment, continued growth is expected in the future.

<u>**2014-2017 Global telecommunications expenditure**</u>

單位：百萬美元

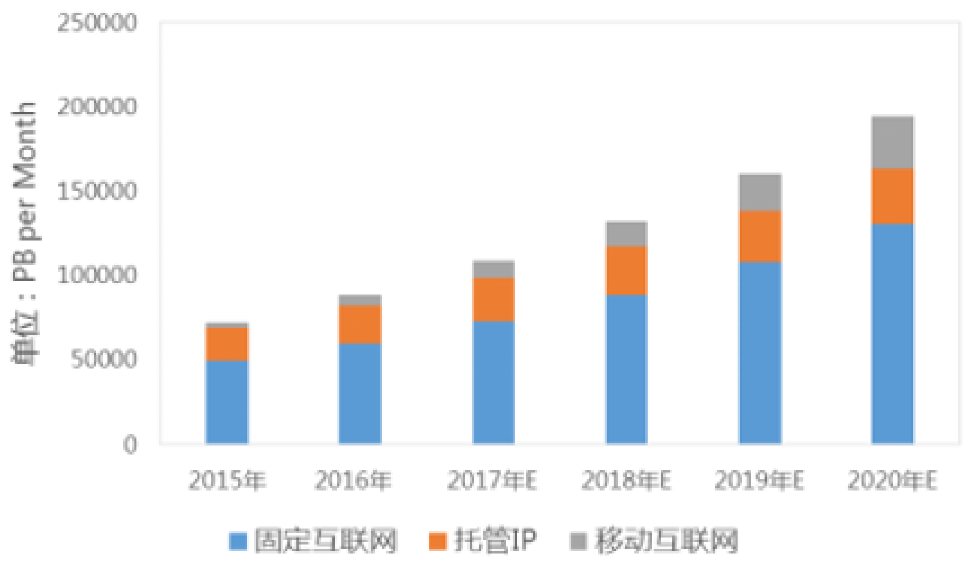
	2014	2015	2016	2017	2018(e)	2019(f)	2020(f)	2021(f)
全球終端用戶通訊應用支出	39,460	37,175	38,078	39,335				
全球企業網路設備支出	44,033	46,454	48,987	53,905				
運營商網路基礎設備支出	84,832	84,387	82,064	83,135				
電信營運管理系統支出	43,724	43,945	42,717	46,069				
企業固定通信服務支出	294,577	288,257	281,812	275,609				
消費者固定通信服務支出	304,813	297,663	293,967	291,955				
行動服務支出	983,796	990,907	1,006,243	1,038,503				
行動裝置支出	369,399	389,663	354,039	382,504				
電信總支出(合計)	2,164,633	2,178,451	2,147,907	2,211,015				

資料來源：Gartner；工研院 IEK(2018/05)

- Industry trends and future prospects

With the rapid development of the Internet, there is exploding growth in global internet traffic. It is expected that global IP traffic will reach 88,718 PB/Month in 2016 and will maintain rapid growth in the future. By then, the global traffic will increase from 7GB per capita in 2015 to 21GB per capita. Among them, online video, virtual reality and other application traffic would grow rapidly. By 2020, the proportion of global IP video traffic of the global IP traffic will increase by 82%.

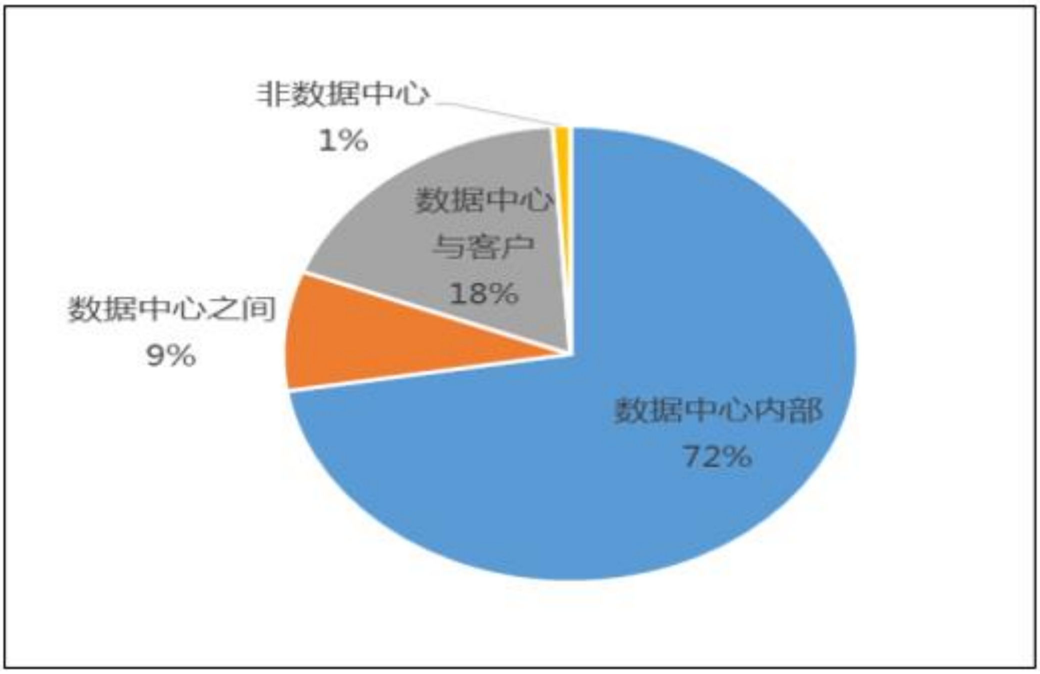
2015-2020 Global IP traffic growth



In addition, communications within the data center, between data centers, and between data centers and customers will also create demand for optical communications equipment and components. It is predicted that by 2020, the overall scale of the optical communication market will reach US$207.9bn, and the compound annual growth rate will exceed 10%, in which the Datacom market will maintain its growth trend in 2016-2018, and the market scale of the Datacom products will increase from US$43.99bn in 2016 and reach its peak at US$46.75bn in 2018. In forecast, the number of global data centers would reach US$8.6mn in 2017, with large data centers accounting for more than 70%. The data center has currently upgraded network architecture from 10G/40G to 25G/100G, and it is expected that the future network architecture would upgrade to 40G/100G. The demand for future high-rate optical communication modules will increase dramatically.

Meanwhile, the rise of global data centers will drive demand for data communication products. It is estimated that 99% of the global communication network traffic will be related to the data center by 2019, and the network traffic within the data center accounts for more than 70% of the total network traffic. The data center market would become a major driver of demand for optical components. The construction of high-speed Internet routing, the expansion of broadband access, upgrading information infrastructure and the development of data centers will drive the market demand for optical communication equipment and components. Therefore, it is expected that the optical communication market would continue to maintain high growth in the future. .

2019 Global Communication Network Traffic Mix



C. Relevance of upstream, midstream and downstream companies

In the agency equipment industry, the upstream is the supplier, and the function of the agent is to study the equipment needed for the manufacturing process of downstream terminal customers in each industry. TKK's main business is similar to the above.

It would find the most suitable equipment specially designed for the downstream customers' manufacturing process, and introduce new equipment for the customer's new manufacturing process or introduce the next-generation processing equipment for the industry to enhance the customer's competitiveness.

D. Various development trends and competition of products

Electronic products continue its development towards light, thin, short, and small products, the quality requirements are further improved, and advanced countries are more demanding for green energy and lead-free environmental protection processes. This would again promote equipment upgrades.

The entry barrier of the agency equipment industry is not very strong, and the ability of Taiwanese manufacturers to make their own equipment gets better day by day. In the case of fierce competition and reduced demand, the life cycle of agent equipment would continue to shorten. And in this highly competitive industry, TKK would continue to grow with the introduction of higher-order and new-process technologies and equipment to enhance its competitiveness.

E. Technology and R & D Overview:

a. Successfully developed technologies or R & D products from the most recent year to the end of publication of the annual report:

With the technical support by suppliers, the products represented, manufactured or assembled by TKK and its subsidiaries are committed to developing new process equipment, materials and technologies for the existing electronics industry according to the needs of customers. In addition, TKK is also actively developing new products in the semiconductor, solar energy, optoelectronics, and chemical materials industries. The company provides customers with the most advanced future technologies and demonstrate its channel distribution system through the technical support by suppliers.

b. Expected future R&D plans and expenses from the most recent year to the end of publication of the annual report:

The subsidiary has many years of practical experience in R & D, production and assembly of electrical test fixtures and equipment, and has independently trained a R & D team with innovation and improvement capabilities. This team is highly competitive in the market. The R & D expenses in 2018 are close to NT$6mn, and it is expected that there will continue to be a considerable amount of R & D expenses this year and next year.

R & D expenses from the most recent year to the end of publication of the annual report:

Item \ Year	2018	2017
R & D expenses (A)	5,846	5,012
Net Operating Revenue (B)	1,136,575	789,602
(A)/(B) ％	0.51%	0.63%

F. Long-term and short-term business development plans:

(1) Short-term plan

a. Enhance the quality and efficiency of existing customer support services and improve customer satisfaction.

b. Introduce more advanced equipment and materials depending on customer and industry needs.

c. Develop agency for new products with high added value.

d. Increase the number of foreign strategic alliance partners to enter new technology fields.

e. Improve production and assembly processes and shorten delivery times.

(2) Long-term plan

a. Introduce advanced and sophisticated process equipment, materials and technologies from all industries based on the customer and industry needs.

b. Continue to develop universal electronic components.

c. Develop a low-pollution and high-performance product line.

d. Introduce high-end products targeted at the High End product line.

e. Improve the professional quality of employees and increase the efficiency of business operations.

f. Stabilize credit, reduce the possibility of bad debts, and cooperate with the Group's long-term business development plan to make sound planning and control of funds.

2. TKK Market and Sales Overview

A. Market analysis:

(1) Sales areas of TKK's main product

Year / Type	2018		2017	
	Sales	%	Sales	%
Local sales	814,717	71.68	577,533	73.14
Export sales	321,858	28.32	212,069	26.86
Net Operating Income	1,136,575	100%	789,602	100%

(2) Market share

Due to the success in capturing market trends and the R & D of advanced processes, the company has established a good reputation in the market for more than 30 years and has built up the excellent ability as an agent, thus it has priority to be the agent of high-end products. After obtaining the agency rights, these advanced equipments or technologies will be actively introduced to the electronics industries in Taiwan through exhibitions, technical seminars and new product briefings, which would enhance the technical level of customers, increase competitiveness and create a win-win solution on creativity for Taiwan's electronics industry.

Although the highly competitive industry would reduce the market share of the TKK's agency products, the company continues its strategy on introducing high-end products and to become the professional agent with the highest market share in high-tech products in the Greater China Region.

(3) Competitive niche, favorable development prospects, unfavorable factors and countermeasures

a. Competitive niche and favorable factors:

■ Continuous development of quality products

Over the years, the electronics industry has been continuously upgraded and transformed. The company has penetrated the industry and accurately grasped the transformation of the industry. Its agent products have been closely related to the development of the industry and market trends.

- Experience in establishing a channel marketing network

  Since the company was established in 1977, it has adapted sales channels to Taiwan, China, Japan, Hong Kong, Philippines, Singapore, Thailand and other countries, and has formed a stable marketing network with excellent international competitiveness.

- Long-term customer and supplier relationships

  The company's business philosophy is "integrity". TKK has an intimate relationship with its customers and suppliers as they have grown together over the years, and experienced the difficult times and development of the Taiwan’s electronics industry.

- Excellent and experienced service team

  In addition to having a deep understanding of the industry, the company also cooperates with professional technical and logistics personnel to form a strong service team, so it can provide customers with high efficiency and high quality professional services.

- Stable financial policy

  The company adopts a stable financial policy that does not expand credit and does not invest in industries that are unfamiliar or unrelated to the industry.

b. Unfavorable factors and countermeasures

- Short technology life cycles:

  The process or technology of the electronics industry is progressing rapidly, with a short life cycle on equipment or technology. In addition, the improvement of the ability of Taiwanese manufacturers on self-made products is also a major problem for the company.

Countermeasures:

Continuously improve the technical capabilities of the new product development team, and quickly collect market intelligence and negotiable agency contracts through the alliance of companies that set up subsidiaries in the United States and Japan.

In addition, the company has also established subsidiaries in Taiwan and China, reducing the geographical restrictions and time differences in providing services. At the same time, through the recruitment of consultants from the United States, Germany and Japan, we regularly provide the latest developments in the industry and market information, so that the company can keep abreast of the latest technological pulse and grasp the opportunities of market development.

- Offshore migration of the manufacturing industry:

Since China and Vietnam have relatively low-cost labor and land resources, manufacturers who want to reduce production costs will set up factories in these countries.

Countermeasures:

Establish a subsidiary in China to build a complete technical support service network, in order to provide services to existing customers, and have the opportunity to serve customers in China. The assessment on whether to establish service centers in Vietnam and other regions is based on the needs of downstream customers.

B. TKK Market and Sales Overview

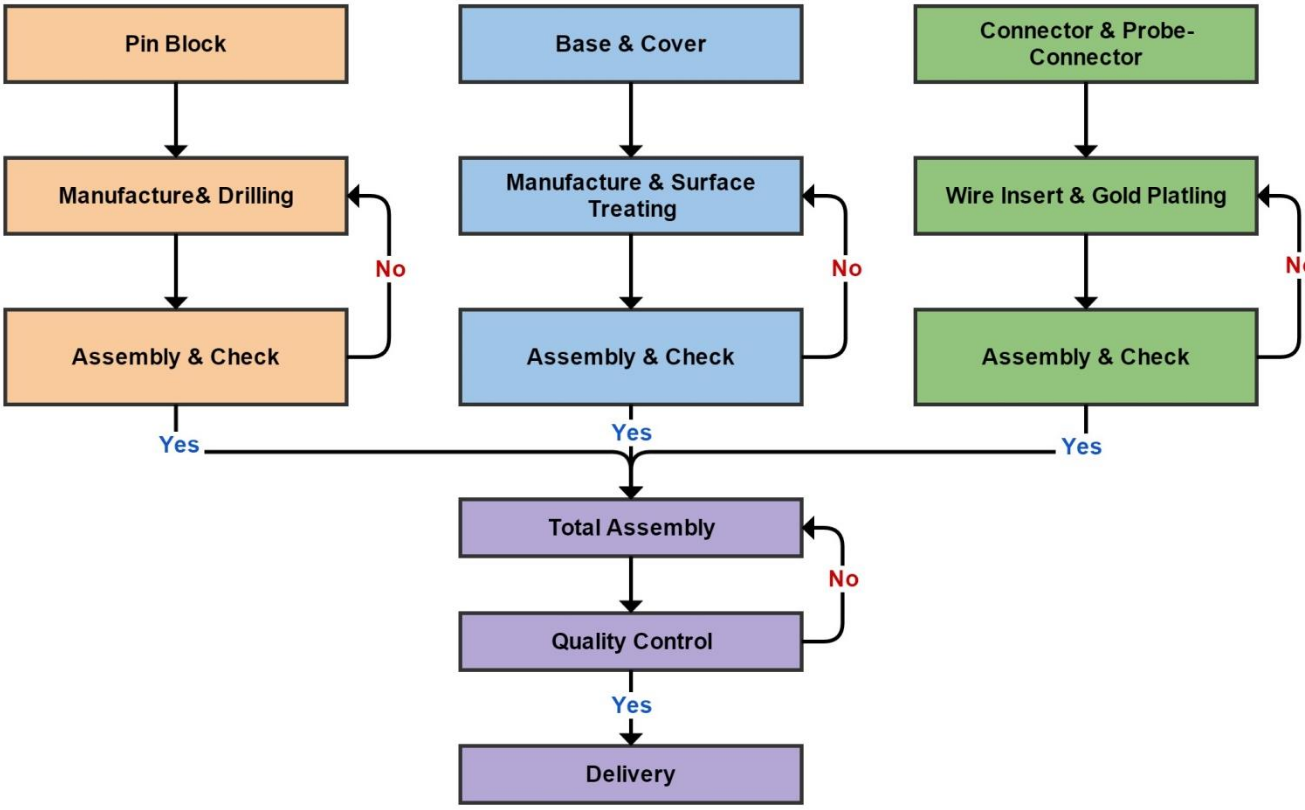
(1) Main products' important functions

Main product type	Main products	Functions
Electronic components, equipment and materials	AOI automatic optical inspection machine, AVI automatic visual inspection machine, exposure machine, wet film coating (inner layer/anti-welding), abrasive belt grinding machine, brush grinding machine and other wet process equipment and ceramic brush, RTR plating line, VCP plating related Process equipment, short/break tester, high-density test fixture, solder ball inspection equipment, electroplating liquid analyzer, metal surface film thickness analyzer, film/glass mask foundry, short circuit/open circuit test OEM and patent and IC Analysis services, vacuum plasma/sputtering equipment, etc.	Printed circuit manufacturing
Semiconductor package and manufacturing equipment, and electronics assembly.	Transfer type hot plate reflow/baking equipment, circulating electroplating liquid analyzer, near-infrared light concentration monitor, wafer surface cleaner, wafer coater, wafer surface contaminant inspection machine, X-Ray inspection equipment, wafer surface organic inspection machine, chip package inspection machine, high-end package die bonding machine, automated wafer transfer arm, high-end package precision printer, high-end package precision ball mounter, 3D surface profile measurement, SMD Chip Counter, plasma surface cleaning, dust-free and oxygen-free ovens, and ball milling equipment.	Semiconductor package and manufacturing, and electronics assembly.
Assembly equipment, components and materials for optical communications module	Precision placement machine, automatic coupling equipment, photoelectric test equipment, optical lens.	Optical communication industry, high-power laser module, precision optical assembly, extreme sensor assembly
Solar energy production process	Solar cell screen printing line, screen printing machine, silver glue and aluminum glue.	Solar industry
SMT electronic assembly	Selective soldering furnace, reflow oven, placement machine, fully automatic visual printing machine, desktop automatic optical inspection machine, parts counter, X-RAY inspection machine, solder paste inspection equipment.	SMT assembly

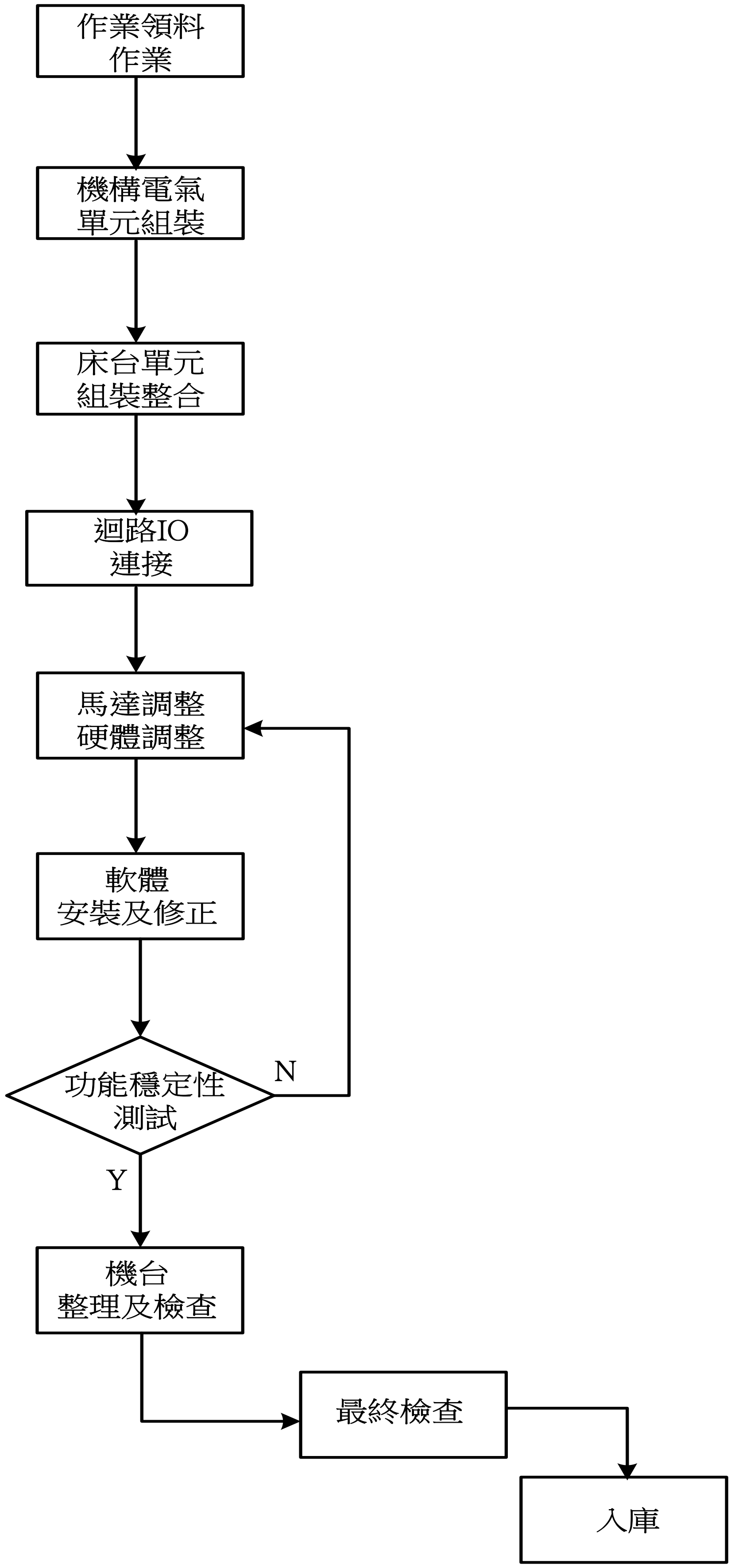
Others	Export business for Taiwan's sophisticated equipment products, film production and electrical testing of the generation of processing, blood glucose test strips, conductive adhesive insulation on films and buttons.	

(2) Main products' production process

- Production process of the electrical test fixture:



- Equipment assembly process:



C. Primary raw materials of main products

(1) Primary raw materials

Most of the raw material suppliers of the Company and its subsidiaries are well-known domestic and foreign manufacturers. The source of supply is quite stable with little price fluctuations. The company developed a close relationship with various suppliers and established a high level of cooperation.

Domestic suppliers mainly provide processing of metal raw materials, and the supply is sufficient.

(2) List of major suppliers

Supplier name	**Main shipping items**
WKK JAPAN LTD.	Printed circuit board processing equipment and components.
Rorze Technology, Inc.	Semiconductor electronic equipment and components
Philoptics Co., Ltd.	Printed circuit board processing equipment and components.

D. The number of clients and their purchase amount and ratio that accounted for more than 10% of the total sales in the last two fiscal years:

(1) The clients that accounted for more than 10% of the total sales in the last two fiscal years:

	2018				2017			
Item	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	ASE Group	192,058	16.90	-	ASE Group	204,866	25.95	-
2	Career Tech.	116,604	10.26	-	KINSUS	81,844	10.37	-
3	KINSUS	97,894	8.61	-	Nan Ya Plastics	71,247	9.02	-
	Others	730,019	64.23		Others	431,645	54.66	
	Net Total Supplies	1,136,575	100.00		Net Total Supplies	789,602	100.00	

Reasons for change: The changes in major sales from clients in the last two fiscal years are mainly due to the increase in printed circuit board process equipment sales to Career Tech. in 2018.

Note 1：The number of clients and their purchase amount and ratio that accounted for more than 10% of the total sales in the past two years is listed in the above table. However, due to the contractual agreement, the name of the supplier or the counterparty may be disclosed as an individual and non-related party.

Note 2：Up the date of publication of the annual report, the companies that have been listed or whose stocks have been traded in the securities firm's business premises should be disclosed if they have the most recent financial information verified or reviewed by the accountant.

(2) The suppliers that accounted for more than 10% of the total purchases in the last two fiscal years

	2018				2017			
Item	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	WKK JAPAN LTD.	171,029	24.98	Interested Party	Rorze Technology, Inc.	111,117	27.20	-
2	Rorze Technology, Inc.	100,141	14.63	-				
	Others	413,475	60.39		Others	297,453	72.80	
	Net Total Supplies	684,645	100.00		Net Total Supplies	408,570	100.00	

Reasons for change: The changes in major purchases from suppliers in the last two fiscal years are mainly due to the increase in equipment purchased by WKK JAPAN LTD. in 2018.

Note 1：The number of suppliers and their purchase amount and ratio that accounted for more than 10% of the total sales in the past two years is listed in the above table. However, due to the contractual agreement, the name of the supplier or the counterparty may be disclosed as an individual and non-related party.

Note 2：Up the date of publication of the annual report, the companies that have been listed or whose stocks have been traded in the securities firm's business premises should be disclosed if they have the most recent financial information verified or reviewed by the accountant.

E. Output analysis for the last two years:

Unit: NT$ thousand; Set

Year / Divisions	2018			2017		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Manufacturing division	716	413.5	58,360	656	302	58,450
Total	716	413.5	58,360	656	302	58,450

Note 1: Capacity refers to the quantity that can be produced under normal operation after the company has measured the necessary temporary shutdowns, holidays, etc., using the company's existing production equipment.

Note 2: The production of each product is substitutable. It is necessary to calculate the consolidated production capacity, and it shall be listed in the note.

F. Sales value for the last two years:

Unit: NT$ thousand

Year	2018				2017			
	Local Sales	%	Export Sales	%	Local Sales	%	Export Sales	%
Customer Service	118,932	14.6	7,945	2.47	126,774	21.95	10,494	4.95
PCB division	321,324	39.44	235,084	73.04	173,209	30.00	133,345	62.88
Electronics division	374,461	45.96	66,759	20.74	277,538	48.05	45,116	21.27
Manufacturing division	0	0	12,070	3.75	12	0	23,114	10.90
Total	814,717	100	321,858	100	577,533	100.00	212,069	100.00

G. Historical performance indicators:

Analysing Item	Year	2014	2015	2016	2017	2018
Historical performance indicators	Return On Assets (%)	6.07	8.85	6.56	2.30	5.33
	Return On Equity (%)	7.93	11.45	8.44	2.88	6.75
	Pre-tax net profit as a percentage of paid-in capital (%)	25.07	35.25	28.27	8.86	20.83
	Net profit margin (%)	7.99	11.72	8.83	3.31	5.02
	EPS (NT$)	1.91	2.67	2.03	0.68	1.63

H. Key performance indicators：

Item \ Year		2014	2015	2016	2017	2018
Performance indicators	Accounts receivable turnover (times)	4.51	4.44	4.64	4.54	6.73
	Average collection period	80.93	82.21	78.66	80.40	54.23
	Inventory turnover (times)	7.50	8.31	8.14	7.83	14.26
	Accounts payable turnover (times)	4.39	4.90	4.88	5.25	8.98
	Average Sales Period	48.67	43.92	44.84	46.62	25.59

3. Information on the employees employed (during the current quarter up to the date of publication of the annual report)

Item／Year		**2017**	**2018**
Number of Employees	Managers	39	43
	Technical service	118	120
	Business Marketing	37	30
	Administrative	50	54
Total		236	247
Average Age		34.67	39.32
Average Years of Service		7.39	9.71
Education (%)	Masters	6.15%	6.07%
	Bachelor’s Degree	86.88%	85.02%
	Senior High School	6.97%	8.91%
	Below Senior High	0.00%	0.00%

4. Disbursements for environmental protection

Losses (including remedial measures), total amount of penalties (including remedies) and total expenditures in the recent years or up to the ending publication date of this report: Not applicable

5. Labor Relations

A. Various aspects of employee welfare measures, continuing education, job training, retirement system and its implementation, as well as labor agreements, labor rights and employment protection measures.

(1) Employee benefits:

a. Labor insurance, health insurance and group insurance.

b. Organize employee travel depending on business conditions.

c. Employee’s birthday reward.

d. Three bonuses or rewards for employees.

e. Gifts or condolence money for employees' wedding or mourning ceremonies.

f. Organize recreational and group activities for employees.

(2) Continuing education and training

The Company and its subsidiaries provide staff education and training to enhance their professional competence and reserve technical and management talents, and to cooperate with the company's business development and seek effective labor utilization. The Company and its subsidiaries have established educational training management methods.

The 2018 major employee education training courses are listed as follows:

Training course	**External**	**Internal**
Number of trained employees	277	1,601
Expenditure (NT$Thousand)	603	56
Training course	Nidec-Read 5060 HighMaster	Customer development and transaction negotiation skills.
	The principle and application of Nidec-Read M6 High-Master	Ways to improve team execution
	The introduction and operation of Minami MK-D13	EQ management of customer service personnel
	Panasonic AM100 and W2 education and training	International Trade
	Nidec-Read 5060 HighMaster	The principle and operation of Nidec-Read M6 High-Master
	Continuous training course for accounting managers of issuers, securities companies and Taiwan Stock Exchange	Operation of HIOKI test fixture
	Accounting manager continuous training course	Operation of HIOKI flying probe tester
	"Wafer Level System Integration for Edge Computing,	The principle and application of SERA
	HPC and AI _ SiP Global Suit 2018-Day 1"	Precautions for single-needle tests
	Effective interpretation of financial statements for internal control internal auditing practice class	Simple operation of Laster
	Communication protocol development and PLC system integration practice	ISO differences in standard courses
	General safety and health education training course	The five practice lessons
	2017 Business Tax Act	ISO document amendments
	SECS and GEM process equipment connection technology	LM310 opeation settings
	National tax bureau of Taipei Business Tax Act seminar	Introduction for digital printing applications

Training course	External	Internal
	2018 Industry safety and health technical guidance results presentation meeting	ISO internal audit training
	The main amendments on new regulations of the Company Act	ISO confirmation and issuance of documents
	Online transaction business tax registration and declaration practices	LFC300 construction process in visualization systems.
	Problem analysis and resolution	Instructions on operating Keyence ML-Z9610 lasers
	Coach leadership for training students according to their ability.	Coach management
	2018 PCB Industry Key Trends Seminar	Professional presentation skills
	Brief introduction of 5060 fixture design	Creative stimulation
	Introduction of 5060 fixture assembly	Seven steps to solve a problem
	RORZE BWS product education training	Embrace "Option B"
	AMIDA product education training	EzGrid needle positioning
	SORTER sales training	6508 fixture design
	Education on XYZ push-pull machine at the factory	Polargraph training
	Education on GKG original dispensers and printing machines	Education on 4W program design
	Education on optical communication related terms	Terminal sink hole detection
	PARK testing equipment education training	Brief talk on communication and optical communication

(3) Retirement system and its implementation

The company has established a retirement management regulation, and employees can apply for their own retirement when the following conditions are met:

a. Employed for more than 15 years and is over 55 years old.

b. Employed for more than 25 years.

c. Employed for more than 10 years and over 60 years old

The method of providing pensions is clearly set out in the management method and is described as follows:

i. Old pension allocation systems

In accordance with relevant laws and regulations, the company allocates no more than 2% every month employee’s pension reserve based on the total salary of employees.

ii. New pension allocation systems

The new Labor Pension Regulations went into effect on July 1, 2005, and the company allocates no less than 6% of the monthly salary of employees who are deemed qualified base on relevant laws and regulations. This amount shall be deposited to the employee’s pension account, which was appointed by the central competent authority.

