

Stock Code: 8249  
Taiwan Stock Exchange Market Observation Post System  
<http://mops.twse.com.tw>  
Lucky Cement Corporation  
<http://www.csi-sensor.com.tw>



# Creative Sensor Inc.

2018 Annual Report  
Printed on: May 22, 2019

1. Name, title, contact number, and e-mail of spokesperson and deputy spokesperson

Name of spokesperson: Ou Sheng-Chih Title: Assistant Vice President, Department of Finance Tel: (02)8912-1289 E-mail: spokesperson@csi-sensor.com.tw	Name of deputy spokesperson: Hsu Li-Chuan Title: Executive Assistant Tel: (02)8912-1289
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2. Address and telephone number for headquarters, branch office, and factory

Name	Address	Tel
Headquarters	No. 9, No. 501, Sec. 6 Nanjing E. Rd., Neihu Dist., Taipei City.	(02)8912-1289

3. Name, address, website and telephone number of stock transfer agent

Name: Department of Stock Registrar, Yuanta Securities Co., Ltd.  
Address: B1, No. 210, Sec. 3 Chengde Rd., Taipei City  
Website: <http://www.yuanta.com>  
Tel: 02-2586-5859

4. Name of the CPA-auditors for the financial statements in the latest financial year, office name, address, website, and telephone number

Name: Accountant Chang Shu-Chiung, Accountant Tseng Hui-Chin  
Office Name: PricewaterhouseCoopers  
Address: 27F, No. 333, Sec. 1 Keelung Rd., Taipei City  
Website: <http://www.pwc.com/tw>  
Tel: (02)2729-6666

5. Name of trading venue for listing on stock exchange of overseas securities and the method of inquiring the information for the overseas securities: None.

6. Company website: <http://www.csi-sensor.com.tw>

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## I. Letter to Shareholders

### 1. Operation overview in 2018

The revenue in 2018 has increased 15.6% than that in 2017 due to customer's demand in increasing market distribution volume and the successful adjustment in company operation strategy. The market share and output volume both increased at the same time.

(1) Implementation of business plans and the profit analysis are as below:

Unit: NT\$ thousand

Item \ Year	2018	2017	Growth Rate
Net business income	4,576,761	3,957,862	15.6%
Gross profit	552,868	551,959	0.2%
Earnings per share	1.62	1.65	-2%

(2) Revenue and profit & loss:

The revenue in 2018 was NT\$4.576 billion and compared to the revenue in 2017 as NT\$3.957 billion, it has increased 15.6%. The company adopted market share expansion, output volume increasement, and manufacturing overhead allocation as the operational strategies; these were with outstanding effect. However, it also caused the demand of manual production line to supplement the production capacity. With poor management in labor efficiency, the gross profits failed to achieve year-on-year growth with the revenue. In addition, impacted by the policy of income tax reform in 2018, overseas profits were not transferred back to the parent company and it added 3% of income tax and affected EPS -0.18. The net income after tax was NT\$0.205 billion and net profit per share was NT\$1.62.

(3) R&D results:

The policies of research and development in 2018 were introducing self-manufactured components, reinforcing vertical integration, looking for new material suppliers to reduce costs effectively, and working with suppliers for the development of A3 high-speed model. Projects for infrared thermal vaccum packaging and AOI linear sensing camera module have continued carrying out. There were 7 cases of patent application approved in 2018 and several patent applications have been in process.

### 2. Prospects for 2019

Compared to the survey for 2018 that global economic leaders were positive towards economic growth, it is just the opposite for 2019. It is relatively conservative in terms of short-term, middle-term, and long-term business revenue. With the declining effect of fiscal and monetary policies on economic stimulation as well as the negative holding back of trading policy, it might cause economic slowdown in USA. While Eurozone is affected by the tension of trading situation between USA and China, Germany moves towards economic recession in the automotive industry, France is under the situation of opposition in the society, and Italy is now facing the internal instability of budget policy; these slow down the

economy in European. Bank of Japan still implements easing monetary policy, which has caused Japanese Yen bearing pressure in the past few years. However, along with the interest rate hike cycle is close to the end, Bank of Japan might end its unconventional monetary policy and adjust the interest rate up to narrow down the cost of carry between USA and Japan in order to support the rise of Japanese Yen. Besides, the economy in China is also significantly slowing down plus the wider change of exchange rate in Renminbi Yuan (RMB), and People's Bank of China is indecisive in exchange policy. All of above make the global economy in 2019 even more unstable.

3. In response to the slowdown of global economic growth and the continuous spreading issue of trade war between China and USA, it is anticipated that the market for multi-function printer will be impacted by the popularity of internet cloud and awakening of environmental awareness of paperlessness and the market scale will shrink slightly. Our company's business operation in 2019 will continuously focus on making orders, advancing factory management, enhancing automatic production ratio, improving manufacturing process and product yield rate, and carrying out solid quality control to ensure customer satisfaction in order to make sure the profiting. Furthermore, new product development will be pushed towards steady and autonomous direction by using outsourcing thermal imaging mechanism as market distribution layout of channels while maintaining industries of imaging-demand basis, like monitoring/vehicle mounted, for application. Higher cost-performance ratio and flexible customized capability are used to cut into vehicle-mounted application programs, and match it with developing AI identification function to expand application areas in order to take the initiative in developing the source of revenue growth.

Our company's business policy in 2019 will be heading towards the followings:

1. Maintaining the leading position in CIS market and continuing working with main customers for new product development through the extension of in-house technology as well as providing CIS vertical integration proposal.
2. Adjusting production and labor allocation strategies in the factory, enhancing automatic production efficiency and yield rate, and continuing controlling costs and expenses in order to increase profiting.
3. In response to the flourishing development in Internet of Things and Industry 4.0 all over the world, relevant optical application products in these two areas will be developed aggressively in order to continue developing new markets and increasing the diversity of customers and products.
4. Continuing investing R&D resources and recruiting new talents to deepen the application and development of optical sensing elements in the company and strengthen the competitiveness in the core technology for the company.
5. In response to sharp volatility of raw material price and unstable supply in the market, we will actively source suppliers to work with in order to ensure no impediment in material supply.

President IKUJIN KO

## II. Company Profile

1. Date of establishment: June 15, 1998

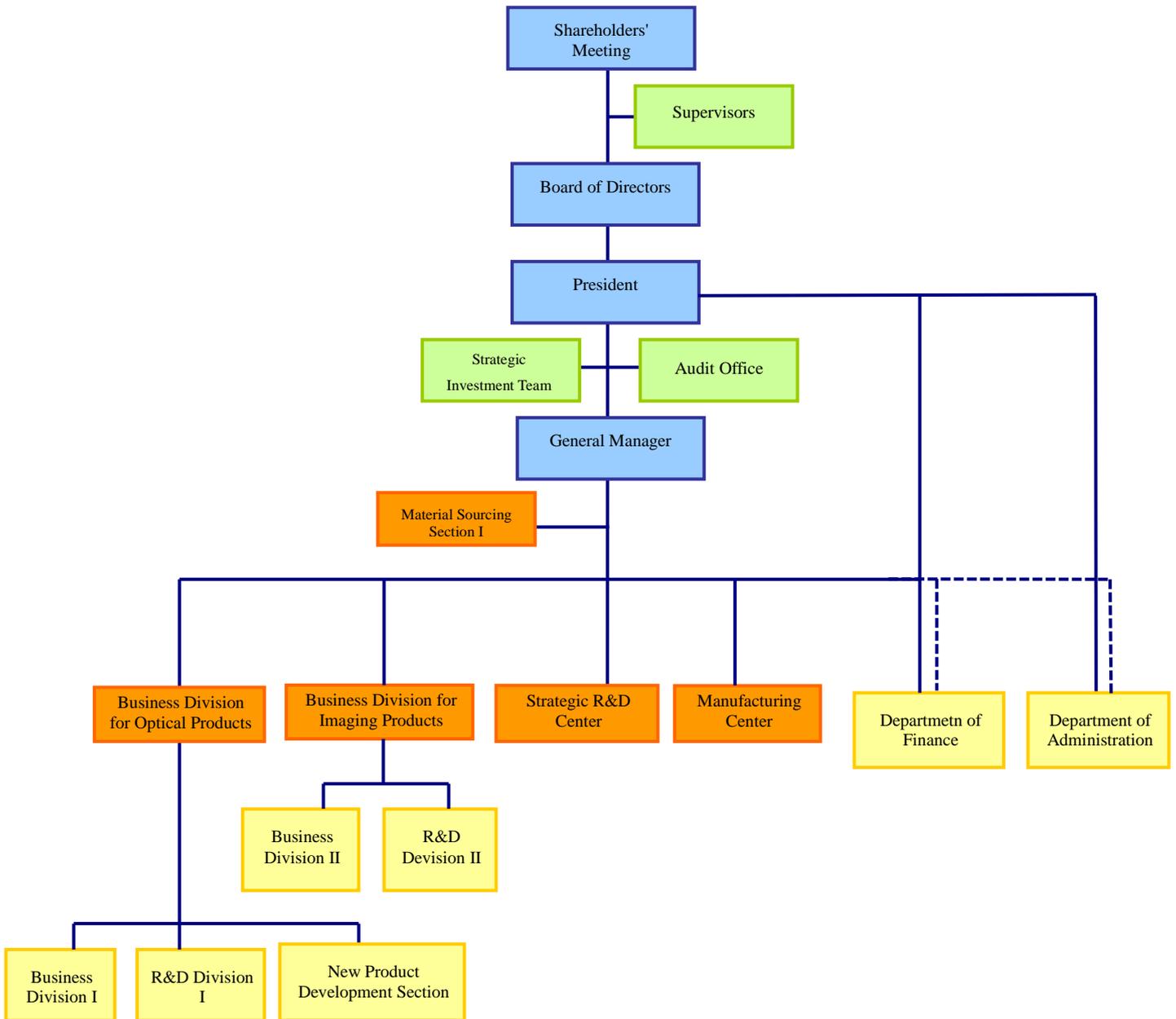
2. Company history

- 1998 - The company was established at Wenshan District in Taipei City with registered capital NT\$40 million and paid-in capital NT\$10 million.
- 1999 - The company was moved to Sijhih City in Taipei County.
  - Capital increase by cash in NT\$50 million with paid-in capital NT\$60 million.
- 2000 - Capital increase by cash in NT\$300 million with paid-in capital NT\$360 million and completion of supplemental public issuance.
  - The company was moved to Xindian City in Taipei County.
  - Awarded ISO9001 certification.
- 2001 - Signed the contract of “Development Program of New Leading Products” with Industrial Development Bureau, MOEA.
- 2002 - Completed strategic alliance layout in CIS industry for global key manufacturers and clients..
  - Revised the company’s English name as “CREATIVE SENSOR INC”.
  - Capital increase by cash in NT\$140 million with paid-in capital NT\$500 million.
  - Established subsidiary in Wuxi, China to cooperate with the company’s marketing strategy and reduce product cost.
  - Capital increase by cash in NT\$200 million with paid-in capital NT\$700 million.
- 2003 - Developed colorful CIS of high resolution 2400 DPI and it was the leading model of 2400 DPI developed in the market as well as put into mass production.
- 2004 - Creative Sensor Inc opened the second plant in Wuxi, China.
  - Awarded ISO14001 certification.
- 2005 - It was approved by Securities and Futures Bureau, FSC, Executive Yuan for public listing.
  - Issued the first domestic unsecured convertible corporate bond in NT\$200 million.
  - Invested the establishment of subsidiary in USA.
- 2006 - Obtained the qualification of headquarters for enterprise operation.
  - Awarded TS16949 Quality System certification for automotive industry.
  - The first liquid lens in the world was successfully produced through mass production.
- 2007 - Established NanChang Creative Sensor Technology Co., Ltd.
  - Obtained Technology R&D Project from Ministry of Economic Affairs (auto focus liquid lens module R&D program).
- 2008 - Opening of NanChang Creative Sensor Technology Co., Ltd.
- 2009 - Wuxi Creative Sensor Technology Co., Ltd. obtained the qualification of high-tech enterprise.
- 2010 - Sensor new packaging manufacturing process, part of ELCC products had entered the stage of mass production.
- 2012 - NanChang Creative Sensor Technology Co., Ltd. obtained the qualification of high-tech enterprise.
- 2013 - Awarded 2012 Supplier Best Quality Award issued by Brother.
- 2014 - Awarded 2013 Outstanding Supplier Award issued by Epson.
  - The company was moved to Neihu District in Taipei City.
- 2015 - Awarded 2015 Quality and Manufacturing Process Outstanding Supplier Award issued by HP.
- 2016 - Awarded 2016 Quality Improvement Supplier Award issued by HP.
  - Awarded 2016 Quality Improvement Award issued by Samsung.
  - Awarded 2016 Outstanding Supplier Award issued by Brother.
  - Awarded 2016 Outstanding Supplier Award issued by Epson.
- 2017 - Successfully developed infrared thermal imaging packaging technology.
  - Successfully developed autonomous component light source sensor and entered mass production.
- 2018 - Successfully developed 660mm automatic optical testing module.

