

**Formosa Optical Technology Corporation
and Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

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

Very truly yours,

FORMOSA OPTICAL TECHNOLOGY CORPORATION

By

KUO-CHOU TSAI
Chairman

March 26, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Formosa Optical Technology Corporation

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

For the year ended December 31, 2018, the key audit matters to the Group's consolidated financial statements were as follows:

Allowance for Inventory Valuation Loss

We considered management's assessment of the net realizable value of inventory in our significant audit; in particular, we focused our audit on the allowance estimation for inventory valuation losses.

The audit procedures for testing the net realizable value of inventories are as follow:

1. According to our understanding of its business and industry, we understood whether management controls the normal goods and the inventory of the stagnant goods according to internal control.
2. We tested the ending balance of inventory book value through sampling and recalculating the latest purchases and sales records, and we verified whether such inventory is evaluated by lower of cost and tested the accuracy of the ending balance of inventory's net reliable value.
3. We evaluated the appropriateness of allowance for inventory losses for obsolete and damaged products by obtaining inventory aging report and participating in the year-end inventory inspection.

Refer to Notes 4, 5 and 13 for accounting policies, critical accounting judgements, estimation, and assumption uncertainty in relation to inventory losses valuation.

Allowance for Sales Returns and Discounts from Investments Using Equity Method

Part of the revenue is based on contracts for sales returns and allowances to clients from investments under the equity method. The management recognized a deduction of share of profit of associates accounted for using the equity method for the above subject. Since the accuracy of share of profit of associates accounted for using the equity method was significant for the consolidated financial statements as a whole, we identified revenue from investments under equity method as one of the key audit matters.

The key audit procedure that we performed was to communicate with the audit team to obtain an understanding of the rationality of their testing of investee's revenue recognition procedure to fully understand the testing of the relevant control for sales and collection cycle. We also inspected the test of controls for relevant sales contracts and documents, important clients' changes, and conducted analytical procedures for changes in revenue by products. In addition, we performed sampling tests on sales transactions before and after the year end to verify that revenue was recognized in the proper period and evaluated whether revenue and sales returns and allowances were recorded according to relevant IAS regulations.

Allowance for Inventory Valuation Loss Using Equity Method

Under investments accounted for using the equity method, part of the productions and sales were corneal contact lens (contact lens), lens care products, and eyes health products. The Group developed products in response to the market demand since the products are unique. Demand for relevant products may fluctuate when the market demand and price change. With the lower of cost or net realizable value method, management needed to evaluate inventories based on the relevant information from inside and outside sources. Since the impact on investments accounted for using equity method was significant on the financial statements, we identified investee's inventory valuation as one of the key audit matters.

Our key audit procedures performed in respect of inventory was to communicate with the audit team to understand the rationality of the investee's inventory impairment audit procedures, which included the reasonableness of allowance for inventory losses or the recognition policies for inventory losses, and identified if such inventories were recorded according to relevant IAS regulations. We also inspected inventory aging report, analyzed the changes of inventory aging condition as well as sales condition, evaluated the realizable value to verify the reasonableness of the allowance for inventory valuation and evaluated the appropriateness of allowance for inventory valuation disclosure by management.

Impairment Loss on Trade Receivables from Investments Using Equity Method

Under investments accounted for using the equity method, part of the productions and sales were corneal contact lens (contact lens), lens care products, and eyes health products. Due to the special nature of the industry, management needed to evaluate trade receivables impairments of major clients based on the relevant internal and external information sources. Since the impact on investments accounted for using equity method on the financial statements was significant, we identified trade receivables of investee as one of the key audit matters.

Our key audit procedures performed in respect of trade receivables was to communicate with the audit team to understand the rationality of the investee's trade receivables impairments audit procedures, which included the reasonableness of recognition of allowance for trade receivable impairment losses, identified whether such trade receivables were recorded according to relevant IAS regulations. We also inspected trade receivables aging report, analyzed the changes of trade receivables aging condition, sent external confirmations by sampling, and tested the recoverability of trade receivables after period end to verify the reasonableness of its allowance for impairment losses and inspected the appropriateness of management's disclosures on allowance for trade receivables.

Other Matter

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Tsai-Cheng Tsai and Yung-Hsiang Chao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 26, 2019

Notice to Readers

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

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

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

ASSETS	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 224,162	5	\$ 157,598	4
Financial assets at amortized cost - current (Note 8)	107,719	2	-	-
Financial assets at fair value through other comprehensive income - current (Notes 7 and 29)	120,014	3	-	-
Available-for-sale financial assets - current (Notes 4, 9 and 29)	-	-	84,239	2
Debt instruments with no active market - current (Note 11)	-	-	116,064	3
Notes receivable, net	16	-	1	-
Trade receivables, net (Notes 4 and 12)	34,945	1	23,001	-
Other receivables (Notes 4 and 28)	27,442	1	26,268	1
Inventories, net (Notes 4, 5 and 13)	553,985	12	536,590	13
Prepayments	28,967	1	23,774	-
Total current assets	1,097,250	25	967,535	23
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Note 7)	79,286	2	-	-
Financial assets measured at cost - non-current (Notes 4 and 10)	-	-	81,578	2
Investments accounted for using the equity method (Notes 4, 5 and 15)	2,048,361	46	2,020,136	48
Property, plant and equipment, net (Notes 4, 16 and 29)	1,024,931	23	999,133	23
Investment properties, net (Notes 4, 17 and 29)	82,320	2	83,376	2
Intangible assets, net (Note 4)	10,646	-	6,805	-
Deferred tax assets (Notes 4 and 24)	11,242	-	10,344	-
Refundable deposits (Note 30)	76,685	2	69,775	2
Net defined benefit assets - non-current (Notes 4 and 20)	4,361	-	757	-
Total non-current assets	3,337,832	75	3,271,904	77
TOTAL	\$ 4,435,082	100	\$ 4,239,439	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 4 and 18)	\$ 14,500	-	\$ 74,000	2
Notes payable (Notes 4 and 28)	441,796	10	353,670	8
Trade payables (Notes 4 and 28)	49,194	1	46,760	1
Other payables (Notes 4, 19 and 28)	330,691	7	255,005	6
Current tax liabilities (Note 23)	42,351	1	35,614	1
Current portion of long-term borrowings (Note 18)	32,262	1	31,899	1
Other current liabilities	44,558	1	39,911	1
Total current liabilities	955,352	21	836,859	20
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 4 and 18)	545,319	12	577,581	13
Provisions - non-current (Note 4)	10,077	-	9,575	-
Deferred tax liabilities (Notes 4 and 24)	288,657	7	240,249	6
Other non-current liabilities (Note 19)	251,242	6	250,732	6
Total non-current liabilities	1,095,295	25	1,078,137	25
Total liabilities	2,050,647	46	1,914,996	45
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY (Notes 4 and 21)				
Ordinary shares	600,599	14	600,599	14
Capital surplus	483,443	11	483,410	12
Retained earnings				
Legal reserve	356,680	8	326,267	8
Special reserve	113,739	3	50,841	1
Unappropriated earnings	1,026,561	23	962,609	23
Total retained earnings	1,496,980	34	1,339,717	32
Other equity	(207,685)	(5)	(113,739)	(3)
Total equity attributable to owners of the parent company	2,373,337	54	2,309,987	55
NON-CONTROLLING INTERESTS	11,098	-	14,456	-
Total equity	2,384,435	54	2,324,443	55
TOTAL	\$ 4,435,082	100	\$ 4,239,439	100

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

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Note 4)	\$ 3,066,268	100	\$ 2,851,786	100
COST OF GOODS SOLD (Notes 13 and 28)	<u>(1,294,623)</u>	<u>(42)</u>	<u>(1,200,465)</u>	<u>(42)</u>
GROSS PROFIT	<u>1,771,645</u>	<u>58</u>	<u>1,651,321</u>	<u>58</u>
OPERATING EXPENSES (Notes 23 and 28)				
Selling and marketing expenses	(1,511,377)	(50)	(1,412,286)	(50)
General and administrative expenses	<u>(90,927)</u>	<u>(3)</u>	<u>(82,932)</u>	<u>(3)</u>
Total operating expenses	<u>(1,602,304)</u>	<u>(53)</u>	<u>(1,495,218)</u>	<u>(53)</u>
PROFIT FROM OPERATION	<u>169,341</u>	<u>5</u>	<u>156,103</u>	<u>5</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4, 23 and 28)	50,436	2	49,302	2
Other gains and losses (Note 23)	(3,755)	-	(1,560)	-
Finance costs	(8,156)	-	(10,138)	-
Share of profit of associates	<u>162,381</u>	<u>5</u>	<u>178,892</u>	<u>6</u>
Total non-operating income and expenses	<u>200,906</u>	<u>7</u>	<u>216,496</u>	<u>8</u>
PROFIT BEFORE INCOME TAX	370,247	12	372,599	13
INCOME TAX EXPENSE (Notes 4 and 24)	<u>(120,088)</u>	<u>(4)</u>	<u>(71,215)</u>	<u>(3)</u>
NET PROFIT FOR THE YEAR	<u>250,159</u>	<u>8</u>	<u>301,384</u>	<u>10</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	993	-	675	-
Unrealized gain on investments in equity instruments at fair value through other comprehensive income	36,144	1	-	-
Share of the other comprehensive gain (loss) of associates accounted for using the equity method	4	-	(310)	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss	<u>(58)</u>	<u>-</u>	<u>(62)</u>	<u>-</u>
	<u>37,083</u>	<u>1</u>	<u>303</u>	<u>-</u>

(Continued)