In addition, the Company also holds quarterly pension management committee meetings to review the status of pensions and implementation. The participants in the meeting include representatives of management and the employees within the company. Since the beginning of 2018, a total of 5 meetings have been held:

Date of Meeting	Attendance (4 employees representatives and 2 management representatives)	New pension allocation %	Old pension allocation	Calculation end date of old pension allocation
Feb 7, 2018	6	6%	28,465,359	106/12/31
May 23, 2018	6	6%	29,582,467	107/3/31
Aug 22, 2018	6	6%	29,854,051	107/6/30
Nov 15, 2018	5	6%	30,126,031	107/9/30
Feb 13, 2019	5	6%	30,584,021	107/12/31

(4) Managers’ annual participation of education and training related to corporate governance

Title	Name	Training Date	Organizer	Training Course	Training Hours
General Manager	LIAO HUNG-YING	May 24, 2018	Taiwan Printed Circuit Association	Business and Legal Risk Management	3.0
Deputy General Manager of the Management Division	CHEN MEI-FEN	Aug 25, 2017	Taiwan Corporate Governance Association	The code of conduct for corporate mergers and acquisitions	3.0
		May 24, 2018	Taiwan Printed Circuit Association	Business and Legal Risk Management	3.0

(5) Relevant certifications of the personnel involved in the transparency of the company's financial information:

Certification	Number of people	
	Financial Personnel	Auditor
Taiwan's Certified Public Accountant CPA	0	0
Certified Internal Auditors CIA	0	0

(6) Retirement system and its implementation: Provide monthly pension preparations in accordance with the Labor Retirement Regulations, and apply for a pension according to the provisions of the Labor Standards Act in order to encourage long term services of employees and professionals. The company regularly holds meetings of the Organization of Supervisory Committee of Business Entities.

(7) Labor agreements: TKK holds labor meetings on a regular basis, and discuss the resolution of employee opinions in a timely manner in order to maintain harmonious labor relation. Since it is established in 1977, it has not suffered any losses due to labor disputes, and will continue to maintain a more harmonious labor relationship in the future. The subsidiary also communicates with staff member maintain a good relationship between the management and employees.

B. Working environment and employee safety protection measures

The establishment of the group for planning and promoting the safety and health policies and management systems of the Company and its subsidiaries, and auditing the relevant implementation results, their main tasks are as follows:

(1) Conduct labor safety and health education and training according to the Occupational Safety and Health Act to prevent occupational disasters and ensure the safety and health of employees.

(2) In order to prevent occupational disasters, the company conducts an annual employee health check to ensure the physical and mental health of employees.

(3) Conduct water quality testing of drinking water at least once a year to ensure water sanitation and employee health.

(4) Test the carbon dioxide concentration of the indoor office environment at least once

a year to ensure a comfortable working environment and employee health.

(5) Purchasing protective equipment for work safety according to the operational needs of the department to prevent occupational disasters and ensure the safety and health of employees.

(6) Provide employees with at least 3 hours of labor safety and health education and training twice a year to establish the correct occupational safety and health knowledge of employees to avoid occupational disasters.

(7) Strengthen the training of first-aid personnel and strengthen the initial first-aid knowledge and technology of the company's colleagues, so as to be able to play the role of self-saving and saving others in the event of a disaster.

(8) Coordinate with the relevant contracting requirements of the customer and the management requirements of the factory to make appropriate publicity to ensure the safety and health of the relevant colleagues in the customer's workplace to prevent occupational disasters.

C. Employee behavior or ethical rules:

In order to let all employees understand employee behavior and ethics, the relevant regulations are set up for the management of the company and all employees to follow. It is announced in the company's internal network announcement area to provide all colleagues with any inquiries at any time. The rules are briefly described as follows:

(1) Rules of Employee Ethics: The “TKK&YOU” Employee Ethics Rules are summarized as follows:

a. The core values are integrity, professionalism, diligence, unity and harmony.

b. Adhere to the Company with integrity, diligence, unity and professionalism. ◦

c. Service the Company with a spirit of enthusiasm.

d. The Company's intellectual property and business secrets should be protected, and the information obtained in the professional relationship should be kept confidential.

e. Professional skills should be continuously enriched to improve service quality.

f. Abiding by the law and taking the best interests of the company as a priority.
g. Never seek personal interests or personal matters to influence the company.
h. Treat colleagues with respect, courtesy and sincerity.
i. Abide by the Company's regulations and fulfill the powers and responsibilities assigned by the company.
j. Commitment to improving the Company's policies, service procedures and service effectiveness.

(2) Establish relevant rules to conduct for the safety and health management of the work environment and the personal safety protection of employees to ensure the safety and sustainable development of the company and enhance the corporate image:

a. Establish rules for safety and health working.
b. Establish a checklist for general safety and health facilities.
c. Establish traffic safety rules.
d. Establish rules of office safety and health.
e. Establish electrical safety rules.
f. Establish computer operating safety rules.
g. Establish rules of safety and hygienefor hand tools.
h. Establish fire safety rules.
i. Establish material handling and storage rules.
j. Establish safety rules for overhead operations.
k. Establish practice rules for hazardous chemicals.
l. Establish practice rules for organic solvents.
m. Set up a fire extinguisher checklist.
n. Set up an automatic inspection schedule.

D. The losses suffered by the company in the most recent year and up to the date of publication of the annual report due to labor disputes, and the current and future estimated amounts and corresponding measures shall be exposed:

The labor relations between the company and its subsidiaries are harmonious, and no labor disputes have occurred. The Company and its subsidiaries attach great importance to the welfare of employees, and always pay attention to changes in the main and objective environment and revise various welfare measures to meet the needs of employees. It is estimated that there will be no losses due to labor disputes in the coming year.

6. Important sales contracts and sales agency agreements

Agreement	Counterparty	Period	Major Contents	Restrictions
Sales Agency	Cedal srl (Italy)	2016.01.20~2017.01.19 (Automatic extension)	High-frequency hot melt machineand press equipment sales agent	Restricted to:：Taiwan, China
Sales Agency	ECI Technology (USA)	2005.01.01~2005.12.31 (Automatic extension)	Electrochemical analysis equipment sales agent	Restricted to:：Taiwan
Sales Agency	ficonTEC Service GmbH (Germany)	2015.02.01~2017.01.31 (Automatic extension)	High precision placement machine sales agent	Restricted to:：Taiwan, China
Sales Agency	Furnace Co., Ltd. (Japan)	2005.12.20~2006.12.19 (Automatic extension)	Roller Coater & Oven's sales agent	Restricted to:Taiwan, Hong Kong, China
Sales Agency	Inspec Inc. (Japan)	2011.06.02~2013.06.01 (Automatic extension)	AOI, AVI's sales agent in PCB	Restricted to:Taiwan, China
Sales Agency	Kamitsu Co., Ltd. (Japan)	2013.10.07~2015.10.06 (Automatic extension)	Ceramic brush sales agent	Restricted to:Taiwan, China
Sales Agency	Nidec-Read Corporation (Japan)	2017.10.19~2019.10.18 (Automatic extension)	High density substrate testing machine sales agent	Restricted to:Taiwan, China
Sales Agency	Philoptics Co., Ltd. (South Korea)	2015.10.22~2017.10.21 (Automatic extension)	RTR exposure machine an d lamination machine sales agent	Restricted to:Taiwan, China
Sales Agency	Rorze Technology Incorporated (Taiwan)	2009.11.25~2011.11.24 (Automatic extension)	Japan automatic wafer transfer machine sales agent	Restricted to:Taiwan, Hong Kong, China
Sales Agency	SIKAMA International, Inc. (USA)	2004.06.04~Indefinite Date	Wafer bump reflow oven sales agent	Restricted to:Taiwan, China
Sales Agency	Technopro Marugen Co., Ltd. (Japan)	2014.02.25~2017.02.24 (Automatic extension)	Brush mill and belt mill sales agent	Restricted to:Taiwan, China
Sales Agency	WKKJ (Japan)	2007.01.01~2009.12.31 (Automatic extension)	HIOKI testing machine and related products sales agent	Restricted to:Taiwan
Sales Agency	Yxlon International GmbH (Germany)	2009.04.01~2011.03.31 (Automatic extension)	X-ray equipment sales agent	Restricted to:Taiwan, Taiwanese companies in China
Sales Agency	G.C.E.(China)	2014.01.01~2015.12.31 (Automatic extension)	RTR plating equipment sales agent	Restricted to:Taiwan, China
Sales Agency	Eastek (Taiwan)	2012.07.23~2013.07.22 (Automatic extension)	Ez-Fly and Ez-Car sales agent	Restricted to:Taiwan, China, Japan, Southeast Asia
Sales Agency	Ushio Taiwan, Inc. (Taiwan)	2011.05.03~2013.05.02 (Automatic extension)	Exposure machine lamp sales agent	Restricted to:Taiwan

VI. Overview of the Company's Finacial Status

1. Financial Summary for The Last Five Years:

A. Consolidated Condensed Balance Sheet

Consolidated Condensed Balance Sheet

Unit: NT$ thousands

Item / Year		Financial Summary for The Last Five Years (Note 1)				
		2014	2015	2016	2017	2018
Current assets		854,637	921,390	834,670	730,772	752,592
Available-for-sale financial assets-non current		15,705	11,973	17,760	13,843	-
Financial assets measured at cost- non current		19,832	20,620	50,222	47,457	-
Gain from financial assets at fair value through profit/loss- non current		-	-	-	-	14,123
Gain from financial assets at fair value through other comprehensive income- non current		-	-	-	-	37,313
Property, Plant and Equipment (Note 2)		269,770	268,946	262,451	247,849	222,188
Net investment in capital assets		1,925	4,319	4,277	4,236	4,194
Intangible assets		1,255	1,221	2,489	4,228	3,555
Other assets		20,367	23,663	21,020	25,477	31,163
Total assets		1,183,491	1,252,132	1,192,889	1,073,862	1,065,128
Current liabilities	Before distribution	226,862	259,388	222,558	164,947	219,539
	After distribution	289,812	346,481	288,604	184,906	-
Long-term and other liabilities		33,942	33,069	30,632	33,373	30,898
Total liabilities	Before distribution	260,804	292,457	253,190	198,320	250,437
	After distribution	323,754	379,550	319,236	218,279	-
Interests attributable to parent company owner		825,746	854,268	839,212	783,026	814,265
Capital stock		362,888	362,888	362,888	362,888	362,888
Capital surplus		49,699	49,699	49,699	49,699	46,759

Item \ Year		Financial Summary for The Last Five Years（Note 1）				
		2014	2015	2016	2017	2018
Retained earnings	Before distribution	409,595	440,115	426,205	382,136	428,586
	After distribution	346,645	353,022	360,159	362,177	-
Other Interests		3,564	1,566	420	(11,697)	(23,968)
Treasury stock		-	-	-	-	-
Non-controlling interests		96,941	105,407	100,487	92,516	426
Total equity	Before distribution	922,687	959,675	939,699	875,542	814,691
	After distribution	859,737	872,582	873,653	855,583	-

* If the company has an individual financial report, it should prepare a concise balance sheet and a consolidated income statement for the individual in the most recent 5 fiscal years.

*If the financial information of the International Financial Reporting Standards is less than 5 years, the financial information shall be prepared in table B in accordance with The Statement of Financial Accounting Standards.

Note 1: Financial information is prepared in accordance with China's financial accounting standards in 2009-2012.

Note 2: Those who have applied for asset revaluation in the current fiscal year shall list the date of processing and the revaluated amount.

Note 3: Before the date of publication of the annual report, companies that have been listed or whose stocks have been traded in the OTC markets shall be disclosed if they have the latest financial information attested or reviewed by the accountant.

Note 4: The above are financial information after allocation, please fill in the information according to the next year’s resolution of the shareholders meeting.

Note 5: Financial information that is notified by the competent authority to be corrected or re-edited shall be prepared with corrected or re-edited data, indicating the circumstances and reasons.

Consolidated Condensed Income Statement

Unit: NT$ thousands

Item \ Year	Financial Summary for The Last Five Years（Note 1）				
	2014	2015	2016	2017	2018
Operating revenue	918,267	919,188	908,474	789,602	1,136,575
Gross profit	338,407	371,251	359,831	276,881	335,166
Income from operations	69,858	100,480	92,507	20,437	59,969
Non-operating income and expenses	21,115	27,423	10,077	11,697	15,650
Income before tax	90,973	127,903	102,584	32,134	75,619
Net income of continuing business units	73,368	107,743	80,195	26,108	57,059
Loss of suspended business unit	-	-	-	-	-
Net income (Loss)	73,368	107,743	80,195	26,108	57,059
Other comprehensive income (income after tax)	13,907	(8,129)	(3,727)	(15,113)	(4,229)
Total comprehensive income	87,275	99,614	76,468	10,995	52,830
Net income attributable to shareholders of the parent	69,375	96,817	73,671	24,496	59,165
Net income attributable to non-controlling interest	3,993	10,926	6,524	1,612	(2,106)
Comprehensive income attributable to Shareholders of the parent	81,548	90,213	72,037	9,860	53,916
Comprehensive income attributable to non-controlling interest	5,727	9,401	4,431	1,135	(1,086)
Earnings per share	1.91	2.67	2.03	0.68	1.63

* If the company has an individual financial report, it should prepare a concise balance sheet and a consolidated income statement for the individual in the most recent 5 fiscal years.

*If the financial information of the International Financial Reporting Standards is less than 5 years, the financial information shall be listed in table B in accordance with The Statement of Financial Accounting Standards.

Note 1: Financial information is prepared in accordance with China's financial accounting standards in 2009-2012.

Note 2: Before the date of publication of the annual report, companies that have been listed or whose stocks have been traded in the OTC markets shall be disclosed if they have the latest financial information attested or reviewed by the accountant.

Note 3: Loss of suspended business unit is listed as the net amount after the deduction of income tax.

Note 4: Financial information that is notified by the competent authority to be corrected or re-edited shall be prepared with corrected or re-edited data, indicating the circumstances and reasons.

Concise Individual Balance Sheet

Unit: NT$ thousands

Item \ Year		Financial Summary for The Last Five Years（Note 1）				
		2014	2015	2016	2017	2018
Current assets		459,915	567,929	532,013	456,584	518,479
Available-for-sale financial assets-non current		15,705	11,973	17,760	13,843	-
Financial assets measured at cost- non current		-	-	30,000	30,000	-
Gain from financial assets at fair value through profit/loss- non current		-	-	-	-	14,123
Gain from financial assets at fair value through other comprehensive income- non current		-	-	-	-	18,400
Property, Plant and Equipment（Note 2）		292,940	304,744	280,005	254,964	293,829
Net investment in capital assets		177,630	174,818	164,314	160,575	146,709
Current assets		17,842	20,062	19,847	19,632	19,418
Intangible assets		460	460	899	1,755	2,222
Other assets		18,005	21,127	18,412	23,139	27,800
Total assets		982,497	1,101,113	1,063,250	960,492	1,040,980
Current liabilities	Before distribution	124,344	215,441	194,167	145,202	197,037
	After distribution	187,294	302,534	260,213	165,161	-
Long-term and other liabilities		32,407	31,404	29,871	32,264	29,678
Total liabilities	Before distribution	156,751	246,845	224,038	177,466	226,715
	After distribution	219,701	333,938	290,084	197,425	-
Interests attributable to parent company owner		-	-	-	-	-
Capital stock		362,888	362,888	362,888	362,888	362,888
Capital surplus		49,699	49,699	49,699	49,699	46,759
Retained earnings	Before distribution	409,595	440,115	426,205	382,136	428,586

Item \ Year		2014	2015	2016	2017	2018
		Financial Summary for The Last Five Years（Note 1）				
	After distribution	346,645	353,022	360,159	362,177	-
Other Interests		3,564	1,566	420	(11,697)	(23,968)
Treasury stock		-	-	-	-	-
Non-controlling interests		-	-	-	-	-
Total equity	Before distribution	825,746	854,268	839,212	783,026	814,265
	After distribution	762,796	767,175	773,166	763,067	-

* If the company has an individual financial report, it should prepare a concise balance sheet and a consolidated income statement for the individual in the most recent 5 fiscal years.

*If the financial information of the International Financial Reporting Standards is less than 5 years, the financial information shall be listed in table B in accordance with The Statement of Financial Accounting Standards.

Note 1: Financial information is prepared in accordance with China's financial accounting standards in 2009-2012.

Note 2: Those who have applied for asset revaluation in the current fiscal year shall list the date of processing and the revaluated amount.

Note 3: Before the date of publication of the annual report, companies that have been listed or whose stocks have been traded in the OTC markets shall be disclosed if they have the latest financial information attested or reviewed by the accountant.

Note 4: The above are financial information after allocation, please fill in the information according to the next year’s resolution of the shareholders meeting.

Note 5: Financial information that is notified by the competent authority to be corrected or re-edited shall be prepared with corrected or re-edited data, indicating the circumstances and reasons.

Concise Individual Income Statement

Unit: NT$ thousands

Item \ Year	Financial Summary for The Last Five Years（Note 1）				
	2014	2015	2016	2017	2018
Operating revenue	600,127	666,855	827,829	625,817	856,148
Gross profit	222,628	251,348	260,086	199,741	264,582
Income from operations	51,820	68,695	81,156	30,917	81,153
Non-operating income and expenses	31,886	42,403	8,749	(1,626)	(6,304)
Income before tax	83,706	111,098	89,905	29,291	74,849
Net income of continuing business units	69,375	96,817	73,671	24,496	59,165
Loss of suspended business unit	-	-	-	-	-
Net income (Loss)	69,375	96,817	73,671	24,496	59,165
Other comprehensive income (income after tax)	12,173	(6,604)	(1,634)	(14,636)	(5,249)
Total comprehensive income	81,548	90,213	72,037	9,860	53,916
Net income attributable to shareholders of the parent	-	-	-	-	-
Net income attributable to non-controlling interest	-	-	-	-	-
Comprehensive income attributable to Shareholders of the parent	-	-	-	-	-
Comprehensive income attributable to non-controlling interest	-	-	-	-	-
Earnings per share	1.91	2.67	2.03	0.68	1.63

* If the company has an individual financial report, it should prepare a concise balance sheet and a consolidated income statement for the individual in the most recent 5 fiscal years.

*If the financial information of the International Financial Reporting Standards is less than 5 years, the financial information shall be listed in table B in accordance with The Statement of Financial Accounting Standards.

Note 1: Financial information is prepared in accordance with China's financial accounting standards in 2009-2012.

Note 2: Before the date of publication of the annual report, companies that have been listed or whose stocks have been traded in the OTC markets shall be disclosed if they have the latest financial information attested or reviewed by the accountant.

Note 3: Loss of suspended business unit is listed as the net amount after the deduction of income tax.

Note 4: Financial information that is notified by the competent authority to be corrected or re-edited shall be prepared with corrected or re-edited data, indicating the circumstances and reasons.

B. Auditors' Opinions from 2013 to 2018

Year	Accounting Firm	CPA	Audit Opinion
2013	CPA HSU JUNG-HUANG CPA LIN LI-HUANG	Ernst & Young	Modified unqualified audit opinion
2014 (Note)	CPA FU WEN-FANG CPA LIN LI-HUANG	Ernst & Young	Modified unqualified audit opinion
2015	CPA FU WEN-FANG CPA LIN LI-HUANG	Ernst & Young	Modified unqualified audit opinion
2016	CPA FU WEN-FANG CPA LIN LI-HUANG	Ernst & Young	Modified unqualified audit opinion
2017 (Note)	CPA HSU JUNG-HUANG CPA LIN LI-HUANG	Ernst & Young	Unqualified opinion (emphasis or other matters) – use other accountants on auditing (reviewing) reports and distinguish between responsibilities.
2018	CPA HSU JUNG-HUANG CPA LIN LI-HUANG	Ernst & Young	Unqualified opinion (emphasis or other matters) – use other accountants on auditing (reviewing) reports and distinguish between responsibilities.

Note：There is a replacement on accountants due to the adjustment of Ernst & Young's internal organization in 2014 and 2017.

2. Financial analysis for the past 5 fiscal years

A. Consolidated Financial Analysis – Based on IFRS

Item (Note 3) \ Year (Note 1)		Financial Analysis for the Last Five Years				
		2014	2015	2016	2017	2018
Financial structure (%)	Debt Ratio	22.04	23.36	21.22	18.47	23.51
	Ratio of long-term capital to property, plant and equipment	342.03	356.83	358.05	353.26	366.66
Solvency (%)	Current ratio	376.72	355.22	375.03	443.03	342.80
	Quick ratio	344.10	326.09	336.11	391.66	311.89
	Interest earned ratio (times)	-	-	-	-	-
Operating performance	Accounts receivable turnover (times)	4.51	4.44	4.64	4.54	6.73
	Average collection period	80.93	82.21	78.66	80.40	54.23
	Inventory turnover (times)	7.50	8.31	8.14	7.83	14.26
	Accounts payable turnover (times)	4.39	4.90	4.88	5.25	8.98
	Average days in sales	48.67	43.92	44.84	46.62	25.59
	Property, plant and equipment turnover (times)	3.40	3.42	3.46	3.19	5.11
	Total assets turnover (times)	0.78	0.73	0.76	0.74	1.06
Profitability	Return on total assets (%)	6.07	8.85	6.56	2.30	5.33
	Return on stockholders' equity (%)	7.93	11.45	8.44	2.88	6.75
	Pre-tax income to paid-in capital (%)(Note 7)	25.07	35.25	28.27	8.86	20.83
	Profit ratio (%)	7.99	11.72	8.83	3.31	5.02

Item (Note 3) / Year (Note 1)		Financial Analysis for the Last Five Years				
		2014	2015	2016	2017	2018
	Earnings per share (NT$)	1.91	2.67	2.03	0.68	1.63
Cash flow	Cash flow ratio (%)	18.59	74.05	10.47	37.02	43.50
	Cash flow adequacy ratio (%)	51.38	70.80	75.44	81.52	91.56
	Cash reinvestment ratio (%)	(6.99)	18.61	(9.29)	(0.78)	12.68
Leverage	Operating leverage	13.03	8.96	9.82	37.60	18.62
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

Item	**Dec 31, 2018**	**Dec 31, 2017**	**Diff %**	**Reasons for difference**
Gross profit margin	29.49	35.07	(15.91)	Did not meet the criteria for analysis.
Inventory turnover	14.26	7.83	82.12	The increase in revenue, rising cost of goods sold causes a rise in turnover rate.
Accounts receivable turnover	6.73	4.54	48.24	The rise in net sales caused an increase in turnover.

* If the company has an individual financial report, it should prepare a concise balance sheet and a consolidated income statement for the individual in the most recent 5 fiscal years.

*If the financial information of the International Financial Reporting Standards is less than 5 years, the financial information shall be listed in table B in accordance with The Statement of Financial Accounting Standards.

Note 1: The fiscal year not audited and attested by a certified public accountant shall be noted.

Note 2: Before the date of publication of the annual report, companies that have been listed or whose stocks have been traded in the OTC markets shall be disclosed if they have the latest financial information attested or reviewed by the accountant.

B. Consolidated Financial Analysis – Based on ROC GAAP

Item（Note 3） \ Year（Note 1）		Financial Analysis for the Past Five Years				
		2014	2015	2016	2017	2018
Financial structure (%)	Debt Ratio	15.95	22.42	21.07	18.48	21.77
	Ratio of long-term capital to fixed assets	464.87	488.66	510.74	487.64	555.01
Solvency (%)	Current ratio	369.87	263.61	274.00	314.45	263.13
	Quick ratio	343.00	242.75	253.78	280.02	242.64
	Interest earned ratio (times)	-	-	-	-	-
Operating performance	Accounts receivable turnover (times)	4.87	5.19	5.19	4.12	6.06
	Average collection period	74.95	70.33	70.33	88.59	60.23
	Inventory turnover (times)	11.80	16.05	21.87	16.45	27.29
	Accounts payable turnover (times)	5.03	4.85	4.78	4.12	6.36
	Average days in sales	30.93	22.74	16.69	22.19	13.37
	Fixed assets turnover (times)	3.38	3.81	5.04	3.90	5.83
	Total assets turnover (times)	0.61	0.61	0.78	0.65	0.82
Profitability	Return on total assets (%)	6.85	9.29	6.81	2.42	5.91
	Return on stockholders' equity (%)	8.37	11.53	8.70	3.02	7.40
	Ratio to issued capital (%) (Note 7)	23.07	30.61	24.77	8.07	20.62
	Profit ratio (%)	11.56	14.52	8.9	3.91	6.91
	Earnings per share (NT$)	1.91	2.67	2.03	0.68	1.63
Cash flow	Cash flow ratio (%)	20.72	73.02	6.61	47.79	49.84
	Cash flow adequacy ratio (%)	53.43	72.04	75.95	76.17	77.56

Item (Note 3) \ Year (Note 1)		Financial Analysis for the Past Five Years				
		2014	2015	2016	2017	2018
	Cash reinvestment ratio (%)	(9.73)	14.19	(11.07)	0.54	11.90
Leverage	Operating leverage	11.48	9.65	10.15	20.11	10.49
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

Item	Dec 31, 2018	Dec 31, 2017	Diff %	Reasons for difference
Gross profit margin	29.49	35.07	(15.91)	Did not meet the criteria for analysis.
Inventory turnover	14.26	7.83	82.12	The increase in revenue, rising cost of goods sold causes a rise in turnover rate.
Accounts receivable turnover	6.73	4.54	48.24	The rise in net sales caused an increase in turnover.

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*If the financial information of the International Financial Reporting Standards is less than 5 years, the financial information shall be listed in table B in accordance with The Statement of Financial Accounting Standards.

Note 1: The fiscal year not audited and attested by a certified public accountant shall be noted.

Note 2: The financial information for the most recent year up to the previous quarter of the date of publication of the annual report for companies that are listed or whose stocks have been traded in the OTC markets shall be incorporate into the analysis.

Note 3: The formula is as follows:

1. Financial structure
   (1) Debt Ratio = Total Liabilities / Total Assets
   (2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment
2. Solvency
   (1) Current Ratio = Current Assets / Current Liabilities
   (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
   (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses
3. Operating Performance
   (1) Average Collection Turnover = Net Sales / Average Trade Receivables
   (2) Days Sales Outstanding = 365 / Average Collection Turnover
   (3) Average Inventory Turnover = Cost of Sales / Average Inventory
   (4) Average Inventory Turnover Days = 365 / Average Inventory Turnover
   (5) Average Payment Turnover = Cost of Sales / Average Trade Payables
   (6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment
   (7) Total Assets Turnover = Net Sales / Average Total Assets

4. Profitability

(1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets

(2) Return on Equity = Net Income / Average Shareholders' Equity

(3) Net Margin = Net Income / Net Sales

(4) Earnings Per Share = (Net Income Attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding (Note 4)

5. Cash Flow

(1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend

(3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends)/ (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)(Note 5)

6. Leverage

(1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations (Note 6)

(2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

Note 4: The calculation of the earnings per share of the preceding paragraph shall pay special attention to the following:

1. Based on the weighted average number of ordinary shares, rather than the number of shares issued at the end of the year.
2. Where there is a cash replenishment or treasury stock trading, the weighted average number of shares shall be calculated during the period of circulation.
3. Where there is a surplus to capital increase or capital surplus to capital increase, the calculation of the earnings per share for the previous year and half-year should be adjusted by the proportion of capital increase, rather than the period the capital increase is issued.
4. If the preferred shares are non-convertible accumulative shares, its annual dividend (whether or not it is issued) shall be deductible from the net income or increased to net loss after tax. If the preferred shares are non-cumulative, then in the case of having a net profit after tax, the preferred dividend should be deducted from the net profit after tax; in the case of net loss after tax, no adjustments are required.

Note 5: Cash flow analysis should pay special attention to the following:

1. Net cash flow from operating activities refers to the net cash inflow from operating activities in the cash flow statement.
2. Capital expenditure refers to the annual cash outflow of capital flows.
3. The increase in inventories shall only be credited when the balance at the end of the period is greater than the balance at the beginning of the period. If the inventory is reduced at the end of the year, then the inventory amount should be accounted at zero.
4. Cash dividends include cash dividends for common stock and special shares.
5. Net plant property and equipment means the total amount of Property, plant and equipment before deducting accumulated depreciation.