### III. Corporate Governmance Report

#### 1. Organization

##### (1) Organizational chart



(2) Major corporate functions:

<b>Department</b>	<b>Business</b>
<b>Audit Office</b>	Reviewing and evaluating internal control system in the company, establishing and revising internal auditing system, and implementing auditing on internal management system in the company regularly as well as producing the relevant report.
<b>General Manager's Office</b>	Planning and drawing up company vision, business policy as well as mid-term and long-term development strategy.
<b>Business Division for Optical Products</b>	<ol style="list-style-type: none"> <li>1. Responsible for promoting business development of optical products in the company, client development and maintenance, collecting and analyzing market information and product development design.</li> <li>2. Drawing up marketing strategy for the company according to company's strategic direction, market information, and customer demands.</li> <li>3. Customer information, quotation and order management, sales report and RMA progress control.</li> <li>4. Issuing shipping notice, sales return, customer contact, and follow-up.</li> <li>5. Assisting finding out, improving, and tracing manufacturing process related problems.</li> <li>6. Developing testing system and establishing maintenance system.</li> </ol>
<b>Business Division for Imaging Products</b>	<ol style="list-style-type: none"> <li>1. Responsible for promoting business development of imaging products in the company, client development and maintenance, collecting and analyzing market information and product development design.</li> <li>2. Drawing up marketing strategy for the company according to company's strategic direction, market information, and customer demands.</li> <li>3. Customer information, quotation and order management, sales report and RMA progress control.</li> <li>4. Issuing shipping notice, sales return, customer contact, and follow-up.</li> <li>5. Assisting finding out, improving, and tracing manufacturing process related problems.</li> <li>6. Developing testing system and establishing maintenance system.</li> </ol>
<b>Strategic R&amp;D Center</b>	<ol style="list-style-type: none"> <li>1. Responsible for promoting company's new product R&amp;D and business development.</li> <li>2. Transition of new product, new equipment, and new technology introduction and planning for product cost reduction.</li> <li>3. Collecting and analyzing product market trend and technical information as well as its coping strategy.</li> <li>4. New product material and fixture development, design and specification setup.</li> </ol>
<b>Manufacturing Center</b>	<ol style="list-style-type: none"> <li>1. Productin goal management and production operational process evaluation, planning and implementation.</li> <li>2. Manufacturing process technology evaluation, planning and design; coordination and resolution of problems related to manufacturing process.</li> <li>3. Establishment and management of quality activities, maintenance of factory equipment, and matters related occupational safety and environment protection.</li> </ol>
<b>Department of Finance</b>	<ol style="list-style-type: none"> <li>1. Handling matters related to the company's finance, accounting, cost, stock affairs, re-investment, and board of directors.</li> <li>2. Responsible for company's investment analysis, budget managemtn, operation performance analysis, strategic suggestions, and business operation planning.</li> </ol>
<b>Department of Administration</b>	<ol style="list-style-type: none"> <li>1. Handling business related to company's human resource, general affairs &amp; administration, property management, legal affairs, and information management.</li> <li>2. Providing support and servie that satisfy demands from each department and promoting the enhancement of business performance.</li> </ol>

2. Directors, Supervisors, General Manager, Vice General Manager, Assistant Vice President, Managers at Each Department and Branch

(1) Directors and Supervisors

a. Information on directors and supervisors

April 26<sup>th</sup>, 2019

Title	Nationality or registration location	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	Ratio	Shares	Ratio	Shares	Ratio	Shares	Ratio			Title	Name	Relation
President	R.O.C	TECO Image Systems Co.,Ltd		6.27.2018	3	6.20.2003	21,928,260	17.26%	21,928,260	17.26%	0	0	0	0	President and General Manger at TECO Image Systems Co. Ltd CEO at Business Group for Information and Electronics in TECO Group. Master of Electrical Engineering, Columbia University, USA	(Note 2)	None	None	None
	JPN	Rep.: IKUJIN KO	Male	6.27.2018	3	6.20.2003	0	0.00%	0	0.00%	0	0	0	0			None	None	None
Director	R.O.C	TECO Electric and Machinery Co., Ltd.		6.27.2018	3	6.14.2006	2,137,044	1.68%	2,137,044	1.68%	0	0	0	0	Deputy General Manager at TECO Electric and Machinery Co., Ltd. Mater Degree, Stevens Institute of Technology, USA		None	None	None
	R.O.C	Rep.: Lien Chao-Chih	Male	6.27.2018	3	1.05.2005	0	0.00%	0	0.00%	0	0	0	0			None	None	None
Director	R.O.C	TECO Image Systems Co.,Ltd		6.27.2018	3	6.20.2003	21,928,260	17.26%	21,928,260	17.26%	0	0	0	0	Honorary Chair Professor at Chang Jung University PhD of Managerial and Organizational Psychology, University of Wyoming, USA		None	None	None
	R.O.C	Rep.: Hsu Chiang	Male	6.27.2018	3	6.14.2006	0	0.00%	0	0.00%	0	0	0	0			None	None	None
Director	R.O.C	KROM Electronics Co., Ltd.		6.27.2018	3	6.13.2012	100,000	0.08%	100,000	0.08%	0	0	0	0	President at KROM Electronics Co., Ltd. Doctor of International Law, University of International Business and Economics, Beijing		None	None	None
	R.O.C	Rep.: Hsieh Ying-Sheng	Male	6.27.2018	3	6.16.2009	0	0.00%	0	0.00%	0	0	0	0			None	None	None
Director	R.O.C	Tung An Investment Co., Ltd. (Note 1)		6.27.2018	3	4.11.2000	7,913,310	6.23%	7,913,310	6.23%	0	0	0	0	Chief Technology Officer for Departmetn of Planning, TECO Image Systems Co.,Ltd Bachelor of Electronic Engineering, Chung Yuan Christian University		None	None	None
	R.O.C	Rep.: Wei Yao-Ming	Male	6.27.2018	3	6.13.2012	0	0.00%	0	0.00%	0	0	0	0			None	None	None
Independent Director	R.O.C	Wang Hsiu-Ming	Male	6.27.2018	3	6.16.2009	0	0.00%	0	0.00%	0	0	0	0	President at Ming-Hsing Creative Managemetn Counselling Co., Ltd. MBA, University of Leicester, UK	None	None	None	
Independent Director	R.O.C	Wang Wei	Male	6.27.2018	3	6.14.2006	0	0.00%	0	0.00%	0	0	0	0	General Manager at SERCOMM CORP MBA, Harvard Business School	None	None	None	
Supervisor	R.O.C	Kuang Yuan Corporation		6.27.2018	3	6.20.2003	789,530	0.62%	789,530	0.62%	0	0	0	0	President at TECNOS International Consultant Co., Ltd. Master of Business. Administration, College of Management , National Taiwan University	None	None	None	
	R.O.C	Rep.: Wu Hui-Mei	Female	6.27.2018	3	11.5.2012	0	0.00%	0	0.00%	0	0	0	0		None	None	None	
Supervisor	R.O.C	Hsu Ko-Hsin (Note 2)	Female	6.24.2015	3	6.24.2015	0	0.00%	0	0.00%	0	0	0	0	Chief of Finance at TECO Electric and Machinery Co., Ltd. (Note 2) Master, University of Michigan, USA	None	None	None	
Supervisor	R.O.C	Lin Hung-Ming	Male	6.27.2018	3	6.27.2018	0	0.00%	0	0.00%	0	0	0	0	Master of Finance Management, University of Durham, UK	None	None	None	
Supervisor	R.O.C	Chang Min-Yu	Female	6.27.2018	3	6.07.2014	13,000	0.01%	13,000	0.01%	0	0	0	0	Independent Director, Taishin Financial Holding Co., Ltd. Independent Director, Taishin International Bank Co., Ltd. Department of Accounting, Tamkang University	None	None	None	

Note 1: Tung An Investment Co., Ltd. didn't take position of director or supervisor in our company from 6.16.2009~6.12.2012.

Note 2: Supervisor, Hsu Ko-Hsin, has resigned to be the supervisor in our company and Chief of Finance at TECO Electric and Machinery Co., Ltd. on February 22<sup>nd</sup>, 2018.