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

	2018		2017	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	\$ 9,080	-	\$ (10,327)	-
Unrealized loss on available-for-sale financial assets	-	-	(25,539)	(1)
Share of the other comprehensive loss of associates for using the equity method	(12,212)	-	(34,684)	(1)
Income tax benefit relating to items that may be reclassified subsequently to profit or loss	<u>3,789</u>	-	<u>7,652</u>	-
	<u>657</u>	-	<u>(62,898)</u>	(2)
Other comprehensive income (loss) for the year, net of income tax	<u>37,740</u>	<u>1</u>	<u>(62,595)</u>	(2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 287,899</u>	<u>9</u>	<u>\$ 238,789</u>	<u>8</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the parent company	\$ 253,517	8	\$ 304,131	11
Non-controlling interests	<u>(3,358)</u>	-	<u>(2,747)</u>	-
	<u>\$ 250,159</u>	<u>8</u>	<u>\$ 301,384</u>	<u>11</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:				
Owners of the parent company	\$ 291,257	9	\$ 241,536	8
Non-controlling interests	<u>(3,358)</u>	-	<u>(2,747)</u>	-
	<u>\$ 287,899</u>	<u>9</u>	<u>\$ 238,789</u>	<u>8</u>
EARNINGS PER SHARE (Note 25)				
Basic	<u>\$ 4.22</u>		<u>\$ 5.06</u>	
Diluted	<u>\$ 4.21</u>		<u>\$ 5.05</u>	

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

(Concluded)

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Parent Company											
	Issue of Share Capital		Retained Earnings			Other Equity		Unrealized			Total Equity	
	Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Non-controlling Interests		
BALANCE AT JANUARY 1, 2017	60,060	\$ 600,599	\$ 483,410	\$ 290,345	\$ -	\$ 961,154	\$ (48,522)	\$ (2,319)	\$ -	\$ 2,284,667	\$ 17,203	\$ 2,301,870
Appropriation of the 2016 earnings	-	-	-	35,922	-	(35,922)	-	-	-	-	-	-
Legal reserve	-	-	-	50,841	-	(50,841)	-	-	-	-	-	-
Special reserve	-	-	-	-	50,841	(216,216)	-	-	-	(216,216)	-	(216,216)
Cash dividends	-	-	-	-	-	304,131	-	-	-	304,131	(2,747)	301,384
Net profit (loss) for the year ended December 31, 2017	-	-	-	-	-	303	(37,359)	(25,539)	-	(62,595)	-	(62,595)
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	304,434	(37,359)	(25,539)	-	241,536	(2,747)	238,789
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	962,609	(85,881)	(27,858)	-	2,309,987	14,456	2,324,443
BALANCE AT DECEMBER 31, 2017	60,060	600,599	483,410	326,267	50,841	1,63,012	-	27,858	(190,582)	288	-	288
Effect of retrospective application and retrospective restatement	-	-	-	-	-	1,125,621	(85,881)	-	(190,582)	2,310,275	14,456	2,324,731
BALANCE AT JANUARY 1, 2018 AS RESTATED	60,060	600,599	483,410	30,413	62,898	(30,413)	-	-	-	-	-	-
Appropriation of the 2017 earnings	-	-	-	-	-	(62,898)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	(228,228)	-	-	-	(228,228)	-	(228,228)
Special reserve	-	-	-	-	-	253,517	-	-	-	33	(3,358)	250,159
Cash dividends	-	-	-	-	-	938	363	-	-	37,740	-	37,740
Other changes in capital surplus	-	-	33	-	-	254,455	363	-	-	291,257	(3,358)	287,899
Changes in capital surplus from investments in associates using the equity method	-	-	-	-	-	(31,976)	-	-	-	-	-	-
Net profit (loss) for the year ended December 31, 2018	-	-	-	-	-	1,026,561	(85,518)	-	-	2,373,337	11,098	2,384,435
Other comprehensive income for the year ended December 31, 2018, net of income tax	-	-	-	-	-	356,680	-	-	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	1,383,141	-	-	-	2,373,337	-	2,373,337
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	113,739	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2018	60,060	600,599	483,443	356,680	113,739	1,026,561	(85,518)	-	-	2,373,337	11,098	2,384,435

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

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 370,247	\$ 372,599
Adjustments for:		
Depreciation expenses	93,315	88,308
Amortization expenses	3,876	3,503
Expected credit loss recognized on trade receivables	485	-
Net gain on fair value changes of financial assets designated as at fair value through profit or loss	(56)	-
Finance costs	8,156	10,138
Interest income	(11,075)	(9,878)
Loss on disposal of property, plant and equipment	1,700	1,380
Net loss on disposal of inventories	16,045	12,352
Net loss (gain) on disposal of available-for-sale financial assets	-	1,124
Share of profit of associates	(162,381)	(178,892)
Changes in operating assets and liabilities		
Notes receivable	(15)	399
Trade receivables	(12,429)	(7,606)
Other receivables	(1,754)	(6,454)
Inventories	(33,440)	7,028
Net defined benefit assets - non-current	(2,611)	-
Prepayments	(5,193)	(1,161)
Notes payable	88,126	25,702
Trade payables	2,434	(9,567)
Other payables	39,175	(2,916)
Provisions	502	2,517
Other current liabilities	4,647	3,465
Net defined benefit liabilities - non-current	-	(2,570)
Cash generated from operations	399,754	309,471
Interest received	11,655	9,337
Dividends received	124,428	122,267
Interest paid	(8,179)	(10,049)
Income tax paid	(62,110)	(48,357)
Net cash generated from operating activities	<u>465,548</u>	<u>382,669</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	(107,719)	-
Proceeds from sale of financial assets at amortized cost	119,048	-
Purchase of financial assets measured at cost	-	(25,047)
Payments for property, plant and equipment	(83,590)	(93,858)
Proceeds from disposal of property, plant and equipment	367	533
Purchase of financial assets at fair value through profit and loss	(79,675)	-
Proceeds from sale of financial assets at fair value through profit and loss	79,798	-

(Continued)

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

	2018	2017
Purchase of available-for-sale financial assets	\$ -	\$ (100,000)
Proceeds from financial assets at fair value through other comprehensive income	3,024	-
Proceeds from sale of available-for-sale financial assets	-	78,858
Purchase of debt investments with no active market	-	(116,064)
(Increase) decrease in refundable deposits	(6,910)	868
Payments for intangible assets	<u>(7,717)</u>	<u>(2,608)</u>
Net cash used in investing activities	<u>(83,374)</u>	<u>(257,318)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of short-term borrowings	(59,500)	(70,000)
Repayments of long-term borrowings	(31,899)	(6,000)
Proceeds from guarantee deposits received	510	8,278
Cash dividends	<u>(228,228)</u>	<u>(216,216)</u>
Net cash used in financing activities	<u>(319,117)</u>	<u>(283,938)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>3,507</u>	<u>(10,058)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	66,564	(168,645)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>157,598</u>	<u>326,243</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 224,162</u>	<u>\$ 157,598</u>

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

(Concluded)

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

1. GENERAL INFORMATION

Formosa Optical Technology Corporation (the “Company”) was established in November 1989, and is mainly engaged in Optical Glasses Division. The Company’s shares have been listed on the Taipei Exchange (“TPEX”) Mainboard since May 1996.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 26, 2019.

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

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

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group’s accounting policies:

- 1) IFRS 9 “Financial Instruments” and related amendments

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

Classification, measurement, and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

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

Financial Assets	Measurement Category		Carrying Amount		Note
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 157,598	\$ 157,598	a)
Equity securities	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	163,142	163,142	b)
Mutual funds	Available-for-sale	Mandatorily at fair value through profit or loss (FVTPL)	2,675	2,675	c)
Time deposits with original maturities of more than 3 months	Loans and receivables	Amortized cost	116,064	116,064	d)
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	49,270	49,270	a)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL						
Add: Reclassification from available-for-sale (IAS 39)	\$ -	\$ 2,675				
	<u>-</u>	<u>2,675</u>	\$ 2,675	\$ (300)	\$ 300	c)
FVTOCI						
Equity instruments	-	163,142				
Add: Reclassification from available-for-sale (IAS 39)	-	163,142	163,142	163,312	(163,312)	b)
	<u>-</u>	<u>163,142</u>				
Amortized cost						
Add: Reclassification from loans and receivables (IAS 39)	-	116,064				
	<u>-</u>	<u>116,064</u>	<u>116,064</u>	<u>-</u>	<u>-</u>	d)
	<u>-</u>	<u>281,881</u>	<u>281,881</u>	<u>163,012</u>	<u>(163,012)</u>	
Investments accounted for using the equity method	2,020,136	288	2,020,424	-	(162,724)	e)
	<u>2,020,136</u>	<u>282,169</u>	<u>2,302,305</u>	<u>163,012</u>	<u>(162,724)</u>	e)

- a) Cash, notes receivables, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 are classified as at amortized cost with an assessment of expected credit losses under IFRS 9.
- b) The Group elected to designated all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9 because these investments are not held for trading. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of \$27,573 thousand was reclassified to other equity - unrealized gain (loss) on financial assets at FVTOCI.

The Group recognized under IAS 39 impairment loss on certain investments in equity securities previously classified as measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$163,312 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of \$163,312 thousand in retained earnings on January 1, 2018.

- c) Mutual funds previously classified as available-for-sale under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments. The retrospective adjustment resulted in an increase of \$300 thousand in other equity-unrealized gain (loss) on available-for-sale financial assets and a decrease of \$300 thousand in retained earnings on January 1, 2018.
- d) Debt investments previously classified as debt instruments with no active market and measured at amortized cost under IAS 39 are classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9, because, on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.
- e) As a result of retrospective application of IFRS 9 by associates, there was an increase in investment accounted for using the equity method of \$288 thousand and an increase in other equity - unrealized gain (loss) on financial assets at FVTOCI of \$288 thousand on January 1, 2018.

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

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

The Group performed a preliminary assessment and recognized revenue based on the facts and circumstances as of January 1, 2018, and the recognition and measurement did not change upon the application of IFRS 15.