Note 6: The issuer shall distinguish between the operating costs and operating expenses being fixed or variable. When involved in the estimation or subjective judgments, one should pay attention to its rationality and consistency.

Note 7: If the Company's shares are no par or not in the denomination of NT $ 10, the calculation of the ratio of the paid-in capital shall be calculated based on the equity ratio of the balance sheet attributable to the owners of the parent company.

3. Supervisors' report for the most recent year's financial statement

Taiwan Kong King Co., Ltd.

Supervisors' Review Report

The Board of Directors made the 2018 consolidated and individual balance sheet, consolidated profit and loss statement, equity change statement and cash flow statement of the Company. It has been verified by Ernst & Young accountants Hsh, Jung-Huang and Lin, Li-Huang, together with the business report and earnings distribution. It is considered that there is no disagreement, and in accordance with the provisions of Article 219 of the Company Act made a report to review.

To

2019 Annual Shareholders' Meeting

Taiwan Kong King Co. ,Ltd.

Supervisor: Wu, Guo-Xian

Supervisor: Cai, Zhi-Wei

Supervisor: Chou, Ken

March 5, 2019

4. A parent company only financial statement for the most recent fiscal year, certified by a CPA.

Building a better working world

安永聯合會計師事務所

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Independent Auditors' Report Translated from Chinese

To TAIWAN KONG KING CO., LTD.

Opinion

We have audited the accompanying consolidated balance sheets of TAIWAN KONG KING CO., LTD and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, based on our audits and the reports of other auditors (please refer to the *Other Matter – Making Reference to the Audits of a Component Auditors* section of our report), the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and its consolidated financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2018 consolidated financial statements. 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.

Allowance for impairment losses of accounts receivables

Accounts receivables and allowance for impairment losses by the Company and its subsidiaries amounted to NT$191,140 thousand and NT$449 thousand as of December 31, 2018, respectively. The net amount of accounts receivables was approximately 18% of total assets and which is significant to the Company. Considering the assessment of allowance for impairment losses is measured by lifetime expected credit loss; the process of measurement must appropriately divide accounts receivables into groups, determine and analyze the use of relevant assumptions in the process of measurement, including appropriate aging intervals, the aging loss rate for each interval and the use of forward-looking information, that reflected the measurement of the expected credit loss involving judgment, analysis and estimates, and the result of measurement affect the net amount of accounts receivables, we determined this as a key audit matter.

Our audit procedures included, but not limited to, evaluating whether the accounting policy and the loss rate are reasonable; when performing internal control, randomly selecting sales orders and vouching them to aging schedule to ensure the accuracy of aging intervals of accounts receivables; confirming whether the customer properly grouped by significantly different loss types, and evaluating the reasonableness of management's estimates of assumptions; testing provision matrix, including evaluating the appropriateness of aging intervals and the accuracy of raw data by vouching them to supporting evidences, testing statistical information for the credit loss rate computed by roll rate over a one-year period, considering the reasonableness of forward-looking information used on the credit loss rate, and evaluating whether such forward-looking information would affect credit loss rate. In addition, performing the analytical review procedure to identify whether any material unusual fluctuations between the two-period of accounts receivables turnover exist. Also, reviewing the collections of accounts receivables during the subsequent period for customers with material period-end balances.

We also assessed the adequacy of disclosures of accounts receivables. Please refer to Note 5, 6 and 12 to the Company's consolidated financial statements.

Valuation of inventories

Net inventories by the Company and its subsidiaries amounted to NT$51,555 thousand, was approximately 5% of total assets as of December 31, 2018 and which is significant to the Company. Considering the possibility of impairment of the inventory driven by economic conditions, the industry competition, and the unexpected decrease of total sales, we determined this as a key audit matter.
Our audit procedures included, but not limited to, understanding the internal control of management's inventory valuation process. When performing internal control, sampling purchase orders and vouching them to supporting evidences to ensure the inventory aging and the calculation of write-downs from slow-moving inventories are accurate and reasonable; performing the analytical review procedure to assess whether any material unusual fluctuation of ending balances, inventory turnover and gross margin per product between the year ended December 31, 2018 and the prior year exists; sampling sales orders and purchase orders to verify the calculation of allowance for inventory valuation losses to evaluate whether the valuation of inventories is appropriate.

We also assessed the adequacy of disclosures of inventories. Please refer to Note 4, 5 and 6 to the Company's consolidated financial statement.

Other Matter – Making Reference to the Audits of Component Auditors

We did not audit the financial statements of certain subsidiaries. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the reports of other auditors. These assets of NT$165,053 thousand and NT$192,959 thousand, constituting 16% and 18% of consolidated total assets as of December 31, 2018 and 2017, respectively. The operating revenues from the subsidiaries amounted to NT$31,232 thousand and NT$48,359 thousand, constituting 3% and 6% of consolidated operating revenues for the years ended December 31, 2018 and 2017, respectively. Furthermore, we did not audit the financial statements of certain subsidiaries, associates and joint ventures accounted for under the equity method. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the reports of other auditors.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial

Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by 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 ability to continue as a going concern of the Company and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

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 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 internal control of the Company and its subsidiaries.

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 ability to continue as a going concern of the Company and its subsidiaries. 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 Company and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, 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 Company and its subsidiaries 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 2018 consolidated financial statements 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.

Other

We have audited and expressed an unqualified opinion including an Other Matter Paragraph on the parent company only financial statements of the Company as of and for the years ended December 31, 2018 and 2017.

HSU, JUNG-HUANG

LIN, LI-HUANG

Ernst & Young, Taipei, Taiwan
March 5, 2019

Notice to Readers

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

Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

TAIWAN KONG KING CO., LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		As of December 31,	
	NOTES	2018	2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4,6&12	$478,514	$497,147
Notes receivable, net	4,6&12	7,289	1,225
Accounts receivable, net	4,6&12	190,691	138,495
Other receivables	12	2,768	4,184
Current tax assets	7&12	5,480	4,988
Inventories, net	4&6	51,555	60,780
Prepayments		12,664	19,365
Other current assets		3,631	4,588
Total Current Assets		752,592	730,772
NON-CURRENT ASSETS			
Financial assets at fair value through profit or loss, noncurrent	4,6&12	14,123	-
Financial assets at fair value through other comprehensive income, noncurrent	4,6&12	37,313	-
Available-for-sale financial assets, noncurrent	4,6&12	-	13,843
Financial assets measured at cost, noncurrent	4,6&12	-	47,457
Property, plant and equipment	4&6	222,188	247,849
Investment property, net	4&6	4,194	4,236
Intangible assets	4&6	3,555	4,228
Deferred tax assets	4&6	19,894	13,370
Other noncurrent assets	4&12	11,269	12,107
Total Non-Current Assets		312,536	343,090
TOTAL ASSETS		$1,065,128	$1,073,862

(continued)

English Translation of Consolidated Financial Statements Originally Issued in Chinese

TAIWAN KONG KING CO., LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	NOTES	As of December 31, 2018	2017
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Contract liabilities, current	6	$16,308	$-
Notes payable	12	16	48
Accounts payable	12	101,769	68,445
Accounts payable-related parties, net	7&12	7,436	694
Other payables	12	71,483	55,703
Other payables-related parties	7	122	8,490
Current tax liabilities	4	21,425	-
Other current liabilities		980	31,567
Total Current Liabilities		219,539	164,947
NON-CURRENT LIABILITIES			
Non-current provisions	4&6	29,595	33,321
Deferred tax liabilities	4&6	1,279	28
Other non-current liabilities		24	24
Total Non-Current Liabilities		30,898	33,373
TOTAL LIABILITIES		250,437	198,320
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY			
Capital	6		
Common stock		362,888	362,888
Total Capital stock		362,888	362,888
Additional paid-in capital	6	46,759	49,699
Retained earnings			

Legal reserve		251,247	248,797
Special reserve		11,697	-
Unappropriated earnings		165,642	133,339
Total Retained earnings		428,586	382,136
Other components of equity		(23,968)	(11,697)
NON-CONTROLLING INTERESTS	6	426	92,516
TOTAL EQUITY		814,691	875,542
TOTAL LIABILITIES AND EQUITY		$1,065,128	$1,073,862

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

TAIWAN KONG KING CO., LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

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

ITEM	NOTES	For the years ended December 31, 2018	2017
OPERATING REVENUES	4,6&7	$1,136,575	$789,602
COST OF GOODS SOLD	4&7	(801,409)	(512,721)
GROSS PROFIT		335,166	276,881
OPERATING EXPENSES	4&7		
Sales and marketing expense		(137,013)	(125,908)
General and administrative expense		(132,338)	(125,524)
Research and development expenses		(5,846)	(5,012)
Total Operating Expense		(275,197)	(256,444)
OPERATING INCOME		59,969	20,437
NON-OPERATING INCOME AND EXPENSES			
Other income	6	14,681	15,073
Other gains and losses	6	969	(3,376)
Subtotal		15,650	11,697
INCOME BEFORE INCOME TAX		75,619	32,134
INCOME TAX EXPENSE	4&6	(18,560)	(6,026)
PROFIT FROM CONTINUING OPERATIONS		57,059	26,108
NET INCOME		57,059	26,108
OTHER COMPREHENSIVE (LOSS) INCOME	6		
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit pension plans		3,281	(3,283)
Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income		(9,604)	-
Income tax related to items that will not be reclassified subsequently		1,192	558
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		902	(9,137)
Unrealized gains (losses) on valuation of available-for-sale		-	(3,917)

financial assets			
Income tax related to items that may be reclassified subsequently		-	666
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME		(4,229)	(15,113)
TOTAL COMPREHENSIVE INCOME		$52,830	$10,995
NET INCOME ATTRIBUTABLE TO:			
Stockholders of the parent		59,165	24,496
Non-controlling interests		(2,106)	1,612
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Stockholders of the parent		53,916	9,860
Non-controlling interests		(1,086)	1,135
Earnings per share (NTD)			
Basic earnings per share	6		
Basic earnings (loss) per share from continuing operations		1.63	0.68

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

TAIWAN KONG KING CO., LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

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

		For the years ended December 31,	
ITEM	NOTES	2018	2017
OPERATING REVENUES	4,6&7	$1,136,575	$789,602
COST OF GOODS SOLD	4&7	(801,409)	(512,721)
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Total Operating Expense		(275,197)	(256,444)
OPERATING INCOME		59,969	20,437
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Remeasurements of defined benefit pension plans		3,281	(3,283)
Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income		(9,604)	-
Income tax related to items that will not be reclassified subsequently		1,192	558
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		902	(9,137)
Unrealized gains (losses) on valuation of available-for-sale financial assets		-	(3,917)
Income tax related to items that may be reclassified subsequently		-	666
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME		(4,229)	(15,113)
TOTAL COMPREHENSIVE INCOME		$52,830	$10,995
NET INCOME ATTRIBUTABLE TO:			
Stockholders of the parent		59,165	24,496
Non-controlling interests		(2,106)	1,612
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Stockholders of the parent		53,916	9,860

Non-controlling interests		(1,086)	1,135
Earnings per share (NTD)			
Basic earnings per share	6		
Basic earnings (loss) per share from continuing operations		1.63	0.68

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

TAIWAN KONG KING CO., LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

ITEM	For the years ended December 31, 2018	2017	ITEM	For the years ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			CASH FLOWS FROM INVESTING ACTIVITIES:		
Net income before tax	$75,619	$32,134	Proceeds from disposal of financial assets at cost	-	1,081
Adjustments to reconcile net income before tax to net cash provided by operating activities:			Acquisition of property, plant and equipment	(3,095)	(13,361)
Depreciation expense	26,986	27,277	Disposal of property, plant and equipment	1,279	3,584
Amortization expense	2,761	1,938	Acquisition of intangible assets	(2,091)	(3,679)
Net loss on financial assets or liabilities at fair value through profit or loss	(279)	-	Decrease (increase) in refundable deposits	838	(5,778)
Interest income	(6,812)	(7,024)	Net cash used in investing activities	(3,069)	(18,153)
Dividend income	(4,068)	(3,596)			

Gain on disposal of property, plant and equipment	(581)	(3,435)			
Total adjustments to reconcile profit (loss)	18,007	15,160			
Changes in operating assets and labilities:			CASH FLOWS FROM FINANCING ACTIVITIES:		
(Increase) decrease in notes receivable	(6,063)	1,528	Cash dividends paid	(19,959)	(66,046)
(Increase) decrease in accounts receivable	(52,196)	66,528	Acquisition of ownership interests in subsidiaries	(91,004)	-
Decrease (increase) in other receivable	527	(169)	Net cash used in financing activities	(110,963)	(66,046)
Decrease in other receivable-related parties	-	15			
Decrease in inventories	9,225	9,482	EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(114)	(16,183)
Decrease (increase) in prepayments	6,701	(9,039)	NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,633)	(39,315)
Decrease in other current assets	958	1,457	CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	497,147	536,462
Increase in contract liabilities	16,308	-	CASH AND CASH EQUIVALENTS AT END OF PERIOD	$478,514	$497,147
Decrease in notes payable	(33)	(33)			
Increase (decrease) in accounts payable	33,325	(53,170)			
Increase (decrease) in accounts payable-related parties	6,741	(3,592)			
Increase (decrease) in other payable	15,780	(14,416)			
(Decrease) increase in other payable-related parties	(8,369)	5,963			
(Decrease) increase in other current liabilities	(30,587)	16,725			

Decrease in provisions	(437)	(337)
Total changes in operating assets and liabilities	(8,120)	20,942
Cash generated from operations	85,506	68,236
Interest received	7,701	6,467
Dividends received	4,068	3,596
Income taxes paid	(1,762)	(17,232)
Net cash flows from operating activities	95,513	61,067

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

1. HISTORY AND ORGANIZATION

Taiwan Kong King Co., Limited ("the Company") was incorporated commenced operations on June 14, 1977. The Company trades high-end technology equipment, sells raw materials, and provides customer services as an agent. The Company's registered office and the main business location is at 5F.-1, No.66, Sec. 2, Nankan Rd., Luzhu Dist., Taoyuan City 338, Taiwan (R.O.C.). Wong's Kong King International (Holdings) Limited is the Company's parent and the ultimate controlling entity of the Company.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The consolidated financial statements of the Company and its subsidiaries ("the Group") were authorized for issued by the Company's Board of Directors' meeting on March 5, 2019.

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

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2018. Except for the following, the Group has evaluated and concluded that the other new or amended standards and interpretations have no material effect on the Group:

A. *IFRS 15 "Revenue from Contracts with Customers" (including Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers")*

IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations. In accordance with the transition provision in IFRS 15, the Group elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Group’s principal activities consist of the sale of goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Group are summarized as follows:

a. Please refer to Note 4 for the accounting policies before and after January 1, 2018.

b. Before January 1, 2018, revenue from sale of goods was recognized when goods have been delivered to the buyer. Starting from January 1, 2018, in accordance with IFRS 15, the Group recognized revenue when (or as) the Group satisfies a performance obligation by transferring a promised good to a customer. However, for some contracts, if the Group has charged partial payment from customers as a contract signed, but has an obligation to provide a promised good in the future, these contacts should be presented as contract liabilities. It is different from the accounting treatment of recognizing other current liabilities before the date of initial application. Starting from January 1, 2018, the Group recognized the amount NT$24,937 thousand from other current liabilities to contract liabilities. To compare with the requirements of IAS 18, the other current liabilities decreased by NT$16,308 thousand and the contract liabilities increased by NT$16,308 thousand as at 31 December 2018. IFRS 15 has no impact on the Group’s revenue recognition from sale of goods.

c. Before 1 January 2018, revenue from services rendering was recognized by the percentage of costs incurred by each individual contract for work performed over the estimated total contract costs. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. Starting from January 1, 2018, in accordance with IFRS 15, the Group recognized revenues when the Group satisfies a performance obligation by transferring promised service to a customer, that has no significant impact on the Group’s revenue recognition from services rendering.

d. Please refer to Note 4, Note 5 and Note 6 for additional disclosure note required by IFRS 15.

B. *IFRS 9 “Financial Instruments”*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. In accordance with the transition provision in IFRS 9, the Group elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Group:

a. The Group adopted IFRS 9 since January 1, 2018 and adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.

b. In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications of financial assets and its carrying amounts as at January 1, 2018 are as follow:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
Fair value through other comprehensive income		Fair value through profit or loss	$13,843
Available for sale financial assets (including NT$47,457 thousand measured at cost)	$61,300	Fair value through other comprehensive income	47,735
At amortized cost		At amortized cost (including cash and cash equivalents, notes receivables, accounts receivables, financial assets at amortized cost and other receivables)	651,862
Loans and receivables (including cash and cash equivalents, notes receivables, accounts receivables, other receivables and guarantee deposits paid)	651,862		
Total	$713,162	Total	$713,440

c. Further disclosure of the changes in the classifications of financial assets and financial liabilities on the transition from IAS 39 to IFRS 9 as at January 1, 2018 are as follow:

IAS 39		IFRS 9				Other
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts	Difference	Retained earnings Adjustment	components of equity Adjustment
Available for sale financial assets (including the original investment cost of NT$47,457 thousand and separate presentation by cost)(Note 1)	$61,300	Fair value through profit or loss	$13,843	$-	$-	$-
		Fair value through other comprehensive income (Equity tools)	47,735	-	-	-
Subtotal	61,300		61,578	278	4,684	(4,406)
Loans and receivables (Note 2)						
Cash and cash equivalents (exclude cash on hand)	495,851	Cash and cash equivalents (exclude cash on hand)	495,851	-	-	-
Notes receivables	1,225	Notes receivables	1,225	-	-	-
Accounts receivables	138,495	Accounts receivables	138,495	-	-	-
Other receivables	4,184	Other receivables	4,184	-	-	-
Guarantee deposits paid	12,107	Guarantee deposits paid	12,107	-	-	-
Subtotal	651,862		651,862	-	-	-
Total	$713,162	Total	$713,440		$4,684	$(4,406)

The changes in the classifications of non-financial assets and non-financial liabilities on the transition from IAS 39 to IFRS 9 as at January 1, 2018 are as follow:

IAS 39		IFRS 9				
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts	Difference	Retained earnings Adjustment	Other components of equity Adjustment
Deferred tax assets	13,370	Deferred tax assets	13,314	(56)	-	(56)

Note 1: In accordance with of IAS 39, the Group's available-for-sale financial assets included investments in funds, stocks and bonds of listed companies and stocks of unlisted companies. Adjustment details are described as follow:

<u>Stocks (including listed and unlisted companies)</u>

The Group assessed the facts and circumstances existed as at 1 January 2018, and determined these stocks were not held-for-trading; therefore, so the Group elected to designate them as financial assets measured at fair value through other comprehensive income. As at 1 January 2018, the Group reclassified available-for-sale financial assets (including measured at cost) to financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss by NT$47,735 thousand and NT$13,843 thousand, respectively. Other related adjustments are described as follow:

In accordance with IFRS 9, stocks of unlisted companies must be measured at fair value and shall not recognize impairment. The Group measured the fair value of the stocks of unlisted companies as at 1 January 2018; accordingly, the Group adjusted the carrying amount of financial assets measured at fair value through other comprehensive income of NT$47,735 thousand, financial assets measured at fair value through profit or loss of NT$13,843 thousand; also, adjusted available for sale financial assets by NT$(61,300) thousand, retained earnings by NT$4,684 thousand, other equity by NT$(4,406) thousand, and deferred tax assets by NT$(56) thousand.

Note 2: In accordance with IAS 39, the cash flow characteristics for held-to-maturity investments and loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at 1 January 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arised from the assessment of impairment losses for the aforementioned assets as at 1 January 2018. Therefore, there is no impact on the carrying amount as at 1 January 2018.

d. Please refer to Note 4, Note 5, Note 6 and Note 12 for the related disclosures note required by IFRS 7 and IFRS 9.

(2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board ("IASB") which are endorsed by FSC, but not yet adopted by the Group at the end of the reporting period as listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
A	IFRS 16 "Leases"	1 January 2019
B	IFRIC 23 "Uncertainty Over Income Tax Treatments"	1 January 2019
C	IAS 28 "Investment in Associates and Joint Ventures" - Amendments to IAS 28	1 January 2019
D	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
E	Improvements to International Financial Reporting Standards (2015-2017 cycle)	1 January 2019
F	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

A. *IFRS 16 "Leases"*

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the statements of comprehensive income. Besides, lessors' classification remains unchanged as operating or finance leases, but additional disclosure information is required.

B. *IFRIC 23 "Uncertainty Over Income Tax Treatments"*

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

C. *IAS 28"Investment in Associates and Joint Ventures" - Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

D. *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

E. *Improvements to International Financial Reporting Standards (2015-2017 cycle):*

IFRS 3 "Business Combinations"
The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 "Joint Arrangements"
The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 "Income Taxes"
The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 "Borrowing Costs"
The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

F. *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2019. Apart from the impact of the assets and liabilities which is described below, the remaining standards and interpretations have no material impact on the Group:

A. IFRS 16 *"Leases"*

IFRS 16 *"Leases"* replaces 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"*. The impact arising from the adoption of IFRS 16 on the Group are summarized as follows:

a. For the definition of a lease, the Group elects not to reassess whether a contract is, or contains, a lease at the date of initial application (1 January 2019) in accordance with the transition provision in IFRS 16. Instead, the Group is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

<u>Leases classified as operating leases</u>

For leases that were classified as operating leases applying IAS 17, the Group expects to measure and recognize those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 January 2019 and; the Group chooses, on a lease-by-lease basis, to measure the right-of-use asset at either:

(i) its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate on 1 January 2019; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before 1 January 2019.

The Group expects the right-of-use asset will increase by NT$6,935 thousand and the lease liability will increase by NT$6,935 thousand on January 1, 2019.

b. The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.

(3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
A	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
B	IFRS 17 "Insurance Contracts"	1 January 2021
C	Definition of a Business (Amendments to IFRS 3)	1 January 2020
D	Definition of Material (Amendments to IAS 1 and 8)	1 January 2020

A. *IFRS 10 "Consolidated Financial Statements" and IAS 28"Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

B. *IFRS 17 "Insurance Contracts"*

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a company of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

(a) estimates of future cash flows;
(b) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
(c) a risk adjustment for non-financial risk.

The carrying amount of a company of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

C. *Definition of a Business (Amendments to IFRS 3)*

The amendments clarify the definition of a business in IFRS 3 *Business Combinations*. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

D. *Definition of a Material (Amendments to IAS 1 and 8)*

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC, the local effective dates are to be determined by FSC. The Group has assessed the standards and interpretations have no material impact on the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended December 31, 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and TIFRS as endorsed by the FSC.

(2) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

(a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
(b) exposure, or rights, to variable returns from its involvement with the investee, and
(c) the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee
(b) rights arising from other contractual arrangements
(c) the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control of a subsidiary, it:

(a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
(b) derecognizes the carrying amount of any non-controlling interest;
(c) recognizes the fair value of the consideration received;
(d) recognizes the fair value of any investment retained;
(e) recognizes any surplus or deficit in profit or loss; and
(f) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Main businesses	Percentage of ownership (%) December 31, 2018	December 31, 2017
The Company	Hong Kong Taiwan Kong King Limited	Trading	99.99%	99.99%
The Company	Headway Holdings Limited	Investment holding	100.00%	100.00%
The Company	TKK Precision Co., Ltd.	Manufacturing	100.00%	50.00%
The Company	THT Technology Co., Ltd.	Manufacturing	94.50%	62.50%
Hong Kong Taiwan Kong King Limited	The Kong King Technology (Suzhou) Co., Ltd.	Trading	100.00%	100.00%
Headway Holdings Limited	Hiking International Co., Ltd.	Investment holding	100.00%	50.00%
Hiking International Co., Ltd.	Hiking Technology (Suzhou) Co., Ltd.	Manufacturing	100.00%	100.00%

Although the percentage of ownership interests in TKK Precision Co., Ltd. and Hiking International Co., Ltd. are equal to 50% as of 31 December 2017, the Company determined that it has control over TKK Precision Co., Ltd. and Hiking International Co., Ltd. This is due to a combination of factors including the fact that the Company remains the single largest shareholder of TKK Precision Co., Ltd. and Hiking International Co., Ltd. since the inception of the investment; the Company could obtain proxies to achieve relative majority absence of contractual arrangement in place and the ability of the Company to appoint or approve the key management personnel of TKK Precision Co., Ltd. and Hiking International Co., Ltd. who have the ability to direct the relevant activities. Based on the aforementioned facts and circumstances, management is of the view that the Group controls TKK Precision Co., Ltd and Hiking International Co., Ltd and therefore TKK Precision Co., Ltd and Hiking International Co., Ltd have been consolidated.

The percentage of ownership interests in TKK Precision Co., Ltd and Hiking International Co., Ltd is more than 50% as of 31 December 2018, the Group has fully controlled the subsidiaries. Based on the aforementioned facts and circumstances, TKK Precision Co., Ltd and Hiking International Co., Ltd have been consolidated.

(4) Foreign currency transactions

The Group’s consolidated financial statements are presented in “NT$”, which is also the Company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

(a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

(b) Foreign currency items within the scope of IFRS 9 *Financial Instruments* (Before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are accounted for based on the accounting policy for financial instruments.

(c) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following partial disposals are accounted for as disposals:

(a) when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
(b) when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Current and non-current distinction

An asset is classified as current when:

(a) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
(b) The Group holds the asset primarily for the purpose of trading
(c) The Group expects to realize the asset within twelve months after the reporting period
(d) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

(a) The Group expects to settle the liability in its normal operating cycle
(b) The Group holds the liability primarily for the purpose of trading
(c) The liability is due to be settled within twelve months after the reporting period
(d) The Group 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 the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(7) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within 12 months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Financial instruments

Financial assets and liabilities shall be recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities within the scope of IFRS 9 *Financial Instruments* (Before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: recognition and measurement

The accounting policy from January 1, 2018 as follow:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

a. the Group's business model for managing the financial assets and
b. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, accounts receivables, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

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

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

a. purchased or originated credit-impaired financial assets. For those financial assets, the

Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

b. financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

<u>Financial asset at fair value through other comprehensive income</u>

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

a. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
b. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
c. Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

    (a) Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
    (b) Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Group made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets were classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

The accounting policy before January 1, 2018 as follow:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group are classified as available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

Available-for-sale financial assets

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

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

B. Impairment of financial assets

<u>The accounting policy from January 1, 2018 as follow</u>:

The Group recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Group measures expected credit losses of a financial instrument in a way that reflects:

a. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b. the time value of money; and
c. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follow:

a. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
b. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
c. For accounts receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has been increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

<u>The accounting policy before January 1, 2018 as follow</u>:

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

a. significant financial difficulty of the issuer or obligor; or
b. a breach of contract, such as a default or delinquency in interest or principal payments; or
c. it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
d. the disappearance of an active market for that financial asset because of financial difficulties.

For loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

C. Derecognition of financial assets

A financial asset is derecognized when:

a. The rights to receive cash flows from the asset have expired
b. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
c. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Financial liabilities and equity instruments

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 *Financial Instruments* (before 1 January

2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(9) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(a) In the principal market for the asset or liability, or
(b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(10) Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials – Purchase cost on a first in, first out basis

Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Starting from 1 January 2018, rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

(11) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. 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 is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	4～56 years
Machinery and equipment	3～10 years
Transportation equipment	4～6 years
Office equipment	3～6 years
Leasehold improvements	3～5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(12) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the cost model in accordance with the requirements of IAS 16 for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	30～50 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

(13) Leases

Group as a lessee

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(14) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 5 years).

A summary of the policies applied to the Group's intangible assets is as follows:

	Computer software
Useful lives	Finite
Amortization method used	Amortized on a straight-line basis over the estimated useful life
Internally generated or acquired	Acquired

(15) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or Groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (Group of units), then to the other assets of the unit (Group of units) pro rata on the basis of the carrying amount of each asset in the unit (Group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(16) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

When the obligation occurs during a period of time, the liabilities for levies shall be gradually recognized.

Provision for decommissioning, restoration and rehabilitation costs

The provision for decommissioning, restoration and rehabilitation costs arose on construction of a property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

(17) Revenue recognition

The accounting policy from January 1, 2018 as follow:

The Group's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policies are explained as follow:

A. Sale of goods

The Group manufactures and sells machinery. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Group is high-end machinery and revenue is recognized based on the consideration stated in the contract.

The Group provides its customer with a warranty with the purchase of the products. The warranty provides assurance that the product will operate as expected by the customers. And the warranty is accounted in accordance with IAS 37.

The credit period of the Group's sale of goods is from 30 to 150 days. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as accounts receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

B. Rendering of services

The Group provides maintenance services for the sale of high-end machinery. Such services are separately priced or negotiated, provided based on the numbers of operation. Accordingly, the Group recognized revenues when the Group satisfied a performance obligation at a point in time.

Most of the contractual considerations of the Group are collected evenly throughout the contract periods. When the Group has performed the services to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. However, for some rendering of services contracts, part of the consideration was received from customers upon signing the contract, and the Group has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component is arised.

Accounting treatment before January 1, 2018 is below:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

A. Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Group; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

B. Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

(18) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore, fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

(a) the date of the plan amendment or curtailment, and
(b) the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(19) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
b. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
b. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Operating lease commitment－Group as the lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

(b) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Please refer to Note 6 for more details.

(c) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(d) Accounts receivables–estimation of impairment loss

Starting from 1 January 2018:

The Group estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

Before1 January 2018:

The Group considers the estimation of future cash flows when there is objective evidence showed indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(e) Inventories

Estimates of net realisable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made. Please refer to Note 6 for more details.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of December 31,	
	2018	2017
Cash on hand	$611	$1,296
Checking and savings accounts	240,530	216,302
Time deposits	237,373	279,549
Total	$478,514	$497,147

(2) Financial assets at fair value through profit or loss, noncurrent

	As of December 31,	
	2018	2017(Note)
Mandatorily measured at fair value through profit or loss:		
Foreign listed stocks	$14,123	

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Financial assets at fair value through profit or loss-noncurrent were not pledged.