Note 2: Positions concurrently held with other companies

Title	Name	Positions concurrently held with other companies	
President	IKUJIN KO	President:	TECO Image Systems Co.,Ltd., Lien Chang Electronic Enterprise Co., Ltd., Kuang Yuan Corporation, Kuang You Corporation, Gen Mao International Investment Co., Ltd., Tung Hsin Lighting Technology (Jiangxi ) Co., Ltd.
		Director:	TECO Electric and Machinery Co., Ltd., Koryo Electronics Co., Ltd., Nidec Sankyo Corporation Japan, Sanyu International Co., Ltd., Yuban Tec. Co., Ltd., Yuban Technology(Shanghai)Co.,Ltd., Yuban Technology(Shenzhen)Co.,Ltd., Lan Ching International Co., Ltd., Creative Sensor Inc.Creative Sensor (USA) Co..Creative Sensor Co., Ltd., Wuxi Creative Sensor Technology Co.,Ltd., Nanchiang Creative Sensor Technology Co.,Ltd., Gen Mao Electronics(Singapore)Co.,Ltd., TAIPEIING Co., Ltd., Inotec Taiwan Co., Ltd., Dahe Eryeh Startup Investment Co., Ltd.
		General Manager:	TECO Image Systems Co.,Ltd
Director	Lien Chao-Chih	President:	Taian Electric Co., Ltd., Hunan TECO Wind Energy Co., Ltd., Hunan Mingyang TECO Wind Power Technology Co., Ltd., TECO-Westinghouse Motors (Canada) Inc.Teco Westinghouse Motor Company S. A. de C. V..TECO Electric & Machinery Pte Ltd..P.T. TECO Multiguna Elektro.TECO EV Philippines Corporation, TECO Nanotech Co., Ltd.
		Vice President	TECO Australia Pty Limited (TAC)
		Director:	TECO Image Systems Co.,Ltd., Lien Chang Electronic Enterprise Co. Ltd., Wuxi Creative Sensor Technology Co.,Ltd., Nanchiang Creative Sensor Technology Co.,Ltd., . TG TECO Vacuum Insulated Glass Corporation, Corporate Synergy Development Center, Shanghai TECO Electric & Machinery Co., Ltd.,Teco-Westinghouse Motor Company.Teco Electric & Machinery (THAI) Co., Ltd.Teco Industrial System Private Limited.Teco Electrical Industries Private Limited.TEMICO INDIA PRIVATE LIMITED
		General Manager:	TECO Electric and Machinery Co., Ltd. (Deputy)
Director	Hsu Chiang	Director:	Wei Chuan Foods Corporation, China Productivity Center, . Commerce Development Research Institute
		Others:	Advisor at TYC Group, Advisor at Changhua Christian Hospital, Chair Professor at Chang Jung University, and host of Wang Zi-Bin Academic Seminar
Director	Hsieh Ying-Sheng	President:	KROM Electronics Co., Ltd., Victron Technology Co., Ltd., Zelun Electronics and Trading (Shanghai) Co., Ltd., Hong Kong You-Lun Co., Ltd.
		Director:	TECO Image Systems Co.,Ltd., T3D Technology Co., Ltd., Tung Hsin Lighting Technology (Jiangxi ) Co., Ltd.
Director	Wei Yao-Ming	Director:	All-In-One International Co., Ltd.Image Systems International Co., Ltd
		Chief Technology Officer	TECO Image Systems Co.,Ltd
Independent Director	Wang Hsiu-Ming	President:	Ming-Hsing Creative Managemetn Counselling Co., Ltd.
		Director:	Cheng Uei Precision Industry Co., Ltd.
		Supervisor:	Glory Science Co., Ltd., Kuo Kuang Power Co., Ltd.
		Others:	Director at Taiwan Electrical and Electronic Manufacturers' Association, Vice President at Net-Zero Energy Coalition, Director for Semi*Star Cultural and Creative Studio
Independent Director	Wang Wei	President:	Shu Kuan Investment Co., Ltd., Shu Kuan Trading Co., Ltd., Re Zhong Investment Co., Ltd., Chao Jian Investment Co., Ltd., Yun Chou Investment Co., Ltd.
		Director:	SERCOMM Corporation, Sercomm Japan Corp..Sercomm Russia LLC..Hawxeye LLC..
		General Manager:	SERCOMM Corporation
Supervisor	Lin Hung-Ming	Others:	Deputy of Managemetn Accounting Division, TECO Electric and Machinery Co., Ltd
Supervisor	Wu Hui-Mei	President:	TECNOS International Consultant Co., Ltd., Myuffull Taiwan Co., Ltd.
		Director:	Tung An Investment Co., Ltd., Century Development Corporation
		General Manager:	Tung An Property Development Management Co., Ltd.
		Others:	Chairman at Nangang Software Park Management Commettee, Member of Taipei City Government Economic Development Committee, Advisor for Board of Diector at TECO Electric and Machinery Co., Ltd.
Supervisor	Chang Min-Yu	Director:	Taishin Financial Holding Co., Ltd., Taishin International Bank Co., Ltd., Taiwan Shin Kong Security Co., Ltd., .Shin Shin Natural Gas Co., Ltd., Taiwan Shin Kong Security Foundation for Arts and Culture
		Supervisor:	Kuang You Corporation
		Others:	Supervisor for National Performing Arts Center

b. Name of corporate shareholder with shareholding ratio accounting for top 10 and its shareholding ratio

Major corporate shareholders

April 26<sup>th</sup>, 2019

Name of corporate shareholder	Major corporate shareholders
TECO Image Systems Co.,Ltd	Creative Sensor Inc. (10.66%), Tung An Investment Co., Ltd. (8.17%), Tung Yuan International Investment Co., Ltd. (5.67%), Kuang Yuan Corporation (4.24%), KROM Electronics Co., Ltd. (2.44%), Kuang You Corporation (2.14%), Lien Chang Electronic Enterprise Co., Ltd. (1.99%), Lin Ta-Chao (1.83%), Tai An International Investment Co., Ltd. (1.13%), Lai Shui-Ching (1.04%)
TECO Electric and Machinery Co., Ltd.	Silchester International Investors International Value Equity Trust (4.50%), Silchester International Investors International Value Equity Group Trust (2.34%), PJ Asset Management (2.26%), Edgbaston Asian Equity Trust (2.25%), WGI Emerging Markets Smaller Companies Fund,LLC (1.96%), Silchester International Investors International Value Equity Taxable Trust (1.52%), Tong Kuang Investment Co., Ltd. (1.52%), Chunghwa Post Co., Ltd. (1.50%), Yaskawa Electric Corporation (1.48%), Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (1.47%)
KROM Electronics Co., Ltd.	Kuang You Corporation (49.63%), Kuang Yuan Corporation (5.54%), Chiu Hui-Mei (4.43%), Chang Li-Chun (3.44%), Ant Bridge Asia Corporation(2.91%), Chao Shih International Development Co., Ltd. (2.82%), Lu Chuan-Fu (2.16%), Chang Li-Yu (2.03%), ECO Image Systems Co.,Ltd. (1.86%), Liu Cheng-Hsiu (1.58%)
Tung Yuan International Investment Co., Ltd.	TECO Electric and Machinery Co., Ltd (100%)
Tung An Investment Co., Ltd.	TECO Electric and Machinery Co., Ltd (99.6%), Tung Yuan International Investment Co., Ltd. (0.2%), Tai An International Investment Co., Ltd. (0.2%)
Kuang Yuan Corporation	Tung Kuang Investment Co., Ltd. (33.86%), Huang Lin Ho Hui (51.58%), Ming Yeh Investment Co., Ltd. (Hong Kong), Tung Ho International Investment Co., Ltd. (0.74%), others (3.82%)

Major shareholders of main corporate shareholders

April 26<sup>th</sup>, 2019

Corporate name	Main shareholders of corporation
Kuang You Co., Ltd.	Kuang Yuan Corporation (22.28%), Chao Shih International Development Co., Ltd. (18.38%), Lin Wen-Hsiung (13.00%), Huang Mao-Hsiung (10.04%), Tung Kuang Investment Co., Ltd. (9.88%), Chao Shih Corporation (7.30%), Chang Li-Chun (3.80%), Huang Lin Ho Hui (3.74%), Chang Li-Yu (3.74%), Chang Li-Chieh (3.11%)
Lien Chang Electronic Enterprise Co., Ltd.	TECO Electric and Machinery Co., Ltd. (33.84%), Bank of Singapore Co., Ltd entrusted by HSBC (2.09%), Chen Chen-Kang (0.95%), Chin Shih Chia United CPAs (0.67%), Chang Ya-Li (0.52%), Yeh Wen-Chin (0.43%), Huang Ko-Lan (0.36%), Huang Tung-Jung (0.36%), Wang Ling-Chun (0.34%), Lin Huang Yang (0.34%)
Tai An International Investment Co., Ltd.	TECO Electric and Machinery Co., Ltd. (100%)
Tung Kuang Investment Co., Ltd.	Kuang Yuan Corporation (39.28%), Huang Lin Ho Hui (35.01%), Ming Yeh Investment Co., Ltd. (Hong Kong) (12.73%), Tung Ho International Investment Co., Ltd. (6.00%), others (6.98%)
Tung Yuan International Investment Co., Ltd.	TECO Electric and Machinery Co., Ltd. (100%)
PJ Asset Management Co., Ltd.	Ho Yang Management Consultant Co., Ltd. (94.95%), others (5.05%)
Chunghwa Post Co., Ltd.	Ministry of Transportation and Communications (100%)
YASKAWA Electric Corporation(Japan)	Japan Trustee Services Bank,Ltd (trust account) (9.89%), The Master Trust Bank of Japan, Ltd. (trust account) (9.12%), Mizuho Bank, Ltd. ( 3.04%), Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank retirement benefit trust account) (2.99%), Meiji Yasuda Life Insurance Company (2.92%), Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank re-trust division, The Band of Fukuoka Ltd. retirement benefit trust account) (2.39%), Japan Trustee Services Bank, Ltd. (trust account 5) (1.66%), STATE STREET BANK WEST CLIENT-TREATY 505234 (1.63%), BBH FOR GLOBAL X ROBOTICS AND ARTIFICIAL INTELLIGENCE ETF (1.55%), The Dai-ichi Life Insurance Company, Limited (1.54%)
Chao Shih International Development Co., Ltd.	Lin Wen-Hsiung (5.75%), Wu Chien-Fang (13.5%), The Thermos Foundation (5.75%), Kai Yueh Corporation (8.25%), Chao Shih Corporation (3.50%), Ming Cheng Investment Co., Ltd. (63.25%)
Ant Bridge Asia Corporation	Ant Bridge Asia V, L.P. (100%)
Ming Yeh Investment Co., Ltd. (Hong Kong)	Teng Mei-Ling (100%)
Tung Ho International Investment Co., Ltd.	Kao Tung-Hai (30.5%), Kuang Yuan Corporation (19.5%), Yang Chen-Hai (20.0%), others (30.0%)

c. Whether directors and supervisors meet one of the followings and with at least five years experiences related to commerce, law, finance or required knowledge towards company business.

Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note 1)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
TECO Image Systems Co.,Ltd Rep.: IKUJIN KO			✓			✓	✓			✓	✓	✓		None
TECO Image Systems Co.,Ltd Rep.: Hsu Chiang	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓		None
TECO Electric and Machinery Co., Ltd. Rep.: Lien Chao-Chih			✓			✓	✓			✓	✓	✓		None
KROM Electronics Co., Ltd. Rep.: Hsieh Ying-Sheng			✓			✓	✓		✓	✓	✓	✓		None
Tung An Investment Co., Ltd. Rep.: Wei Yao-Ming			✓			✓	✓		✓	✓	✓	✓		None
Wang Hsiu-Ming			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Wang Wei			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Kuang Yuan Corporation Rep.: Wu Hui-Mei			✓			✓	✓		✓	✓	✓	✓		None
Hsu Ko-Hsin			✓			✓	✓		✓	✓	✓	✓		None
Lin Hung-Ming			✓			✓	✓		✓	✓	✓	✓	✓	None
Chang Min-Yu		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	4

Note 1: Please tick the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates (the same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary established according to this law or local regulations).
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. The same does not apply to members established according to stock listing or at remuneration committee of securities agent on over-the-counter markets as well as the remuneration committee members performing their official powers under Article 7.
- (8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9) Not been a person of any conditions defined in Article 30 of the Company Law.
- (10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

## (2) Information of President, Vice Presidents, Assistant Presidents, and Branch Supervisors

April 26<sup>th</sup>, 2019

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & minor shareholding		Shareholding by nominee arrangement		Experience (Education)	Other position	Managers who are Spouse or within two degrees of kinship		
					Shares	Ratio	Shares	Ratio	Shares	Ratio			Title	Name	Relation
General Manager	R.O.C	Yang Chi-Chang	Male	11.09.2015	464	0.0004%	0	0	0	0	Director of Business, Sunplus Technology Co., Ltd. MBA, Keio University	(Note 6)	None	None	None
Vice General Manager and Chief Technology Officer	R.O.C	Chen Chien-Lung (Note 1)	Male	02.15.2017	0	0	0	0	0	0	Vice General Manager, Creative Sensor Inc. EMBA, National Taiwan University	(Note 6)	None	None	None
Vice General Manager	R.O.C	Chen Ho-Hsin	Male	02.20.2017	0	0	0	0	0	0	General Manager, Changzhou Jingyu Optoelectronics Co., Ltd. EMBA, Pacific Western University	(Note 6)	None	None	None
Vice General Manager	R.O.C	Chiu Yao-Te (Note 2)	Male	11.09.2018	0	0	0	0	0	0	Executive Assistant, TPK Holding Co., Ltd. Department of Information Management, National Taipei University of Business	None	None	None	None
Assistant Vice President	R.O.C	Chen Hung-Chi	Male	02.15.2017	50,000	0.04%	0	0	0	0	Vice General Manager, Nanchang Creative Sensor Inc. Department of Electronic Engineering, Hwa Hsia University of Technology	(Note 6)	None	None	None
Assistant Vice President	R.O.C	Ou Sheng-Chih (Note 3)	Male	07.06.2018	0	0	0	0	0	0	Director of Finance Management, TECO Image Systems Co., Ltd. Kai Ming Senior Technical and Commercial Vocational School	None	None	None	None
Assistant Vice President	R.O.C	Wang Yuan-Sheng (Note 4)	Male	09.15.2014	0	0	0	0	0	0	Director of Finance, Qisda Corporation Master of Finance, Golden Gate University	None	None	None	None
Director	R.O.C	Yen Chun-Mei (Note 5)	Male	07.06.2018	0	0	0	0	0	0	Vice Director, TECO Image Systems Co., Ltd. Department of Accounting, Fu Jen University	None	None	None	None

Note 1: Chen Chien-Lung resigned on January 24th, 2019.