3) Amendments to IAS 40 “Transfers of Investment Property”

The amendments clarify that the Group should transfer to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that evidence of a change in use is not limited to those illustrated in IAS 40.

The Group performed a preliminary assessment based on the facts and circumstances as of December 31, 2017, and the recognition and measurement did not change upon the application of IAS 40.

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

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

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

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

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

- IFRS 16 “Leases”

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

Definition of a lease

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

The Group as lessee

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

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

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities. The Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

- 1) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

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

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as at the carrying amounts of the leased assets and finance lease payables as of December 31, 2018.

The Group as lessor

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ _____ -	\$ 763,085	\$ 763,085
Total effect on assets	\$ _____ -	\$ 763,085	\$ 763,085
Lease liabilities - current	\$ -	\$ 274,844	\$ 274,844
Lease liabilities - non-current	_____ -	497,268	497,268
Total effect on assets	\$ _____ -	\$ 772,112	\$ 772,112
Retained earnings	\$ _____ -	\$ (9,027)	\$ (9,027)
Total effect on equity	\$ _____ -	\$ (9,027)	\$ (9,027)

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

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

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company and the entities controlled by the parent company (i.e. its subsidiaries). Income and expenses of the subsidiaries acquired or disposed of during the period are included in the consolidated statements of comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the parent company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the parent company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent company.

See Note 14 and Table 4 for detailed information on the subsidiaries (including the percentages of ownership and main businesses).

e. Foreign currencies

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

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

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

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

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

f. Inventories

Inventories are products. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less selling and marketing expenses. Inventories are recorded at their weighted-average cost on the balance sheet date.

g. Investments in associates

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

Investments in associates are accounted for using the equity method.

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

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

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

h. Property, plant and equipment

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

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

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

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

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

j. Intangible assets

1) Intangible assets acquired separately

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

2) Derecognition of intangible assets

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

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of such assets is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

l. Financial instruments

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

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

1) Financial assets

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

a) Measurement category

2018

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

i. Financial assets at amortized cost

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

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

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

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

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

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

ii. Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets are classified into the following categories: Available-for-sale financial assets and loans and receivables.

i. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables.

Available-for-sale financial assets are measured at fair value. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

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

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

ii. Loans and receivables

Loans and receivables (including cash and cash equivalents, debt investments with no active market and trade receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets

2018

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

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

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

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investment in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

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

Financial assets at amortized cost, such as trade receivables, are assessed for impairment on a collective basis even if they are not assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience with collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in conditions that correlate with defaults on receivables.

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

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

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period. Impairment loss previously recognized in profit or loss is not reserved in other comprehensive income.

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

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

c) Derecognition of financial assets

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

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

2) Equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

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

3) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

m. Provisions

Provisions, including those arising from contractual obligations specified in service concession arrangements to maintain or restore infrastructure before it is handed over to the grantor and levies imposed by governments, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

n. Revenue recognition

2018

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

Revenue from the sale of goods comes from sales of optical glasses. Sales of goods are recognized as revenue when the goods are shipped or delivered to the customer because that is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables are recognized concurrently.

2017

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

1) Sale of goods

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

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

2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

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

o. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

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

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

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

p. Taxation

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

1) Current tax

According to the Income Tax Law in R.O.C, unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

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

2) Deferred tax

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

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

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

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Business model assessment for financial assets - 2018

The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment about all relevant evidence including how the performance of the assets is evaluated, the risks that affect the performance of the assets and how these are managed, and how the managers of the assets are compensated. The Group monitors financial assets at amortized cost, and when assets are derecognized prior to their maturity, the Group understands the reasons for their disposal and whether the reasons are consistent with the objective of the business for which the assets were held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and, if it is not appropriate, whether there has been a change in the business model, such that a prospective change to the classification of those assets is proper.

b. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables is based on the assumptions about the risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs for the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 12. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

c. Allowance for inventory valuation losses

We evaluated the ending balance of inventory's net reliable value with the lower of cost or net realizable value method. The Group assesses the amount of inventory obsolescence or no market sales value at the end of the financial reporting period and reduces the inventory cost to the net realizable value. This inventory assessment is based primarily on the estimated product demand for a specific period of time in the future and may result in significant changes.

d. Share of profit of associates

1) Allowance for sales returns and discounts from investments under equity method

The associates are required to provide sales discounts and returns based on the contractual arrangements with the customers. In making such judgments, management needs to consider whether sales discounts, returns and provisions meet the contract agreements. Provision for liabilities, as these assessments are based on management's assessment and judgment of contracts for different customers based on current sales, may affect the results of the estimates.

2) Allowance for inventory valuation losses from investments under equity method

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

3) Impairment loss on trade receivables from investments under equity method

The associates consider the estimates of the future cash flows of the accounts receivable. The amount of the expected credit loss of the accounts receivable is the difference between the carrying amount and the estimates of future cash flows (excluding future credit losses that have not yet occurred). Where the actual future cash inflows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 23,991	\$ 21,146
Checking accounts and demand deposits	190,956	136,452
Cash equivalents (investments with original maturities of less than 3 months)		
Time deposits	<u>9,215</u>	<u>-</u>
	<u>\$ 224,162</u>	<u>\$ 157,598</u>

7. FINANCIAL ASSETS AT FVTOCI - 2018

December 31,
2018

Current

Investments in equity instruments at FVTOCI

Domestic investments

Listed shares and emerging market shares - ordinary shares	\$ 87,974
Listed shares and emerging market shares - preferred shares	<u>32,040</u>

\$ 120,014

Non-current

Investments in equity instruments at FVTOCI

Domestic investments

Unlisted shares and emerging market shares - ordinary shares	<u>\$ 79,286</u>
--	------------------

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purpose. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Notes 3, 9 and 10 for information related to their reclassification and comparative information for 2017.

Refer to Note 29 for information relating to investments in equity instruments at FVTOCI pledged as security.

8. FINANCIAL ASSETS AT AMORTIZED COST - 2018

December 31,
2018

Current

Domestic investments

Time deposits with original maturity of more than 3 months	<u>\$ 107,719</u>
--	-------------------

The interest rates for time deposits with original maturity of more than 3 months were from 2.45%-2.89% as at the end of the reporting period. The time deposits were classified as debt investments with no active market under IAS 39. Refer to Notes 3 and 11 for information relating to their reclassification and comparative information for 2017.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

December 31,
2017

Current

Domestic investments

Listed shares and emerging market shares - ordinary shares	\$ 51,504
Listed shares and emerging market shares - preferred shares	30,060
Mutual funds	<u>2,675</u>

\$ 84,239

Refer to Note 29 for information relating to available-for-sale financial assets pledged as security.

10. FINANCIAL ASSETS MEASURED AT COST - 2017

**December 31,
2017**

Non-current

Domestic unlisted ordinary shares \$ 81,578

Classified according to financial asset measurement categories
Available-for-sale financial assets \$ 81,578

Management believed that the above unlisted equity investments held by the Group had fair values which cannot be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of the reporting period.

The Group recognized impairment loss of financial assets measured at cost of \$163,312 thousand on December 31, 2017 due to the fact that their investments in unlisted shares continued to result in losses and the value of held investments was already impaired; therefore, the difference between the carrying amount and the amount recoverable was recognized as a loss.

11. DEBT INVESTMENTS WITH NO ACTIVE MARKET - 2017

**December 31,
2017**

Current

Time deposits with original maturities of more than 3 months \$ 116,064

As of December 31, 2017, the market interest rates of the time deposits with original maturities more than 3 months were 1.5%.

12. TRADE RECEIVABLES

	December 31	
	2018	2017
<u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	\$ 35,538	\$ 23,109
Less: Allowance for impairment loss	<u>(593)</u>	<u>(108)</u>
	<u>\$ 34,945</u>	<u>\$ 23,001</u>

In 2018

The primary trade receivables were receivables of credit cards from National Credit Card Center of R.O.C., CTBC Bank Co., Ltd., department stores and malls. The Group adopted a policy of only dealing with entities that are rated the equivalents of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

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

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provisions for all trade receivables.

The aging of receivables is as follows:

	December 31, 2018
0-30 days	\$ 28,309
31-60 days	6,744
61-90 days	<u>485</u>
	<u>\$ 35,538</u>

Movements in allowances of the loss allowance of trade receivables are as follows:

	December 31, 2018
Balance at January 1, 2018 per IAS 39	\$ 108
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	108
Add: Net remeasurement of loss allowance	485
Foreign exchange gains and losses	<u>-</u>
Balance at December 31, 2018	<u>\$ 593</u>

In 2017

The Group applied the same credit policy in 2018 and 2017. Allowance for impairment loss was recognized based on the estimated irrecoverable amounts determined by reference to past default experience with the counterparties and an analysis of their respective current financial positions. As of December 31, 2017, impairment losses based on past due or impaired trade receivables are fully recognized.

The aging of receivables is as follows:

	December 31, 2017
0-30 days	\$ 18,347
31-60 days	4,627
61-90 days	50
91-120 days	<u>85</u>
	<u>\$ 23,109</u>

The above aging schedule was based on the ledger date.

The movements of the allowance for doubtful trade receivables were as follows:

	For the Year Ended December 31, 2017
Balance at January 1, 2017	\$ 108
Add: Allowances recognized for impairment losses	<u>-</u>
Balance at December 31, 2017	<u>\$ 108</u>

13. INVENTORIES, NET

	<u>December 31</u>	
	2018	2017
Merchandise	<u>\$ 553,985</u>	<u>\$ 536,590</u>

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 were \$1,294,623 thousand and \$1,200,465 thousand, respectively.