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

	As of December 31,	
	2018	2017(Note)
Equity instrument investment measured at fair value through other comprehensive profit and loss：		
Unlisted stocks	$37,313	

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Financial assets at fair value through other comprehensive income-noncurrent were not pledged.

(4) Available-for-sale financial assets, noncurrent

	As of December 31,	
	2018 (Note)	2017
Stocks		$13,843

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Available-for-sale financial assets-noncurrent were not pledged.

(5) Financial assets measured at cost, noncurrent

	As of December 31,	
	2018 (Note)	2017
Stocks		$47,457

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Group adopted IAS 39 before 1 January 2018. The above investments in the unlisted entities are measured at cost as the fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

Financial assets measured at cost-noncurrent were not pledged.

(6) Notes receivables

	As of December 31,	
	2018	2017
Notes receivables arising from operating activities	$7,289	$1,225

(7) Accounts receivables and account receivables-related parties

	As of December 31,	
	2018	2017
Accounts receivables	$191,140	$138,944
Less: loss allowance	(449)	(449)
Subtotal	190,691	138,495
Total	$190,691	$138,495

Accounts receivables and account receivables-related parties were not pledged.

Accounts receivable are generally on 30-150 day terms. The Group adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6.(15) for more details on impairment of accounts receivables. The Group adopted IAS 39 for impairment assessment before January 1, 2018. The movements in the provision for impairment of accounts receivables and accounts receivables-related parties for the year ended December 31, 2017 are as follow: (please refer to Note 12 for more details on credit risk disclosures):

	Individually impaired	Collectively impaired	Total
Balance at January 1, 2017	$-	$449	$449
Charge/(reversal) for the current period	-	-	-
Write off	-	-	-
Balance at December 31, 2017	$-	$449	$449

Accounts receivables and account receivables-related parties were not pledged.

Aging analysis of accounts receivables and accounts receivables-related parties was as follows:

	Neither past due nor	Past due but not impaired					
As at	impaired	<=30 days	31~60 days	61~90 days	91~120 days	>=121 days	Total
December 31, 2017	$138,495	$-	$-	$-	$-	$-	$138,495

(8) Inventories

	As of December 31,	
	2018	2017
Raw materials	$22,098	$24,000
Work in progress	5,090	6,240
Finished goods	78	1,900
Merchandise inventories	24,289	28,640
Total	$51,555	$60,780

The cost of inventories recognized in expenses amounts to NT$802,464 thousand and NT$500,587 thousand for the years ended December 31, 2018 and 2017, including the write-down of inventories of NT$72 thousand and NT$(341) thousand.

No inventories were pledged.

(9) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Office equipment	Transportation equipment	Leasehold improvements	Total
Cost:							
As of January 1, 2018	$102,180	$113,373	$273,444	$12,461	$26,835	$14,112	$542,405
Additions	-	-	947	418	1,730	-	3,095
Disposals	-	-	(19,850)	(157)	(1,104)	-	(21,111)
Exchange differences	-	(158)	(1,622)	(63)	(180)	(221)	(2,244)
Other changes	-	-	(496)	-	-	-	(496)
As of December 31, 2018	$102,180	$113,215	$252,423	$12,659	$27,281	$13,891	$521,649
As of January 1, 2017	$102,180	$113,147	$270,508	$11,892	$25,860	$14,230	$537,817
Additions	-	308	9,805	1,042	2,206	-	13,361
Disposals	-	-	(6,000)	(346)	(1,145)	-	(7,491)
Exchange differences	-	(82)	(869)	(127)	(86)	(118)	(1,282)
As of December 31, 2017	$102,180	$113,373	$273,444	$12,461	$26,835	$14,112	$542,405
Depreciation and impairment:							
As of January 1, 2018	$7,000	$38,114	$206,782	$10,314	$18,329	$14,017	$294,556
Depreciation	-	3,571	19,134	793	3,351	95	26,944
Disposals	-	-	(19,293)	(139)	(1,012)	-	(20,444)
Exchange differences	-	(79)	(1,138)	(47)	(110)	(221)	(1,595)
As of December 31, 2018	$7,000	$41,606	$205,485	$10,921	$20,558	$13,891	$299,461
As of January 1, 2017	$7,000	$34,510	$194,161	$9,990	$15,955	$13,750	$275,366
Depreciation	-	3,635	19,018	758	3,440	385	27,236
Disposals	-	-	(5,999)	(315)	(1,017)	-	(7,331)
Exchange differences	-	(31)	(398)	(119)	(49)	(118)	(715)
As of December 31, 2017	$7,000	$38,114	$206,782	$10,314	$18,329	$14,017	$294,556
Net carrying amount as at:							
December 31, 2018	$95,180	$71,609	$46,938	$1,738	$6,723	$-	$222,188
December 31, 2017	$95,180	$75,259	$66,662	$2,147	$8,506	$95	$247,849

(10) Investment properties

	Land	Buildings	Total
Cost:			
As of January 1, 2018	$3,700	$1,700	$5,400
Additions from acquisitions	-	-	-
As of December 31, 2018	$3,700	$1,700	$5,400
As of January 1, 2017	$3,700	$1,700	$5,400
Additions from acquisitions	-	-	-
As of December 31, 2017	$3,700	$1,700	$5,400
Depreciation and impairment:			
As of January 1, 2018	$-	$1,164	$1,164
Depreciation	-	42	42
As of December 31, 2018	$-	$1,206	$1,206
As of January 1, 2017	$-	$1,123	$1,123
Depreciation	-	41	41
As of December 31, 2017	$-	$1,164	$1,164
Net carrying amount as at:			
December 31, 2018	$3,700	$494	$4,194
December 31, 2017	$3,700	$536	$4,236

	For the years ended December 31,	
	2018	2017
Rental income from investment property	$137	$137
Less:		
Direct operating expenses from investment property generating rental income	(42)	(41)
Direct operating expenses from investment property not generating rental income	-	-
Total	$95	$96

No investment properties were pledged.

Investment properties held by the Group are not measured at fair value but for which the fair value is disclosed. The fair value measurements of the investment properties are categorized within Level 3.

The amounts were not assessed by an independent valuer. The fair values of the Group's investment property on December 31, 2018 were NT$38,263~NT$50,935 thousand, which measured by the Group's management referring to information on the Department of Land Administration website and actual transactions in the neighborhood area.

The fair values of the Group's investment property on December 31, 2017 was NT$6,606 thousand; the fair value has been determined based on valuations performed by an independent valuer. The valuation method used is the income approach, and the inputs used are discount rates and growth rates:

	December 31, 2017
Capitalization rate	0.92%~1.69%

(11) Intangible Assets

	Computer software	Other intangible assets	Total
Cost:			
As of January 1, 2018	$15,450	$392	$15,842
Addition-acquired separately	2,091	-	2,091
Disposal	(2,082)	(392)	(2,474)
Exchange differences	(21)	-	(21)
As of December 31, 2018	$15,438	$-	$15,438
As of January 1, 2017	$11,778	$392	$12,170
Addition-acquired separately	3,679	-	3,679
Disposal	-	-	-
Exchange differences	(7)	-	(7)
As of December 31, 2017	$15,450	$392	$15,842
Amortization and impairment:			
As of January 1, 2018	$11,228	$386	$11,614
Amortization	2,756	5	2,761
Disposal	(2,083)	(391)	(2,474)
Exchange differences	(18)		(18)
As of December 31, 2018	$11,883	$-	$11,883
As of January 1, 2017	$9,346	$335	$9,681
Amortization	1,887	51	1,938
Disposal	-	-	-
Exchange differences	(5)	-	(5)
As of December 31, 2017	$11,228	$386	$11,614
Net carrying amount as of:			
December 31, 2018	$3,555	$-	$3,555
December 31, 2017	$4,222	$6	$4,228

Amortization expense of intangible assets under the statement of comprehensive income:

	For the years ended December 31,	
	2018	2017
Operating costs	$482	$673
Selling expenses	$135	$-
Administrative expenses	$1,734	$823
Research and development expenses	$410	$442

(12) Post-employment benefits

Defined contribution plan

The Company and its domestic subsidiaries adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company and its domestic subsidiaries makes monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Pension benefits for employees of the subsidiaries in China are provided in accordance with the local regulations. The subsidiaries will make contributions of certain percentage of each individual employee's salaries to employee's pension accounts.

Pension benefits for employees of foreign subsidiaries are provided in accordance with the local regulations.

Expenses under the defined contribution plan for the years ended December 31, 2018 and 2017 were NT$6,659 thousand and NT$6,567 thousand, respectively.

Defined benefits plan

The Group adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Group contributes an amount equivalent to 15% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Group assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Group will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandating, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Group does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute NT$6,659 thousand to its defined benefit plan during the 12 months beginning after December 31, 2018.

As of December 31, 2018, and 2017, the Group expects its defined benefits plan obligation to become due in 2036.

Pension costs recognized in profit or loss are as follows:

	For the years ended December 31,	
	2018	2017
Current period service costs	$885	$898
Net interest on the net defined benefit liabilities (assets)	363	402
Total	$1,248	$1,300

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	As of December 31,	
	2018	2017
Defined benefit obligation	$88,702	$89,718
Plan assets at fair value	(59,107)	(56,397)
Other non-current liabilities - Accrued pension liabilities (assets) recognized on the consolidated balance sheets	$29,595	$33,321

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability (assets)
As at January 1, 2017	$84,512	$(53,932)	$30,580
Current period service costs	898	-	898
Net interest expense (income)	1,203	(801)	402
Subtotal	86,613	(54,733)	31,880
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	3,105	-	3,105
Remeasurements of defined benefit asset	-	178	178
Subtotal	89,718	(54,555)	35,163
Payments from the plan	-	-	-
Employer payment	-	-	-
Contributions by employer	-	(1,842)	(1,842)
As at December 31, 2017	89,718	(56,397)	33,321
Current period service costs	885	-	885
Net interest expense (income)	1,000	(638)	362
Subtotal	91,603	(57,035)	34,568
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	(5,869)	(86)	(5,955)
Actuarial gains and losses arising from changes in demographic assumptions	2,407	-	2,407
Experience adjustments	561	-	561
Remeasurements of defined benefit asset	-	(293)	(293)
Subtotal	88,702	(57,414)	31,288
Payments from the plan	-	-	-
Employer payment	-	-	-
Contributions by employer	-	(1,693)	(1,693)
Balance at December 31, 2018	$88,702	$(59,107)	$29,595

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	As of December 31,	
	2018	2017
Discount rates	1.05%	1.30%
Expected rates of salary increase	3.00%	3.50%

The following sensitivity analysis for significant assumption:

	For the years ended December 31,			
	2018		2017	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$4,641	$-	$5,005
Discount rate decrease by 0.5%	4,995	-	5,398	-
Future salary increase by 0.5%	4,368	-	4,715	-
Future salary decrease by 0.5%	-	4,116	-	4,436

The sensitivity analysis above is based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(13) Equities

A. Common stock

The Group's authorized capital and issued capital was NT$450,000 thousand and NT$362,888 thousand as at December 31, 2018 and 2017, each at a par value of NT$10 for 36,289 thousand shares. Each share has one voting right and a right to receive dividends.

B. Capital surplus

	As of December 31,	
	2018	2017
Additional paid-in capital	$36,000	$36,000
Difference between consideration given/ received and carrying amount of interests in subsidiaries acquired / disposed of	10,759	13,699
Total	$46,759	$49,699

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the Group. When a Group incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the Group. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

C. Retained earnings and dividend policies

According to the Group's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

a. Payment of all taxes and dues;
b. Offset prior years' operation losses;
c. Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve;
d. Set aside or reverse special reserve in accordance with law and regulations; and
e. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting.

According to the Company Act, the Group needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Group. When the Group incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Details of the 2017 and 2016 earnings distribution and dividends per share as approved by the shareholders' meeting on June 20, 2018 and June 21, 2017, respectively, are as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2017	2016	2017	2016
Legal reserve	$2,450	$7,367		
Special reserve	11,697	-		
Common stock - cash dividend	19,959	66,046	$0.55	$1.82

Please refer to Note 6.(16) for details on employees' compensation and remuneration to directors and supervisors.

D. Non-controlling interests

	As of December 31, 2018	As of December 31, 2017
Beginning balance	$92,516	$100,487
Profit (loss) attributable to non-controlling interests	(2,106)	1,612
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of a foreign operation	1,028	(271)
Remeasurements of defined benefit plans	(8)	(206)
Acquisition of issued shares in a subsidiary	(91,004)	-
Cash dividends	-	(9,106)
Ending balance	$426	$92,516

(14) Operating revenues

	December 31, 2018 (Note)	December 31, 2017
Revenue from contracts with customers		
Sale of goods		$686,278
Less: sales returns and discounts		(90)
Revenue arising from rendering of services		103,414
Total		$789,602

Note: The Group has adopted IFRS 15 from 1 January 2018. The Group elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (1 January 2018).

The Group has adopted IFRS 15 from January 1, 2018. Analysis of revenue from contracts with customers during the year is as follows:

A. Disaggregation of revenue

	Customer Service Dept	Electronics Dept	PCB Dept	Production Dept	Total
Sales revenue	$106,620	$432,431	$458,695	$12,070	$1,009,816
Rendering of services	20,256	8,790	97,713	-	126,759
Total	$126,876	$441,221	$556,408	$12,070	$1,136,575
Timing of revenue recognition:					
At a point in time	$126,876	$441,221	$556,408	$12,070	$1,136,575

B. Contract balances

Contract liabilities - current

	Beginning balance	Ending balance	Difference
Sales of goods	$24,937	$16,308	$8,629

During the period, contract liabilities changed because the timing of fulfillment of performance obligations and payments from customers were different, and NT$24,937 thousand included in the contract liability balance at the beginning of the period was recognized as revenue during the period when performance obligations were satisfied.

(15) Expected credit losses/(gains)

	2018	2017 (note)
Operating expenses – Expected credit losses/(gains)	$-	

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12 for more details on credit risk.

The Group measures the loss allowance of its accounts receivables (including note receivables and accounts receivables) at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as at December 31, 2018 is as follow:

A. the gross carrying amount of accounts receivables is NT$198,429 thousand, its loss allowance amounting to NT$499 thousand which is measured at expected credit loss ratio of 0.23%.

B. based on past experience, the Group considers its accounts receivables as a single group and its loss allowance is measured by using a provision matrix, details are as follow:

		Overdue					
	Not yet due	<=30 days	31-60 days	61-90 days	91-120 days	>=121 days	Total
Gross carrying amount	$198,429	$-	$-	$-	$-	$-	$198,429
Loss ratio	0.23%						0.23%
Lifetime expected credit losses	449	-	-	-	-	- -	449
Total	$197,980	$-	$-	$-	$-	$-	$197,980

The movement in the provision for impairment of note receivables and accounts receivables during the year ended December 31, 2018 is as follows:

	Accounts receivables
Beginning balance (in accordance with IAS 39)	$449
Transition adjustment to retained earnings	-
Beginning balance (in accordance with IFRS 9)	449
Addition/(reversal) for the current period	-
Ending balance	$449

(16) Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended December 31, 2018 and 2017:

	2018				2017			
	Operating costs	Operating expenses	Non-operating expenses	Total amount	Operating costs	Operating expenses	Non-operating expenses	Total amount
Employee benefits expense								
Salaries	$43,573	$162,929	$-	$206,502	$43,059	$143,299	$-	$186,358
Labor and health insurance	2,959	9,931	-	12,890	2,899	10,012	-	12,911
Pension	1,752	6,155	-	7,907	1,727	6,140	-	7,867
Other employee benefits expense	2,707	7,901	-	10,608	6,312	10,603	-	16,915
Depreciation	19,007	7,937	42	26,986	20,587	6,649	41	27,277
Amortization	483	2,278	-	2,761	673	1,265	-	1,938

According to the Articles of Incorporation, 1%-8% of profit of the current year is distributable as employees' compensation, and no higher than 1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the Group's accumulated losses shall have been covered. The Group may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash and as remuneration to directors and supervisors only in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on the profit of the year ended 31 December 2018, the Group estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2018 to be 1% of profit of the current year, recognized as the employees' compensation and remuneration to directors and supervisors were both NT$764 thousand. The amounts of the employees' compensation and remuneration to directors and supervisors recognized for the year ended December 31, 2017 were both NT$299 thousand. The estimated amounts were based on the profit of current period and were recognized as salaries. A resolution was passed at a Board of Directors meeting held on March 5, 2019 to distribute NT$764 thousand in cash as employees' compensation and remuneration to directors and supervisors of 2017, respectively. Difference between the estimated amount and the actual distribution passed at the Board of Directors' meeting are recognized in profit or loss of the subsequent year.

A resolution was passed at a Board of Directors meeting held on March 23, 2018 to distribute NT$299 thousand in cash as employees' compensation and remuneration to directors and supervisors of 2017, respectively. No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended December 31, 2017.

(17) Non-operating income and expenses

A. Other income

	For the years ended December 31,	
	2018	2017
Rental income	$1,903	$1,731
Interest income	6,812	7,024
Dividend income	4,068	3,596
Others	1,898	2,722
Total	$14,681	$15,073

B. Other gains and losses

	For the years ended December 31,	
	2018	2017
Gains on disposal of property, plant and equipment	$581	$3,435
Foreign exchange (losses) gains, net	2,977	(3,204)
Gains on financial assets at fair value through profit or loss (Note)	279	-
Others	(2,868)	(3,607)
Total	$969	$(3,376)

Note: Balance in current period was arising from financial assets mandatorily measured at fair value through profit or loss.

(18) Components of other comprehensive income

For the year ended December 31, 2018

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurement of defined benefit plans	$3,281	$-	$3,281	$1,192	$4,473
Unrealized gains (losses) from equity instruments measured at fair value through other comprehensive income	(9,604)	-	(9,604)	-	(9,604)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	902	-	902	-	902
Total	$(5,421)	$-	$(5,421)	$1,192	$(4,229)

For the year ended December 31, 2017

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurement of defined benefit plans	$(3,283)	$-	$(3,283)	$558	$(2,725)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(9,137)	-	(9,137)	-	(9,137)
Unrealized gains (losses) from available-for-sale financial assets	(3,917)	-	(3,917)	666	(3,251)
Total	$(16,337)	$-	$(16,337)	$1,224	$(15,113)

(19) Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Group’s applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

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

Income tax expense (income) recognized in profit or loss

	For the years ended December 31,	
	2018	2017
Current income tax expense (income):		
Current income tax charge	$24,099	$4,832
Adjustments in respect of current income tax of prior periods	(1,402)	(1,351)
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	(1,710)	2,545
Deferred tax expense (income) relating to changes in tax rate	(2,427)	-
Total income tax expense	$18,560	$6,026

Income tax recognized in other comprehensive income

	For the years ended December 31,	
	2018	2017
Deferred tax expense (income):		
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	$(1,921)	$-
Unrealised gains (losses) on valuation of available-for-sale financial assets	-	(666)
Gains (losses) on remeasurement of defined benefit plan	729	(558)
Income tax relating to components of other comprehensive income	$(1,192)	$(1,224)

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the years ended December 31,	
	2018	2017
Accounting profit (loss) before tax from continuing operations	$75,619	$32,134
Tax at the domestic rates applicable to profits in the country concerned	18,138	5,868
Tax effect of expenses not deductible for tax purposes	4,246	1,167
Tax effect of deferred tax assets/liabilities	(2,427)	(24)
Corporate income surtax on undistributed retained earnings	5	31
Tax effect of different tax rates on individuals operating in other tax jurisdictions	-	335
Adjustments in respect of current income tax of prior periods	(1,402)	(1,351)
Total income tax expense (income) recognized in profit or loss	$18,560	$6,026

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2018

	Beginning balance (Note)	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Pension	$8,432	$1,473	$(729)	$9,176
Allowance for inventory valuation losses	2,541	448	-	2,989
Unrealized exchange losses (gains)	18	(78)	-	(60)
Unrealized salaries	3,338	2,524	-	5,862
Revaluations of financial assets at fair value through profit or loss	(959)	(225)	-	(1,184)
Revaluations of financial assets at fair value through other comprehensive income	(56)	-	1,921	1,865
Others	(28)	(5)	-	(33)
Deferred tax income		4,137	$1,192	
Deferred tax assets/(liabilities)-net	$13,286			$18,615
Reflected in balance sheet as follows:				
Deferred tax assets	$13,314			$19,894
Deferred tax liabilities	$28			$1,279

Note: The Group adopted IFRS 9 since January 1, 2018. Please refer to Note 3 for more details of adjustments of beginning balance.

For the year ended December 31, 2017

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Pension	$7,966	$(92)	$558	$8,432
Allowance for inventory valuation losses	2,541	-	-	2,541
Unrealized exchange losses (gains)	336	(318)	-	18
Unrealized salaries	5,473	(2,135)	-	3,338
Revaluations of available-for-sale investments to fair value	(1,625)	-	666	(959)
Revaluations of financial assets at fair value through other comprehensive income	-	-	-	-

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Others	(28)	-	-	(28)
Deferred tax income		$(2,545)	$1,224	
Deferred tax assets/(liabilities)-net	$14,663			$13,342
Reflected in balance sheet as follows:				
Deferred tax assets	$14,691			$13,370
Deferred tax liabilities	$28			$28

The following table contains information of the unused tax losses of the Group:

		Unused tax losses as at		
Year	Tax losses for the period	December 31, 2018	December 31, 2017	Expiration year
2011	$10,416	$10,357	$10,357	2021
2012	13,380	13,381	13,381	2022
2013	8,403	8,403	8,403	2023
2018	6,212	6,212	6,212	2028
		$38,353	$32,141	

Unrecognized deferred tax assets

As of December 31, 2018, and 2017, the Group does not have unrecognized deferred tax assets.

The assessment of income tax returns

As of December 31, 2018, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2016
TKK Precision Co., Ltd	Assessed and approved up to 2016
THT Technology Co., Ltd	Assessed and approved up to 2016

(20) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Given that the Group does not have potential common shares which have dilutive effects outstanding, the Group is not required to adjust basic earnings per share for dilution.

	For the years ended December 31,	
	2018	2017
Basic earnings per share		
Profit attributable to ordinary equity holders of the Group (in thousand NT$)	$59,165	$24,496
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	36,289	36,289
Basic earnings per share (NT$)	$1.63	$0.68

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

7. RELATED PARTY TRANSACTIONS

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
WKK Japan Limited	Other related parties
Wong's Kong King Holdings Limited	Other related parties
HIOKI E.E. Corporation	Other related parties
HIOKI(Shanghai) Sales & Trading Co., Ltd.	Other related parties
HIOKI Korea Co., Ltd.	Other related parties

Significant transactions with related parties

(1) Sales

	For the years ended December 31,	
	2018	2017
Other related parties		
WKK Japan Limited	$3,003	$11,529
HIOKI E.E. Corporation	2,550	1,136
Total	$5,553	$12,665

The sales price to the above related parties was determined through mutual agreement based on the market rates. The collection period for sales to related parties was month-end 1~2 months.

(2) Purchases

	For the years ended December 31,	
	2018	2017
Other related parties		
WKK Japan Limited	$171,036	$7,721
HIOKI E.E. Corporation	90	12,383
HIOKI(Shanghai) Sales & Trading Co., Ltd.	1,957	2,434
HIOKI Korea Co., Ltd.	-	68
Total	$173,083	$22,606

The purchase price to the above related parties was determined through mutual agreement based on the market rates. The payment terms from the related party suppliers were month-end 1~2 months.

(3) Amounts owed to related parties

A. Account Payables

	As of December 31,	
	2018	2017
Other related parties		
WKK Japan Limited	$7,407	$217
HIOKI E.E. Corporation	-	195
HIOKI(Shanghai) Sales & Trading Co., Ltd.	29	282
Total	$7,436	$694

B. Other payables

	As of December 31,	
	2018	2017
Other related parties		
WKK Japan Limited	$122	$4,332
HIOKI E.E. Corporation	-	1,294
Wong’s Kong King Holdings Limited	-	2,864
Total	$122	$8,490

(4) Service revenue

	For the years ended December 31,	
	2018	2017
Other related parties		
WKK Japan Limited	$17,586	$15,592

(5) Asset transactions

	For the year ended December 31, 2018	
	Item	Amount
Other related parties		
WKK Japan Limited	Machinery and equipment	$-

	For the year ended December 31, 2017	
	Item	Amount
Other related parties		
WKK Japan Limited	Machinery and equipment	9,159

(6) Cost of services

	For the years ended December 31,	
	2018	2017
Other related parties		
WKK Japan Limited	$692	$312
HIOKI E.E. Corporation	-	1,672
Total	$692	$1,984

(7) Operating expenses

	For the years ended December 31,	
	2018	2017
Other related parties		
WKK Japan Limited	$36	$59
Wong's Kong King Holdings Limited	914	657
HIOKI E.E. Corporation	495	-
Total	$1,445	$716

(8) Key management personnel compensation

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	$22,748	$22,022
Post-employment benefits	233	418
Total	$22,981	$22,440

8. ASSETS PLEDGED AS SECURITY

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

None.

10. LOSSES DUE TO MAJOR DISASTERS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. OTHERS

(1) Categories of financial instruments

Financial assets	As of December 31, 2018	As of December 31, 2017
Financial assets at fair value through profit or loss:		
Designated at fair value through profit or loss	$14,123	(Note 1)
Financial assets at fair value through other comprehensive income	37,313	(Note 1)
Available-for-sale financial assets (Note 2)	(Note 1)	$61,300
Financial assets measured at amortized cost (Note 3)	689,897	(Note 1)
Loans and receivables (Note 3)	(Note 1)	651,862
Total	$741,333	$713,162

Financial liabilities	As of December 31, 2018	As of December 31, 2017
Financial liabilities at amortized cost:		
Notes payable and accounts payables	$180,826	$133,380

Note 1: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Note 2: Balances as at December 31, 2017 including financial assets measured at cost.

Note 3: Including cash and cash equivalents (exclude cash on hand), notes receivable, accounts receivables, other receivables and guarantee deposits paid.

(2) Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency). The Group opened savings accounts for some foreign currency receivables and payments to manage foreign currency risk by adjusting exchange rate immediately. Also, the Group considered currency factors when making sales quotation to ensure a reasonable profit.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency USD, foreign currency RMB, foreign currency JPY and foreign currency EUR. The information of the sensitivity analysis is as follows:

(a) When NTD strengthens/weakens against foreign currency USD by 1%, the profit for the years ended December 31, 2018 and 2017 is decreased/increased by NT$1,169 thousand and NT$1,111 thousand, respectively.

(b) When NTD strengthens/weakens against foreign currency RMB by 1%, the profit for the years ended December 31, 2018 and 2017 is decreased/increased by NT$1,839 thousand and NT$2,141 thousand, respectively.

(c) When NTD strengthens/weakens against foreign currency JPY by 1%, the profit for the years ended December 31, 2018 and 2017 is decreased/increased by NT$428 thousand and NT$115 thousand, respectively.

(d) When NTD strengthens/weakens against foreign currency EUR by 1%, the profit for the years ended December 31, 2018 and 2017 is decreased/increased by NT$149 thousand and NT$151 thousand, respectively.

Equity price risk

The fair value of the Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's listed and unlisted equity securities are classified under available-for-sale financial assets. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

For the year ended December 31, 2018, a change of 1% in the price of the listed company stocks classified as equity instruments investments measured at fair value through profit or loss could have an impact of NT$141 thousand on the equity attributable to the Group.

For the year ended December 31, 2017, a decrease of 1% in the price of the listed equity securities classified as available-for-sale could have an impact of NT$138 thousand dollars on the income or equity attributable to the Group. An increase of 1% in the value of the listed securities would only impact equity but would not have an effect on profit or loss.

(4) Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain counter parties' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

As of December 31, 2018, and 2017, amounts receivables from top ten customers represent 66.98% and 65.27% of the total accounts receivables of the Group, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating. Consequently, there is no significant credit risk for these counter parties.

The Group adopted IFRS 9 to assess the expected credit losses since 1 January 2018, for the loss allowance of accounts receivables is measured at lifetime expected credit losses.

Financial assets are written off when there is no realistic prospect of future recovery (the issuer or the debtor is in financial difficulties or bankruptcy).

When assessing the expected credit losses in accordance with IFRS 9, the evaluation of the forward-looking information (available without undue cost and effort) is mainly based on the macroeconomic information and industrial information, the credit loss ratio is further adjusted if there is significant impact from forward-looking information.

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
As of Dec. 31, 2018					
Notes payables	$16	$-	$-	$-	$16
Accounts payables	175,127	5,683	-	-	180,810
As of Dec. 31, 2017					
Notes payables	$48	$-	$-	$-	$48
Accounts payables	133,300	32	-	-	133,332

(6) Fair value of financial instruments

(a) The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

A. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.

B. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

(b) Fair value measurement hierarchy for financial instruments

Please refer to Note 12.(7) for fair value measurement hierarchy for financial instruments of the Group.

(7) Fair value measure hierarchy

A. Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: unobservable inputs for the asset or liability

For assets and liabilities measured at fair value on a recurring basis, the Group re-evaluates their classification at every end of the reporting period to determine the amount of any transfer between different levels of the fair value hierarchy.