Note 2: Chiu Yao-Te took office on August 6th, 2018 and was appointed Vice General Manager on November 9th, 2018.

Note 3: Ou Sheng-Chih was transferred from the advisor to Assist Vice President on July 6th, 2018 and then assigned Director of Finance.

Note 4: Wang Yuan-Sheng was discharged from the post of Manager of Finance and Accounting on July 6th, 2018 and resigned on July 20th, 2018.

Note 5: Yen Chun-Mei took office on July 6th, 2018 and was assigned Manager of Accounting.

Note 6: Currently take office position in our company and other companies.

Title	Name	Duty taken in our company and other companies	
General Manager	Yang Chi-Chang	Director:	Wuxi Creative Sensor Co., Ltd., Nanchang Creative Sensor Co., Ltd., Creative Sensor (USA) Co.
Vice General Manager and Chief Technology Officer	Chen Chien-Lung	President:	TECO Image Systems (Dongguan )Co., Ltd., Wuxi Creative Sensor Co., Ltd
		General Manager:	Koryo Electronics Co., Ltd.
Vice General Manager	Chen Ho-Hsin	General Manager:	Nanchang Creative Sensor Co., Ltd
Assistant Vice President	Chen Hung-Chi	Director:	Nanchang Creative Sensor Co., Ltd
		General Manager:	General Manager, Wuxi Creative Sensor Co., Ltd

(3) Remuneration to Directors, Supervisors, General Manager and Vice General Manager in the Latest Annual Year

a. Remuneration to directors (including independent directors)

Unit: NT\$ thousand

No.	Title	Name	Remuneration								Ratio of total remuneration (A+B+C+D) to net income (%)		Remuneration to concurrent employees						Ratio of total compensation (A+B+C+D+E+ F+G) to net income (%)		Compensation paid to directors from reinvested companies other than subsidiary
			Compensation (A)		Severance pay (B)		Bonus to directors (C)		Allowance (D)				Salary, bonus, allowance (E)		Severance pay (F)		Profit sharing-employee bonus (G)				
			The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	Cash		Cash		
1	President	TECO Image Systems Co.,Ltd	7,299	7,299	0	7,299	6,812	7,299	185	7,299	6.95%	7,299	0	7,299	0	7,299	0	7,299	6.95%	6.95%	Yes
2		Rep.:IKUJIN KO																			
3	Director	TECO Image Systems Co.,Ltd Rep.: Hsu Chiang																			
4	Director	TECO Electric and Machinery Co., Ltd.																			
5		Rep.: Lien Chao-Chih																			
6	Director	KROM Electronics Co., Ltd.																			
7		Rep.: Hsieh Ying-Sheng																			
8		Tung An Investment Co., Ltd.																			
9	Director	Rep.: Wei Yao-Ming																			
10	Independent Director	Wang Hsiu-Ming																			
11	Independent Director	Wang Wei																			

Remuneration scale table

Class interval of remuneration paid to directors in our company	Name of director			
	Total remuneration of the top four items (A+B+C+D)		Total remuneration of the top seven items (A+B+C+D+E+F+G)	
	The company	Companies in the consolidated financial statements	The company	Reinvestments in the consolidated financial statements
Below NT\$2,000,000	3.4.5.6.7.8.9.10.11		3.4.5.6.7.8.9.10.11	
NT\$2,000,000 to NT\$5,000,000 (exclusive)	1		1	
NT\$5,000,000 to NT\$10,000,000 (exclusive)	2		2	
NT\$10,000,000 to NT\$15,000,000 (exclusive)	-		-	
NT\$15,000,000 to NT\$30,000,000 (exclusive)	-		-	
NT\$30,000,000 to NT\$50,000,000 (exclusive)	-		-	
NT\$50,000,000 to NT\$100,000,000 (exclusive)	-		-	
NT\$100,000,000 or above	-		-	
Total	11		11	

\*It is presented by the coding of each director's.

\*The content of remuneration disclosed on the table above is with different concepts with income tax; the purpose of the table is for information disclosure but not for tax return.

b. Remuneration to supervisors

Unit: NT\$ thousand

No.	Title	Name	Remuneration to supervisors						Ratio of total remuneration (A+B+C) to net income (%)		Compensation paid to supervisors from reinvested companies other than subsidiary
			Compensation (A)		Reward (B)		Allowance (C)		The company	Companies in the consolidated financial statements	
			The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements			
1	Supervisor	Kuang Yuan Corporation	0	0	875	875	0	0	0.43%	0.43%	None
2	Supervisor	Rep.: Wu Hui-Mei	0	0	0	0	30	30	0.01%	0.01%	
3	Supervisor	Hsu Ko-Hsin (Note 1)	0	0	1,574	1,574	45	45	0.79%	0.79%	None
4	Supervisor	Lin Hung-Ming									
5	Supervisor	Chang Min-Yu									

Note 1: Supervisor, Hsu Ko-Hsin, has resigned the post of supervisor in our company on February 22<sup>nd</sup>, 2018.

Remuneration scale table

Class interval of remuneration paid to supervisors in our company	Name of supervisor	
	Total remuneration of the top three items (A+B+C)	
	The company	Reinvestments in the consolidated financial statements
Below NT\$2,000,000	1.2.3.4.5	1.2.3.4.5
NT\$2,000,000 to NT\$5,000,000 (exclusive)	-	-
NT\$5,000,000 to NT\$10,000,000 (exclusive)	-	-
NT\$10,000,000 to NT\$15,000,000 (exclusive)	-	-
NT\$15,000,000 to NT\$30,000,000 (exclusive)	-	-
NT\$30,000,000 to NT\$50,000,000 (exclusive)	-	-
NT\$50,000,000 to NT\$100,000,000 (exclusive)	-	-
NT\$100,000,000 or above	-	-
Total	5	5

\* It is presented by the coding of each supervisor's.

\* The content of remuneration disclosed on the table above is with different concepts with income tax. The purpose of the table is for information disclosure but not for tax return.

c. Remuneration to General and Vice General Manager

Unit: NT\$ thousand

No.	Title	Name	Compensation (A)		Severance pay (B) (Note 1)		Bonus and allowance (C)		Remuneration to concurrent employees (D)				Ratio of total remuneration (A+B+C+D) to net income (%)		Number of shares obtained for employee stock warrants		Number of shares obtained for new restricted employee shares		Compensation paid to General Manager and Vice GM from reinvested companies other than subsidiary
			The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	
									Cash	Stock	Cash	Stock							
1	General Manager	Yang Chi-Chang	12,401	12,401	0	0	8,932	8,932	4,822	0	4,822	0	12.71%	12.71%	0	0	0	0	None
2	Vice General Manager	Chen Chien-Lung (Note 2)																	
3	Vice General Manager	Chen Ho-Hsin																	
4	Vice General Manager	Chiu Yao-Te (Note 3)																	

Note 1: The actual severance pay paid in 2018 was NT\$ 0 thousand and the expenses assigned to or appropriate as retirement fee was NT\$ 367 thousand.

Note 2: Mr. Chen Chien-Lung resigned on January 24<sup>th</sup>, 2019.

Note 3: Mr. Chiu Yao-Te took office on August 6<sup>th</sup>, 2018 and was assigned Vice General Manager on November 9<sup>th</sup>, 2018.

Remuneration scale table

Class interval of remuneration paid to General Manager and Vice General Manager in our company	Name of General Manager and Vice General Manager	
	The company	Companies in the consolidated financial statements
Below NT\$2,000,000	4	4
NT\$2,000,000 to NT\$5,000,000 (exclusive)	-	-
NT\$5,000,000 to NT\$10,000,000 (exclusive)	2,3	2,3
NT\$10,000,000 to NT\$15,000,000 (exclusive)	1	1
NT\$15,000,000 to NT\$30,000,000 (exclusive)	-	-
NT\$30,000,000 to NT\$50,000,000 (exclusive)	-	-
NT\$50,000,000 to NT\$100,000,000 (exclusive)	-	-
NT\$100,000,000 or above	-	-
Total	4	4

\* It is presented by the coding of each manager's.

\* The content of remuneration disclosed on the table above is with different concepts with income tax. The purpose of the table is for information disclosure but not for tax return.

d. Name of the managerial officer who distributes employee dividend and the distribution

Unit: NT\$ thousand

	Title	Name	Employee bonus in stock	Employee bonus in cash	Total	Ratio of total amount to net income (%)
Managerial officer	General Manager	Yang Chi-Chang	0	9,592 (Estimation)	9,592 (Estimation)	4.66%
	Vice General Manager	Chen Chien-Lung (Note 2)				
	Vice General Manager	Chen Ho-Hsin				
	Vice General Manager	Chiu Yao-Te (Note 3)				
	Assistant Vice President	Chen Hung-Chi				
	Assistant Vice President	Wang Yuan-Sheng (Note 4)				
	Assistant Vice President	Ou Sheng-Shih (Note 5)				
	Director	Yen Chun-Mei (Note 6)				

Note 1: It is to list the amount of employee dividend (including stock and cash) distributed by the managerial officer approved by board of director in the latest annual year. If it is difficult to estimate, the proposed amount this year should be calculated according to the actual distributed amount last year. Net income refers to net profit for the latest annual year.

Note 2: Resigned on January 24<sup>th</sup>, 2019.

Note 3: Took office on August 6<sup>th</sup>, 2018 and was assigned Vice General Manager on November 9<sup>th</sup>, 2018.

Note 4: Discharge from the post of Manager of Finance and Accounting on July 6<sup>th</sup>, 2018 and resigned on July 20<sup>th</sup>, 2018.

Note 5: Transferred the post of advisor to assistance vice president on July 6<sup>th</sup>, 2018 and was appointed Manager of Finance.

Note 6: Took office on July 6<sup>th</sup>, 2018 and was assigned Manager of Accounting.

(4) Comparison of Total Remuneration for Directors, Supervisors, President, and Vice Presidents in the Most Recent Two fiscal years at Our Company and Companies in the Consolidated Financial Statements Accounting for the Net Income Ratio in the Individual or Separate Financial Statements as well as Remuneration Policy, Standard, Combination, Procedure of Remuneration Setup, and the Relation Between Business Performance and Risks in the Future.

a. The ratio of total remuneration paid by the company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, president, and vice presidents of the company, to the net income.

Title	The ratio of total remuneration paid by the company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, president, and vice presidents of the company, to the net income in 2017.	The ratio of total remuneration paid by the company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, president, and vice presidents of the company, to the net income in 2018.
Director	16.82%	20.89%
Supervisor		
General Manager		
Vice General Manager		

b. Remuneration policy, standard, combination, procedure of remuneration setup, and the relation between business performance and risks in the future.