The cost of goods sold included the inventory write-downs (reversals) and disposals is as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Inventory write-downs (reversals)	\$ 3,012	\$ 4,650
Loss of inventory scrapped and physical inventories	16,045	12,352

Previous write-downs were reversed as a result of sold of inventory that had been write-downs.

14. SUBSIDIARIES

Subsidiaries Included in Consolidated Financial Statements

Investor	Investee	Main Business	% of Ownership	
			December 31	
			2018	2017
The parent company	New Path International Co., Ltd.	Investment activities	100.00	100.00
	Milanno Optical Co., Ltd.	Sell optical glasses, frames and eye drops, office machinery and equipment, and retail sale of telecom instruments	100.00	100.00
	Bao Wei Optical Co., Ltd.	Sell optical glasses, frames and eye drops	100.00	100.00
	Bao Xiang Optical Co., Ltd.	Sell optical glasses, frames and eye drops	70.00	70.00

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates

	December 31	
	2018	2017
Material associates		
Polylite Taiwan Co., Ltd.	\$ 135,072	\$ 131,569
Ginko International Co., Ltd.	<u>1,913,289</u>	<u>1,888,567</u>
	<u>\$ 2,048,361</u>	<u>\$ 2,020,136</u>
Name of Associates	Proportion of Ownership and Voting Rights	
	2018	2017
Polylite Taiwan Co., Ltd.	14.25%	14.25%
Ginko International Co., Ltd.	18.39%	18.39%

Refer to Table 4 “Information on Investees” and Table 5 “Information on Investments in Mainland China” for the nature of activities, principal places of business and countries of incorporation of the associates.

The Group cooperated with Ginko International Co., Ltd. to issue an overallotment offering on the mainboard of TPEx in April 2012. The Group sold 292 thousand shares, so the proportion of ownership declined from 21.62% to 18.83%. Since the management considered the transaction not a significant influence on Ginko International Co., Ltd., the investment was accounted for using the equity method.

The Group served as two of seven board of directors for Polylite Taiwan Co., Ltd. Since the Group had significant control for Polylite Taiwan Co., Ltd., the investment was accounted for using the equity method.

Fair values (Level 1) of investments in associates with available published price quotations are summarized as follows:

Name of Associate	December 31	
	2018	2017
Polylite Taiwan Co., Ltd.	<u>\$ 126,922</u>	<u>\$ 137,886</u>
Ginko International Co., Ltd.	<u>\$ 3,596,185</u>	<u>\$ 3,689,703</u>

Summarized financial information in respect of each of the Group’s material associates is set out below. The summarized financial information below represents amounts shown in the associates’ financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

Polylite Taiwan Co., Ltd.

	December 31	
	2018	2017
Current assets	\$ 423,413	\$ 568,432
Non-current assets	738,980	754,137
Current liabilities	(125,058)	(277,951)
Non-current liabilities	(19,837)	(33,835)
Non-controlling interests	<u>(69,557)</u>	<u>(87,429)</u>
Equity	<u>\$ 947,941</u>	<u>\$ 923,354</u>
Proportion of the Group's ownership	14.25%	14.25%
Equity attributable to the Group	<u>\$ 135,072</u>	<u>\$ 131,569</u>
Carrying amount	<u>\$ 135,072</u>	<u>\$ 131,569</u>
	For the Year Ended December 31	
	2018	2017
Operating revenue	<u>\$ 459,358</u>	<u>\$ 397,829</u>
Net profit for the year	\$ 63,922	\$ 2,116
Other comprehensive income (loss)	<u>5,046</u>	<u>(13,301)</u>
Total comprehensive income (loss) for the year	<u>\$ 68,968</u>	<u>\$ (11,185)</u>
Dividends received from Polylite Taiwan Co., Ltd.	<u>\$ 6,645</u>	<u>\$ 6,645</u>

Ginko International Co., Ltd.

	December 31	
	2018	2017
Current assets	\$ 11,945,612	\$ 12,362,927
Non-current assets	8,230,932	6,585,998
Current liabilities	(7,264,409)	(7,099,001)
Non-current liabilities	(2,526,000)	(1,585,521)
Non-controlling interests	<u>16,855</u>	<u>4,168</u>
Equity	<u>\$ 10,402,990</u>	<u>\$ 10,268,571</u>
Proportion of the Group's ownership	18.39%	18.39%
Equity attributable to the Group	<u>\$ 1,913,289</u>	<u>\$ 1,888,567</u>
Carrying amount	<u>\$ 1,913,289</u>	<u>\$ 1,888,567</u>

For the Year Ended December 31
2018 **2017**

Operating revenue	<u>\$ 7,389,201</u>	<u>\$ 5,948,520</u>
Net Profit for the year	\$ 833,380	\$ 971,035
Other comprehensive loss	<u>(82,990)</u>	<u>(193,037)</u>
Total comprehensive income for the year	<u>\$ 750,390</u>	<u>\$ 777,998</u>
Dividends received from Ginko International Co., Ltd.	<u>\$ 117,783</u>	<u>\$ 115,622</u>

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2018 and 2017 were based on the associates' financial statements which have been audited for the years then ended.

16. PROPERTY, PLANT AND EQUIPMENT,

	Freehold Land	Buildings	Transportation Equipment	Office Equipment	Decoration Equipment	Leasehold Improvement	Other Equipment	Total
<i>Cost</i>								
Balance at January 1, 2017	\$ 288,316	\$ 451,444	\$ -	\$ 373,742	\$ 502,010	\$ 6,335	\$ 194	\$ 1,622,041
Additions	-	43,193	2,438	41,279	22,416	2,518	-	111,844
Disposals	-	-	(124)	(8,142)	(3,234)	-	-	(11,500)
Reclassification	-	-	-	219	(219)	-	-	-
Balance at December 31, 2017	<u>\$ 288,316</u>	<u>\$ 494,637</u>	<u>\$ 2,314</u>	<u>\$ 407,098</u>	<u>\$ 520,973</u>	<u>\$ 8,853</u>	<u>\$ 194</u>	<u>\$ 1,722,385</u>
<i>Accumulated depreciation</i>								
Balance at January 1, 2017	\$ -	\$ 9,196	\$ -	\$ 265,554	\$ 369,680	\$ 1,077	\$ 80	\$ 645,587
Depreciation expenses	-	11,283	188	25,744	49,220	802	15	87,252
Disposals	-	-	(13)	(7,556)	(2,018)	-	-	(9,587)
Reclassification	-	-	-	-	-	-	-	-
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 20,479</u>	<u>\$ 175</u>	<u>\$ 283,742</u>	<u>\$ 416,882</u>	<u>\$ 1,879</u>	<u>\$ 95</u>	<u>\$ 723,252</u>
Balance at December 31, 2017, net	<u>\$ 288,316</u>	<u>\$ 474,158</u>	<u>\$ 2,139</u>	<u>\$ 123,356</u>	<u>\$ 104,091</u>	<u>\$ 6,974</u>	<u>\$ 99</u>	<u>\$ 999,133</u>
<i>Cost</i>								
Balance at January 1, 2018	\$ 288,316	\$ 494,637	\$ 2,314	\$ 407,098	\$ 520,973	\$ 8,853	\$ 194	\$ 1,722,385
Additions	-	667	471	45,236	73,415	335	-	120,124
Disposals	-	-	(124)	(10,214)	(6,234)	-	-	(16,572)
Reclassification	-	-	-	1,309	(1,309)	-	-	-
Balance at December 31, 2018	<u>\$ 288,316</u>	<u>\$ 495,304</u>	<u>\$ 2,661</u>	<u>\$ 443,429</u>	<u>\$ 586,845</u>	<u>\$ 9,188</u>	<u>\$ 194</u>	<u>\$ 1,825,937</u>
<i>Accumulated depreciation</i>								
Balance at January 1, 2018	\$ -	\$ 20,479	\$ 175	\$ 283,742	\$ 416,882	\$ 1,879	\$ 95	\$ 723,252
Depreciation expenses	-	11,316	532	31,133	48,921	341	16	92,259
Disposals	-	-	(20)	(9,067)	(5,418)	-	-	(14,505)
Reclassification	-	-	-	-	-	-	-	-
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 31,795</u>	<u>\$ 687</u>	<u>\$ 305,808</u>	<u>\$ 460,385</u>	<u>\$ 2,220</u>	<u>\$ 111</u>	<u>\$ 801,006</u>
Balance at December 31, 2018, net	<u>\$ 288,316</u>	<u>\$ 463,509</u>	<u>\$ 1,974</u>	<u>\$ 137,621</u>	<u>\$ 126,460</u>	<u>\$ 6,968</u>	<u>\$ 83</u>	<u>\$ 1,024,931</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	20-50 years
Office equipment	1-10 years
Transportation equipment	5 years
Decoration equipment	1-6 years
Leasehold improvement	15-20 years
Other equipment	6-10 years

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 29.

17. INVESTMENT PROPERTIES

	Completed Investment Properties
<u>Cost</u>	
Balance at January 1, 2017	\$ 98,351
Additions	<u>-</u>
Balance at December 31, 2017	<u>\$ 98,351</u>
<u>Accumulated depreciation</u>	
Balance at January 1, 2017	\$ 13,919
Depreciation expense	<u>1,056</u>
Balance at December 31, 2017	<u>\$ 14,975</u>
Balance at December 31, 2017, net	<u>\$ 83,376</u>
<u>Cost</u>	
Balance at January 1, 2018	\$ 98,351
Additions	<u>-</u>
Balance at December 31, 2018	<u>\$ 98,351</u>
<u>Accumulated depreciation</u>	
Balance at January 1, 2018	\$ 14,975
Depreciation expense	<u>1,056</u>
Balance at December 31, 2018	<u>\$ 16,031</u>
Balance at December 31, 2018, net	<u>\$ 82,320</u>

Investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	55 years
Decoration equipment	8 years
Office equipment	8 years

The fair value of the investment property for the years ended December 31, 2018 and 2017 was \$244,666 thousand and \$261,508 thousand, respectively. The management of the Company used the valuation model that market participants would use in determining the fair value, and the fair value was measured by using Level 3 inputs. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The investment properties pledged as collateral for bank borrowing are set out in Note 29.

18. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Secured borrowings (Note 29)</u>		
Line of credit borrowings	<u>\$ 12,000</u>	<u>\$ 12,000</u>
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>2,500</u>	<u>62,000</u>
	<u>\$ 14,500</u>	<u>\$ 74,000</u>

The range of weighted average effective interest rates on bank loans was 1.6%-1.87% and 1.2% -2.3% per annum as of December 31, 2018 and 2017, respectively.

b. Long-term borrowings

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Secured borrowings (Note 29)</u>		
Bank loans	\$ 577,581	\$ 609,480
Less: Current portions	<u>(32,262)</u>	<u>(31,899)</u>
Long-term borrowings	<u>\$ 545,319</u>	<u>\$ 577,581</u>

- 1) The Group borrowed \$525,980 thousand from Taiwan Business Bank which was secured by land and building mortgage guarantee. The loan term is from December 23, 2015 to December 23, 2035. During the first 2 years, the Group paid interest monthly. From the third year after initial date, principal with interest will be paid monthly for 20 years. The effective interest rates were both 1.39% per annum as of December 31, 2018 and 2017.
- 2) The Group borrowed \$95,000 thousand from Taiwan Cooperative Bank which was secured by land, buildings and investment property. The loan term is from January 21, 2016 to January 20, 2021. During the first 4 years, the principal with interest is paid for \$500 thousand monthly. From the fifth year, principle and interest payment will be paid by installments for 12 months. The effective interest rates were 1.42% and 1.49% per annum as of December 31, 2018 and 2017, respectively.

19. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Current</u>		
Other payables		
Payables for salaries or bonuses	\$ 195,302	\$ 170,597
Payables for purchases of equipment	54,155	17,621
Payables for annual leave	12,197	12,079
Payables for premiums	11,465	10,195
Payables for services	1,290	1,222
Others	<u>56,282</u>	<u>43,291</u>
	<u>\$ 330,691</u>	<u>\$ 255,005</u>
<u>Non-current</u>		
Guarantee deposits	\$ 249,842	\$ 249,332
Guarantee deposits for engagement	<u>1,400</u>	<u>1,400</u>
Others		
	<u>\$ 251,242</u>	<u>\$ 250,732</u>

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The parent company and subsidiaries - Milano Optical Co., Ltd., Bao Wei Optical Co., Ltd. and Bao Xiang Optical Co., Ltd. of the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

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

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 23,850	\$ 23,903
Fair value of plan assets	<u>(28,211)</u>	<u>(24,660)</u>
Net defined benefit assets	<u>\$ (4,361)</u>	<u>\$ (757)</u>

Movements in net defined benefit assets were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2017	\$ 24,342	\$ (21,854)	\$ 2,488
Service cost			
Net interest expense (income)	<u>341</u>	<u>(324)</u>	<u>17</u>
Recognized in profit or loss	<u>341</u>	<u>(324)</u>	<u>17</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	105	105
Actuarial loss - changes in financial assumptions	682	-	682
Actuarial loss - experience adjustments	<u>(1,462)</u>	<u>-</u>	<u>(1,462)</u>
Recognized in other comprehensive loss	<u>(780)</u>	<u>105</u>	<u>(675)</u>
Contributions from the employer	<u>-</u>	<u>(2,587)</u>	<u>(2,587)</u>
Balance at December 31, 2017	<u>23,903</u>	<u>(24,660)</u>	<u>(757)</u>
Service cost			
Net interest expense (income)	<u>275</u>	<u>(299)</u>	<u>(24)</u>
Recognized in profit or loss	<u>275</u>	<u>(299)</u>	<u>(24)</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(665)	(665)
Actuarial loss - changes in financial assumptions	387	-	387
Actuarial loss - experience adjustments	<u>(715)</u>	<u>-</u>	<u>(715)</u>
Recognized in other comprehensive loss	<u>(328)</u>	<u>(665)</u>	<u>(993)</u>
Contributions from the employer	<u>-</u>	<u>(2,587)</u>	<u>(2,587)</u>
Balance at December 31, 2018	<u>\$ 23,850</u>	<u>\$ (28,211)</u>	<u>\$ (4,361)</u>

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

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

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

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

	<u>December 31</u>	
	2018	2017
Discount rate	1.00%	1.15%
Expected rate of salary increase	2%	2%
Turnover rate	1%-40%	1%-40%

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

	<u>December 31</u>	
	2018	2017
Discount rate		
0.25% increase	<u>\$ (640)</u>	<u>\$ (675)</u>
0.25% decrease	<u>\$ 663</u>	<u>\$ 701</u>
Expected rate of salary increase		
1% increase	<u>\$ 2,794</u>	<u>\$ 2,939</u>
1% decrease	<u>\$ (2,475)</u>	<u>\$ (2,586)</u>

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

	<u>December 31</u>	
	2018	2017
Expected contributions to the plans for the next year	<u>\$ 2,588</u>	<u>\$ 2,588</u>
Average duration of the defined benefit obligation	11.2 years	12 years

21. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	2018	2017
Number of shares authorized (in thousands)	<u>85,000</u>	<u>85,000</u>
Shares authorized	<u>\$ 850,000</u>	<u>\$ 850,000</u>
Number of shares issued and fully paid (in thousands)	<u>60,060</u>	<u>60,060</u>
Shares issued	<u>\$ 600,599</u>	<u>\$ 600,599</u>

b. Capital surplus

	<u>December 31</u>	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*		
Treasury share transactions	\$ 502	\$ 502
<u>May not be used for any purpose</u>		
Changes in percentage of ownership interests in subsidiaries	482,726	482,726
Others	<u>182</u>	<u>182</u>
	<u>\$ 483,443</u>	<u>\$ 483,410</u>

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

c. Retained earnings and dividend policy

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. The Company's dividend policy is designed to meet present and future development projects and takes into consideration the investment environment, funding requirements, international or domestic competitive conditions while simultaneously meeting shareholders' interests. When there is no cumulative loss, the parent company shall distribute dividends at no less than 10% of the net profit. The Company shall not distribute dividends, when the net profit is less than 10% of the capital. The way to distribute dividends could be either through cash or shares, and cash dividends shall not be less than 10% of the total dividends. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 23,e.

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

Under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the parent company should appropriate or reverse a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and is thereafter distributed.

The appropriations of earnings for 2017 and 2016 that were approved in the shareholders' meetings on June 25, 2018 and June 26, 2017, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Legal reserve	\$ 30,413	\$ 35,922		
Special reserve	62,898	50,841		
Cash dividends	228,228	216,216	\$3.8	\$3.6

The appropriation of earnings for 2018 had been proposed by the Company's board of directors on March 26, 2019. The appropriation and dividends per share were as follows:

	<u>Appropriation</u>	<u>Dividends Per</u>
	<u>of Earnings</u>	<u>Share (NT\$)</u>
Legal reserve	\$ 25,352	
Special reserve	93,946	
Cash dividends	228,228	\$3.8

The appropriation of earnings for 2018 are subject to resolution in the shareholders' meeting to be held on June 21, 2019.

22. REVENUE

According to IFRS 15, the type of customer contract revenue is identified as "product sales revenue". Refer to Note 33 for segment revenue information.

23. NET PROFIT (LOSS)

a. Other income

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Rental income (Note 28)	\$ 23,914	\$ 23,349
Interest income	11,075	9,878
Others (Note 28)	<u>15,447</u>	<u>16,075</u>
	<u>\$ 50,436</u>	<u>\$ 49,302</u>

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Loss on disposal of property, plant and equipment	\$ (1,700)	\$ (1,380)
Net foreign exchange (losses) gains	(2,111)	944
Gain (loss) on disposal of available-for-sale financial assets	-	(1,124)
Fair value changes of financial assets		
Financial assets mandatorily classified as at FVTPL	<u>56</u>	<u>-</u>
	<u>\$ (3,755)</u>	<u>\$ (1,560)</u>

c. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	\$ 92,259	\$ 87,252
Investment properties	1,056	1,056
Intangible assets	<u>3,876</u>	<u>3,503</u>
	<u>\$ 97,191</u>	<u>\$ 91,811</u>
An analysis of depreciation by function		
Selling and marketing expenses	\$ 79,315	\$ 75,122
General and administrative expenses	<u>14,000</u>	<u>13,186</u>
	<u>\$ 93,315</u>	<u>\$ 88,308</u>
An analysis of amortization by function		
Selling and marketing expenses	\$ 3,465	\$ 3,016
General and administrative expenses	<u>411</u>	<u>487</u>
	<u>\$ 3,876</u>	<u>\$ 3,503</u>

d. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Post-employment benefits (Note 20)		
Defined contribution plans	\$ 33,002	\$ 31,549
Defined benefit plans	<u>(24)</u>	<u>17</u>
	32,978	31,566
Other employee benefits	<u>909,406</u>	<u>834,866</u>
Total employee benefits expense	<u>\$ 942,384</u>	<u>\$ 866,432</u>
An analysis of employee benefits expense by function		
Operating expenses	<u>\$ 942,384</u>	<u>\$ 866,432</u>

e. Employees' compensation and remuneration of directors and supervisors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 1% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and the remuneration of directors and supervisors for the years ended December 31, 2018 and 2017, which were approved by the Company's board of directors on March 26, 2019 and March 26, 2018, respectively, are as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Employees' compensation	2.5%	2.5%
Remuneration of directors and supervisors	1%	1%

Amount

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
	<u>Cash</u>	<u>Cash</u>
Employees' compensation	\$ 9,480	\$ 9,518
Remuneration of directors and supervisors	3,792	3,807