B. Fair value measurement hierarchy of the Group's assets

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets measured at fair value on a recurring basis is as follows:

	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Stocks	$14,123	$-	$-	$14,123
Financial assets at fair value through other comprehensive income				
Investments in equity instruments	-	-	37,313	37,313

designated at fair value through other comprehensive income

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Stocks	$13,843	$-	$-	$13,843

Transfers between Level 1 and Level 2 during the period

During the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

	Assets
	At fair value through other comprehensive income
	Stocks
Beginning balances as at January 1, 2018	$47,735
Amount recognized in OCI (presented in "Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income)	(10,422)
Ending balances as at December 31, 2018	$37,313

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

	As of December 31, 2018				
	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets:					
At fair value through other comprehensive income					
Stocks	Market approach	discount for lack of marketability	10%	The higher the discount for lack of marketability, the lower the fair value of the stocks	10% increase (decrease) in the discount for lack of marketability would result in (decrease) increase in the Group's equity by NT$11,158 thousand

Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Group's Accounting Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies at each reporting date.

C. Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed

	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties (please refer to Note 6.(10))	$-	$-	$38,263~ 50,935	$38,263~ 50,935

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties (please refer to Note 6.(10))	$-	$-	$6,606	$6,606

(8) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	As of December 31, 2018		
	Foreign currencies	Foreign exchange rate	NTD
Financial assets			
Monetary items:			
USD	$4,981	30.7100	$152,967
JPY	187,932	0.2782	52,283
EUR	544	35.1900	19,143
RMB	41,246	4.4680	184,287
HKD	324	3.9210	1,270
Financial liabilities			
Monetary items:			
USD	1,177	30.7100	36,146
EUR	120	35.1900	4,223
JPY	34,174	0.2782	9,507
HKD	335	3.9210	1,314
RMB	80	4.4680	357

	As of December 31, 2017		
	Foreign currencies	Foreign exchange rate	NTD
Financial assets			
Monetary items:			
USD	$5,075	29.7900	$151,184
JPY	81,866	0.2643	21,637
EUR	591	35.6000	21,040
RMB	46,887	4.5670	214,133
HKD	277	3.8110	1,056

Financial liabilities
Monetary items:

USD	1,346	29.7900	40,097
EUR	167	35.6000	5,945
JPY	38,217	0.2643	10,101
HKD	799	3.8110	3,045

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

For the years ended December 31, 2018 and 2017, the Group's foreign exchange gains/ (losses) were NT$2,977 thousand and NT$(3,204) thousand, respectively.

(9) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. OTHER DISCLOSURES

(1) Information at significant transactions

No.	Item	Attachment
1	Financing provided to others	None
2	Endorsements/guarantees provided	None
3	Marketable securities held	2
4	Marketable securities acquired and disposed at costs or prices at least NT$300 million or 20% of the paid-in capital	None
5	Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital	None
6	Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital	None
7	Total sales to or purchases from related parties amounting to at least NT$100 million or 20% of the paid-in capital	None
8	Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital	None
9	Trading in derivative instruments	None
10	Significant intercompany transactions and amounts between consolidated entities	1

(2) Information on investees

No.	Item	Attachment
1	Financing provided to others	None
2	Endorsements/guarantees provided	None
3	Marketable securities held	2
4	Marketable securities acquired and disposed at costs or prices at least NT$300 million or 20% of the paid-in capital	None
5	Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital	None

No.	Item	Attachment
6	Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital	None
7	Total sales to or purchases from related parties amounting to at least NT$100 million or 20% of the paid-in capital	None
8	Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital	None
9	Trading in derivative instruments	None
10	Names, locations and related information of investee companies	3

(3) Information on investments in mainland China: Please refer to Attachment 4

14. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and has four reportable operating segments as follows:

1. Customer Service Dept：Installation and related warranty of machinery, after-sales service and the control of inventories.

2. Electronics Dept：Marketing for SMT, semiconductor and solar equipment, market research, business activities, market development planning and implementation.

3. PCB Dept：Marketing for PCB equipment and materials, market research, business activities, market development plans and implementation.

4. Production Dept：Control of machinery and its related products' manufacturing.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured based on accounting policies consistent with those in the consolidated financial statements. However, income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segment are on an arm's length basis in a manner similar to transactions with third parties.

Reportable on departmental profit and loss, assets and liabilities

For the year ended December 31, 2018

	Customer Service Dept	Electronics Dept	PCB Dept	Production Dept	Adjustment and elimination	Consolidated
Revenue						
External customer	$126,876	$441,221	$556,408	$12,070	$-	$1,136,575
Inter-segment	17,311	11,521	31,397	104,340	(164,569)	-
Total revenue	$144,187	$452,742	$587,805	$116,410	$(164,569)	$1,136,575
Segment profit	$16,389	$15,289	$23,667	$1,189	$19,085	$75,619

For the year ended December 31, 2017

	Customer Service Dept	Electronics Dept	PCB Dept	Production Dept	Adjustment and elimination	Consolidated
Revenue						
External customer	$137,268	$322,654	$306,554	$23,126	$-	$789,602
Inter-segment	7,053	14,777	24,226	102,663	(148,719)	-
Total revenue	$144,321	$337,431	$330,780	$125,789	(148,719)	$789,602
Segment profit	$15,943	$(2,651)	$7,107	$1,784	$9,951	$32,134

Inter-segment revenue are eliminated on consolidation and recorded under the "adjustment and elimination" column, all other adjustments and eliminations are disclosed below.

ATTACHMENT 1 (Significant intercompany transactions between consolidated entities)

TAIWAN KONG KING CO., LIMITED AND SUBSIDIARIES

Significant intercompany transactions between consolidated entities

December 31, 2018

No. (Note 1)	Related party	Counterparty	Relationship with the Company (Note 2)	Transactions			
				Account	Amount	Collection periods (Note 5)	Percentage of consolidated operating revenues or consolidated total assets (Note 3)
0	Taiwan Kong King Co., Limited	Headway Holdings Limited	1	Service revenue	$26,090	-	2.30%
0	Taiwan Kong King Co., Limited	Headway Holdings Limited	1	Other income	1,805	-	0.16%
0	Taiwan Kong King Co., Limited	Hong Kong Taiwan Kong King Limited	1	Accounts receivable	4,296	-	0.38%
0	Taiwan Kong King Co., Limited	Hong Kong Taiwan Kong King Limited	1	Other receivables	382	-	0.04%
0	Taiwan Kong King Co., Limited	THT Technology Co., Ltd.	1	Prepayments to suppliers	4,830	-	0.45%
0	Taiwan Kong King Co., Limited	THT Technology Co., Ltd.	1	Accounts payable	5,044	-	0.47%
0	Taiwan Kong King Co., Limited	THT Technology Co., Ltd.	1	Purchase	16,826	-	1.48%
0	Taiwan Kong King Co., Limited	THT Technology Co., Ltd.	1	Sales revenue	1,925	-	0.17%
0	Taiwan Kong King Co., Limited	THT Technology Co., Ltd.	1	Rent income	738	-	0.06%
0	Taiwan Kong King Co., Limited	THT Technology Co., Ltd.	1	Cost of services	72	-	0.01%
0	Taiwan Kong King Co., Limited	THT Technology Co., Ltd.	1	Other expenses	45	-	0.00%
0	Taiwan Kong King Co., Limited	TKK Precision Co., Ltd.	1	Other receivables	146	-	0.01%
0	Taiwan Kong King Co., Limited	TKK Precision Co., Ltd.	1	Accounts payable	22,026	-	2.07%
0	Taiwan Kong King Co., Limited	TKK Precision Co., Ltd.	1	Other payables	17	-	0.00%
0	Taiwan Kong King Co., Limited	TKK Precision Co., Ltd.	1	Sales revenue	14	-	0.00%

Note 1: The numbers above are identified as follows:

1."0" for the Company.

2.The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: The flow of transactions was as follows:

1.From the Company to the subsidiary.

2.From the subsidiary to the Company.

3.Between subsidiaries.

Note 3: The percentage with respect to the consolidated asset/liability for transactions of balance sheet items are based on each item's balance at period-end.

For profit or loss items, cumulative balances are used as basis.

Note 4: The transaction terms with the related party are not significantly different from those to third parties.

Note 5: The sales prices and payment terms of intercompany sales are not significantly different from those to third parties.

For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

ATTACHMENT 1-1 (Significant intercompany transactions between consolidated entities)

TAIWAN KONG KING CO., LIMITED AND SUBSIDIARIES

Significant intercompany transactions between consolidated entities

December 31, 2018

No. (Note 1)	Related party	Counterparty	Relationship with the Company (Note 2)	Transactions			
				Account	Amount	Collection periods (Note 5)	Percentage of consolidated operating revenues or consolidated total assets (Note 3)
0	Taiwan Kong King Co., Limited	TKK Precision Co., Ltd.	1	Service revenue	$217	-	0.02%
0	Taiwan Kong King Co., Limited	TKK Precision Co., Ltd.	1	Other income	398	-	0.04%
0	Taiwan Kong King Co., Limited	TKK Precision Co., Ltd.	1	Accounts receivable	77,035	-	6.78%
0	Taiwan Kong King Co., Limited	TKK Precision Co., Ltd.	1	Rent income	77	-	0.01%
0	Taiwan Kong King Co., Limited	TKK Precision Co., Ltd.	1	Prepayments to suppliers	756	-	0.07%
0	Taiwan Kong King Co., Limited	The Kong King Technology (Suzhou) Co., Ltd.	1	Accounts payable	902	-	0.08%
0	Taiwan Kong King Co., Limited	The Kong King Technology (Suzhou) Co., Ltd.	1	Purchase	20	-	0.00%
0	Taiwan Kong King Co.,	The Kong King Technology	1	Sales revenue	14,980		1.32%

	Limited	(Suzhou) Co., Ltd.					
0	Taiwan Kong King Co., Limited	The Kong King Technology (Suzhou) Co., Ltd.	1	Rent income	266	-	0.02%
0	Taiwan Kong King Co., Limited	The Kong King Technology (Suzhou) Co., Ltd.	1	Cost of services	14,982	-	1.32%
0	Taiwan Kong King Co., Limited	Hong Kong Taiwan Kong King Limited	1	Other expenses	357		0.03%
0	Taiwan Kong King Co., Limited	Hiking Technology (Suzhou) Co., Ltd.	1	Other receivables	4	-	0.00%

Note 1: The numbers above are identified as follows:

1."0" for the Company.

2.The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: The flow of transactions was as follows:

1.From the Company to the subsidiary.

2.From the subsidiary to the Company.

3.Between subsidiaries.

Note 3: The percentage with respect to the consolidated asset/liability for transactions of balance sheet items are based on each item's balance at period-end.
For profit or loss items, cumulative balances are used as basis.

Note 4: The transaction terms with the related party are not significantly different from those to third parties.

Note 5: The sales prices and payment terms of intercompany sales are not significantly different from those to third parties.
For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

ATTACHMENT 1-2 (Significant intercompany transactions between consolidated entities)

TAIWAN KONG KING CO., LIMITED AND SUBSIDIARIES

Significant intercompany transactions between consolidated entities

December 31, 2018

				Transactions			
No. (Note 1)	Related party	Counterparty	Relationship with the Company (Note 2)	Account	Amount	Collection periods (Note 5)	Percentage of consolidated operating revenues or consolidated total assets (Note 3)
1	TKK Precision Co., Ltd.	Hiking Technology (Suzhou) Co., Ltd.	3	Service revenue	1,508	-	0.13%
1	TKK Precision Co., Ltd.	Hiking Technology (Suzhou) Co., Ltd.	3	Other income	657	-	0.06%
1	TKK Precision Co., Ltd.	Hiking Technology (Suzhou) Co., Ltd.	3	Accounts receivable	246	-	0.02%
2	Hong Kong Taiwan Kong King Limited	Hiking International Co Ltd	3	Other receivables	1,130	-	0.11%
3	THT Technology Co., Ltd.	TKK Precision Co., Ltd.	3	Prepayments to suppliers	3	-	0.00%
4	Hiking Technology (Suzhou) Co., Ltd.	TKK Precision Co., Ltd.	3	Accounts payable	528	-	0.05%
4	Hiking Technology (Suzhou) Co., Ltd.	TKK Precision Co., Ltd.	3	Purchase	314	-	0.03%

4	Hiking Technology (Suzhou) Co., Ltd.	The Kong King Technology (Suzhou) Co., Ltd.	3	Sales revenue	2	-	0.00%
4	Hiking Technology (Suzhou) Co., Ltd.	The Kong King Technology (Suzhou) Co., Ltd.	3	Rent income	6,080	-	0.53%
4	Hiking Technology (Suzhou) Co., Ltd.	The Kong King Technology (Suzhou) Co., Ltd.	3	Cost of services	148	-	0.01%
5	The Kong King Technology (Suzhou) Co., Ltd.	Hiking Technology (Suzhou) Co., Ltd.	3	Other expenses	1,258	-	0.11%
5	The Kong King Technology (Suzhou) Co., Ltd.	Hiking Technology (Suzhou) Co., Ltd.	3	Other receivables	67	-	0.01%

Note 1: The numbers above are identified as follows:

1."0" for the Company.

2.The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: The flow of transactions was as follows:

1.From the Company to the subsidiary.

2.From the subsidiary to the Company.

3.Between subsidiaries.

Note 3: The percentage with respect to the consolidated asset/liability for transactions of balance sheet items are based on each item's balance at period-end.

For profit or loss items, cumulative balances are used as basis

Note 4: The transaction terms with the related party are not significantly different from those to third parties.

Note 5: The sales prices and payment terms of intercompany sales are not significantly different from those to third parties.

For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

Attachment 2 (Securities held as of December 31, 2018)

Unit: Amount in thousands of NTD

(Except for the shares or units)

Holding Company Name	December 31, 2018	Relationship	Financial statement account	December 31, 2018				Notes
				Shares	Carrying amount	Percentage of ownership(%)	Fair value/ Net assets value	
Taiwan Kong King Co., Limited	Foreign listed stocks Inspec Limited	-	Financial assets at fair value through profit or loss, noncurrent	47,400	JPY 50,765	1.44%	JPY 1,071	-
Taiwan Kong King Co., Limited	Unlisted stock Raytek Semiconductor, Inc.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,500,000	$18,400	2.74%	$7.97	(Note 2)
Taiwan Kong King Co., Limited	Unlisted stock Hong Kong Taiwan Kong King Limited	Investments accounted for under the equity method	Investments accounted for using equity method	26,209,999	105,107	99.99%	-	(Note 2)
Taiwan Kong King Co., Limited	Unlisted stock TKK Precision Co., Ltd.	Investments accounted for under the equity method	Investments accounted for using equity method	6,237,000	125,034	100.00%	-	(Note 2)

Taiwan Kong King Co., Limited	Unlisted stock Headway Holdings Limited	Investments accounted for under the equity method	Investments accounted for using equity method	1,100,000	55,578	100.00%	-	(Note 2)
Taiwan Kong King Co., Limited	Unlisted stock THT Technology Co., Ltd.	Investments accounted for under the equity method	Investments accounted for using equity method	4,725,000	8,110	94.50%	-	(Note 2)

Note 1: The amount was eliminated upon consolidation.

Note 2: No market price.

Attachment 2-1 (Securities held as of December 31, 2018)

Unit: Amount in thousands of NTD

(Except for the shares or units)

Holding Company Name	December 31, 2018	Relationship	Financial statement account	December 31, 2018				Notes
				Shares	Carrying amount	Percentage of ownership(%)	Fair value/ Net assets value	
Hong Kong Taiwan Kong King Limited	Stocks Leetech International Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	304,000	$3,404	19.00%	$3,404	(Note 2)
Hong Kong Taiwan Kong King Limited	Stocks Top Range Machinery Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	1,516,606	15,509	9.03%	15,509	(Note 2)
Hong Kong Taiwan Kong King Limited	Stocks The Kong King Technology (Suzhou) Co., Ltd.	Second-tier subsidiary	Investments accounted for using equity method	2,500,000	55,512	100.00%	-	(Note 2)
Headway Holdings Limited	Stocks Hiking International Co. Ltd	Second-tier subsidiary	Investments accounted for using equity method	12,636,000	48,884	100.00%	-	(Note 2)
Hiking International Co. Ltd	Stocks Hiking Technology (Suzhou) Co., Ltd.	Third-tier subsidiary	Investments accounted for using equity method	1,623,700	50,006	100.00%	-	(Note 2)

Note 1: The amount was eliminated upon consolidation.

Note 2: No market price.

Attachment 3 (Names, locations and related information of investee companies as of December 31, 2018)

Unit: Amount in thousands of NTD

(Except for the shares or units)

Investor Company	December 31, 2018	Location	Main Businesses and Products	Initial Investment		Investment as of December 31, 2018			Net income (loss) of investee company	Investment income(loss) recognized	Note
				Ending balance	Beginning balance	Number of shares	Percentage of ownership (%)	Carrying Amount			
Taiwan Kong King Co., Limited	Hong Kong Taiwan Kong King Limited	Hong Kong	Electronic components trading etc.	$114,505	$114,505	26,209,999	99.99%	$105,107	$(25,054)	$(25,426)	Subsidiary (Note 1)
Taiwan Kong King Co., Limited	TKK Precision Co., Ltd.	R.O.C	Electronic components manufacturing, electronic materials trading and testing, and machinery and equipment retailing	90,530	31,185	6,237,000	100.00%	125,034	12,964	9,897	Subsidiary
Taiwan Kong King Co., Limited	Headway Holdings Limited	Samoa	Electronic components trading etc.	36,076	36,076	1,100,000	100.00%	55,578	(3,172)	(1,356)	Subsidiary
Taiwan Kong King Co., Limited	THT Technology Co., Ltd.	R.O.C	Machinery, equipment retailing and electronic components manufacturing etc.	47,250	31,250	4,725,000	94.50%	8,110	(5,928)	(4,334)	Subsidiary
Hong Kong Taiwan Kong King Limited	The Kong King Technology (Suzhou) Co., Ltd.	China	Electronic materials, machinery and precision equipment retailing, information software service and international trade business	49,538	49,538	2,500,000	100.00%	55,512	(17,863)	(Note 2)	Second-tier Subsidiary

Headway Holdings Limited	Hiking International Co. Ltd.	Hong Kong	Investment holding	27,764	27,764	6,318,000	100.00%	48,884	(7,097)	(Note 2)	Second-tier Subsidiary (Note 1)
Hiking International Co. Ltd.	Hiking Technology (Suzhou) Co., Ltd.	China	Designing, manufacturing, processing and testing equipment and other related products for printed circuit board manufacturing and after-sales service	57,408	27,764	1,623,700	100.00%	50,006	(8,434)	(Note 2)	Third-tier Subsidiary (Note 1)

Note 1 : Investment income(loss) recognized by the financial statements of the same period audited by other auditors.

Note 2 : Subsidiaries and investments accounted for under the equity method were not invested directly by the Company is not required to disclose.

Attachment 4 (Investment in Mainland China as of December 31, 2018)

Unit: Amount in thousands of NTD

Investee Company	Main Businesses and Products	Total amount of paid-in capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Percentage of ownership	Investment income (loss) recognized (Note 2)	Carrying amount as of December 31,2018	Accumulated inward remittance of earnings as of December 31, 2018
					Outflow	Inflow					
Hiking Technology (Suzhou) Co., Ltd.	Designing, manufacturing, processing and testing equipment and other related products for printed circuit board manufacturing and after-sales service	$52,700	(Note 1.(2))	$27,764	$-	$-	$27,764	100%	$(8,434) (Note 2.(2).c)	$50,006	$-
The Kong King Technology (Suzhou) Co., Ltd.	Electronic materials, machinery and precision equipment retailing, information software service and international trade business	82,038	(Note 1.(1))	49,538	-	-	49,538	100%	(17,863) (Note 2.(2).c)	55,512	-

Accumulated investment in Mainland China as of December 31, 2018	Investment amounts authorized by Investment Commission, MOEA	Upper limit on investment
$77,302	$108,264	$488,559

Note 1：The methods for engaging in investment in Mainland China include the following:

(1) Remittance from third-region companies to invest in Mainland China.

(2) Indirectly investment in Mainland China through companies registered in a third region.

(3) Through transferring the investment to third-region existing companies then investing in Mainland China.

(4) Others.

Note 2：Information of the investment income (loss) recognized in current period include the following:

(1) Noted when investment income (loss) was not showed as the financial statement is not yet prepared.

(2) The investment income (loss) were determined based on the following basis:

a. The financial report was audited by an international certified public accounting firm in cooperation with an R.O.C accounting firm.

b. The financial statements were audited by the auditors of the parent company.

c. Others.

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Independent Auditors' Report Translated from Chinese

To TAIWAN KONG KING CO., LTD.

Opinion

We have audited the accompanying parent company only balance sheets of TAIWAN KONG KING CO., LTD. (the "Company") as of December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the parent company only financial statements, including the summary of significant accounting policies (together "the parent company only financial statements").

In our opinion, based on our audits and the reports of other auditors (please refer to the *Other Matter – Making Reference to the Audits of a Component Auditors* section of our report), the parent company only financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the parent company only Financial Statements* section of our report. We are independent of the Company in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Allowance for impairment losses of accounts receivables

Accounts receivables and allowance for impairment losses by the Company amounted to NT$169,509 thousand and NT$449 thousand as of December 31, 2018, respectively. The net amount of accounts receivables was approximately 16% of total assets and which is significant to the Company. Considering the assessment of allowance for impairment losses is measured by lifetime expected credit loss; the process of measurement must appropriately divide accounts receivables into groups, determine and analyze the use of relevant assumptions in the process of measurement, including appropriate aging intervals, the aging loss rate for each interval and the use of forward-looking information, that reflected the measurement of the expected credit loss involving judgment, analysis and estimates, and the result of measurement affect the net amount of accounts receivables, we determined this as a key audit matter.

Our audit procedures included, but not limited to, evaluating whether the accounting policy and the loss rate are reasonable; testing provision matrix, including evaluating the appropriateness of aging intervals and the accuracy of raw data by vouching them to supporting evidences, testing statistical information for the credit loss rate computed by roll rate over a one-year period, considering the reasonableness of forward-looking information used on the credit loss rate, and evaluating whether such forward-looking information would affect credit loss rate. When performing internal control, randomly selecting sales orders and vouching them to aging schedule to ensure the accuracy of aging intervals of accounts receivables; confirming whether the customer properly grouped by significantly different loss types, and evaluating the reasonableness of management's estimates of assumptions. In addition, performing the analytical review procedure to identify whether any material unusual fluctuations between the two-period of accounts receivables turnover exist. Also, reviewing the collections of accounts receivables during the subsequent period for customers with material period-end balances.

We also assessed the adequacy of disclosures of accounts receivables. Please refer to Note 5, 6 and 12 to the parent company only financial statements.

Valuation of inventories

Net inventories by the Company amounted to NT$20,998 thousand, was approximately 2% of total assets as of December 31, 2018 and which is significant to the Company. Considering the possibility of impairment of the inventory driven by economic conditions, the industry competition, and the unexpected decrease of total sales, we determined this as a key audit matter.

Our audit procedures included, but not limited to, understanding the internal control of management's inventory valuation process. When performing internal control, sampling purchase orders and vouching them to supporting evidences to ensure the inventory aging and the calculation of write-downs from slow-moving inventories are accurate and reasonable; performing the analytical review procedure to assess whether any material unusual fluctuation of ending balances, inventory turnover and gross margin per product between the year ended December 31, 2018 and the prior year exists; sampling sales orders and purchase orders to verify the calculation of allowance for inventory valuation losses to evaluate whether the valuation of inventories is appropriate.

We also assessed the adequacy of disclosures of inventories. Please refer to Note 4, 5 and 6 to the parent company only financial statement.

Other Matter – Making Reference to the Audits of Component Auditors

We did not audit the financial statements of certain subsidiaries, associates and joint ventures accounted for under the equity method. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the reports of other auditors. These subsidiaries, associates and joint ventures under equity method amounted to NT$105,107 thousand and NT$127,909 thousand, representing 10% and 13% of total assets as of December 31, 2018 and 2017, respectively. The related shares of profits (loss) from the subsidiaries, associates and joint ventures under the equity method amounted to NT$(25,426) thousand and NT$(10,951) thousand, representing (34)% and (37)% of the income before tax for the years ended December 31, 2018 and 2017, respectively, and the related shares of other comprehensive income (loss) from the subsidiaries, associates and joint ventures under the equity method amounted to NT$(3,505) thousand and NT$5,963 thousand, representing 67% and (41)% of the comprehensive income (loss) for the years ended December 31, 2018 and 2017, respectively.

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

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

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

Those charged with governance, including the audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company.

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

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

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

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

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the 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 2018 parent company only financial statements 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.

HSU, JUNG-HUANG

LIN, LI-HUANG

Ernst & Young, Taipei, Taiwan
March 5, 2019

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese

TAIWAN KONG KING CO., LIMITED

PARENT COMPANY ONLY BALANCE SHEETS

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		As of December 31,	
	NOTES	2018	2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4,6&12	$301,341	$286,682
Notes receivable, net	4,6&12	1,096	461
Accounts receivable, net	4,6&12	168,158	111,419
Accounts receivable-related parties, net	6,7&12	902	450
Other receivables	12	2,057	3,289
Other receivables-related parties, net	7&12	532	768
Current tax assets		4,017	3,526
Inventories, net	4&6	20,998	22,347
Prepayments		15,747	23,083
Other current assets		3,631	4,559
Total Current Assets		518,479	456,584
NON-CURRENT ASSETS			
Financial assets at fair value through profit or loss, noncurrent	4,6&12	14,123	-
Financial assets at fair value through other comprehensive income, noncurrent	4,6&12	18,400	-
Available-for-sale financial assets, noncurrent	4,6&12	-	13,843
Financial assets measured at cost, noncurrent	4,6&12	-	30,000
Investments accounted for using equity method	4&6	293,829	254,964
Property, plant and equipment	4&6	146,709	160,575
Investment property, net	4&6	19,418	19,632
Intangible assets	4&6	2,222	1,755
Deferred tax assets	4&6	18,359	12,085

Other noncurrent assets		4&12	9,441	11,054
	Total Non-Current Assets		522,501	503,908
TOTAL ASSETS			$1,040,980	$960,492

(continued)

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese

TAIWAN KONG KING CO., LIMITED

PARENT COMPANY ONLY BALANCE SHEETS

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		As of December 31,	
	NOTES	2018	2017
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Contract liabilities, current	6	$16,259	$-
Notes payable	12	16	49
Accounts payable	12	76,196	45,153
Accounts payable-related parties, net	7&12	34,477	30,033
Other payables	12	50,451	38,560
Other payables-related parties	7&12	139	4,859
Current tax liabilities	4	18,700	-
Other current liabilities		799	26,548
Total Current Liabilities		197,037	145,202
NON-CURRENT LIABILITIES			
Non-current provisions	4	28,375	32,212
Deferred tax liabilities	4&6	1,279	28
Other non-current liabilities		24	24
Total Non-Current Liabilities		29,678	32,264
TOTAL LIABILITIES		226,715	177,466
EQUITY			
Capital	6		
Common stock		362,888	362,888
Total Capital stock		362,888	362,888
Additional paid-in capital	6	46,759	49,699
Retained earnings			

Legal reserve	251,247	248,797
Special reserve	11,697	-
Unappropriated earnings	165,642	133,339
Total Retained earnings	428,586	382,136
Other components of equity	(23,968)	(11,697)
TOTAL EQUITY	814,265	783,026
TOTAL LIABILITIES AND EQUITY	$1,040,980	$960,492

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

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese

TAIWAN KONG KING CO., LIMITED

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

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

ITEM	NOTES	For the years ended December 31, 2018	2017
OPERATING REVENUES	4,6&7	$856,148	$625,817
COST OF GOODS SOLD	4&7	(591,566)	(426,076)
GROSS PROFIT		264,582	199,741
OPERATING EXPENSES	4&7		
Sales and marketing expense		(137,024)	(125,932)
General and administrative expense		(46,405)	(42,892)
Total Operating Expense		(183,429)	(168,824)
OPERATING INCOME		81,153	30,917
NON-OPERATING INCOME AND EXPENSES			
Other income	6	8,567	8,670
Other gains and losses	6	6,347	(3,432)
Share of profit (loss) of subsidiaries, associates and joint ventures accounted for using equity method, net		(21,218)	(6,864)
Subtotal		(6,304)	(1,626)
INCOME BEFORE INCOME TAX		74,849	29,291
INCOME TAX EXPENSE	4&6	(15,684)	(4,795)
PROFIT FROM CONTINUING OPERATIONS		59,165	24,496
NET INCOME		59,165	24,496
OTHER COMPREHENSIVE (LOSS) INCOME	6		
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit pension plans		3,259	(2,993)
Unrealized gains (losses) from investments in equity instruments measured at fair value through other		(9,604)	-

comprehensive income			
Income tax related to items that will not be reclassified subsequently		1,222	474
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		5,181	(16,903)
Unrealized gains (losses) on valuation of available-for-sale financial assets		-	(3,917)
Share of other comprehensive income of associates and joint ventures			
accounted for using equity method		(5,307)	8,037
Income tax related to items that may be reclassified subsequently		-	666
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME		(5,249)	(14,636)
TOTAL COMPREHENSIVE INCOME		$53,916	$9,860
Earnings per share (NTD)			
Basic earnings per share	6		
Basic earnings (loss) per share from continuing operations		1.63	0.68

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

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese

TAIWAN KONG KING CO., LIMITED

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

			Retained earnings			Other components of equity			
	Capital	Additional paid-in capital	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains or losses on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total equity
Balance as of January 1, 2017	$362,888	$49,699	$241,430	$-	$184,775	$(7,515)	$-	$7,935	$839,212
Appropriation and distribution of 2016 retained earnings:									
Legal reserve	-	-	7,367	-	(7,367)	-	-	-	-
Cash Dividends	-	-	-	-	(66,046)	-	-	-	(66,046)
Net income for the year ended December 31, 2017	-	-	-	-	24,496	-	-	-	24,496

Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(2,519)	(8,866)	-	(3,251)	(14,636)
Total comprehensive income	-	-	-	-	21,977	(8,866)	-	(3,251)	9,860
Balance as of December 31, 2017	$362,888	$49,699	$248,797	$-	$133,339	$(16,381)	$-	$4,684	$783,026
Balance as of December 31, 2017	$362,888	$49,699	$248,797	$-	$133,339	$(16,381)	$4,684	$-	$783,026
Impact of retroactive applications	-	-	-	-	4,684	-	(4,462)	-	222
Adjusted balance as of January 1, 2018	362,888	49,699	248,797	-	138,023	(16,381)	222	-	783,248
Appropriation and distribution of 2017 retained earnings:									
Legal reserve	-	-	2,450	-	(2,450)	-	-	-	-
Special reserve	-	-	-	11,697	(11,697)	-	-	-	-
Cash dividends	-	-	-	-	(19,959)	-	-	-	(19,959)
Other changes in capital surplus:									
Difference between consideration and carrying amount of subsidiaries	-	(2,940)	-	-	-	-	-	-	(2,940)

acquired									
Net income for the year ended December 31, 2018	-	-	-	-	59,165	-	-	-	59,165
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	2,560	(126)	(7,683)	-	(5,249)
Total comprehensive income	-	-	-	-	61,725	(126)	(7,683)	-	53,916
Balance as of December 31, 2018	$362,888	$46,759	$251,247	$11,697	$165,642	$(16,507)	$(7,461)	$-	$814,265

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

Note:

The Company recognized the employees' compensation and remuneration to directors and supervisors on December 31, 2018 were NT$764 thousand and NT$764 thousand, respectively.