Remuneration paid to directors and supervisors by our company complies with the appropriation regulated in articles of incorporation as well as the "Guidelines for Issuing Remuneration to Directors and Supervisors" established by the Salary Remuneration Committee in our company in order to specify the issuing method for remuneration to directors and supervisors in our company. It is approved by the board of director in our company. The remuneration to managers in our company is based on their business performance with the reference to salary standard equivalent to their position in the industry as well as the correlation to future risks. It is reviewed by the members at Salary Remuneration Committee in our company and confirmed the relevant methods for existing salary, reward and bonus. It is approved by the board of director in our company and authorized the President to approve it according to the current system.

### 3. Implementation of Corporate Governance

#### (1) Board of Directors

A total of 6 meetings (A) of the board of directors were held in the latest annual year. The attendance was as follows:

Title	Name	Attendance in person (B)	By proxy	Attendance rate (%) (B/A) (Note 2)	Remark (Note 1)
President	TECO Image Systems Co.,Ltd Rep.: IKUJIN KO	6	0	100	Continue in office
Director	TECO Electric and Machinery Co., Ltd. Rep.: Lien Chao-Chih	3	2	50	Continue in office
Director	TECO Image Systems Co.,Ltd Rep.: Hsu Chiang	4	2	67	Continue in office
Director	KROM Electronics Co., Ltd. Rep.: Hsieh Ying-Sheng	4	2	67	Continue in office
Director	Tung An Investment Co., Ltd. Rep.: Wei Yao-Ming	6	0	100	Continue in office
Independent Director	Wang Hsiu-Ming	6	0	100	Continue in office
Independent Director	Wang Wei	4	2	67	Continue in office

#### Other matters recorded:

1. If the operation of board of directors encounters any of the following situation, it should clearly specify the date of meeting, number of session, content of discussion, opinions from all independent directors, and company's handling towards the opinions from independent directors:

(1) Matters listed in Article 14-3, Securities and Exchange Act: None.

(2) Other than above, other resolution that is objected or opinion reserved by independent directors and is recorded or with written statement: None.

#### 2. Status of stake recusal done by directors::

Date of meeting	Name of director	Content	Reason for recusal	Voting participation
03.21.2018	Independent Director, Wang Hsiu-Ming Independent Director, Wang Wei	Nominate candidates for independent director	Independent Directors, Wang Hsiu-Ming and Wang Wei, are the candidates nominated.	Independent Directors, Wang Hsiu-Ming and Wang Wei didn't attend the vote due to recusal, and it was approved by all the rest attended directors.
05.11.2018	Independent Director, Wang Hsiu-Ming Independent Director, Wang Wei	Reviewing the qualification of independent director	Independent Directors, Wang Hsiu-Ming and Wang Wei, are the candidates nominated by board of director for next election.	Independent Directors, Wang Hsiu-Ming and Wang Wei didn't attend the vote due to recusal, and it was approved by all the rest attended directors.
07.06.2018	Independent Director, Wang Hsiu-Ming Independent Director, Wang Wei	Recruitment for the 4 <sup>th</sup> Salary and Remuneration Committee	Independent Directors, Wang Hsiu-Ming and Wang Wei, are the candidates for the recruitment from board of director for the 4 <sup>th</sup> Salary and Remuneration Committee.	Independent Directors, Wang Hsiu-Ming and Wang Wei didn't attend the vote due to recusal, and it was approved by all the rest attended directors.

3. The goal of reinforcing the competency of board of directors of the current annual year and the recent year: Our company selects two independent directors voluntarily according to the regulations of Securities and Exchange Act in order to perfect company governance, strengthen the independence and function of each director, and enhance the effectiveness of board of directors' operation. In addition, our company has revised rules and procedures of board of directors meetings according to the law and it is handled in accordance with the regulations. Besides, our company established Salary and Remuneration Committee on December 21<sup>st</sup>, 2011 to be in charge of performance evaluation for directors, supervisors and managers and remuneration policy, system, standard, and structure as well as evaluate and set up remuneration to directors, supervisors and managers.

Note 1: Our company re-elected directors and supervisors during the regular shareholder meeting on June 27<sup>th</sup>, 2018.

Note 2: There were six board of directors meetings held in 2018; two meetings before re-election of directors and four meetings after re-election of directors.

(2) Status of Attendance of Supervisors for Board Meeting

a. A total of 6 meeting of the board of directors were held in the latest annual year (A) and the attendance of supervisors was as below:

Title	Name	Attendance in person (B)	Attendance rate (%) (B/A) (Note 2)	Remark
Supervisor	Kuang Yuan Corporation Rep.: Wu Hui-Mei	6	100	Continue in office
Supervisor	Hsu Ko-Hsin	0	0	Resigned on February 22 <sup>nd</sup> , 2018
Supervisor	Lin Hung-Ming	3	50	Took office on June 27 <sup>th</sup> , 2018
Supervisor	Chang Min-Yu	6	100	Continue in office

Other mentionable items:

1. Composition and responsibilities of supervisors:

(1) Supervisors' communication with company employees and shareholders: If necessary, supervisors may also communicate directly with relevant personnel for any issues.

(2) Supervisors' communication with internal audit supervisors and accountants:

1. Audit supervisors should submit the auditing report to the supervisors by the end of the following month after having completed the audit items as well as attend the company's regular board of directors meetings to conduct auditing report and there is no objection from the supervisors.

2. Supervisors can communicate with the internal audit supervisors and accountants at any time about the company's finance and business status as well as listen to various business reports done by directors and managerial officers when attending the board of directors meeting and participate in the discussion of decision making.

2. If there is any opinion stated when attending the board of directors meeting, the date of meeting, number of session, content of discussion, and result of resolution should be clearly specified as well as the handling of supervisor's opinion by the company: None.

Note 1: The re-election of directors and supervisors in our company was done on the general shareholders meeting on June 27<sup>th</sup>, 2018.

Note 2: Six board of directors meetings were held in 2018; two meetings before re-election and four meetings after re-election.

b. Status of audit committee operation: No audit committee is established in our company and it is not applicable.

**(3) Corporate Governance Execution Status and Deviations from Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies**

Evaluating item	Implementation status			Discrepancy with the best-practice principles for TSEC/GTSM listed companies
	Yes	No	Summary	
1. Does the company set up and disclose company's governance best-practice principles according to that for TSEC/GTSM listed companies?	✓		Our company's "Corporate Governance Best-Practice Principles" was approved at the third board of directors meetings for the 7 <sup>th</sup> board of directors (November 9 <sup>th</sup> , 2015) and it was published in market observatory post system as well as our company's website.	It meets the governance best-practice principles for TSEC/GTS listed companies.
2. Shareholding structure and shareholder's rights (1)Whether the company has established internal process to handle shareholder suggestions, doubts, dispute and lawsuit as well as implement it according to the process?  (2)Whether the company possesses the list of major sharholders and the list of ultimate owners of these major shareholders?  (3)Whether the company has established and implemented the risk control and firewall mechanism between the company and its affiliates?  (4)Whether the company has established internal regulations to prohibit internal personnel from trading securities through the non-disclosure information in the market?	✓      ✓		(1)Our group has established stock affair specialist and spoksnman system and the handling of shareholder suggestions, doubt and dispute will be centrally managed by the spokesman or deputy spokesman.  (2)Our group declares the sharholding of directors, supervisors, and managial officers in the market observatory post system every onth according to Article 25, Securities and Exchange Act as well as the deviation of shareholding more than 10%.  (3) In order to maintain a sound financial relationship with affiliated enterprises, our group formulated its own "Guidelines for conducting financial business with affiliated enterprises" to avoid non-arm's length transaction and illegal benefits transfer related to ERP transactions among affiliates, disposal of assets acquisition, endorsement or guarantees, and lending of capital.  (4)Our groups has established "Management of Insider Trading Prevention" and "Codes of Ethical Conduct for Directors and Managers" to prohibit internal personnel from trading securities with the non-disclosure information in the market. It is also used as the accordance to handle significant information and disclosure mechanism in our company in order to avoid insider trading.	It meets the governance best-practice principles for TSEC/GTS listed companies.
3. Composition and responsibilities of board of directors (1)Whether the board of directors sets up multiple guidelines for the composition of its members and implements it accordingly? (2)Other than establishing salary remuneration committee and audit committee, whether the company voluntarily establishes other functional committes?		✓  ✓	(1)The directors in our group did not set up multiple guidelines to the composition of directors but each director has different speciality in different areas; it contributes a lot to the company development and operation. (2)Our group has established salary remuneration committee according to law but does not establish other functional committees..	It will be handled according to the demand for company development and legal regulations in the future.
(3)Whether the company has established performance evaluation regulations and methods for board of directors meeting as well as implemented performance evaluation regularly every year?		✓	(3)Our group did not set up performance evaluation regulations and methods for board of directors, but will review the efficiency of board of directors regularly in order o gradually enhance the level of corporate governance.	It will be handled according to the demand for company development and legal regulations in the future.

Evaluating item	Implementation status			Discrepancy with the best-practice principles for TSEC/GTSM listed companies
	Yes	No	Summary	
(4)Whether the company regularly evaluates the independence of CPA's?	✓		(4)Our company regularly evaluates CPA's independence and competency every year to check whether it is the shareholder of our company or be paid salary by our company, confirm it is not a stakeholder and whether it is involved with lawsuit as well as coordinates with the accounting office to change CPA regularly..	It meets the governance best-practice principles for TSEC/GTS listed companies.
4. Whether the TSEC/GTS companies establish dedicated full (part) time unit or personnel to be in charge of affairs related to corporate governance (including but not limited to provide information needed for directors and supervisors to implement business, deal with meetings for board of directors and shareholders according to legal regulations, handle company registration and registration change, and produce board of directors or shareholder meeting minute)?	✓		Our group has established stock affair personnel to be in charge of affairs related to corporate governance.	It meets the governance best-practice principles for TSEC/GTS listed companies.
5. Whether the company has established communication channels with stakeholders (including but not limited to shareholders, employees, customers and suppliers) as well as sets up stakeholder zone on the company's website to properly respond the social responsibility issues that stakeholders concern?	✓		Our group has established spokesman, deputy spokesman, and stock affairs personnel and their contact methods have been out on the company's website for the direct communication and conversation with stakeholders in order to let them understand company's business operation status. "Stakeholder" zone has also been established on the company's website.	It meets the governance best-practice principles for TSEC/GTS listed companies.
6. Whether the company has appointed a professional stock affairs agent to deal with affaris related to shareholder meeting?	✓		Our group has appointed professional stock affair agent, Department of Stock Registrar, Yuanta Securities Co., Ltd., to handle various stock affairs in our company. "Management of Stock Affair Operation" is set up to regulate relevant affaris.	It meets the governance best-practice principles for TSEC/GTS listed companies.
7. Information disclosure (1)Whether the company has established a corporate website to disclose financial business and corporate governance status?	✓		(1)Our group has established dedicated zones for "financial information", "service to investors", "corporate governance", and "stakeholders" to fully disclose financial business and corporate governance status..	It meets the governance best-practice principles for TSEC/GTS listed companies.
(2)Does the company adopt other information disclosure channels (e.g., maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors' conference)?	✓		(2)Our group has established English website and appoint dedicate personnel to be in charge of collection and distribution of various information as well as fulfilled spokesman system.	
8. Does the company have other important information to facilitate better understanding of the Company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	✓		(1)Employee rights and interests as well as wellness: Our company has always treated our employees with integrity. We establish good relationship with our employees through various welfare measures and educational training. Please refer to the statement of "Labor Relations" in the annual report (pages 55-57). (2)Investor relations: A dedicated investor zone is establishd on our company's website for investors to look up information related to our group and a spokesman is established to handle shareholders' suggestions. (3)Supplier relations: Our company always maintains good relationship with suppliers. (4)Stakeholder rights: Stakeholders are entitled to communicate and provide suggestions to the ompany in order to maintain legal rights and interests that they should have.	It meets the governance best-practice principles for TSEC/GTS listed companies.