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

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

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

24. INCOME TAX

a. Income tax recognized in profit or loss

Major components of tax expense recognized in profit or loss are as follows:

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Current tax		
In respect of the current period	\$ 68,847	\$ 52,226
Income tax on unappropriated earnings	-	5,635
	<u>68,847</u>	<u>57,861</u>
Deferred tax		
In respect of the current period	7,424	13,354
Effect on tax rate change	43,817	-
	<u>51,241</u>	<u>13,354</u>
Income tax expense recognized in profit or loss	<u>\$ 120,088</u>	<u>\$ 71,215</u>

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

	For the Year Ended December 31	
	2018	2017
Profit before tax	<u>\$ 370,247</u>	<u>\$ 372,599</u>
Income tax expense calculated at the statutory rate	\$ 74,049	\$ 63,342
Nondeductible expenses in determining taxable income	4	-
Tax-exempt income	(2,028)	131
Income tax on unappropriated earnings	-	5,635
Unrecognized loss carryforwards	3,690	1,806
Unrecognized deductible temporary differences	428	156
Effect of tax rate changes	43,817	-
Adjustments for prior year	-	100
Others	<u>128</u>	<u>45</u>
Income tax expense recognized in profit or loss	<u>\$ 120,088</u>	<u>\$ 71,215</u>

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

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

b. Deferred tax assets and liabilities

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

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income or Loss	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized loss on inventories	\$ 5,819	\$ (4)	\$ -	\$ 5,815
Payables for annual leave	2,053	386	-	2,439
Others	1,978	429	-	2,407
Loss carryforwards	<u>494</u>	<u>87</u>	<u>-</u>	<u>581</u>
	<u>\$ 10,344</u>	<u>\$ 898</u>	<u>\$ -</u>	<u>\$ 11,242</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income or Loss	Closing Balance
<u>Deferred tax liabilities</u>				
Temporary differences				
Associates	\$ 13,045	\$ 2,338	\$ -	\$ 15,383
Defined benefit obligation	1,969	975	58	3,002
Unappropriated earnings of subsidiaries	<u>225,235</u>	<u>48,826</u>	<u>(3,789)</u>	<u>270,272</u>
	<u>\$ 240,249</u>	<u>\$ 52,139</u>	<u>\$ (3,731)</u>	<u>\$ 288,657</u> (Concluded)

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income or Loss	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized loss on inventories	\$ 6,730	\$ (911)	\$ -	\$ 5,819
Payables for annual leave	2,426	(373)	-	2,053
Loss carryforwards	494	-	-	494
Others	<u>1,863</u>	<u>115</u>	<u>-</u>	<u>1,978</u>
	<u>\$ 11,513</u>	<u>\$ (1,169)</u>	<u>\$ -</u>	<u>\$ 10,344</u>

Deferred tax liabilities

Temporary differences				
Associates	\$ 13,097	\$ -	\$ (52)	\$ 13,045
Defined benefit obligation	1,418	437	114	1,969
Unappropriated earnings of subsidiaries	<u>221,139</u>	<u>11,748</u>	<u>(7,652)</u>	<u>225,235</u>
	<u>\$ 235,654</u>	<u>\$ 12,185</u>	<u>\$ (7,590)</u>	<u>\$ 240,249</u>

- c. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Loss carryforwards	<u>\$ 49,093</u>	<u>\$ 30,441</u>
Deductible temporary differences	<u>\$ 4,197</u>	<u>\$ 2,056</u>

d. Information about unused investment credits, unused loss carryforwards and tax-exemptions

Loss carryforwards as of December 31, 2018 comprised:

Unused Amount	Expiry Year
\$ 312	Due in 2022
1,878	Due in 2023
5,399	Due in 2024
7,464	Due in 2025
7,668	Due in 2026
10,829	Due in 2027
<u>18,449</u>	Due in 2028
 <u>\$ 51,999</u>	

e. Income tax assessments

The tax returns of the parent company and subsidiaries Bao Wei Optical Co., Ltd. and Bao Xiang Optical Co., Ltd. for all years through 2016 have been assessed by the tax authorities.

The tax returns of subsidiary Milanno Optical Co., Ltd. for all years through 2017 have been assessed by the tax authorities.

25. EARNINGS PER SHARE

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

Net Profit for the Year

	For the Year Ended December 31	
	2018	2017
Profit for the year attributable to owners of the Company	<u>\$ 253,517</u>	<u>\$ 304,131</u>

The weighted average number of ordinary shares outstanding (in thousand shares) is as follows:

	Unit: In Thousand Shares	
	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares outstanding in computation of basic earnings per share	60,060	60,060
Effect of potentially dilutive ordinary shares:		
Employees' compensation	<u>202</u>	<u>157</u>
Weighted average number of ordinary shares outstanding in the computation of diluted earnings per share	<u>60,262</u>	<u>60,217</u>

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

26. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged in the foreseeable future.

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

27. FINANCIAL INSTRUMENTS

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

The management considers that the carrying amounts of financial assets and financial liabilities are not measured at fair value approximate their fair values when their fair values cannot be measured reliably.

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investment in equity instruments at FVTOCI				
Listed shares and emerging market - ordinary shares	\$ 87,974	\$ -	\$ -	\$ 87,974
Listed shares and emerging market - preferred shares	32,040	-	-	32,040
Unlisted shares - ordinary shares	-	-	79,286	79,286
	<u>\$ 120,014</u>	<u>\$ -</u>	<u>\$ 79,286</u>	<u>\$ 199,300</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Mutual funds	\$ 2,675	\$ -	\$ -	\$ 2,675
Listed shares and emerging market shares - equity securities	81,564	-	-	81,564
	<u>\$ 84,239</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84,239</u>

There were no transfers between Levels 1 and 2 in the current and prior periods.

- 2) Reconciliation of Level 3 fair value measurements of financial instruments: None.
- 3) Valuation techniques and inputs applied for Level 2 fair value measurement: None.
- 4) Valuation techniques and inputs applied for Level 3 fair value measurement: The fair values of unlisted equity securities – R.O.C were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs used are listed in the table below. An increase in long-term revenue growth rates or long-term pre-tax operating margin or a decrease in weighted average cost of capital or discount for lack of marketability used in isolation would result in increases in fair value.

c. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Loans and receivables (1)	\$ 286,565	\$ 322,932
Available-for-sale financial assets (2)	-	165,817
Financial assets at amortized cost (3)	107,719	-
Financial assets at FVTOCI		
Equity instruments	199,300	-
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (4)	1,196,279	1,147,449

- 1) The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes, trade and other receivables.
- 2) The balances include the carrying amount of available-for-sale financial assets measured at cost.
- 3) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, notes, trade and other receivables.
- 4) The balances include financial liabilities measured at amortized cost, which comprise short-term, long-term loans, notes, trade and other payables.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivables, trade payables, and borrowings. The objective of the financial risk management is to manage the risks including market risk (including interest rate risk and other price risk), credit risk and liquidity risk related to management and operating activities. In order to reduce the financial risk, the Group identifies, assesses and evades the uncertainties to lower the potential unfavorable effect of financial performance which resulted from market changes.

The Group's financial activities are reviewed by the board of directors and audit committee in accordance with related rules and internal control systems. The Group should implement the overall financial management objective as well as observe the delegated authority in all levels and ensure that those delegated authorities carry out their duties.

1) Market risk

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

a) Interest rates risk

The Group was exposed to interest rate risk because of market rate change. The impact on floating fair value of financial instrument and floating cash flows.

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

	<u>December 31</u>	
	2018	2017
Fair value interest rate risk		
Financial assets	\$ 116,934	\$ 116,064
Financial liabilities	-	10,000
Cash flow interest rate risk		
Financial assets	177,202	134,154
Financial liabilities	592,081	673,480

Sensitivity analysis

The sensitivity analyses were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments held for a quarter at the end of the reporting period. If interest rates had been 10 basis points higher and all other variables were held constant, the Group's profit or loss are as follows:

	<u>Market Rate Change Impact</u>	
	2018	2017
Profit or loss	\$ (415)	\$ (539)

b) Other price risk

The financial instruments are mutual funds and equity securities listed in R.O.C approved by the board of directors

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower, the pre-tax other comprehensive income for the year ended December 31, 2018 would have increased/decreased by \$9,965 thousand as a result of the changes in fair value of financial assets at FVTOCI.

If equity prices had been 5% higher, the pre-tax other comprehensive income for the years ended December 31, 2017 would have increased/decreased by \$4,212 thousand as a result of the changes in fair value of available-for-sale financial assets.

2) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk from deposits, which would cause a financial loss to the Group due to the failure of the counterparty to discharge its obligation. However, since the Group's counterparties are all reputable financial institutions, there are no significant financial-related credit risks.

3) Liquidity risk

The objective of liquidity risk management is to maintain sufficient operating cash and cash equivalents in order to ensure that the Group has financial flexibility.