The Company recognized the employees' compensation and remuneration to directors and supervisors on December 31, 2017 were NT$299 thousand and NT$299 thousand, respectively.

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese

TAIWAN KONG KING CO., LIMITED

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

ITEM	For the years ended December 31, 2018	For the years ended December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before tax	$74,849	$29,291
Adjustments to reconcile net income before tax to net cash provided by operating activities:		
Depreciation expense	14,596	14,573
Amortization expense	1,248	637
Net loss on financial assets or liabilities at fair value through profit or loss	(279)	-
Interest income	(4,441)	(4,649)
Share of loss (profit) of associates and joint ventures accounted for using equity method	21,218	6,864
Gains on disposals of investments	-	-
Gain on disposal of property, plant and equipment	(1,944)	(3,486)
Total adjustments to reconcile profit (loss)	30,398	13,939
Changes in operating assets and labilities:		

ITEM	For the years ended December 31, 2018	For the years ended December 31, 2017
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of investments accounted for using equity method	(64,417)	-
Acquisition of property, plant and equipment	(1,568)	(10,619)
Disposal of property, plant and equipment	2,500	3,486
Acquisition of intangible assets	(1,716)	(1,493)
Decrease (increase) in refundable deposits	1,613	(5,951)
Net cash used in investing activities	(63,588)	(14,577)

(Increase) decrease in notes receivable	(635)	679
(Increase) decrease in accounts receivable	(56,739)	75,737
(Increase) decrease in accounts receivable-related parties	(452)	2,912
Decrease (increase) in other receivable	1,232	(724)
Decrease (increase) in other receivable-related parties	236	(139)
Decrease in inventories	1,350	7,106
Decrease (increase) in prepayments	7,336	(18,726)
Decrease in other current assets	1,426	886
Increase in contract liabilities	16,259	-
Decrease in notes payable	(33)	(32)
Decrease (increase) in accounts payable	31,043	(63,323)
Decrease in accounts payable-related parties	4,444	6,820
Increase (decrease) in other payable	11,891	(13,037)
(Decrease) increase in other payable-related parties	(4,721)	4,836
(Decrease) increase in other current liabilities	(25,750)	22,370
Decrease in provisions	(342)	(394)
Total changes in operating assets and liabilities	(13,455)	24,971
Cash generated from operations	91,792	68,201
Interest received	4,440	4,649
Dividends received	3,306	9,106

CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(19,959)	(66,046)
Net cash used in financing activities	(19,959)	(66,046)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,659	(11,224)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	286,682	297,906
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$301,341	$286,682

Income taxes paid	(1,332)	(12,557)
Net cash flows from operating activities	98,206	69,399

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

TAIWAN KONG KING CO., LIMITED
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. HISTORY AND ORGANIZATION

Taiwan Kong King Co., Limited ("the Company") was incorporated commenced operations on June 14, 1977. The Company trades high-end technology equipment, sells raw materials, and provides customer services as an agent. The Company's registered office and the main business location is at 5F.-1, No.66, Sec. 2, Nankan Rd., Luzhu Dist., Taoyuan City 338, Taiwan (R.O.C.). Wong's Kong King International (Holdings) Limited is the Company's parent and the ultimate controlling entity of the Company.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The parent company only financial statements of the Company were authorized for issued by the Company's Board of Directors' meeting on March 5, 2019.

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

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2018. Except for the following, the Company has evaluated and concluded that the other new or amended standards and interpretations have no material effect on the Company:

A. *IFRS 15 "Revenue from Contracts with Customers" (including Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers")*

IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations. In accordance with the transition provision in IFRS 15, the Company elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Company also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Company's principal activities consist of the sale of goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Company are summarized as follows:

a. Please refer to Note 4 for the accounting policies before and after January 1, 2018.

b. Before January 1, 2018, revenue from sale of goods was recognized when goods have been delivered to the buyer. Starting from January 1, 2018, in accordance with IFRS 15, the Company recognized revenue when (or as) the Company satisfies a performance obligation by transferring a promised good to a customer. However, for some contracts, if the Company has charged partial payment from customers as a contract signed, but has an obligation to provide a promised good in the future, these contacts should be presented as contract liabilities. It is different from the accounting treatment of recognizing other current liabilities before the date of initial application. Starting from January 1, 2018, the Company recognized the amount NT$21,652 thousand from other current liabilities to contract liabilities. To compare with the requirements of IAS 18, the other current liabilities decreased by NT$16,259 thousand and the contract liabilities increased by NT$16,259 thousand as at 31 December 2018. IFRS 15 has no impact on the Company's revenue recognition from sale of goods.

c. Before 1 January 2018, revenue from services rendering was recognized by the percentage of costs incurred by each individual contract for work performed over the estimated total contract costs. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. Starting from January 1, 2018, in accordance with IFRS 15, the Company recognized revenues when the Company satisfies a performance obligation by transferring promised service to a customer, that has no significant impact on the Company's revenue recognition from services rendering.

d. Please refer to Note 4, Note 5 and Note 6 for additional disclosure note required by IFRS 15.

B. *IFRS 9 "Financial Instruments"*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. In accordance with the transition provision in IFRS 9, the Company elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Company:

a. The Company adopted IFRS 9 since January 1, 2018 and adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.

b. In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications of financial assets and its carrying amounts as at January 1, 2018 are as follow:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
Fair value through other comprehensive income		Fair value through profit or loss	$13,843
Available for sale financial assets (including NT$30,000 thousand measured at cost)	$43,843	Fair value through other comprehensive income	27,550
At amortized cost		At amortized cost (including cash and cash equivalents, notes receivables, accounts receivables, financial assets at amortised cost and other receivables)	413,618
Loans and receivables (including cash and cash equivalents, notes receivables, accounts receivables, other receivables and guarantee deposits paid)	413,618		
Total	$457,461	Total	$455,011

c. Further disclosure of the changes in the classifications of financial assets and financial liabilities on the transition from IAS 39 to IFRS 9 as at January 1, 2018 are as follow:

IAS 39		IFRS 9				
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts	Difference	Retained earnings Adjustment	Other components of equity Adjustment
Available for sale financial assets (including the original investment cost of NT$30,000 thousand and separate presentation by cost)(Note 1)	$43,843	Fair value through profit or loss	$13,843	$-	$-	$-
		Fair value through other comprehensive income (Equity tools)	27,550	-	-	-
Subtotal	43,843		41,393	(2,450)	4,684	(7,134)
Loans and receivables (Note 2)						
Cash and cash equivalents (exclude cash on hand)	286,177	Cash and cash equivalents (exclude cash on hand)	286,177	-	-	-
Notes receivables	461	Notes receivables	461	-	-	-
Accounts receivables	111,869	Accounts receivables	111,869	-	-	-
Other receivables	4,057	Other receivables	4,057	-	-	-
Guarantee deposits paid	11,054	Guarantee deposits paid	11,054	-	-	-
Subtotal	413,618		413,618	-	-	-
Total	$457,461	Total	$455,011		$4,684	$(7,134)

The changes in the classifications of non-financial assets and non-financial liabilities on the transition from IAS 39 to IFRS 9 as at January 1, 2018 are as follow:

IAS 39		IFRS 9				
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts	Difference	Retained earnings Adjustment	Other components of equity Adjustment
Investments accounted for using equity method	$254,964	Investments accounted for using equity method	$257,692	$2,728	$-	$2,728
Deferred tax assets	12,085	Deferred tax assets	12,029	(56)	-	(56)

Note 1: In accordance with of IAS 39, the Company's available-for-sale financial assets included investments in funds, stocks and bonds of listed companies and stocks of unlisted companies. Adjustment details are described as follow:

Stocks (including listed and unlisted companies)

The Company assessed the facts and circumstances existed as at 1 January 2018, and determined these stocks were not held-for-trading; therefore, so the Company elected to designate them as financial assets measured at fair value through other comprehensive income. As at 1 January 2018, the Company reclassified available-for-sale financial assets (including measured at cost) to financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss by NT$27,550 thousand and NT$13,843 thousand, respectively. Other related adjustments are described as follow:

In accordance with IFRS 9, stocks of unlisted companies must be measured at fair value and shall not recognize impairment. The Company measured the fair value of the stocks of unlisted companies as at 1 January 2018; accordingly, the Company adjusted the carrying amount of financial assets measured at fair value through other comprehensive income of NT$27,550 thousand, financial assets measured at fair value through profit or loss of NT$13,843 thousand; also, adjusted available for sale financial assets by NT$(43,843) thousand, retained earnings by NT$4,684 thousand, other equity by NT$(7,134) thousand, and deferred tax assets by NT$490 thousand.

Note 2: In accordance with IAS 39, the cash flow characteristics for held-to-maturity investments and loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at 1 January 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arised from the assessment of impairment losses for the aforementioned assets as at 1 January 2018. Therefore, there is no impact on the carrying amount as at 1 January 2018.

d. Other impact

In accordance with IFRS 9, the Company adjusted the carrying amounts of investment accounted for using equity method by NT$2,728 thousand, other equity by NT$2,672 thousand and deferred tax assets by NT$(546) thousand.

e. Please refer to Note 4, Note 5, Note 6 and Note 12 for the related disclosures note required by IFRS 7 and IFRS 9.

(2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board ("IASB") which are endorsed by FSC, but not yet adopted by the Company at the end of the reporting period as listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
A	IFRS 16 "Leases"	1 January 2019
B	IFRIC 23 "Uncertainty Over Income Tax Treatments"	1 January 2019
C	IAS 28 "Investment in Associates and Joint Ventures" - Amendments to IAS 28	1 January 2019
D	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
E	Improvements to International Financial Reporting Standards (2015-2017 cycle)	1 January 2019
F	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

A. *IFRS 16 "Leases"*

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the statements of comprehensive income. Besides, lessors' classification remains unchanged as operating or finance leases, but additional disclosure information is required.

B. *IFRIC 23 "Uncertainty Over Income Tax Treatments"*

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

C. *IAS 28"Investment in Associates and Joint Ventures" - Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

D. *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

E. *Improvements to International Financial Reporting Standards (2015-2017 cycle):*

IFRS 3 "Business Combinations"
The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 "Joint Arrangements"
The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 "Income Taxes"
The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 "Borrowing Costs"
The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

F. *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2019. Apart from the impact of the standards or interpretations which is described below, the remaining standards and interpretations have no material impact on the Company:

A. <u>IFRS 16 *"Leases"*</u>

IFRS 16 *"Leases"* replaces 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"*. The impact arising from the adoption of IFRS 16 on the Company are summarized as follows:

a. For the definition of a lease, the Company elects not to reassess whether a contract is, or contains, a lease at the date of initial application (1 January 2019) in accordance with the transition provision in IFRS 16. Instead, the Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

<u>Leases classified as operating leases</u>

For leases that were classified as operating leases applying IAS 17, the Company expects to measure and recognize those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 January 2019 and; the Company chooses, on a lease-by-lease basis, to measure the right-of-use asset at either:

(i) its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate on 1 January 2019; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before 1 January 2019.

b. The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.

(3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Company's financial statements are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
A	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
B	IFRS 17 "Insurance Contracts"	1 January 2021
C	Definition of a Business (Amendments to IFRS 3)	1 January 2020
D	Definition of Material (Amendments to IAS 1 and 8)	1 January 2020

A. *IFRS 10 "Consolidated Financial Statements" and IAS 28"Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

B. *IFRS 17 "Insurance Contracts"*

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a company of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

(a) estimates of future cash flows;
(b) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
(c) a risk adjustment for non-financial risk.

The carrying amount of a company of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

C. *Definition of a Business (Amendments to IFRS 3)*

The amendments clarify the definition of a business in IFRS 3 *Business Combinations*. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

D. *Definition of a Material (Amendments to IAS 1 and 8)*

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC, the local effective dates are to be determined by FSC. The Company has assessed the standards and interpretations have no material impact on the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The parent company only financial statements of the Company for the years ended December 31, 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

(2) Basis of preparation

According to article 21 of the Regulations, the profit or loss and other comprehensive income presented in the parent company only financial reports are the same as the allocations of profit or loss and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports are the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis. Therefore, the investments in subsidiaries are disclosed under "Investments accounted for using the equity method" in the parent company only financial report and changes in value are adjusted.

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value. The parent company only financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

(3) Foreign currency transactions

The Company's parent company only financial statements are presented in thousands of New Taiwan Dollars ("NT$"), which is also the Company's functional currency.

Transactions in foreign currencies are initially recorded at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

(a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

(b) Foreign currency items within the scope of IFRS 9 *Financial Instruments* (Before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are accounted for based on the accounting policy for financial instruments.

(c) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(4) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following partial disposals are accounted for as disposals:

(a) when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
(b) when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(5) Current and non-current distinction

An asset is classified as current when:

(a) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
(b) The Company holds the asset primarily for the purpose of trading
(c) The Company expects to realize the asset within twelve months after the reporting period
(d) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

(a) The Company expects to settle the liability in its normal operating cycle
(b) The Company holds the liability primarily for the purpose of trading
(c) The liability is due to be settled within twelve months after the reporting period
(d) The Company 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 the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within 12 months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Financial instruments

Financial assets and liabilities shall be recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities within the scope of IFRS 9 *Financial Instruments* (Before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: recognition and measurement

<u>The accounting policy from January 1, 2018 as follow</u>:

The Company accounts for regular way purchase or sales of financial assets on the trade date.

The Company classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

a. the Company’s business model for managing the financial assets and
b. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, accounts receivables, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

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

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

a. purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
b. financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

a. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
b. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
c. Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

   (a) Purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
   (b) Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Company made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets were classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

The accounting policy before January 1, 2018 as follow:

The Company accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Company are classified as available-for-sale financial assets and loans and receivables. The Company determines the classification of its financial assets at initial recognition.

Available-for-sale financial assets

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

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

B. Impairment of financial assets

The accounting policy from January 1, 2018 as follow:

The Company recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Company measures expected credit losses of a financial instrument in a way that reflects:

a. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b. the time value of money; and
c. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follow:

a. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
b. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
c. For accounts receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has been increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policy before January 1, 2018 as follow:

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

a. significant financial difficulty of the issuer or obligor; or
b. a breach of contract, such as a default or delinquency in interest or principal payments; or
c. it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
d. the disappearance of an active market for that financial asset because of financial difficulties.

For loans and receivables measured at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a ccompany of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

C. Derecognition of financial assets

A financial asset is derecognized when:

a. The rights to receive cash flows from the asset have expired
b. The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
c. The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Financial liabilities and equity instruments

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 *Financial Instruments* (before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(8) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(a) In the principal market for the asset or liability, or
(b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(9) Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials – Purchase cost on a first in, first out basis

Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Starting from 1 January 2018, rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

(10) Investment accounted for using equity method

The Company's investment in subsidiaries is accounted for using the equity method according to article 21 of the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The investments in subsidiaries will be disclosed under "Investments accounted for using the equity method" in the parent company only financial report and change in value will be adjusted. The profit or loss and other comprehensive income presented in the parent company only financial reports will be the same as the allocations of profit or loss and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports will be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis.

The Company's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the Company's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Company's percentage of ownership interests in the associate or joint venture, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 *Investments in Associates and Joint Ventures* (before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*). If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 *Impairment of Assets*. In determining the value in use of the investment, the Company estimates:

(a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
(b) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate or joint venture, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

(11) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. 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 is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	4～56 years
Machinery and equipment	3～10 years
Transportation equipment	4～6 years
Office equipment	3～6 years
Leasehold improvements	3～5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(12) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the cost model in accordance with the requirements of IAS 16 for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal Company that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	30～50 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

(13) Leases

Company as a lessee

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(14) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 5 years).

A summary of the policies applied to the Company's intangible assets is as follows:

	Computer software
Useful lives	Finite
Amortization method used	Amortized on a straight-line basis over the estimated useful life
Internally generated or acquired	Acquired

(15) Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Companys of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or Companys of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (Company of units), then to the other assets of the unit (Company of units) pro rata on the basis of the carrying amount of each asset in the unit (Company of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(16) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

When the obligation occurs during a period of time, the liabilities for levies shall be gradually recognized.

Provision for decommissioning, restoration and rehabilitation costs

The provision for decommissioning, restoration and rehabilitation costs arose on construction of a property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

(17) Revenue recognition

The accounting policy from January 1, 2018 as follow:

The Company’s revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policies are explained as follow:

A. Sale of goods

The Company manufactures and sells machinery. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Company is high-end machinery and revenue is recognized based on the consideration stated in the contract.

The Company provides its customer with a warranty with the purchase of the products. The warranty provides assurance that the product will operate as expected by the customers. And the warranty is accounted in accordance with IAS 37.

The credit period of the Company's sale of goods is from 30 to 150 days. For most of the contracts, when the Company transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as accounts receivables. The Company usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

B. Rendering of services

The Company provides maintenance services for the sale of high-end machinery. Such services are separately priced or negotiated, provided based on the numbers of operation. Accordingly, the Company recognized revenues when the Company satisfied a performance obligation at a point in time.

Most of the contractual considerations of the Company are collected evenly throughout the contract periods. When the Company has performed the services to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. However, for some rendering of services contracts, part of the consideration was received from customers upon signing the contract, and the Company has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component is arised.

<u>Accounting treatment before January 1, 2018 is below</u>:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

A. Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Company; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

B. Dividend income

Revenue is recognized when the Company's right to receive the payment is established.

(16) Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the Company's consolidated financial statements.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

(a) the date of the plan amendment or curtailment, and
(b) the date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(17) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

<u>Current income tax</u>

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
b. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
b. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's parent company only financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Judgement

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the parent company only financial statements:

Operating lease commitment－Company as the lessor

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

(b) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Please refer to Note 6 for more details.

(c) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(d) Accounts receivables–estimation of impairment loss

Starting from 1 January 2018:

The Company estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

Before1 January 2018:

The Company considers the estimation of future cash flows when there is objective evidence showed indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(e) Inventories

Estimates of net realisable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made. Please refer to Note 6 for more details.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of December 31,	
	2018	2017
Cash on hand	$260	$505
Checking and savings accounts	150,887	115,058
Time deposits	150,194	171,119
Total	$301,341	$286,682

(2) Financial assets at fair value through profit or loss, noncurrent

	As of December 31,	
	2018	2017(Note)
Mandatorily measured at fair value through profit or loss:		
Foreign listed stocks	$14,123	

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Financial assets at fair value through profit or loss-noncurrent were not pledged.

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

	As of December 31,	
	2018	2017(Note)
Equity instrument investment measured at fair value through other comprehensive profit and loss：		
Unlisted stocks	$18,400	

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Financial assets at fair value through other comprehensive income-noncurrent were not pledged.

(4) Available-for-sale financial assets, noncurrent

	As of December 31,	
	2018 (Note)	2017
Stocks		$13,843

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Available-for-sale financial assets-noncurrent were not pledged.

(5) Financial assets measured at cost, noncurrent

	As of December 31,	
	2018 (Note)	2017
Stocks		$30,000

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company adopted IAS 39 before 1 January 2018. The above investments in the unlisted entities are measured at cost as the fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

Financial assets measured at cost-noncurrent were not pledged.

(6) Notes receivables

	As of December 31,	
	2018	2017
Notes receivables arising from operating activities	$1,096	$461

(7) Accounts receivables and account receivables-related parties

	As of December 31,	
	2018	2017
Accounts receivables	$168,607	$111,868
Less: loss allowance	(449)	(449)
Subtotal	168,158	111,419
Accounts receivables-parties	902	450
Total	$169,060	$111,869

Accounts receivables were not pledged.

Accounts receivable are generally on 30-150 day terms. The Company adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6.(15) for more details on impairment of accounts receivables. The Company adopted IAS 39 for impairment assessment before January 1, 2018. The movements in the provision for impairment of accounts receivables and accounts receivables-related parties for the year ended December 31, 2017 are as follow: (please refer to Note 12 for more details on credit risk disclosures):

	Individually impaired	Collectively impaired	Total
Balance at January 1, 2017	$-	$449	$449
Charge/(reversal) for the current period	-	-	-
Write off	-	-	-
Balance at December 31, 2017	$-	$449	$449

Accounts receivables -related parties were not pledged.

Aging analysis of accounts receivables and accounts receivables-related parties was as follows:

As at	Neither past due nor impaired	Past due but not impaired					Total
		<=30 days	31~60 days	61~90 days	91~120 days	>=121 days	
December 31, 2017	$111,869	$-	$-	$-	$-	$-	$111,869

(8) Inventories

	As of December 31,	
	2018	2017
Merchandise inventories	$20,998	$22,347

The cost of inventories recognized in expenses amounts to NT$534,630 thousand and NT$366,011 thousand for the years ended December 31, 2018 and 2017, including none of the write-down of inventories.

No inventories were pledged.

(9) Investments accounted for using equity method

The following table lists the investments accounted for using the equity method of the Company:

	As of December 31,			
	2018		2017	
Investee	Amount	%	Amount	%
Investment in subsidiaries:				
Hong Kong Taiwan Kong King Limited	$105,107	99.99%	$127,909	99.99%
TKK Precision Co., Ltd	125,034	100.00%	58,632	50.00%
Headway Holdings Limited	55,578	100.00%	59,824	100.00%
THT Technology Co., Ltd	8,110	94.50%	8,599	62.50%
Total	$293,829		$254,964	

The investments in subsidiaries were disclosed under “Investments accounted for using the equity method” in the parent company only financial report and change in value were adjusted.

(10) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Office equipment	Transportation equipment	Total
Cost:						
As of January 1, 2018	$83,974	$80,468	$90,582	$4,185	$16,728	$275,937
Additions	-	-	914	100	554	1,568
Disposals	-	-	(12,898)	-	-	(12,898)
Other changes	-	-	(496)			(496)
As of December 31, 2018	$83,974	$80,468	$78,102	$4,285	$17,282	$264,111
As of January 1, 2017	$83,974	$80,160	$86,958	$3,612	$16,728	$271,432
Additions	-	308	9,624	687	-	10,619
Disposals	-	-	(6,000)	(114)	-	(6,114)
As of December 31, 2017	$83,974	$80,468	$90,582	$4,185	$16,728	$275,937
Depreciation and impairment:						
As of January 1, 2018	$7,000	$26,813	$66,265	$3,151	$12,133	$115,362
Depreciation	-	2,357	9,593	440	1,992	14,382
Disposals	-	-	(12,342)	-	-	(12,342)
As of December 31, 2018	$7,000	$29,170	$63,516	$3,591	$14,125	$117,402
As of January 1, 2017	$7,000	$24,420	$62,885	$2,849	$9,964	$107,118
Depreciation	-	2,393	9,380	416	2,169	14,358
Disposals	-	-	(6,000)	(114)	-	(6,114)
As of December 31, 2017	$7,000	$26,813	$66,265	$3,151	$12,133	$115,362
Net carrying amount as at:						
December 31, 2018	$76,974	$51,298	$14,586	$694	$3,157	$146,709
December 31, 2017	$76,974	$53,655	$24,317	$1,034	$4,595	$160,575

(11) Investment properties

	Land	Buildings	Total
Cost:			
As of January 1, 2018	$10,749	$11,411	$22,160
Additions from acquisitions	-	-	-
As of December 31, 2018	$10,749	$11,411	$22,160
As of January 1, 2017	$10,749	$11,411	$22,160
Additions from acquisitions	-	-	-
As of December 31, 2017	$10,749	$11,411	$22,160
Depreciation and impairment:			
As of January 1, 2018	$-	$2,528	$2,528
Depreciation	-	214	214
As of December 31, 2018	$-	$2,742	$2,742
As of January 1, 2017	$-	$2,313	$2,313
Depreciation	-	215	215
As of December 31, 2017	$-	$2,528	$2,528
Net carrying amount as at:			
December 31, 2018	$10,749	$8,669	$19,418
December 31, 2017	$10,749	$8,883	$19,632

	For the years ended December 31,	
	2018	2017
Rental income from investment property	$946	$952
Less:		
Direct operating expenses from investment property generating rental income	(214)	(215)
Direct operating expenses from investment property not generating rental income	-	-
Total	$732	$737

No investment properties were pledged.

Investment properties held by the Group are not measured at fair value but for which the fair value is disclosed. The fair value measurements of the investment properties are categorized within Level 3.

The amounts were not assessed by an independent valuer. The fair values of the Company’s investment property on December 31, 2018 were NT$38,263~NT$50,935 thousand, which measured by the Company’s management referring to information on the Department of Land Administration website and actual transactions in the neighborhood area.

The fair values of the Company's investment property on December 31, 2017 was NT$47,493 thousand; the fair value has been determined based on valuations performed by an independent valuer. The valuation method used is the income approach, and the inputs used are discount rates and growth rates:

	December 31, 2017
Capitalization rate	0.92%~1.69%

(12) Intangible Assets

	Computer software
Cost	
As of January 1, 2018	$4,687
Addition-acquired separately	1,716
Disposal	(126)
As of December 31, 2018	$6,277
As of January 1, 2017	$3,194
Addition-acquired separately	1,493
Disposal	-
As of December 31, 2017	$4,687
Amortization and impairment:	
As of January 1, 2018	$2,932
Amortization	1,248
Disposal	(125)
As of December 31, 2018	$4,055
As of January 1, 2017	$2,295
Amortization	637
Disposal	-
As of December 31, 2017	$2,932
Net carrying amount as of:	
December 31, 2018	$2,222
December 31, 2017	$1,755

Amortization expense of intangible assets under the statement of comprehensive income:

	For the years ended December 31,	
	2018	2017
Operating costs	$65	$72
Selling expenses	$135	$-
Administrative expenses	$1,048	$565

(13) Post-employment benefits

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company makes monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plan for the years ended December 31, 2018 and 2017 were NT$5,316 thousand and NT$5,264 thousand, respectively.

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 15% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandating, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute NT$1,080 thousand to its defined benefit plan during the 12 months beginning after December 31, 2018.

As of December 31, 2018, and 2017, the Company expects its defined benefits plan obligation to become due in 2028.

Pension costs recognized in profit or loss are as follows:

	For the years ended December 31,	
	2018	2017
Current period service costs	$885	$898
Net interest on the net defined benefit liabilities (assets)	348	390
Total	$1,233	$1,288

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	As of December 31,	
	2018	2017
Defined benefit obligation	$83,879	$85,257
Plan assets at fair value	(55,504)	(53,045)
Other non-current liabilities - Accrued pension liabilities (assets) recognized on the parent company only balance sheets	$28,375	$32,212

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability (assets)
As at January 1, 2017	$80,590	$(50,771)	$29,819
Current period service costs	898	-	898
Net interest expense (income)	1,128	(738)	390
Subtotal	82,616	(51,509)	31,107
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	2,797	-	2,797
Experience adjustments	(156)	-	(156)
Remeasurements of defined benefit asset	-	147	147
Subtotal	85,257	(51,362)	33,895
Payments from the plan	-	-	-
Contributions by employer	-	(1,683)	(1,683)
As at December 31, 2017	85,257	(53,045)	32,212
Current period service costs	885	-	885
Net interest expense (income)	938	(590)	348
Subtotal	87,080	(53,635)	33,445
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	(6,169)	-	(6,169)
Actuarial gains and losses arising from changes in demographic assumptions	2,407	-	2,407
Experience adjustments	561	-	561
Remeasurements of defined benefit asset	-	(293)	(293)
Subtotal	83,879	(53,928)	29,951
Payments from the plan	-	-	-
Contributions by employer	-	(1,576)	(1,576)
Balance at December 31, 2018	$83,879	$(55,504)	$28,375

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	As of December 31,	
	2018	2017
Discount rates	0.9%	1.1%
Expected rates of salary increase	2.5%	3.5%

The following sensitivity analysis for significant assumption:

	For the years ended December 31,			
	2018		2017	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$4,217	$-	$4,594
Discount rate decrease by 0.5%	4,527	-	4,943	-
Future salary increase by 0.5%	3,939	-	4,296	-
Future salary decrease by 0.5%	-	3,721	-	4,052

The sensitivity analysis above is based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(14) Equities

A. Common stock

The Company's authorized capital and issued capital was NT$450,000 thousand and NT$362,888 thousand as at December 31, 2018 and 2017, each at a par value of NT$10 for 36,289 thousand shares. Each share has one voting right and a right to receive dividends.