Evaluating item	Implementation status			Discrepancy with the best-practice principles for TSEC/GTSM listed companies
	Yes	No	Summary	
			<p>(5)Directors and supervisors training records: Directors and supervisors in our group have continued receiving training according to “Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies (note).</p> <p>(6)The implementation of risk management policies and risk evaluation measurement: Please refer to explanation of “Risk Analysis and Evaluation” in the annual report (pages 69-72).</p> <p>(7) The implementation of customer relations policies: Our company maintains good and stable relationship with customers in order to create company profits.</p> <p>(8)Purchasing insurance for directors and supervisors: Our company has purchased liability insurance for all directors and supervisors.</p>	
<p>9. Please explain the improvement status according to corporate governance evaluation results published most recently by Taiwan Stock Exchange Corporate Governance Center as well as propose priority reinforcement and measure for the matters that are pending for improvement. (It is not applicable to the companies that are not listed in the evaluation list)</p> <p>Our company was listed as 51%-65% companies for corporate governance rateing in 2018. In 2019, our company has improved the followings: (1) disclosure of the formulated ethical corporate management best-practice principles and enterprise social responsibility practice principles in the market observatory post system and the company’s website; (2) uploaded annual report in English version, rules for procedure and supplementary meeting notes in the market observatory post system.</p>				

Note: a. Directors' and supervisors' training records in 2018

Title	Name	Date	Hosted by	Name of the course	Hours
President	IKUJIN KO	11.15.2018	Accounting Research and Development Foundation	The latest revision and practice discussion for Corporate Act	3
		12.20.2018		The analysis for the latest Coporate Act revision and practice as well as its impact towards listed companies	3
Director	Lien Chao-Chih	8.13.2018	Taiwan Corporate Governance Association	Cross-natioal enterprises' local corporate law application and management of board of directors in different overseas subsidiaries	3
		12.22.2018	The Business Council for Sustainable Development of Taiwan	Demonstration of current status of enterprsie sustainable development and non-financial information disclosure	3
Director	Hsu Chiang	8.10.2018	Taiwan Corporate Governance Association	Risk management and information security management	3
		12.19.2018	Securities & Futures Institute	Corporate governance and board of directors operation	3
Director	Hsieh Ying-Sheng	12.20.2018	Accounting Research and Development Foundation	The analysis for the latest Coporate Act revision and practice as well as its impact towards listed companies	3
		12.22.2018	The Business Council for Sustainable Development of Taiwan	Demonstration of current status of enterprsie sustainable development and non-financial information disclosure	3
Director	Wei Yao-Ming	11.15.2018	Accounting Research and Development Foundation	The latest revision and practice discussion for Corporate Act	3
		12.20.2018		The analysis for the latest Coporate Act revision and practice as well as its impact towards listed companies	3
		12.22.2018	The Business Council for Sustainable Development of Taiwan	Demonstration of current status of enterprsie sustainable development and non-financial information disclosure	3
Director	Wang Hsiu-Ming	5.15.2018	Taiwan Listed Companies Association	Enterprise sustainability and long-lasting	2
		6.15.2018		New southbound policy: Move towards South Asia	2
		8.15.2018		Eastern leaders' seminar "Successful transformation experience in new Nan Shan Life Insurance"	2
Supervisor	Wu Hui-Mei	11.15.2018	Accounting Research and Development Foundation	The latest revision and practice discussion for Corporate Act	3
		12.20.2018		The analysis for the latest Coporate Act revision and practice as well as its impact towards listed companies	3
Supervisor	Chang Min-Yu	4.09.2018	CPA Associations, R.O.C (Taiwan)	International evaluation practices in responding to money laundering prevention	3
		5.07.2018	Taiwan Academy of Banking and Finance	FinTech co-opetition E Course	3
		6.07.2018	CPA Associations, R.O.C (Taiwan)	High-efficient leadership by leading with heart	3
		6.08.2018	Taiwan Academy of Banking and Finance	Cloud technology application E Course	2
		6.26.2018	CPA Associations, R.O.C (Taiwan)	Analysis and interpretation of non-listing companies new CPA audit report	3
		7.19.2018	Taiwan Corporate Governance Association	Introduction of domestic and overseas money laundering prevention and counterint terrorist finance	3
		7.24.2018	CPA Associations, R.O.C (Taiwan)	Money laundering declaration practice and case study	3
		9.21.2018		Indepedenet director's legal responsibility and risk management	3
Supervisor	Lin Hung-Ming	8.13.2018	Taiwan Corporate Governance Association	Cross-natioal enterprises' local corporate law application and management of board of directors in different overseas subsidiaries	3
		12.22.2018	The Business Council for Sustainable Development of Taiwan	Demonstration of current status of enterprsie sustainable development and non-financial information disclosure	3

b. Manager's training records

Title	Name	Date	Hosted by	Name of the course	Hours
General Manager	Yang Chi-Chang	11.15.2018	Hang Seng S.D.	Latest version of Corporate Act	6
		12.20.2018			
Vice General Manager	Chen Chien-Lung	7.19.2018	Digital Age	2018 digital innovation seminar	6
		7.20.2018			
		11.15.2018	Hang Seng S.D.	Latest version of Corporate Act	6
		12.20.2018			
Vice General Manager	Chen Ho-Hsin	7.19.2018	Digital Age	2018 digital innovation seminar	6
		7.20.2018			
		11.15.2018	Hang Seng S.D.	Latest version of Corporate Act	6
		12.20.2018			
Vice Assistant President	Chen Hung-Chi	7.19.2018	Digital Age	2018 digital innovation seminar	6
		7.20.2018			
		11.15.2018	Hang Seng S.D.	Latest version of Corporate Act	6
		12.20.2018			
Vice Assistant President	Ou Sheng-Chih	11.15.2018	Hang Seng S.D.	Latest version of Corporate Act	6
		12.20.2018			
Director	Yen Chun-Mei	11.15.2018	Hang Seng S.D.	Latest version of Corporate Act	6
		12.20.2018			

(4) If a salary remuneration committee is established in the company, the status of its composition, responsibility, and operation should be disclosed.

a. Information of members at salary remuneration committee

Type of identity (Note 1)	Criteria	Meet One of the Following Professional Qualification Requirements and have at Least Five Years Work Experience			Status of compliance with independence criteria (Note 2)								Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director	Remark (Note 3)
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Wang Hsiu-Ming			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Not applicable
Independent Director	Wang Wei			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Others	Chen Yi-Feng			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note 1: Please fill in director, independent director or others on the column for the type of identity.

Note 2: Please tick the corresponding boxes if the member has been any of the following during the two years prior to being elected or during the term of office.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates; however, the same does not apply, in cases where the person is an independent director of the Company, its parent company, or any subsidiary established according to this law or local regulations.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
- (8) Not been a person of any conditions defined in Article 30 of the Company Law.

b. Information of salary remuneration committee operation

(1) Three people are assigned as the salary remuneration committee members.

(2) The duration of the current committee members: From July 6<sup>th</sup>, 2018 to the expiration of the appointed members during the duration of the board of directors, two meetings (A) were held in the salary remuneration committee in the latest year and the committee members' qualification and attendance status are as follows:

Title	Name	Attendance in person (B)	By proxy	Attendance rate (%) (B/A) (Note)	Remarks
Chairman	Wang Hsiu-Ming	2	0	100%	Continue in the post
Member	Wang Wei	1	1	50%	Continue in the post
Member	Chen Yi-Feng	2	0	100%	Continue in the post

Other mentionable items:

1. Suggestions by the salary remuneration committee are rejected or revised by the board of directors: None
2. If there is any member who rejects or reserves the opinion towards to the resolution done by the salary remuneration committee and it is recorded or with written statement, the date of meeting, number of session, content, and opinions from all members and the handling of member's opinions could be clearly specified: None

Note: Our Company established the first salary remuneration committee on December 21<sup>st</sup>, 2011 after being approved by the Fifth Board of Director. Our Company re-elected directors and supervisors at the shareholder meeting on June 13<sup>th</sup>, 2012 and the second salary remuneration committee was appointed by the Sixth Board of Directors on June 13<sup>th</sup>, 2012. Two meetings for each committee were held from 2012 to 2014 and one meeting was held by the first salary remuneration committee while five meetings were held by the second salary remuneration committee. Our Company re-elected directors and supervisors on June 24<sup>th</sup>, 2015 and the third salary remuneration committee was appointed by the Seventh Board of Directors on August 11<sup>th</sup>, 2015. Our company re-elected directors and supervisors at the shareholder meeting on June 27<sup>th</sup>, 2018 and the fourth salary remuneration committee was appointed by the Eighth Board of Directors on August 11<sup>th</sup>, 2018.

(5) Performance of Social Responsibility

Evaluating item	Implementation status			Discrepancies with corporate social responsibility codes of practice of listed companies and their causes
	Yes	No	Summary	
1. Implementation of corporate governance (1)Whether the company sets up its corporate social responsibility policy or system and examines the results of the effectiveness	✓		(1)Our group has set up “Corporate Social Responsibility Practice Principles” by the resolution of the 18 <sup>th</sup> meeting during the Seventh Board of Directors and the information has been disclosed in the market observatory post system and our company’s website.	It meets the corporate social responsibility codes of practice of listed companies.
(2)Whether the company holds regular educational training related to social responsibility	✓		(2)Our group holds regular meetings every monthe to promote the importance of the company’s business philosophy and social responsibility.	It meets the corporate social responsibility codes of practice of listed companies.
(3)Whether the company establishes exclusively (or concurrently) dedicated units to be in charge of proposing and enforcing the corporate social responsibility policies and the board of the directors authorizes higher management staff to handle it as well as report handling status to the board of directors		✓	(3)Our group hasn’t established exclusively dedicated units to promote corporate social responsibility and the corporate social responsibility is carried out by each department according to its duty and business scope.	It will be established according to the operation status and scale of the company.
(4)Whether the company has reasonable salary remuneration policies in place and combines employee performance evaluation with the policy of corporate social responsibility as well as sets up clear and effective reward and punishment system	✓		(4)Our group continues promoting the concept of corporate social responsibility through various meetings and we establish the code of conduct for employees and performance punishment method to clearly regulate reward and punishment standard.	It meets the corporate social responsibility codes of practice of listed companies.
2. Development of sustainable environment. (1)Whether the company endeavors to utilize all resources more efficiently and uses renewable materials which have a low impact on the environment	✓		(1)Our group is dedicated to promote the effective utilization of various resources and implements garbage recycling, and reduction to fulfill the awareness of environmental protection of green earth.	It meets the corporate social responsibility codes of practice of listed companies.
(2)Whether the company establishes proper environmental management system according to its industrial characteristics	✓		(2)Our group has suspended all the production activities in Taiwan and such activities carried out in China by overseas subsidiaries have been approved by various inspections requied by the environmental protection department. There is no involvement of generating hazardous factors to the environment in terms of air, water, waste, toxin, and noise. Departments that are responsible for the operation of environmental management will regularly review whether the company meets relevant legal regulations for the environment.	