As of December 31, 2018 and 2017, the Group had available unutilized short-term bank loan facilities set out in (b) below.

a) Liquidity and interest risk rate table for non-derivative financial liabilities

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

December 31, 2018

	Weighted Average Effective Interest Rate	On Demand or Less than 1 Year	2-3 Years	4-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities		\$ 604,441	\$ -	\$ -	\$ -
Variable interest rate liabilities	1.41-1.87	<u>54,427</u>	<u>138,685</u>	<u>66,092</u>	<u>385,534</u>
		<u>\$ 658,868</u>	<u>\$ 138,685</u>	<u>\$ 66,092</u>	<u>\$ 385,534</u>

December 31, 2017

	Weighted Average Effective Interest Rate	On Demand or Less than 1 Year	2-3 Years	4-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities		\$ 463,969	\$ -	\$ -	\$ -
Variable interest rate liabilities	1.2-1.49	<u>114,567</u>	<u>145,771</u>	<u>66,092</u>	<u>429,595</u>
		<u>\$ 578,536</u>	<u>\$ 145,771</u>	<u>\$ 66,092</u>	<u>\$ 429,595</u>

The amount included above for variable interest rate instruments for both non-derivative financial assets and liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities

	December 31	
	2018	2017
Unsecured bank overdraft facilities, reviewed annually and payable on demand:		
Amount used	\$ 2,500	\$ 62,000
Amount unused	<u>562,500</u>	<u>603,000</u>
	<u>\$ 565,000</u>	<u>\$ 665,000</u>
Secured bank overdraft facilities:		
Amount used	\$ 589,581	\$ 621,480
Amount unused	<u>143,399</u>	<u>11,500</u>
	<u>\$ 732,980</u>	<u>\$ 632,980</u>

28. TRANSACTIONS WITH RELATED PARTIES

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

a. Related parties and their relationships

Related Party	Relationship with the Group
Yung Sheng Optical Co., Ltd.	Other related party - same chairman as parent company's chairman
Pao Lien Optical Co., Ltd.	Other related party - its chairman and parent company's chairman are second-degree relatives
Polylite Taiwan Co., Ltd.	Associates
Ginko International Co., Ltd.	Associates

b. Purchases of goods

Related Party Category/Name	For the Year Ended December 31	
	2018	2017
Other related party - its chairman and parent company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd.	<u>\$ 1,015,045</u>	<u>\$ 895,536</u>

The purchases of goods to related parties had no significant difference with other non-related parties.

c. Receivables from related parties (excluding loans to related parties)

Line Item	Related Party Category/Name	December 31	
		2018	2017
Other receivables	Other related party - its chairman and parent company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd.	<u>\$ 27,270</u>	<u>\$ 25,497</u>

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized for trade receivables from related parties.

d. Payables to related parties (excluding loans from related parties)

Line Item	Related Party Category/Name	December 31	
		2018	2017
Notes payables	Other related party - its chairman and parent company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd.	\$ 433,740	\$ 345,509
Trades payables	Other related party	3,304	-
Other payables	Other related party Associates	2,775 <u>1,250</u>	1,828 <u>-</u>
		<u>\$ 441,069</u>	<u>\$ 347,337</u>

The outstanding trade payables from related parties are unsecured.

e. Other transactions with related parties

Line Item	Related Party Category/Name	December 31	
		2018	2017
1) Other expenditures	Other related party - its chairman and parent company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd.	<u>\$ 13,527</u>	<u>\$ 11,036</u>
2) Rental income	Other related party - its chairman and parent company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd.	\$ 14,229	\$ 13,664
	Other related party - same chairman as parent company's chairman - Yung Sheng Optical Co., Ltd.	5,150	5,150
		<u>\$ 19,379</u>	<u>\$ 18,814</u>

Rental income is negotiated by both parties and collected on a monthly basis.

The parent company leases offices, branches and warehouses to Pao Lien Optical Co., Ltd. (other related party - its chairman and parent company's chairman are second-degree relatives) until May 31, 2019, the average monthly rent is \$1,186 thousand and charge by sight check monthly.

The parent company leases buildings to Yung Sheng Optical Co., Ltd. (other related party - same chairman as parent company's chairman), the lease period is from October 2012 to December 2018. The average monthly rent for the years ended December 31, 2018 and 2017 are both \$429 thousand and charge by sight check monthly.

Line Item	Related Party Category/Name	December 31	
		2018	2017
3) Other income	Other related party - its chairman and parent company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd.	\$ 2,019	\$ 1,792
	Associates - Ginko International Co., Ltd.	1,860	2,772
	Associates	-	185
		<u>\$ 3,879</u>	<u>\$ 4,749</u>

f. Compensation of key management personnel

	December 31	
	2018	2017
Short-term employee benefits	\$ 14,914	\$ 16,210
Termination benefits	<u>584</u>	<u>638</u>
	<u>\$ 15,498</u>	<u>\$ 16,848</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings, the tariffs of imported raw materials guarantees or the deposits for hiring foreign workers:

	December 31	
	2018	2017
Property, plant and equipment, net	\$ 697,873	\$ 706,801
Investment properties	82,320	83,376
Available-for-sale financial assets - listed shares - preference shares	-	30,060
Financial assets at FVTOCI - listed shares - preference shares	<u>32,040</u>	<u>-</u>
	<u>\$ 812,233</u>	<u>\$ 820,237</u>

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2018 and 2017, the Group leases part of the warehouse, office and business premises to the lessor, at an average monthly rent of \$25,915 thousand and \$25,325 thousand, respectively, and paid deposits of \$72,868 thousand and \$69,065 thousand, respectively, were accounted as refundable deposits.

	Payables of the Total Future Amounts	
	December 31	
	2018	2017
Less than 1 year	\$ 319,979	\$ 305,272
1-5 years	<u>1,179,527</u>	<u>1,177,988</u>
	<u>\$ 1,499,506</u>	<u>\$ 1,483,260</u>

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Non-monetary items			
Investments accounted for using the equity method			
RMB	\$ 427,837	4.472 (RMB:NTD)	\$ 1,913,289

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Non-monetary items			
Investments accounted for using the equity method			
RMB	\$ 413,706	4.565 (RMB:NTD)	\$ 1,888,567

32. SEPARATELY DISCLOSED ITEMS

a. Information on significant transactions and information on investees:

- 1) Financing provided: None.
- 2) Endorsements/guarantees provided: None.
- 3) Marketable securities held (excluding investment in subsidiaries, associates and jointly controlled entities): See Table 1 below.
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None.
- 5) Acquisitions of individual real estate properties at costs of at least NT \$300 million or 20% of the paid-in capital: None.
- 6) Disposals of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None.
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: See Table 2 below.
- 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) Intercompany relationships and significant intercompany transactions: See Table 3 below.
- 11) Information on investees: See Table 4 below.

b. Information on investments in mainland China:

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. See Table 5 below.

- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: None.
- a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purpose.
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.

33. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Group's reportable segments were as follows:

a. Segment revenue and results

The following was an analysis of the Group's revenue and results by reportable segments:

	Parent's Function	Others	Eliminations	Total
For the year ended <u>December 31, 2018</u>				
Revenue from external customers	\$ 2,199,888	\$ 866,380	\$ -	\$ 3,066,268
Inter-segment revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Segment revenue	<u>\$ 2,199,888</u>	<u>\$ 866,380</u>	<u>\$ -</u>	<u>\$ 3,066,268</u>
Segment income	<u>\$ 148,544</u>	<u>\$ 12,889</u>	<u>\$ 7,908</u>	\$ 169,341
Other income				50,436
Share of profit of associates accounted for using the equity method				162,381
Other gains and losses				(3,755)
Finance costs				<u>(8,156)</u>
Profit before tax				<u>\$ 370,247</u>

(Continued)

	Parent's Function	Others	Eliminations	Total
For the year ended <u>December 31, 2017</u>				
Revenue from external customers	\$ 2,038,960	\$ 812,826	\$ -	\$ 2,851,786
Inter-segment revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Segment revenue	<u>\$ 2,038,960</u>	<u>\$ 812,826</u>	<u>\$ -</u>	<u>\$ 2,851,786</u>
Segment income	<u>\$ 122,597</u>	<u>\$ 26,596</u>	<u>\$ 6,910</u>	\$ 156,103
Other income				49,302
Share of profit of associates accounted for using the equity method				178,892
Other gains and losses				(1,560)
Finance costs				<u>(10,138)</u>
Profit before tax				<u>\$ 372,599</u> (Concluded)

Inter-segment revenue was accounted for according to cost.

Segment profit represented the profit before tax earned by each segment without other income, the share of profit of associates, other gains and losses or finance costs. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Revenue from major products

The following is an analysis of the Group's revenue from its major products.

	<u>December 31</u>	
	2018	2017
Spectacle frames	\$ 805,554	\$ 762,943
Lenses	1,006,100	950,891
Contact lens	1,137,535	1,029,471
Other	<u>117,079</u>	<u>108,481</u>
	<u>\$ 3,066,268</u>	<u>\$ 2,851,786</u>

c. Geographical information

The Group has no revenue-generating unit that operates outside the R.O.C, therefore, it is not necessary to disclose information that distinguishes revenue from external customers and non-current assets by location of assets.

d. Information on major customers

There was no customer accounting for at least 10% of the Group's total operating revenue in 2018 and 2017.

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name of Held Company	Type and Name of Marketable Securities	Relationship with the Held Company	Financial Statement Account	December 31, 2018			Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	
Formosa Optical Technology Corporation	Ordinary shares	-	Financial assets at FVTOCI - non-current	7,463	\$ 79,286	12.44	\$ 79,286
	Sunder Biomedical Tech Co., Ltd.	-	Financial assets at FVTOCI - non-current	1,305	-	1.92	-
	Tsai Hwei Tech Co., Ltd.	-	Financial assets at FVTOCI - current	954	45,219	1.75	45,219
Bao Wei Optical Technology Corporation	Ordinary shares	-	Financial assets at FVTOCI - current	902	42,755	1.66	42,755
	SunMax Biotechnology Co., Ltd.	-	Financial assets at FVTOCI - current	600	32,040	0.30	32,040
New Path International Corporation	Ordinary shares	-	Financial assets at FVTOCI - non-current	2,648	US\$ -	19.70	US\$ -
	Clear Idea L.L.C	-					

Note: The carrying values of financial instruments were all assessed for impairment.