B. Capital surplus

	As of December 31,	
	2018	2017
Additional paid-in capital	$36,000	$36,000
Difference between consideration given/ received and carrying amount of interests in subsidiaries acquired / disposed of	10,759	13,699
Total	$46,759	$49,699

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

C. Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

a. Payment of all taxes and dues;
b. Offset prior years' operation losses;
c. Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve;
d. Set aside or reverse special reserve in accordance with law and regulations; and
e. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Details of the 2017 and 2016 earnings distribution and dividends per share as approved by the shareholders' meeting on June 20, 2018 and June 21, 2017, respectively, are as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2017	2016	2017	2016
Legal reserve	$2,450	$7,367		
Special reserve	11,697	-		
Common stock - cash dividend	19,959	66,046	$0.55	$1.82

Please refer to Note 6.(14) for details on employees' compensation and remuneration to directors and supervisors.

(15) Operating revenues

	December 31, 2018 (Note)	December 31, 2017
Sale of goods		$513,179
Revenue arising from rendering of services		112,638
Total		$625,817

Note: The Company has adopted IFRS 15 from 1 January 2018. The Group elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (1 January 2018).

The Company has adopted IFRS 15 from January 1, 2018. Analysis of revenue from contracts with customers during the year is as follows:

A. Disaggregation of revenue

	Customer Service Dept	Electronics Dept	PCB Dept	Production Dept	Total
Sales revenue	$115,898	$307,779	$274,844	$-	$698,521
Rendering of services	28,289	20,311	109,027	-	157,627
Total	$144,187	$328,090	$383,871	$-	$856,148
Timing of revenue recognition:					
At a point in time	$144,187	$328,090	$383,871	$-	$856,148

B. Contract balances

Contract liabilities - current

	Beginning balance	Ending balance	Difference
Sales of goods	$21,652	$16,259	$(8,678)

During the period, contract liabilities changed because the timing of fulfillment of performance obligations and payments from customers were different, and NT$21,652 thousand included in the contract liability balance at the beginning of the period was recognized as revenue during the period when performance obligations were satisfied.

(16) Expected credit losses/(gains)

	2018	2017 (note)
Operating expenses – Expected credit losses/(gains)	$-	

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12 for more details on credit risk.

The Company measures the loss allowance of its accounts receivables (including note receivables and accounts receivables) at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance as at December 31, 2018 is as follow:

A. the gross carrying amount of accounts receivables is NT$170,605 thousand, its loss allowance amounting to NT$499 thousand which is measured at expected credit loss ratio of 0.26%.

B. based on past experience, the Company considers its accounts receivables as a single group and its loss allowance is measured by using a provision matrix, details are as follow:

	Not yet due	Overdue <=30 days	Overdue 31-60 days	Overdue 61-90 days	Overdue 91-120 days	Overdue >=121 days	Total
Gross carrying amount	$170,605	$-	$-	$-	$-	$-	$170,605
Loss ratio	0.26%						0.26%
Lifetime expected credit losses	449	-	-	-	-	- -	449
Total	$170,605	$-	$-	$-	$-	$-	$170,156

The movement in the provision for impairment of note receivables and accounts receivables during the year ended December 31, 2018 is as follows:

	Accounts receivables
Beginning balance (in accordance with IAS 39)	$449
Transition adjustment to retained earnings	-
Beginning balance (in accordance with IFRS 9)	449
Addition/(reversal) for the current period	-
Ending balance	$449

(17) Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended December 31, 2018 and 2017:

	2018				2017			
	Operating costs	Operating expenses	Non-operating expenses	Total amount	Operating costs	Operating expenses	Non-operating expenses	Total amount
Employee benefits expense								
Salaries	$15,985	$121,835	$-	$137,820	$16,126	$106,099	$-	$122,225
Labor and health insurance	1,358	8,935	-	10,293	1,378	9,029	-	10,407
Pension	810	5,245	-	6,055	870	5,683	-	6,553
Remuneration to directors	-	588	-	588	-	230	-	230
Other employee benefits expense	977	4,833	-	5,860	932	5,303	-	6,235
Depreciation	8,042	6,340	214	14,596	9,420	4,938	215	14,573
Amortization	65	1,183	-	1,248	72	565	-	637

As of December 31, 2018, and 2017, the number of the Company's employee were 138 and 150, including 6 non-employee directors.

According to the Articles of Incorporation, 1%-8% of profit of the current year is distributable as employees' compensation, and no higher than 1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash and as remuneration to directors and supervisors only in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on the profit of the year ended 31 December 2018, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2018 to be 1% of profit of the current year, recognized as the employees' compensation and remuneration to directors and supervisors were both NT$764 thousand. The amounts of the employees' compensation and remuneration to directors and supervisors recognized for the year ended December 31, 2017 were both NT$299 thousand. The estimated amounts were based on the profit of current period and were recognized as salaries. A resolution was passed at a board of Directors meeting held on March 23, 2018 to distribute NT$299 thousand in cash as employees' compensation and remuneration to directors and supervisors of 2017, respectively. Difference between the estimated amount and the actual distribution passed at the Board of Directors' meeting are recognized in profit or loss of the subsequent year.

No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended December 31, 2017.

(18) Non-operating income and expenses

A. Other income

	For the years ended December 31,	
	2018	2017
Rental income	$1,152	$1,061
Interest income	4,441	4,649
Others	2,974	2,960
Total	$8,567	$8,670

B. Other gains and losses

	For the years ended December 31,	
	2018	2017
Gains on disposal of property, plant and equipment	$1,944	$3,486
Foreign exchange (losses) gains, net	4,556	(6,526)
Gains on financial assets at fair value through profit or loss (Note)	279	-
Others	(432)	(392)
Total	$6,347	$(3,432)

Note: Balance in current period was arising from financial assets mandatorily measured at fair value through profit or loss.

(19) Components of other comprehensive income

For the year ended December 31, 2018

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurement of defined benefit plans	$3,259	$-	$3,259	$(699)	$2,560
Unrealized gains (losses) from equity instruments measured at fair value through other comprehensive income	(9,604)	-	(9,604)	1,921	(7,683)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	5,181	-	5,181	-	5,181
Share of profit of associates and joint ventures accounted for using equity method	(5,307)	-	(5,307)	-	(5,307)
Total	$(6,471)	$-	$(6,471)	$1,222	$(5,249)

For the year ended December 31, 2017

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurement of defined benefit plans	$(2,993)	$-	$(2,993)	$474	$(2,519)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(16,903)	-	(16,903)	-	(16,903)
Unrealized gains (losses) from available-for-sale financial assets	(3,917)	-	(3,917)	666	(3,251)
Share of profit of associates and joint ventures accounted for using equity method	8,037	-	8,037	-	8,037
Total	$(15,776)	$-	$(15,776)	$1,140	$(14,636)

(20) Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

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

Income tax expense (income) recognized in profit or loss

	For the years ended December 31, 2018	2017
Current income tax expense (income):		
Current income tax charge	$20,943	$3,782
Adjustments in respect of current income tax of prior periods	(1,402)	(1,351)
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	(1,729)	2,364
Deferred tax expense (income) relating to changes in tax rate	(2,128)	-
Total income tax expense	$15,684	$4,795

Income tax recognized in other comprehensive income

	For the years ended December 31,	
	2018	2017
Deferred tax expense (income):		
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	$(1,921)	$-
Unrealised gains (losses) on valuation of available-for-sale financial assets	-	(666)
Gains (losses) on remeasurement of defined benefit plan	699	(474)
Income tax relating to components of other comprehensive income	$(1,222)	$(1,140)

For the year ended December 31, 2018

	Beginning balance (Note)	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Pension	$8,245	$1,387	$(699)	$8,933
Allowance for inventory valuation losses	1,444	255	-	1,699
Unrealized exchange losses (gains)	17	(79)	-	(62)
Unrealized salaries	3,338	2,524	-	5,862
Revaluations of financial assets at fair value through profit or loss	(959)	(225)	-	(1,184)
Revaluations of financial assets at fair value through other comprehensive income	(56)	-	1,921	1,865
Others	(28)	(5)	-	(33)
Deferred tax income		$3,857	$1,222	
Deferred tax assets/(liabilities)-net	$12,001			$17,080
Reflected in balance sheet as follows:				
Deferred tax assets	$12,029			$18,359
Deferred tax liabilities	$28			$1,279

Note: The Company adopted IFRS 9 since January 1, 2018. Please refer to Note 3 for more details of adjustments of beginning balance.

For the year ended December 31, 2017

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Pension	$7,839	$(68)	$474	$8,245
Allowance for inventory valuation losses	1,444	-	-	1,444
Unrealized exchange losses (gains)	179	(162)	-	17
Unrealized salaries	5,472	(2,134)	-	3,338
Revaluations of available-for-sale investments to fair value	(1,625)	-	666	(959)
Others	(28)	-	-	(28)
Deferred tax income		$(2,364)	$1,140	
Deferred tax assets/(liabilities)-net	$13,281			$12,057
Reflected in balance sheet as follows:				
Deferred tax assets	$13,309			$12,085
Deferred tax liabilities	$28			$28

Unrecognized deferred tax assets

As of December 31, 2018, and 2017, the Company does not have unrecognized deferred tax assets.

The assessment of income tax returns

As of December 31, 2018, the assessment of the income tax returns of the Company is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2016

(21) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Given that the Company does not have potential common shares which have dilutive effects outstanding, the Company is not required to adjust basic earnings per share for dilution.

	For the years ended December 31,	
	2018	2017
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousand NT$)	$59,165	$24,496
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	36,289	36,289
Basic earnings per share (NT$)	$1.63	$0.68

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

7. RELATED PARTY TRANSACTIONS

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

(1) Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
TKK Precision Co., Ltd	Subsidiaries
THT Technology Co., Ltd	Subsidiaries
Hong Kong Taiwan Kong King Limited	Subsidiaries
Headway Holdings Limited	Subsidiaries
Hiking Technology (Suzhou) Co., Ltd	Subsidiaries
The Kong King Technology (Suzhou) Co., Ltd	Subsidiaries
Wong’s Kong King Holdings Limited	Other related parties
WKK Japan Limited	Other related parties
Taiwan WKK Distribution Co., Ltd.	Other related parties

(2) Significant transactions with related parties

A. Sales

	For the years ended December 31,	
	2018	2017
Subsidiaries		
TKK Precision Co., Ltd	$14	$7
The Kong King Technology (Suzhou) Co., Ltd	14,980	14,217
Total	$14,994	$14,224

The sales price to the above related parties was determined through mutual agreement based on the market rates. The collection period for sales to related parties was month-end 1~2 months.

B. Purchases

	For the years ended December 31,	
	2018	2017
Subsidiaries		
TKK Precision Co., Ltd	$77,035	$60,026
THT Technology Co., Ltd	16,826	30,296
The Kong King Technology (Suzhou) Co., Ltd	20	362
Other related parties		
WKK Japan Limited	110,359	7,207
Total	$204,240	$97,891

The purchase price to the above related parties was determined through mutual agreement based on the market rates. The payment terms from the related party suppliers were month-end 1~2 months.

(3) Amounts owed by related parties

A. Accounts receivables

	As of December 31,	
	2018	2017
Subsidiaries		
TKK Precision Co., Ltd	$-	$84
The Kong King Technology (Suzhou) Co., Ltd	902	366
Total	$902	$450

B. Other receivables

	As of December 31, 2018	As of December 31, 2017
Subsidiaries		
TKK Precision Co., Ltd	$146	$195
THT Technology Co., Ltd	-	29
Hong Kong Taiwan Kong King Limited	382	544
Hiking Technology (Suzhou) Co., Ltd	4	-
Total	$532	$768

(4) Amounts owed to related parties

A. Account Payables

	As of December 31, 2018	As of December 31, 2017
Subsidiaries		
TKK Precision Co., Ltd	$22,026	$14,091
THT Technology Co., Ltd	5,044	15,725
Other related parties		
WKK Japan Limited	7,407	217
Total	$34,477	$30,033

B. Other payables

	As of December 31, 2018	As of December 31, 2017
Subsidiaries		
TKK Precision Co., Ltd	$17	$497
THT Technology Co., Ltd	-	30
Other related parties		
WKK Japan Limited	122	4,332
Total	$139	$4,859

(5) Prepayments

	As of December 31, 2018	As of December 31, 2017
Subsidiaries		
THT Technology Co., Ltd	$4,830	$7,710

(6) Service revenue

	For the years ended December 31, 2018	2017
Subsidiaries		
TKK Precision Co., Ltd	$217	$580
Hong Kong Taiwan Kong King Limited	4,296	5,917
Headway Holdings Limited	26,090	8,174
The Kong King Technology (Suzhou) Co., Ltd	266	179
Other related parties		
WKK Japan Limited	17,586	15,592
Total	$48,455	$30,442

(7) Rent income

	For the years ended December 31, 2018	2017
Subsidiaries		
TKK Precision Co., Ltd	$77	$77
THT Technology Co., Ltd	738	738
Total	$815	$815

(8) Other revenue

	For the years ended December 31, 2018	2017
Subsidiaries		
TKK Precision Co., Ltd	$756	$756
THT Technology Co., Ltd	72	72
Headway Holdings Limited	1,805	1,829
Total	$2,633	$2,657

(9) Asset transactions

	For the year ended December 31, 2018 Item	Amount
Subsidiaries		
TKK Precision Co., Ltd	Machinery and equipment	$1,500

	For the year ended December 31, 2017	
	Item	Amount
Subsidiaries		
TKK Precision Co., Ltd	Machinery and equipment	$464
Other related parties		
WKK Japan Limited	Machinery and equipment	9,159
Total		$9,623

(10) Cost of services

	For the years ended December 31,	
	2018	2017
Subsidiaries		
TKK Precision Co., Ltd	$398	$315
THT Technology Co., Ltd	1,925	911
The Kong King Technology (Suzhou) Co., Ltd	14,982	17,645
Hong Kong Taiwan Kong King Limited	357	-
Other related parties		
WKK Japan Limited	689	312
Total	$18,351	$19,183

(11) Operating expenses

	For the years ended December 31,	
	2018	2017
Subsidiaries		
THT Technology Co., Ltd	$45	$31
TKK Precision Co., Ltd	-	4
Other related parties		
WKK Japan Limited	35	59
Wong's Kong King Holdings Limited	914	657
Total	$994	$751

(12) Key management personnel compensation

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	$17,029	$16,314
Post-employment benefits	233	418
Total	$17,262	$16,732

8. ASSETS PLEDGED AS SECURITY

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

None.

10. LOSSES DUE TO MAJOR DISASTERS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. OTHERS

(1) Categories of financial instruments

Financial assets	As of December 31, 2018	As of December 31, 2017
Financial assets at fair value through profit or loss:		
Designated at fair value through profit or loss	$14,123	(Note 1)
Financial assets at fair value through other comprehensive income	18,400	(Note 1)
Available-for-sale financial assets (Note 2)	(Note 1)	$43,843
Financial assets measured at amortised cost (Note 3)	483,244	(Note 1)
Loans and receivables (Note 3)	(Note 1)	413,618
Total	$515,767	$457,461

Financial liabilities	As of December 31, 2018	As of December 31, 2017
Financial liabilities at amortized cost:		
Notes payable and accounts payables	$161,279	$118,654

Note 1: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Note 2: Balances as at December 31, 2017 including financial assets measured at cost.

Note 3: Including cash and cash equivalents (exclude cash on hand), notes receivable, accounts receivables, other receivables and guarantee deposits paid.

(2) Financial risk management objectives and policies

The Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Company identifies measures and manages the aforementioned risks based on the Company's policy and risk appetite.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

<u>Foreign currency risk</u>

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency). The Company opened savings accounts for some foreign currency receivables and payments to manage foreign currency risk by adjusting exchange rate immediately. Also, the Company considered currency factors when making sales quotation to ensure a reasonable profit.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency USD and foreign currency RMB. The information of the sensitivity analysis is as follows:

(a) When NTD strengthens/weakens against foreign currency USD by 1%, the profit for the years ended December 31, 2018 and 2017 is decreased/increased by NT$1,157 thousand

and NT$1,027 thousand, respectively.

(b) When NTD strengthens/weakens against foreign currency RMB by 1%, the profit for the years ended December 31, 2018 and 2017 is decreased/increased by NT$967 thousand and NT$1,100 thousand, respectively.

Equity price risk

The fair value of the Company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company's listed and unlisted equity securities are classified under available-for-sale financial assets. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves all equity investment decisions.

For the year ended December 31, 2018, a change of 1% in the price of the listed company stocks classified as equity instruments investments measured at fair value through profit or loss could have an impact of NT$141 thousand on the equity attributable to the Company.

For the year ended December 31, 2017, a decrease of 1% in the price of the listed equity securities classified as available-for-sale could have an impact of NT$138 thousand dollars on the income or equity attributable to the Company. An increase of 1% in the value of the listed securities would only impact equity but would not have an effect on profit or loss.

(4) Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria etc. Certain counter parties' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

As of December 31, 2018, and 2017, amounts receivables from top ten customers represent 76.30% and 69.42% of the total accounts receivables of the Company, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Company's treasury in accordance with the Company's policy. The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating. Consequently, there is no significant credit risk for these counter parties.

The Company adopted IFRS 9 to assess the expected credit losses since 1 January 2018, for the loss allowance of accounts receivables is measured at lifetime expected credit losses.

Financial assets are written off when there is no realistic prospect of future recovery (the issuer or the debtor is in financial difficulties or bankruptcy).

When assessing the expected credit losses in accordance with IFRS 9, the evaluation of the forward-looking information (available without undue cost and effort) is mainly based on the macroeconomic information and industrial information, the credit loss ratio is further adjusted if there is significant impact from forward-looking information.

(5) Liquidity risk management

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
As of Dec. 31, 2018					
Notes payables	$16	$-	$-	$-	$16
Accounts payables	152,805	8,458	-	-	161,263
As of Dec. 31, 2017					
Notes payables	$49	$-	$-	$-	$49
Accounts payables	117,196	1,409	-	-	118,605

(6) Fair value of financial instruments

(a) The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

A. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.

B. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

(b) Fair value measurement hierarchy for financial instruments

Please refer to Note 12.(7) for fair value measurement hierarchy for financial instruments of the Company.

(7) Fair value measure hierarchy

A. Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: unobservable inputs for the asset or liability

For assets and liabilities measured at fair value on a recurring basis, the Company re-evaluates their classification at every end of the reporting period to determine the amount of any transfer between different levels of the fair value hierarchy.

B. Fair value measurement hierarchy of the Company's assets

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company's assets measured at fair value on a recurring basis is as follows:

	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Stocks	$14,123	$-	$-	$14,123
Financial assets at fair value through other comprehensive income				
Investments in equity instruments designated at fair value through other comprehensive income	-	-	18,400	18,400

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Stocks	$13,843	$-	$-	$13,843

Transfers between Level 1 and Level 2 during the period

During the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

	Assets
	At fair value through other comprehensive income
	Stocks
Beginning balances as at January 1, 2018	$27,550
Amount recognized in OCI (presented in "Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income)	(9,150)
Ending balances as at December 31, 2018	$18,400

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

	As of December 31, 2018				
	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets:					
At fair value through other comprehensive income					
Stocks	Market approach	discount for lack of marketability	10%	The higher the discount for lack of marketability, the	10% increase (decrease) in the discount for lack of marketability would result

	lower the fair value of the stocks	in (decrease) increase in the Company's equity by NT$2,625 thousand

Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Company's Accounting Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies at each reporting date.

C. Fair value measurement hierarchy of the Company's assets and liabilities not measured at fair value but for which the fair value is disclosed

	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties (please refer to Note 6.(9))	$-	$-	$38,263~ 50,935	$38,263~ 50,935

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties (please refer to Note 6.(9))	$-	$-	$47,493	$47,493

(8) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	As of December 31, 2018		
	Foreign currencies	Foreign exchange rate	NTD
Financial assets			
Monetary items:			
USD	$4,702	30.7100	$144,398
JPY	157,392	0.2782	43,787
EUR	431	35.1900	15,167
RMB	21,670	4.4680	96,822
Financial liabilities			
Monetary items:			
USD	$933	30.7100	$28,652
JPY	22,901	0.2782	6,371

EUR	93	35.1900	3,273
RMB	10	4.4680	44

	As of December 31, 2017		
	Foreign currencies	Foreign exchange rate	NTD
Financial assets			
Monetary items:			
USD	$4,621	29.7900	$137,660
JPY	32,791	0.2643	8,667
EUR	302	35.6000	10,751
RMB	24,090	4.5670	110,019
Financial liabilities			
Monetary items:			
USD	$1,175	29.7900	$35,003
JPY	34,192	0.2643	9,037
EUR	167	35.6000	5,945

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

For the years ended December 31, 2018 and 2017, the Company's foreign exchange gains/(losses) were NT$4,556 thousand and NT$(6,526) thousand, respectively.

(9) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. OTHER DISCLOSURES

(1) Information at significant transactions

No.	Item	Attachment
1	Financing provided to others	None
2	Endorsements/guarantees provided	None
3	Marketable securities held	1
4	Marketable securities acquired and disposed at costs or prices at least NT$300 million or 20% of the paid-in capital	None
5	Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital	None
6	Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital	None
7	Total sales to or purchases from related parties amounting to at least NT$100 million or 20% of the paid-in capital	None
8	Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital	None

No.	Item	Attachment
9	Trading in derivative instruments	None

(2) Information on investees

No.	Item	Attachment
1	Financing provided to others	None
2	Endorsements/guarantees provided	None
3	Marketable securities held	1
4	Marketable securities acquired and disposed at costs or prices at least NT$300 million or 20% of the paid-in capital	None
5	Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital	None
6	Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital	None
7	Total sales to or purchases from related parties amounting to at least NT$100 million or 20% of the paid-in capital	None
8	Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital	None
9	Trading in derivative instruments	None
10	Names, locations and related information of investee companies	2

(3) Information on investments in mainland China: Please refer to Attachment 3

14. OPERATING SEGMENT INFORMATION

In accordance with IFRS 8 *"Operating Department"*, the Company is not required to prepare operating segment information for parent company only financial statements, if the consolidated financial statements disclosed such information. The company has disclosed operating segment information in the consolidated financial statements.

Attachment 1 (Securities held as of December 31, 2018)

Unit: Amount in thousands of NTD or JPY

(Except for the shares or units)

Holding Company Name	December 31, 2018	Relationship	Financial statement account	December 31, 2018				Notes
				Shares	Carrying amount	Percentage of ownership(%)	Fair value/ Net assets value	
Taiwan Kong King Co., Limited	Foreign listed stocks Inspec Limited	-	Financial assets at fair value through profit or loss, noncurrent	47,400	JPY 50,765	1.44%	JPY 1,071	-
Taiwan Kong King Co., Limited	Unlisted stock Raytek Semiconductor, Inc.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,500,000	$18,400	2.74%	$7.97	(Note 1)
Taiwan Kong King Co., Limited	Unlisted stock Hong Kong Taiwan Kong King Limited	Investments accounted for under the equity method	Investments accounted for using equity method	26,209,999	105,107	99.99%	-	(Note 1)
Taiwan Kong King Co., Limited	Unlisted stock TKK Precision Co., Ltd.	Investments accounted for under the equity method	Investments accounted for using equity method	6,237,000	125,034	100.00%	-	(Note 1)
Taiwan Kong King Co., Limited	Unlisted stock Headway Holdings Limited	Investments accounted for under the equity method	Investments accounted for using equity method	1,100,000	55,578	100.00%	-	(Note 1)

Taiwan Kong King Co., Limited	Unlisted stock THT Technology Co., Ltd.	Investments accounted for under the equity method	Investments accounted for using equity method	4,725,000	8,110	94.50%	-	(Note 1)

Note 1: No market price.

Attachment 1-1 (Securities held as of December 31, 2018)

Unit: Amount in thousands of NTD

(Except for the shares or units)

Holding Company Name	December 31, 2018	Relationship	Financial statement account	December 31, 2018				Notes
				Shares	Carrying amount	Percentage of ownership(%)	Fair value/ Net assets value	
Hong Kong Taiwan Kong King Limited	Stocks Leetech International Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	152,000	$3,404	19.00%	$3,404	(Note 1)
Hong Kong Taiwan Kong King Limited	Stocks Top Range Machinery Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	1,516,606	15,509	9.03%	15,509	(Note 1)
Hong Kong Taiwan Kong King Limited	Stocks The Kong King Technology (Suzhou) Co., Ltd.	Second-tier subsidiary	Investments accounted for using equity method	2,500,000	55,512	100.00%	-	(Note 1)
Headway Holdings Limited	Stocks Hiking International Co. Ltd.	Second-tier subsidiary	Investments accounted for using equity method	12,636,000	48,884	100.00%	-	(Note 1)
Hiking International Co. Ltd	Stocks Hiking Technology (Suzhou) Co., Ltd.	Third-tier subsidiary	Investments accounted for using equity method	1,623,700	50,006	100.00%	-	(Note 1)

Note 1: No market price.

Attachment 2 (Names, locations and related information of investee companies as of December 31, 2018)

Unit: Amount in thousands of NTD

(Except for the shares or units)

Investor Company	December 31, 2018	Location	Main Businesses and Products	Initial Investment		Investment as of December 31, 2018			Net income (loss) of investee company	Investment income(loss) recognized	Note
				Ending balance	Beginning balance	Number of shares	Percentage of ownership (%)	Carrying Amount			
Taiwan Kong King Co., Limited	Hong Kong Taiwan Kong King Limited	Hong Kong	Electronic components trading etc.	$114,505	$114,505	26,209,999	99.99%	$105,107	$(25,054)	$(25,426)	Subsidiary (Note 1)
Taiwan Kong King Co., Limited	TKK Precision Co., Ltd.	R.O.C	Electronic components manufacturing, electronic materials trading and testing, and machinery and equipment retailing	90,530	31,185	6,237,000	100.00%	125,034	12,964	9,897	Subsidiary
Taiwan Kong King Co., Limited	Headway Holdings Limited	Samoa	Electronic components trading etc.	36,076	36,076	1,100,000	100.00%	55,578	(3,172)	(1,355)	Subsidiary
Taiwan Kong King Co., Limited	THT Technology Co., Ltd.	R.O.C	Machinery, equipment retailing and electronic components manufacturing etc.	47,250	31,250	4,725,000	94.50%	8,110	(5,928)	(4,334)	Subsidiary
Hong Kong Taiwan Kong King Limited	The Kong King Technology (Suzhou) Co., Ltd.	China	Electronic materials, machinery and precision equipment retailing, information software service and international trade business	49,538	49,538	2,500,000	100.00%	55,512	(17,863)	(Note 2)	Second-tier Subsidiary

Headway Holdings Limited	Hiking International Co. Ltd.	Hong Kong	Investment holding	27,764	27,764	6,318,000	100.00%	48,884	(7,097)	(Note 2)	Second-tier Subsidiary (Note 1)
Hiking International Co. Ltd.	Hiking Technology (Suzhou) Co., Ltd.	China	Designing, manufacturing, processing and testing equipment and other related products for printed circuit board manufacturing and after-sales service	57,408	27,764	1,623,700	100.00%	50,006	(8,434)	(Note 2)	Third-tier Subsidiary (Note 1)

Note 1 : Investment income(loss) recognized by the financial statements of the same period audited by other auditors.

Note 2 : Subsidiaries and investments accounted for under the equity method were not invested directly by the Company is not required to disclose.

Attachment 3 (Investment in Mainland China as of December 31, 2018)

Unit: Amount in thousands of NTD

Investee Company	Main Businesses and Products	Total amount of paid-in capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Percentage of ownership	Investment income (loss) recognized (Note 2)	Carrying amount as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018
					Outflow	Inflow					
Hiking Technology (Suzhou) Co., Ltd.	Designing, manufacturing, processing and testing equipment and other related products for printed circuit board manufacturing and after-sales service	$52,700	(Note 1.(2))	$27,764	$-	$-	$27,764	100%	$(8,434) (Note 2.(2).c)	$50,006	$-
The Kong King Technology (Suzhou) Co., Ltd.	Electronic materials, machinery and precision equipment retailing, information software service and international trade business	82,038	(Note 1.(1))	49,538	-	-	49,538	100%	(17,863) (Note 2.(2).c)	55,512	-

Accumulated investment in Mainland China as of December 31, 2018	Investment amounts authorized by Investment Commission, MOEA	Upper limit on investment
$77,302	$108,264	$488,559

Note 1：The methods for engaging in investment in Mainland China include the following:

(1) Remittance from third-region companies to invest in Mainland China.

(2) Indirectly investment in Mainland China through companies registered in a third region.

(3) Through transferring the investment to third-region existing companies then investing in Mainland China.

(4) Others.

Note 2：Information of the investment income (loss) recognized in current period include the following:

(1) Noted when investment income (loss) was not showed as the financial statement is not yet prepared.

(2) The investment income (loss) were determined based on the following basis:

a. The financial report was audited by an international certified public accounting firm in cooperation with an R.O.C accounting firm.

b. The financial statements were audited by the auditors of the parent company.

c. Others.

5. If the company or its affiliates have experienced financial difficulties in the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, the annual report shall explain how said difficulties will affect the company's financial situation: None.