Evaluating item	Implementation status			Discrepancies with corporate social responsibility codes of practice of listed companies and their causes
	Yes	No	Summary	
(3)Whether the company monitors the impact of climate change on its operations and should establish company strategies for energy conservation and carbon and greenhouse gas reduction	✓		(3)Our group implements the setup for power off time on air conditioner. Overseas subsidiaries set up the using regulations according to the temperature and we promote energy conservation and carbon reduction measures like turning off the light when finishing using it and garbage recycling.	It meets the corporate social responsibility codes of practice of listed companies.
3. Maintaining public welfare (1)Whether the company complies with relevant laws, regulations, and International Bill of Human Rights to set up appropriate management methods and procedures	✓		(1) Our group complies with relevant labor laws and regulations. Employees' relevant interests and rights are handled according to legal and company regulations to protect legal rights and interests of employees and non-discrimination in employment policies. We try to make the communication channels between employer and employees smooth, work hard to understand and reasonably satisfy employees' demand as well as establish Committee of Employees' Welfare to hold various welfare items for employees regularly.	It meets the corporate social responsibility codes of practice of listed companies.
(2)Whether the company establishes employee complaint mechanism and channels as well as handles the complaints properly	✓		(2)Our group established "Employees Suggestion" and "Employees Complaint Management System" to provide employees channels of feedback in order to reinforce employer-employees relationship.	
(3)Whether the company provides safe and healthy work environments for its employees, and organizes training on safety and health for its employees on a regular basis	✓		(3)Our groups establishes "Code of Practice for Safety and Health" and other required operation procedures. External institute will be entrusted to carry out labor safety and health inspection every month, drinking water testing every half a year, and lighting, fire fighting, CO2 testing every year as well as implemented comprehensive disinfection on the working environment regularly in order to provide employees a safe and healthy working environment. Employee health examination will be held every year as well as labor safety and health educational training.	
(4)Whether the company has established regular communication mechanism with employees and any operational change that might have critical impact on employees should be informed to employees in reasonable methods	✓		(4)Our group holds employee meeting every month to report to all of the employees company's operational results and promote company's important measures and policies. Important information will be published on the real-time electroic bulletin board so that each employee is able to clearly understand company's operational status.	

Evaluating item	Implementation status			Discrepancies with corporate social responsibility codes of practice of listed companies and their causes
	Yes	No	Summary	
(5)Whether the company creates effective career competence development training program for employees	✓		(5)Our group implements manager training, core competence and professional ability enhancement related courses every year. Relevant course information will be published on the real-time electronic bulletin board to allow each employee to arrange the career competence development well.	It meets the corporate social responsibility codes of practice of listed companies.
(6)Whether the company establishes relevant consumer rights and interests protection policies and complaint procedures for the process of R&D, purchase, production, operation and service	✓		(6)Our group’s website provides information related to products and services as well as assigns dedicated personnel and e-mail for consumers to submit their complaints..	
(7)Whether the company complies with relevant legal regulations and international criteria on product and service marketing and label	✓		(7)Our group has introduced European Union Environmental Protection Directives (RoHS) to the whole compay. All products meet RoHS regulations and relevant provisions of ISO14001 and REACH. Our main suppliers have all achieved RoHS regulations to devote to the enhancement of corporate social responsibility.	It meets the corporate social responsibility codes of practice of listed companies.
(8)Whether the company evaluates supplier’s records that affected environment and society in the past before working with the supplier	✓		(8)Our group appoints Electronic Industry Code of Conduct (EICC) team to evaluate suppliers regularly.	
(9)Whether the contracts between the company and the main suppliers include the termination and cancellation of the provision of the contract at any time if the supplier is found violating its corporate social responsibility policies and have significant impact on environment and society	✓		(9)All of the suppliers in our group must comply with corporate social responsibility policy. Any matter with significant impact on environment and society will be requested for improvement.	
4. Enhancement of information disclosure (1)Whether the company discloses relevant and reliable corporate social responsibility information on its website or in market observatory post system	✓		Our group discloses the performance of corporate social responsibility in the annual report and explain its corporate social responsibility in the company’s website..	It meets the corporate social responsibility codes of practice of listed companies.
5. If the Company has established corporate social responsibility principles based on “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies”, please describe any discrepancy between the principles and their implementation: None				
6. Other important information to facilitate better understanding of the Company’s corporate social responsibility practices: a. Environmental protection: Our group possesses the certification of ISO14001 Environmental Management System. Our environmental policies are (1) complying and meeting legal regulations and other requirements related to environmental protection; (2) promoting resource recycling and reusing as well as implementing industrial waste reduction in order to achieve pollution prevention; (3) reducing the utilization of hazardous substances and control and manage pollution well as well as devoting to designing and manufacturing green products; (4) preventing accidents and disasters as well as reinforcing disaster prevention exercise. In addition, our company implements garbage recycling & reduction and water & electricity conservation in order to fulfill the awareness of				

Evaluating item	Implementation status			Discrepancies with corporate social responsibility codes of practice of listed companies and their causes
	Yes	No	Summary	
<p>environmental protection for green earth.</p> <p>b. Community participation, social contribution, social service, and social public welfare: Our group donated money to sponsor Chinese National Association of Industry and Commerce Taiwan, Chang Jung Christian University, and TECO Technology Foundation in 2018.</p> <p>c. Consumer's rights and interests: Our company appoints dedicated staff to each customer to provide product inquiry and assistance in order to maintain stable good relationship with customers.</p> <p>d. Human rights: In order to maintain gender equality and human dignity, our company sets up "Regulations for Sexual Harassment Prevention and Punishment" and it was reported to the competent authority for future reference.</p> <p>e. Safety and health: Our groups establishes "Code of Practice for Safety and Health" and other required operation procedures. External institute will be entrusted to carry out labor safety and health inspection every month, drinking water testing every half a year, and lighting, fire fighting, CO2 testing every year as well as implemented comprehensive disinfection on the working environment regularly in order to provide employees a safe and healthy working environment. Employee health examination will be held every year as well as labor safety and health educational training.</p>				
<p>7. If the products or corporate social responsibility reports have received assurance from external institutions, they should state so below: The overseas subsidiaries of our group, Wuxi Creative Sensor Co., Ltd. and Nanchang Creative Sensor Co., Ltd., have passed ISO9001 quality certification and ISO14001 environmental certification.</p>				

(6) Status of the Company's business operation based on integrity and the measures adopted.

Evaluating item	Implementation status			Discrepancies of codes of business operation integrity for listed companies and their causes
	Yes	No	Summary	
<p>1. Formulation of integrity operation policies and propersals</p> <p>(1)Whether the company clearly states its integrity operation policies and methods on its regulations and external documents as well as the promise from Board of Directors and managerial officers for the implementation of the policies</p>	✓		(1) Our group has decided to establish "Code of Operation Integrity" accoding to the resolution at the 19 <sup>th</sup> meetings of the Seventh Board of Directors and the information will be disclosed in the market observatory post system as well as on our company's website.	It meets the code of business operation integrity for listed companies.
<p>(2)Whether the company sets up measures to prevent unethical conduct and clearly specifies operational procedures, behavior guidelines, punishment for violtion and complaint system on each proposal</p>	✓		(2)Our group's "Work Rules", "Management Methods for Business Secret", and "Reward and Purnishment Method" all clearly regulate unethical conduct prevention. Moreover, overseas subsidiaries also establish relevant regulations and implement employee educational training and promoting regularly to make sure they fully understand company's determination on operation integrity, policies, prevention proposals and the consequence of violating unethical conduct.	

Evaluating item	Implementation status			Discrepancies of codes of business operation integrity for listed companies and their causes
	Yes	No	Summary	
(3)Whether the company adopts any prevention measure on the business activities with higher risk of unethical conduct on the provision of Article 7-2 “Code of Business Operation Integrity in the Listed Companies” or within other business scope	✓		(3)Our group establishes “Work Rules” and a series of ethical systems to specify employees’ unethical conduct prevention, like must not accept money or finance gifts from customers or suppliers. Any employee who violates above regulations and involves with serious plots, our company is entitled to discharge the employee from work without any notice and the employee should compensate the loss caused to the company.	It meets the code of business operation integrity for listed companies.
2. Fulfillment of integrity operation (1)Whether the company evaluates the integrity records of people dealing with and whether the provision of integrity conduct is clearly specify on the contract signed between both parties	✓		(1)Our group verifies the financial and credit status of our ERP customers regularly to avoid any transaction with those who have unethical conduct records. Relevant provisions of integrity conduct are clearly stated on the business contract.	It meets the code of business operation integrity for listed companies.
(2)Whether the company has established a exclusively (concurrently) dedicated unit that belongs to Board of Directors to promote corporate integrity operation as well as reported to Board of Directors the implementation status regularly  (3)Whether the company establishes the policy to avoid conflict of interest and provide proper channel for declaration as well as implements it	✓  ✓		(2)Our group appoints the audit room as the exclusively dedicated unit for integrity operation to report to Board of Directors regularly for the implementation status as well as supervise Section of Human Resource to deal with the revision, implementation, explanation, and advisory service related to integrity operation.  (3)The service contract that is signed between our group and our employees includes non-compete clause. Overseas subsidiaries set up conflict of interests’ declaration system for employees to submit the statement. If any discussion on the Board of Directors Meeting is related to any director and the legal person it represents, the director should try to avoid it according to law in order to achieve conflict of interests prevention. Besides, our group also establish employee suggestions and “employee complaint management system”in order to provide proper channels for employees to provide their opinions and suggestions..	It meets the code of business operation integrity for listed companies.
(4)Whether the company has established effective accounting system, internal control system, and regular audit by internal auditing units or entrusted CPA to implement auditing in order to fulfill integrity operation  (5)Whether the company holds internal and external educational training for integrity operation regularly	✓  ✓		(4)In order to ensure the implementation of integrity operation, our group has established effective accounting system and internal control system according to law. Internal auditing personnel will also audit the compliance status of accounting system and internal control system regularly as well as report to Board of Directors every quarter.  (5)Our group holds courses regularly to promote and make sure employees clearly understand the concept and regulation of integrity operation.	It meets the code of business operation integrity for listed companies.

Evaluating item	Implementation status			Discrepancies of codes of business operation integrity for listed companies and their causes
	Yes	No	Summary	
<p>3. The operation of company's reporting system</p> <p>(1) Whether the company establishes actual reporting and rewarding system and sets up convenient reporting channels as well as assigned dedicated personnel to deal with the reported staff</p> <p>(2) Whether the company establishes standard operation procedure for investigation of accepted reporting matters as well as relevant confidential mechanism</p> <p>(3) Whether the company adopts measures to protect the informant from suffering improper handling due to reporting</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(1) Our group establishes "Handling method of illegal or unethical conduct reporting or matters related to unethical conduct". Dedicated email and phone line are established as well as assign dedicated personnel to handle different issues. Section of Human Resource is responsible to carry out reward and punishment to the reported matters according to the investigation results.</p> <p>(2) Our group handles reporting matters with confidentiality and relevant confidentiality related to job duty is also clearly specified on the contract.</p> <p>(3) Our group adopts strict procedures to keep the informant's relevant information confidential. The informant won't suffer improper handling and unfair treatment due to the reporting.</p>	<p>It meets the code of business operation integrity for listed companies.</p>
<p>4. Reinforcement of information disclosure</p> <p>(1) Whether the company discloses the content and promotion performance of the integrity operation principles on its corporate website and in the market observatory post system</p>		<p>✓</p>	<p>Our group establishes company website to disclose general situation of the group, product information and financial information. All the information will be disclosed in the market observatory post system in a timely and open approach in order to conduct business activities fairly and transparently.</p>	<p>Our company will handle it timely according to the future demands or legal regulations.</p>
<p>5. If the Company has established principles of integrity operation based on "Integrity Operation Principles for Listed Companies", please describe any discrepancy between the principles and their implementation: None</p>				
<p>6. Other important information to facilitate better understanding of the Company's operation of integrity operation: (such as company discusses the revision of its integrity operation principles)</p> <p>Our group arranges directors and supervisors to participate in relevant educational training for integrity operation and corporate governance. The behaviors of competition carried out by directors, supervisors, and managers should be submitted to Shareholder Meeting or Board of Directors for approval.</p>				

- (7) If the Company has established corporate governance principles and related guidelines, the means of accessing this information should be disclosed: Please refer to our company's website [www.csi-sensor.com.tw](http://www.csi-sensor.com.tw) and [Market Observation Post System mops.tse.com.tw](http://Market Observation Post System mops.tse.com.tw).
- (8) The Company should also disclose other significant information which may improve the understanding of its governance and operation: Please refer to our company's website [www.csi-sensor.com.tw](http://www.csi-sensor.com.tw) and [Market Observation Post System mops.tse.com.tw](http://Market Observation Post System mops.tse.com.tw).
- (9) Implementation status of internal control system
- a. Declaration on internal control system

Creative Sensor Inc.