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

Company Name	Related Party	Nature of Relationship	Transaction Details			Abnormal Transaction		Notes/Accounts (Payable) or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	
Formosa Optical Technology Corporation	Pao Lien Optical Co., Ltd.	Its chairman and parent company's chairman are second-degree relatives	Purchase	\$ 672,345	74	128 days	No significant difference	120 days	Notes payable \$ 294,632	98
Bao Wei Optical Technology Corporation	Pao Lien Optical Co., Ltd.	Same chairman as the Group's	Purchase	281,552	82	128 days	No significant difference	120 days	Notes payable 113,093	98

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Company Name	Counterparty	Nature of Relationship (Note 2)	Intercompany Transaction			% of Consolidated Net Revenue or Total Assets (Note 3)
				Financial Statements Item	Amount	Terms	
0	Formosa Optical Technology Corporation	Bao Wei Optical Corporation Ltd. Bao Wei Optical Corporation Ltd. Bao Xiang Optical Corporation Ltd. Bao Xiang Optical Corporation Ltd.	a. a. a. a.	Other income Other receivables Other income Other receivables	\$ 6,848 615 939 65	- - - -	- - - -

Note 1: The parent company and its subsidiaries are coded as follows:

- a. The parent company is coded "0".
- b. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Nature of relationships are coded as follows:

- a. From the parent company to its subsidiary.
- b. From a subsidiary to its parent company.
- c. Between subsidiaries.

Note 3: The percentage calculation is based on the consolidated total operating revenue or total assets. For balance sheet items, each item's end-of-period balance is shown as a percentage to the consolidated total assets as of December 31, 2018. For profit or loss items, cumulative amounts are shown as percentages to consolidated total operating revenue for the year ended December 31, 2018.

Note 4: The table above only discloses related-party transactions which are material.

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ACCOUNTED FOR
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		December 31, 2017	Shares (In Thousands)	Balance as of December 31, 2018		Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Note
				December 31, 2018	December 31, 2017			Percentage of Ownership (%)	Carrying Value			
Formosa Optical Technology Corporation	PolyLite Taiwan Corporation Limited	Taiwan	Manufacturing, processing, importing, exporting and selling all kinds of glasses, frames, optical equipment, eye contact and eye solution investment activities	\$ 40,084	\$ 40,084	\$	6,645	\$ 135,072	\$ 63,922	\$ 9,108	Accounted for using the equity method	
	New Path International Corporation Limited	Mauritius		123,682	123,682		-	2,032,199	153,077	153,077	Subsidiary (Note 1)	
	Milamio Optical Corporation Limited	Taiwan	Sell optical glasses, frames and eye care solution, office machinery and equipment, and retail sale of telecom instruments	50,212	30,212		5,000	23,456	(9,472)	(9,472)	Subsidiary (Note 1)	
	Bao Wei Optical Corporation Limited	Taiwan	Sell optical glasses, frames and eye care solution	100,000	100,000		10,000	142,061	31,524	31,524	Subsidiary (Note 1)	
	Bao Xiang Optical Corporation Limited	Taiwan	Sell optical glasses, frames and eye care solution	42,000	42,000		4,200	25,895	(11,194)	(7,836)	Subsidiary (Note 1)	
	Ginko International Corporation Limited	Cayman	Investment activities	US\$ 2,089	US\$ 2,089	US\$	17,003	US\$ 62,292	833,380	N/A	Accounted for using the equity method	
Ginko International Co., Ltd.	Prosper Link International Limited (BVI)	British Virgin Islands	Investment activities	US\$ 2,089	US\$ 2,089	US\$	-	12,740,599	1,515,975	N/A	Subsidiary of joint venture	
	Yung Sheng Optical Corporation Limited	Taiwan	Merchandise and sale of contact lenses and care solution	1,560,000	1,560,000		156,000	3,134,778	394,071	N/A	Subsidiary of joint venture	
Prosper Link International Limited (BVI)	Haichang International Limited.	Hong Kong	Investment activities	US\$ 2,089	US\$ 2,089	US\$	-	12,955,099	1,533,209	N/A	Subsidiary of joint venture	
Haichang Contact Lens Corporation Limited	Gain Bless Management Ltd.	British Virgin Islands	Investment activities	US\$ 1,150	US\$ 1,150	US\$	1,150	17,012	(5,010)	N/A	Subsidiary of joint venture	
	Gain Bless Management Ltd.	Malaysia	Sale of contact lenses and care solution	US\$ 971	US\$ 971	US\$	1,750	11,865	(4,965)	N/A	Subsidiary of joint venture	
Master Harvest Global Ltd.	Fronten Optic (Malaysia) Sdn. Bhd.	Malaysia	Investment activities	US\$ 5,000	US\$ 5,000	US\$	5,000	68,470	(47,855)	N/A	Subsidiary of joint venture	
	Master Harvest Global Ltd.	Anguilla	Investment activities	JPY 63,700	JPY 63,700	JPY	6,300	(35,166)	(42,176)	N/A	Subsidiary of joint venture	
Master Harvest Global Ltd.	Eishou Optical Co., Ltd.	Japan	Sale of contact lenses and care solution	JPY 90,000	JPY 90,000	JPY	9,000	5,752	(17,720)	N/A	Subsidiary of joint venture	
	Uni-Beauty Co., Ltd.	Japan	Sale of contact lenses and care solution									

Note 1: All amounts have been eliminated upon consolidation

Note 2: Refer to Table 5 for information on investments in mainland China.

FORMOSA OPTICAL TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of		Investment of Flows		Net Income (Losses) of the Investee Company	Percentage of Ownership	Share of Profits (Losses) (Note 2)	Carrying Amount as of December 31, 2018 (Note 3)	Accumulated Inward Remittance of Earnings as of December 31, 2018
				January 1, 2018	December 31, 2018	Outflow	Inflow					
Haichang Contact Lens Corporation Limited	Merchandise and sale of contact lenses and care solution	\$ 1,729,838 (US\$ 56,319)	Note 1	\$ 64,164 (US\$ 2,089)	\$ -	\$ -	\$ -	\$ 448,603 (RMB 98,378)	18.39	\$ 82,498	\$ 8,768,870	\$ 175,321 (US\$ 5,708)
Jiangsu Horien Contact Lens Corporation Limited	Merchandise and sale of contact lenses and care solution	67,080 (RMB 15,000)	Note 1	4,024 (US\$ 131)	-	-	-	351,069 (RMB 76,989)	18.39	64,562	3,792,670	-
Heilongjiang Province Dingtai Pharmaceutical Corporation Limited	Manufacture tablet, capsule, powder and granule	80,644 (RMB 18,033)	Note 1	6,327 (US\$ 206)	-	-	-	(10,178) (RMB -2,232)	9.09	-	(7,914) (US\$ -258)	-
Heilongjiang Haichang Biological Technology Corporation Limited	Regular operation subjects: Manufacture health care products, provide technology consultant, technology service; Provision on operation subjects: R&D and manufacture bottle water, water spray, medical adhesive tape, artificial skin, disinfectant, preservative, bio-antibacterial, whey protein and other medical material and products (with related effective provision)	322,508 (US\$ 10,500)	Note 1	69,232 (US\$ 2,254)	-	-	-	98,693 (RMB -21,643)	11.36	-	(95,926) (US\$ -3,123)	-

Accumulated Investments in Mainland China as of December 31, 2018	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on Investment
\$ 143,746 (US\$ 4,600)	\$ 466,369 (US\$ 13,671) (Note 4)	\$ 1,423,739 (Note 5)

Note 1: Indirect investment in mainland China through holding companies

Note 2: The financial statements that were used as basis for calculating the investments were all not reviewed by the independent auditors.

Note 3: The investment is transferred to the subsidiary which was held 100% by the Group.

Note 4: Investment amount approved by the Ministry of Economic Affairs, R.O.C. are as follows:

Name of Investee	Date	Order No.	Approved Amounts
Haichang Contact Lens Corporation Limited	2004.05.13	093009671	US\$ 1,789
Haichang Contact Lens Corporation Limited	2004.12.06	093036370	US\$ 1,130
Haichang Contact Lens Corporation Limited	2006.09.01	09500279650	US\$ 2,549
Haichang Contact Lens Corporation Limited	2007.07.30	09600265450	US\$ 1,128
Haichang Contact Lens Corporation Limited	2009.01.08	09700502730	US\$ 432
Haichang Contact Lens Corporation Limited	2013.02.26	10200045160	US\$ 1,134
Haichang Contact Lens Corporation Limited	2013.03.26	10200107280	US\$ 941
Haichang Contact Lens Corporation Limited	2013.07.25	10200284980	US\$ 752
Haichang Contact Lens Corporation Limited	2013.09.26	10200366260	US\$ 1,313
Haichang Contact Lens Corporation Limited	2014.01.23	10300012480	US\$ 734
Haichang Contact Lens Corporation Limited	2014.03.24	10300644660	US\$ 568
Haichang Contact Lens Corporation Limited	2014.10.07	10300249790	US\$ 734
Jiangsu Horien Contact Lens Corporation Limited	2006.10.30	09500346290	US\$ 136
Heilongjiang Province Dingtai Pharmaceutical Corporation Limited	2006.10.18	09500314110	US\$ 171
Heilongjiang Haichang Biological Technology Corporation Limited	2007.01.25	09600019060	US\$ 341
Heilongjiang Haichang Biological Technology Corporation Limited	2008.05.07	09700127800	US\$ 1,651
Heilongjiang Haichang Biological Technology Corporation Limited	2009.01.08	09700496830	US\$ 262
Heilongjiang Haichang Biological Technology Corporation Limited	2009.07.06	09800229750	US\$ 262

US\$ 15,671

Note 5: The parent company's upper limit on investments to China (calculated based on the higher of 60% of Silittech Technology Corporation's net worth or consolidated net worth of \$80 million, plus accumulated inward remittance of share capital or earnings from subsidiaries in mainland China: \$2,372,899 (net worth) × 60% = \$1,423,739).