VII. Review of Financial Conditions, Financial Performance, and Risk Management

1. Analysis of Financial Status in the most recent 2 fiscal years

A. Analysis of Financial Status：(difference up to 20% and up to NT$10,000,000)

Units: NT$Thousands

Item \ Year	2018	2017	Difference		Remarks
			Amount	%	
Current Assets	752,592	730,772	21,820	2.99	Note 1 Note 2
Fixed Assets	222,188	247,849	(25,661)	(10.35)	
Other Assets	11,269	12,107	(838)	(6.92)	
Total Assets	1,065,128	1,073,862	(8,734)	(0.81)	
Current Liabilities	219,539	164,947	54,592	33.10	
Total Liabilities	250,437	198,320	52,117	26.28	
Capital stock	362,888	362,888	-	-	
Capital surplus	46,759	49,699	(2,940)	(5.92)	
Retained Earnings	428,586	382,136	46,450	12.16	
Total Stockholders' Equity	814,691	875,542	(60,851)	(6.95)	

Analysis of changes in financial ratios (Consolidated)

Note 1: Current liabilities were driven up by the increase in revenue, purchases and accounts payable.
Note 2: Total liabilities were driven up by the increase in revenue, purchases and accounts payable.

2. Analysis of Operating Status

A. Analysis of Financial Status: (difference up to 20% and up to NT$10,000,000)

Units: NT$Thousands

Year / Item	2018		2017		Differenc	Diff %	Remarks
	Amount	Total	Amount	Total			
Gross Sales	1,143,006		789,692		353,314	44.74	Note 1
Less: Sales Returns	(5,744)		(51)		5,693	11,162.75	
Sales Allowances	(687)		(39)		648	1,661.54	
Net Sales		1,136,575		789,602	346,973	43.94	Note 1
Cost of Sales		(801,409)		(512,721)	288,688	56.30	Note 2
Gross Profit		335,166		276,881	58,285	21.05	Note 3
Affiliated company realized benefits							
Operating Expenses		(275,197)		(256,444)	18,753	7.31	
Operating Income		59,969		20,437	39,532	193.43	Note 3
Non-oper. Inc. and exp.		15,650		11,697	3,953	33.79	
Pre-tax profit of continuing business units		75,619		32,134	43,485	135.32	Note 3
income tax paid		(18,560)		(6,026)	12,534	208.00	Note 4
Net profit after tax of continuing business units		57,059		26,108	30,951	118.55	Note 3

Analysis of changes in financial ratios: (Consolidated)

Note 1. Operating income increased mainly due to rise in equipment sales.

Note 2. Operating expense increased mainly due to the increase in operating income.

Note 3. Gross profit increased mainly due to the increase in operating income.

Note 4. Income tax paid increased mainly due to the increase in operating income.

B. Analysis of changes in operating gross profit：

	The amount of increase/decrease compared to the previous period	Reasons for difference			
		Sales Price	Cost Price	Sales mix	Quantity
Operating gross profit	(82,950)	(118,872)	(35,922)	-	-
Analysis	Operating gross profit decreased mainly due to the decrease in operating income.				

3. Cash Flow:

A. Liquidity analysis in the most recent 2 fiscal years (difference up to 20%)

Year / Item	Dec 31, 2018	Dec 31, 2017	Diff%
Cash Flow Ratio (%)	43.50	37.02	17.50
Cash Flow Adequacy Ratio	91.56	81.52	12.32
Cash Reinvestment Ratio	12.68	(0.78)	(1,725.64)
Analysis of financial ratio change: (Consolidated) 1. Cash reinvestment ratio: The decrease cash reinvestment ratio is mainly due to the increase in net cash inflows in 2018.			

B. Cash flow forecast analysis (2019)

Unit: NT$ thousands

Cash and Cash Equivalents, Beginning of Year (1)	Net Cash Flow from Operating Activities (2)	Cash Outflow (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Leverage of Cash Deficit	
				Investment Plans	Financing Plans
478,514	90,000	65,000	503,514	-	-
Note: The cash flow from operating activities is expected to be 90,000,000 in the coming year. It is estimated that the cash outflow of investment activities in the coming year will be NT$15,000,000 and the cash outflow from financing activities will be NT$50,000,000.					

4. Major capital expenditures during the most recent fiscal year：None.

5. Reinvestment policy for the most recent fiscal year, the main reasons for the profits or losses, improvement plans, and investment plans for the coming year: None.

6. Risk analysis of the following matters in the most recent year and the up to date of publication of the annual report:

A. The organizational structure of the company's various risk management, its implementation and responsible units are as follows:

(1) Board of Directors: Keep in line with relevant government laws and regulations, review the company's relevant management measures, and ensure the effectiveness of the company's operating rights and operational risk management.

(2) General Manager’s Room: Mainly responsible for the decision-making risk, network information security and operational risk assessment and implementation of the responsible strategy, supervising and coordinating the relevant matters of each department.

(3) Audit Division: Mainly focused on the company's objectives, risk tolerance and strategy, and actively assists the company's managers to deal with all the risks associated with the entire enterprise.

(4) Management Division: Responsible for the company's legal risk, company and employee crisis management, asset management risk assessment and implementation strategy.

(5) Finance Division: Mainly responsible for the assessment and control of interest rate, exchange rate and financial risk, liquidity risk and credit risk. It is the responsible unit for the assessment and execution of relevant financial risk management of the Company.

B. The effect upon the company's profits (losses) of interest and exchange rate fluctuations and changes in the inflation rate, and response measures to be taken in the future: None.

(1) The change in interest rate has no impact on the Company as the Company has no short-term and long-term borrowings.

(2) Measures to avoid exchange rate fluctuations are as follows:

- Open a foreign currency deposit account and adjust the foreign currency position at any time to avoid exchange rate risk.
- Keep track of exchange rate changes and keep close contact with current banks to fully understand the trend of exchange rates.
- Consider the foreign exchange rate factor when selling the goods to protect the company's reasonable profits.

(3) Effect of inflation on the Company’s profit/loss: None.

C. Research and development work to be carried out in the future, and further expenditures expected for research and development work: The Company has none of the above situations.

D. Effect on the company's financial operations of important policies adopted and changes in the legal environment at home and abroad, and measures to be taken in response: Important domestic and international policies and legal changes did not have a significant impact on the financial aspects of the company in 2018 and the up to the date of publication of the annual report.

E. Effect on the company's financial operations of developments in science and technology as well as industrial change, and measures to be taken in response: The external transfer of the industry will have an impact on the company's performance. Hence, the company has gradually expanded its services to Chinese Taiwanese companies and introduced high-end products to serve Taiwanese customers in order to create barriers to entry.

F. Effect on the company's crisis management of changes in the company's corporate image, and measures to be taken in response: None.

G. Expected benefits and possible risks associated with any merger and acquisitions, and mitigation measures being or to be taken: Not applicable, as the Company did not conduct any M & A activity in 2018.

H. Expected benefits and possible risks associated with any plant expansion, and mitigation measures being or to be taken: Not applicable, as the company has not expanded its plant in 2018.

I. Risks associated with any consolidation of sales or purchasing operations, and mitigation measures being or to be taken: The Company’s sales or purchasing operations is not consolidated in the case of a specific customer or manufacturer.

J. Effect upon and risk to the company in the event a major quantity of shares belonging to a director, supervisor, or shareholder holding greater than a 10 percent stake in the company has been transferred or has otherwise changed hands, and mitigation measures being or to be taken: None of the above-mentioned personnel has a major quantity of shares being transferred.

K. Effect upon and risk to company associated with any change in governance personnel or top management, and mitigation measures being or to be taken: The major shareholders of the Company holds 67.44% of total shares and there are no plans on share transfers, hence the Company’s management rights are stable.

L. For litigious and non-litigious matters, the directors, supervisors, general managers and substantial principals of the company, the majority shareholders and affiliated companies with a shareholding ratio of more than 10% have been determined or are included in the lawsuit; non-litigation or administrative litigation results may have a significant effect on the company's shareholders' equity or securities price: None.

M. Other important risks, and mitigation measures being or to be taken: None

7. Other important matters:

A. Basis for evaluation of the method of listing the assets and liabilities assessment, the basis and the main reasons for its occurrence:

(1) Basis for the assessment of the provision for bad debts, the basis and the main reasons for its occurrence: Based on the experience of bad debts in the past, the aging of the receivables on the balance sheet date and the assessment of the possibility of recovery are presented.

(2) Basis for the assessment of the provision for impairment of inventories, the basis and the main reasons for the inventories: The inventories are evaluated on each basis for the cost and net realizable value.

(3) Basis for the assessment of financial assets allowance and the main reasons for its occurrence:

- The financial assets and liabilities included in the profit and loss of changes in the fair value of the Company are derivative financial products that fail to meet the hedge accounting. When it is initially recognized, it is measured by fair value, and in the subsequent evaluation, the change in fair value is recognized as the profit and loss for the current year. When purchasing or selling financial assets in accordance with trading practices, the settlement date is used for accounting. The fair value of derivative financial products is estimated by the evaluation method; if the fair value is positive, it is classified as financial asset, whereas if the fair value is negative, it is classified as financial liabilities.

- There is no reason due to no occurrence of the aforementioned situation.

B. Financial products other than stocks and depositary receipts are determined by the fair value of purchase price or the selling price.

C. Hedge accounting: not applicable.

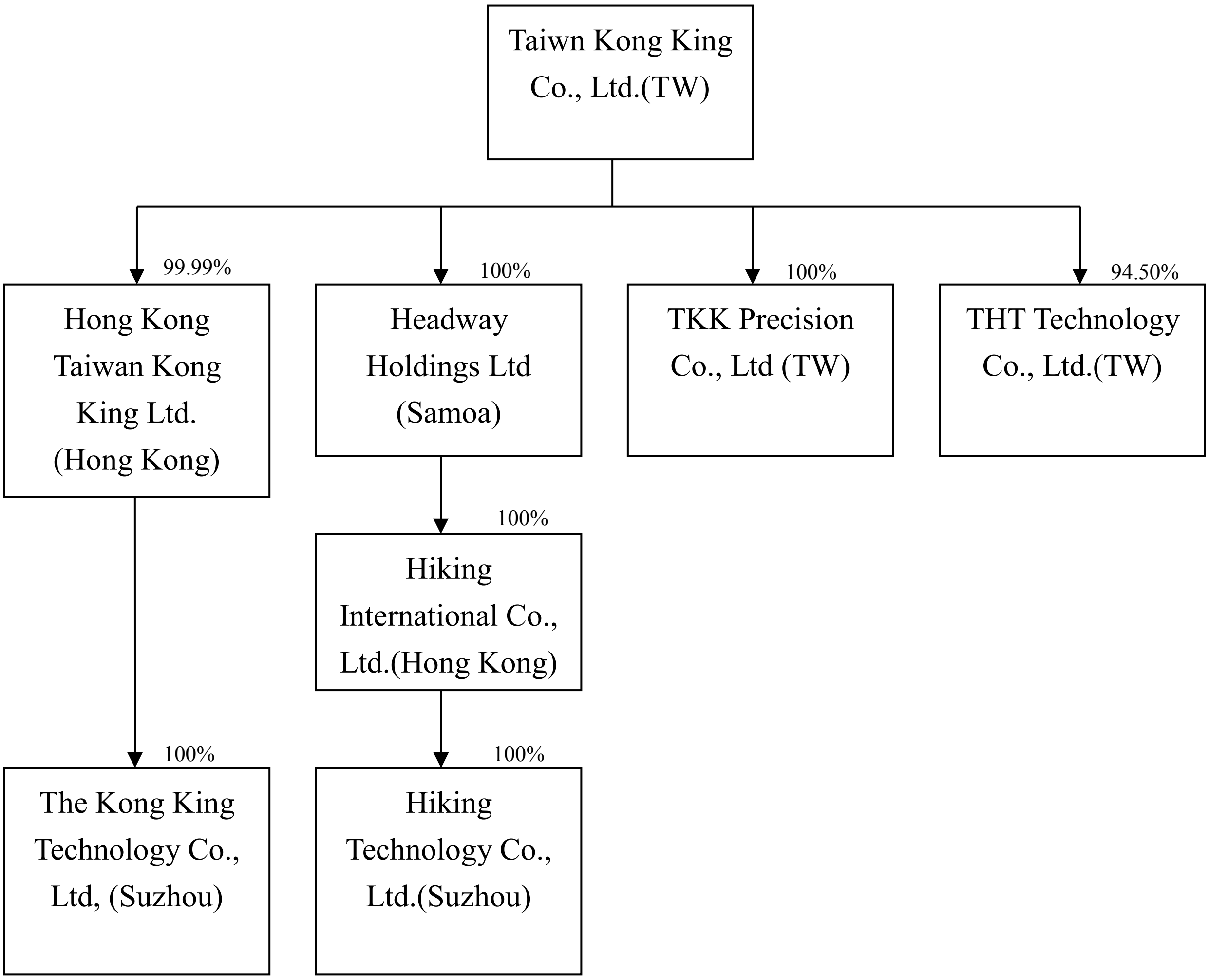
VIII. Special Disclosure

1. Information related to the company's affiliates

A. Consolidated Business Report of affiliate companies

(1) Organizational Chart of affiliate companies：

Taiwn Kong King Co., Ltd.
Organizational Chart of affiliate companies



(2) Basic Information of affiliate companies

Units: NT$thousand; HKD; RMB;USD

Name	Date of incorporation	Address	Paid-In Capital	Type of business or manufacturing product
Taiwn Kong King Co., Ltd.	Jun 14, 1977	5F.-4, No. 66, Sec. 2, Nankan Rd., Luzhu Dist., Taoyuan City 338, Taiwan (R.O.C.)	NT$362,888	1. Sales agent and after-sales service of printed circuit board equipment. 2. Provides sales agency and after-sales services for semiconductor packaging and electronic assembly equipment. 3. Provides sales agency and after-sales services for CD-R/DVD devices.
TKK Precision Co., Ltd.(Taiwan)	Apr 24, 2001	2F., No. 66, Sec. 2, Nankan Rd., Luzhu Dist., Taoyuan City 338, Taiwan (R.O.C.)	NT$62,370	Electronic components manufacturing, electronic materials trading, wholesale and retail of mechanical equipment, testing of electronic components.
Hong Kong Taiwan Kong King Ltd. (Hong Kong)	May 17, 1990	17/F, Octa Tower, No. 8 Lam Chak Street, Kowloon Bay, Hong Kong	HKD 26,210,000	Electronic components trading
Headway Holdings Ltd. (Samoa)	Jan 18, 2002	Offshore Chambers, P.O.Box 217, Apia, Samoa	USD 1,100,000	Electronic components trading
Hiking International Co., Ltd. (Hong Kong)	Jun 24, 2002	17/F, Octa Tower, No. 8 Lam Chak Street, Kowloon Bay, Hong Kong	HKD 12,636,000	Investment holding
Hiking Technology Co., Ltd. (Suzhou)	Oct 18, 2002	No. 69, Suhong West Road, Suzhou Industrial Park, Suzhou, China	RMB 12,208,000	Design, manufacture, process and test printed circuit board process equipment, test heads and other related products, sell company products and provide after-sales service.
THT Technology Co., Ltd. (Taiwan)	Mar 8,2006	3F.-2, No. 66, Sec. 2, Nankan Rd., Luzhu Dist., Taoyuan City 338, Taiwan (R.O.C.)	NT$50,000	1. Electronic components, general instrument manufacturing 2. International trade (limited to related products on manufacturing and processing)

Name	Date of incorporation	Address	Paid-In Capital	Type of business or manufacturing product
The Kong King Technology Co., Ltd, (Suzhou)	Feb 5, 2008	No. 81, Suhong West Road, Suzhou Industrial Park, Suzhou, China	RMB 17,357,000	1. Design, manufacture and sales of semiconductor, optoelectronic special production equipment; related spare parts, sales of consumable materials and related after-sales services. 2. Wholesale, import and export, commission agents (excluding auctions) and related businesses of similar products for production.

(3) Shareholders presumed to have control and subordinate relationship with the same information

Presumption reason	Name (Note 1)	Shareholding(Note 2)		Date of Establishment	Address	Paid-In Capital	Type of business
		Shares	%				
【None】							

Note 1: If the corporate shareholders are the same, fill in the name of the corporation; if the natural person shareholder is the same, fill in the name of the natural person. Natural person shareholders only need to fill in the presumption reason, the name and number of shares.

Note 2: The holding of shares is filled in the information of shareholder's shareholding on the controlled company.

(4) Overall related industries covered by business operations

- Machine and components manufacturing, import/export and sales
- Sales and import/export of chemical, printed materials and electronic printing machinery.
- Market development, investment holding and trade distribution business.

(5) The division of labor in business operations of affiliated companies:

- Taiwan Kong King Co., Ltd. is a professional import and export agent, which provide sales and after-sales service of all kinds of electronic equipment spare parts and materials. It mainly deals in industrial related sales business such as PCB, chemical materials, optoelectronic semiconductor and electronic assembly SMT in Taiwan and China.
- Taiwan subsidiaries:
  a. The main businesses of TKK Precision Co., Ltd. are: Electronic components manufacturing, trading of electronic materials, wholesale and retail of mechanical equipment, and electronic components testing.
  b. The main businesses of THT Technology Co., Ltd. are machine manufacturing and assembly.
- China subsidiaries:
  a. The main businesses of Hiking Technology Co., Ltd. are as follows: The design, production, processing and testing of printed circuit board manufacturing process equipment, test heads and other related products, and sales of company products and after-sales service.
  b. The main businesses of The Kong King Technology Co., Ltd, (Suzhou) are as follows: Electronic materials wholesale, machinery wholesale, precision appliances retail, information software services, and international trade.

- Hong Kong subsidiary:
- Mainly focus on merchanting trade business related to PCB, chemical materials, optoelectronic semiconductors, electronic assembly and other industries

(6) Basic Information of directors, supervisors and general managers of affiliated companies

Units: NT$thousand; Shares; %

Name of Company	Title (Note 1)	Name or representative	Shares owned (Note2)(Note3)	
			Shares	%
Taiwan Kong King Co., Ltd. (TW)	Chairman	Byron Ho-Representative of WKK	24,473,836	67.44%
	General Manager	LIAO HUNG-YING	188,798	0.52%
	Director	Senta Wong -Representative of WKK	24,473,836	67.44%
	Director	Edward Tsui-Representative of WKK	24,473,836	67.44%
	Director	HSU HUNG-CHIEH -Representative of WKK	24,473,836	67.44%
	Director	CHANG JUI-SHUM -Representative of WKK	24,473,836	67.44%
	Director	LIAO HUNG-YING	188,798	0.52%
	Director	CHEN MEI-FEN	287,035	0.79%
	Independent Director	LOK ARTHUR K.	0	0.00%
	Independent Director	HUANG WEN-YUEAN	1,050	0.00%
	Independent Director	CHAN CHUN-YEN	0	0.00%
	Supervisor	KEN CHOU– Representative of Top Range Machinery Co., Ltd.	378,484	1.04%
	Supervisor	WU KUO-HSIEN	0	0.00%
	Supervisor	TSAI CHIH-WEI	0	0.00%
TKK Precision Co., Ltd.(TW)	Chairman	LIAO HUNG-YING -Representative of TKK	6,237,000	100.00%
	General Manager	FAN TING-CHI-Representative of TKK	6,237,000	100.00%
	Director	LIAO HUNG-YING -Representative of TKK	6,237,000	100.00%
	Director	FAN TING-CHI-Representative of TKK	6,237,000	100.00%
	Director	LIAO DE-HSIANG-Representative of TKK	6,237,000	100.00%
	Supervisor	CHEN MEI-FEN -Representative of TKK	6,237,000	100.00%
Hong Kong Taiwan Kong King Ltd. (Hong Kong)	Director	Senta Wong	1	0.00%
	Director	Edward Tsui	0	0.00%
	Director	Byron Ho	0	0.00%
	Director	LIAO HUNG-YING -Representative of TKK	26,209,999	99.99%
Headway Holdings Limited.(Samoa)	Director	HO SHU-CHAN-Representative of TKK	1,100,000	100.00%

Name of Company	Title (Note 1)	Name or representative	Shares owned (Note2)(Note3)	
			Shares	%
Hiking International Co., Ltd.(Hong Kong)	Director Director Director	HO SHU-CHAN-Representative of TKK LIAO HUNG-YING -Representative of TKK CHEN MEI-FEN -Representative of TKK	12,636,000 12,636,000 12,636,000	100.00% 100.00% 100.00%
Hiking Technology Co., Ltd.	Chairman General Manager Director Director Director Supervisor	LIAO HUNG-YING -Representative of TKK FAN TING-CHI-Representative of TKK LIAO HUNG-YING -Representative of TKK FAN TING-CHI-Representative of TKK LIAO DE-HSIANG -Representative of TKK CHEN MEI-FEN -Representative of TKK	55,528 55,528 55,528 55,528 55,528	100.00% 100.00% 100.00% 100.00% 100.00%
THT Technology Co., Ltd.(TW)	Chairman General Manager Director Director Director Supervisor	LIAO HUNG-YING -Representative of TKK LIAO HUNG-YING -Representative of TKK LIAO HUNG-YING -Representative of TKK FAN TING-CHI-Representative of TKK CHANG CHUN-GU - Representative of TKK CHEN MEI-FEN -Representative of TKK	4,725,000 4,725,000 4,725,000 4,725,000 4,725,000 4,725,000	94.50% 94.50% 94.50% 94.50% 94.50% 94.50%
The Kong King Technology Co., Ltd, (Suzhou)	Chairman General Manager Director Director Director Director Supervisor	LIAO HUNG-YING -Representative of TKK LIAO HUNG-YING -Representative of TKK HO SHU-CHAN-Representative of TKK FAN TING-CHI-Representative of TKK CHENG FU-WEN-Representative of TKK CHANG JUI-SHUM -Representative of TKK CHEN MEI-FEN -Representative of TKK	49,538 49,538 49,538 49,538 49,538 49,538 49,538	100.00% 100.00% 100.00% 100.00% 100.00% 100.00% 100.00%

Note 1: If the related company is a foreign company, the equivalent position shall be listed.

Note 2: If the invested company is a joint stock company, please fill in the number of shares and percentage of shareholding. Please fill in the capital amount and capital contribution ratio, and shall be noted in the above table.

Note 3: When the director and the supervisor are legal persons, the relevant information of the Representative should be disclosed.

(7) Operation Status of affiliate companie a.:

Unit: NT$ thousand

Company name	Capital	Total Assets	Total Liabilities	Net worth	Operating revenues	Operating interest	Current income (After tax)	Earnings per share(NTD)
Taiwan Kong King Co., Ltd.(TW)	362,888	1,040,980	226,715	814,265	856,148	81,153	59,165	1.63
TKK Precision Co., Ltd.(TW)	62,370	151,266	22,562	128,704	79,060	14,795	12,964	2.08
Hong Kong Taiwan Kong King Ltd. (Hong Kong)	102,769	115,039	8,680	106,359	31,232	(11,340)	(25,054)	-
Headway Holdings Limited. (Samoa)	33,781	61,962	6,577	55,385	221,590	5,491	(1,547)	-
Hiking International Co., Ltd. (Hong Kong)	49,554	50,014	1,130	48,884	-	(287)	(8,722)	-
Hiking Technology Co., Ltd.(China)	54,557	51,807	1,793	50,014	14,864	(8,642)	(8,434)	-
The Kong King Technology Co., Ltd, (Suzhou)(China)	77,551	63,097	7,585	55,512	75,764	(19,778)	(17,863)	-
THT Technology Co., Ltd.(TW)	50,000	19,745	10,439	9,306	22,486	(6,194)	(5,928)	-

b. Relational Business Consolidated Financial Statements:

In connection with the Consolidated Financial Statements of Affiliated Enterprises of TAIWAN KING KONG CO., LTD. (the “Consolidated FS of the Affiliates”), we represent to you that, the entities required to be included in the Consolidated FS of the Affiliates as of and for the year ended December 31, 2018 in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as those required to be included in the Consolidated Financial Statements of TAIWAN KING KONG CO., LTD. and its subsidiaries (the “Consolidated FS of the Group”) in accordance with International Financial Reporting Standard 10, as well as that, the information required to be disclosed in the Consolidated FS of Affiliates is disclosed in the Consolidated FS of the Group. Consequently, TAIWAN KING KONG CO., LTD. does not prepare a separate set of Consolidated FS of Affiliates.

c. Relational Report: Please refer to pages 321 to 328.

2. Transaction about the company’s private placement of securitiesduring the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report: None.

3. Holding or disposal of shares in the company by the company's subsidiaries during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report: None.

4. Other matters that require additional description:

Incompleted commitments on the OTC market: None.

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Opinion on Affiliation

Your company has issued a statement, as attached, indicating your 2018 affiliation report for the period from January 1, 2018 to December 31, 2018 was complied with "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises". The statement also indicated the information within the 2018 affiliation report has no significant differences from the related notes of your 2018 financial statements.

We have reviewed and compared the information within your 2018 affiliation report and the notes of your 2018 financial statements. Based on our procedures, we did not find any significant deficiencies.

HSU, JUNG-HUANG

LIN, LI-HUANG

Ernst & Young, Taipei, Taiwan
March 5, 2019

Summary on the relationship between the affiliated company and the controlling company

Unit: shares; %

Name of the controlling company	Reason of control	Share ownership and pledges of the controlling company			Appointment of members of the controlling company as the directors, supervisors, or managers	
		Number of shares held	Ratio of shareholding	Number of shares pledged	Title	Name
Wong's Kong King Int'l (Holdings) Ltd.	Own more than half of the shares with voting right issued by the company	24,473,836	67.44%	0	Chairman Director Director Director Director	HO SHU-CHAN HSU HUNG-CHIEH SENTA WONG TSUI YING-CHUN CHANG JUI-SHUM

Note: When the controlling company of the subordinate company is the subordinate company of another company, the preparer of this information should also fill in the information of that company. The same rule applies when that company is again the subordinate company of another company. The same rule applies hereafter.

Purchase and sales

Unit: NT$ thousand; %

Transactions with the controlling company				Terms of transactions with the controlling company		Arms length terms of transaction		Reason of the difference	Accounts and notes receivable (payable)		NPL			Remarks
Purchase (sales)	Amount	Percentage of total purchase (sales)	Gross profit from sales	Price (NT$)	Duration of credit	Price (NT$)	Duration of credit		Balance	Percentage of total accounts and notes receivable (payable)	Amount	Method of processing	Amount of allowance for bad debt	
None														

Note 1: If the company has advanced receipts (payments), the company should describe the reason, articles of the contract, the amounts, and the differences between these transactions and arms length transactions in the remarks section.

Note 2: If none of the stated titles are applicable, the preparers may adjust the titles by themselves. If preparers cannot find titles in the table due to the nature of the industry, preparers do not need to fill in the information.

Property transactions

Unit: NT$ thousand

Transaction type (acquisition or disposal)	Name of property	Transaction date or the date when the event occurred	Transaction amount	Delivery or payment terms	Payment and receipt of consideration	Disposal gains (Note 1)	The reasons why transaction counterparties are controlling companies	Previous data transfer (Note 2)				The methods for determining the transactions (Note 3)	The basis for determining the prices	The purpose of acquisition or disposal and the condition of use	Other stipulations
								Holder	Relationship with the company	Transfer date	Amount				
None															

Note 1: The preparer does not need to fill in the information on the acquisition of property

Note 2: (1) The preparer should provide the information on the original acquisition by the controlling company in the acquisition of property. The preparer should provide the information on the original disposal by the subordinate company in the disposal of property

(2) Prepares should explain the relationship between the property owner and the subordinate company or controlling company in the "Relationship with the company" section.

(3) If the counterparty in the previous transfer transaction was a related party, the preparer should add the information on the previous transfer from that related party in the same space.

Note 3: The preparer should explain the decision making level of the transaction.

Financing

Unit: NT$ thousand; %

Transaction type (Borrowing or lending)	Highest balance	Balance at the end of the period	Interest rate range	Total interest in this period	Duration of financing	Reason of financing	Acquiring (providing) collaterals		The methods for determining the transactions (Note 1)	Provision of the allowance for bad debt (Note2)
							Name	Amount		
None										

Note 1: The preparer should explain the decision making level of the transaction.

Note 2: There is no need to provide the information on borrowing funds.

Lease of assets

Unit: NT$ thousand

Transaction type (rent or lease)	Property		Lease duration	Nature of the lease (Note 1)	Basis of determining the rent	Method of collection (payment)	Comparison with regular rent levels	Total rent in this period	Payment and receipt in this period	Other stipulations (Note 2)
	Name	Location								
None										

Note 1: The preparer should explain whether the nature of this transaction is capital lease or operating lease.

Note 2: If there are other encumbrances on the ownership, such as superficies, pledges, and servitude of real property, the preparer should disclose such conditions.

Endorsements

Unit: NT$ thousand; %

<table>
<tr><th rowspan="2">Highest balance</th><th colspan="2">Balance at the end of the period</th><th rowspan="2">Reason for the endorsement</th><th colspan="3">Providing collateral as guarantee</th><th colspan="2" rowspan="2">Conditions or dates for releasing the guarantee or recovering the collateral</th><th rowspan="2">The amount of contingent loss already recognized in financial statements</th><th rowspan="2">Violations of operation regulations codified by the company</th></tr>
<tr><th>Amount</th><th>Percentage of net assets in the financial statement</th><th>Name</th><th>Quantity</th><th>Value</th></tr>
<tr><td>None</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Declaration

It is hereby declared that the Affiliation Report for 2018 (from January 1, 2018 to December 31, 2018) was prepared pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, and there are no significant inconsistencies between the information given above and the supplementary information disclosed in the financial statements for the above period.

Hereby certify

Company Name: Taiwan Kong King Co., Ltd.

Chairman: Ho, Shu-Chan

March 5, 2019

IX. Matters that have Significant Impact on Shareholder's Equity or on Share Prices

【If any of the situations listed in Article 36, paragraph 3, subparagraph 2 of the Securities and Exchange Act, which might materially affect shareholders' equity or the price of the company's securities, has occurred during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, such situations shall be listed one by one: None.】

TAIWAN KONG KING CO., LTD.

Chairman: HO SHU-CHAN

TKK
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