Declaration on Internal Control System

Date: March 25<sup>th</sup>, 2019

In 2018, the Company conducted an internal audit in accordance with its Internal Control Regulation and hereby

declares as follows:

1. The company acknowledges and understands that the establishment, enforcement and preservation of the internal control system are the responsibilities of the Board and managerial officers, and that the company has already established such a system. The purpose is to provide reasonable assurance to the effectiveness and efficiency of business operations (including profitability, performance and security of assets) as well as report the goal achievement that is with reliability, timeliness, transparency and compliance with relevant regulatory requirements.
2. There are inherent limitations to even the most well designed internal control system. As such, an effective internal control system can only reasonably ensure the achievement of the aforementioned goals. Moreover, the operating environment and situation may change, impacting the effectiveness of the internal control system. The internal control system of the Company features a self-monitoring mechanism. Once identified, any deficiency will be rectified immediately.
3. The Company determines the effectiveness of the internal control system in design and enforcement in accordance with the “Regulations Governing Establishment of Internal Control Systems by Public Companies” (hereinafter referred to as “the Regulations”). The Regulations are instituted for judging the effectiveness of the design and enforcement of the internal control system. There are five components of effective internal control as specified in the Regulations with which the procedure for effective internal control is measured, namely: (1) Control Environment, (2) Risk Evaluation, (3) Control Operation, (4) Information and Communication, and (5) Monitoring. Each of the elements in turn contains certain audit items. Refer to the Regulations for details.
4. The Company has adopted the aforementioned internal control system for an internal audit on the effectiveness of the design and enforcement of the internal control system.
5. Based on the aforementioned audit findings, the Company holds that it has reasonably preserved the achievement of the aforementioned with the internal control system as of December 31, 2018 (including the monitoring over the subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and compliance with relevant regulatory requirements, and that the design and enforcement of internal control are effective.
6. This Declaration shall form an integral part of the annual report and prospectus of the company and will be publicly announced. If any fraudulent information, concealment or unlawful practices are discovered in the content of the aforementioned information, the Company shall be held liable under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
7. This Declaration was approved by the Board on March 25, 2019 in the presence of 7 directors, who concurred unanimously. None of them holds objection and it is hereby certified.

Creative Sensor Inc.

President: IKUJIN KO

General Manager: Yang Chi-Chang

b. Company which consigns accountants to audit its internal control system shall disclose the examination report by accountants: None.

- (10) Penalty on the Company and its personnel, punishment imposed by the Company on personnel in violation of internal control system regulations, major deficiencies and improvement in the most recent annual year and during the current fiscal year up to the date of publication of the annual report: None.
- (11) Important resolutions of shareholders meeting and board meeting in most recent annual year and during the current fiscal year up to the date of publication of the annual report:

a. Important resolution and its implementation at shareholders meeting in the most recent annual year:

Date	Resolution	Implementation status
06.27.2018	Recognition of 2017 operation report and financial statements	Passed operation report and financial statements after votes.
	Recognition of 2017 earnings distribution	1. Passed earnings distribution after votes. 2. NT\$1.6 cash dividends were allocated to each share. Ex-dividend date was on July 25 <sup>th</sup> , 2018 and the distribution date of cash dividend was on August 16 <sup>th</sup> , 2018.
	Passed the amendments of the Company's "Articles of Incorporation".	The amendments to the Article of Incorporation were passed after votes.
	Passed the establishment of the Company's "Code of Practice for Corporate Social Responsibility".	Passed the left proposal without any objection of the attended shareholders after being consulted by the chairman.
	Passed the establishment of the Company's "Code of Integrity Operation" and "Operational Procedure and Behavior Guidelines for Integrity Operation".	Passed the left proposal without any objection of the attended shareholders after being consulted by the chairman.
	Passed the cancellation of limitation on non-competition for directors and its representatives in our company	The proposal was passed after votes.

b. Important resolutions at Board of Directors meeting in most recent annual year and during the current fiscal year up to the date of publication of the annual report:

Date	Important resolution	Objection or opinion reserved by independent directors
03.21.2018	1. Passed 2017 operation report and financial statements. 2. Passed the Company's 2017 remuneration distribution for directors, supervisors, and employees. 3. Passed 2017 earnings distribution. 4. Passed the Company's 2017 "Declaration on Internal Control System". 5. Passed the nomination of candidates for independent directors. 6. Passed the cancellation of limitation on non-competition for the 8 <sup>th</sup> Board of Directors and their representatives. 7. Passed the holding of 2018 general shareholders meeting. 8. Passed the revision of the Company's "Code of Practice for Corporate Social Responsibility".	No comments No comments No comments No comments Discussion-avoidance No comments No comments No comments
05.11.2018	1. Passed the qualification reviewing of candidates for independent directors. 2. Passed the amendments of the Company's "Articles of Incorporation". 3. Passed the revision of the Company's "Code of Integrity Operation"	Discussion-avoidance No comments No comments

Date	Important resolution	Objection or opinion reserved by independent directors
	and “Operational Procedure and Behavior Guidelines for Integrity Operation”. 4. Passed the holding of 2018 general shareholders meeting.	No comments
07.06.2018	1. Passed the election of President. 2. Passed the recruitment of the 4 <sup>th</sup> salary remuneration committee members. 3. Passed the personnel appointment of the higher management in our company.	No comments Discussion-avoidance No comments
11.09.2018	1. Passed the Company’s 2019 audit plans. 2. Passed the personnel appointment of the higher management in our company.	No comments No comments
11.26.2018	1. Passed the Company’s 2019 budget. 2. Passed the renewal contract of bank financing in 2019 in our company. 3. Passed the Company’s CPA’s independence and competency evaluation.	No comments No comments No comments
03.25.2019	1. Passed 2018 operation report and financial statements. 2. Passed the Company’s 2018 remuneration distribution for directors, supervisors, and employees. 3. Passed 2018 earnings distribution. 4. Passed the Company’s 2018 “Declaration on Internal Control System”. 5. Passed the Company’s change of CPA for financial statements. 6. Passed the revision of the Company’s “Procedures for Acquisition or Disposal of Assets”. 7. Passed the holding of 2019 general shareholders meeting.	No comments No comments No comments No comments No comments No comments No comments
05.08.2019	1. Passed the revision of the Company’s “Organizational Regulations of Salary Remuneration Committee”. 2. Passed the revision of the Company’s “Rules and Procedures of Board of Directors Meetings”. 3. Passed the revisio of the Company’s “Operatinal Procedure of Lending the Capital to Other People” and “Operational Procedure of Endorsemenet and Guarantee”. 4. Passed the revision of holding 2019 general shareholders meeting.	No comments No comments No comments No comments

(12) Main content of recorded or written opinions from directors or supervisors on passed important resolutions by the Board of Directors in the most recent year up to the date of publication of the annual report:

Date	Session	Content	Resolution	Opinion handling
3.25.2019	The 5 <sup>th</sup> time and the 8 <sup>th</sup> year	Revision of the Company’s “Procedures for Acquisition or Disposal of Assets”.	Approved	The term of definition of “Financial Holding Company Act: Financial Institution Merging Act” was deleted according to the suggestion done by supervisors..

(13) Summary for resignation and dismissal of personnel related to financial statements (including Chairman, President, accounting supervisors and internal audit supervisors) in the most recent year up to the date of publication of the annual report:

Title	Name	On-board date	Discharged date	Reasons for resignation or discharged
Vice General Manager	Chen Chien-Lung	02.15.2017	01.24.2019	Personal career planning
Assistant Vice President	Wang Yuan-Sheng	09.15.2014	07.06.2018	Personal career planning

#### 4. Information of Fees to CPA

Name of accounting firm	Name of accountant	Duration of audit	Remark
PricewaterhouseCoopers	Chang Shu-Chiung   Tseng Hui-Chin	01.01.2018~12.31.2018	

Note: If there is any change on accountant or accounting firm in our company for this fiscal year, it should be listed separately on the column for the duration of audit as well as stated the reason on Remark.

Unit: NT\$ thousand

Scale of amount \ Fee category		Audit fee	Non-audit fee	Total
1	Below NT\$2,000 thousand		✓	
2	NT\$2,000 thousand to NT\$4,000 thousand	✓		✓
3	NT\$4,000 thousand to NT\$6,000 thousand			
4	NT\$6,000 thousand to NT\$8,000 thousand			
5	NT\$8,000 thousand to NT\$10,000 thousand			
6	NT\$10,000 thousand or above			

- (1) Non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm are equivalent to one quarter of the audit fees paid thereto:

Unit: NT\$ thousand

Name of accounting firm	Name of accountant	Audit fee	Non-audit fee					Duration of audit	Remark
			Design of system	Business registratio	Human Resources	Others (Note 2)	Subtotal		
Pricewaterhouse Coopers	Chang Shu-Chiung	3,250	0	0	0	72	72	01.01.2017~12.31.2017	The non-audit fee is mainly the service fee declared by subsidiaries.
	Tseng Hui-Chin								
KPMG	Yeh Wei-Tun	0	0	0	0	370	370	107.01.01~107.12.31	The non-audit fee is caused by transfer pricing and the main report of the group.
	Chen Tasi-Huang								

Note 1: If there is any change on accountant or accounting firm in our company for this fiscal year, it should be listed separately on the column for the duration of audit as well as stated the reason on Remark. The information of the audit fee and non-audit fee paid should be disclosed accordingly.

Note 2: Non-audit fee should be listed according to the service item provided. If the "Others" listed on the non-audit fee is more than 25% of the total non-audit fee, the content of the service should be specified on the Remark.

- (2) If accounting firm was replaced and if the audit fees paid for the fiscal year in which such replacement took place are lower than those for the previous year, the reduction in the amount of audit fees, percentage of reduction and the reason(s) should be disclosed: None.
- (3) The the audit fees paid for the current year are lower than those for the previous fiscal year by 15% or more: None

5. Information of Changing CPAs:

(1) Regarding the former CPA:

Date of change	Since the financial report for quarter one in 2019		
Reason for the change and its description	In order to comply with the relevant provisions on Article 46 of Auditing Standard, CPAs for financial reports were changed from Accountant Chang Shu-Chiung and Accountant Tseng Hui-Chin to Accountant Chang Shu-Chiung and Accountant Lin Chun-Yao.		
Explanation of whether it is terminated or not accepted the appointment by the appointer or the accountant	Related party	Accountant	Appointer
	Situation		
	Initiative termination of the appointment	Not applicable	Not applicable
	No longer accept (continue) the appointment	Not applicable	Not applicable
Issued an audit report during the most recent 2 years containing an opinion other than an unqualified opinion	None		
Whether there was any disagreements between the securities firm and the former CPA	Yes		Accounting principles or practices
			Financial report disclosure
			Auditing scope or procedure
			Others
	No	V	
	Explanation		
Other disclosure	None		

(2) Regarding the successor CPA:

Name of the accounting firm	Pricewaterhouse Coopers
Name of the CPAs	Accountant Chang Shu-Chiung and Accountant Lin Chun-Yao
Date of engagement	Since the financial report for quarter one in 2019
Prior to the formal engagement, consultations and the consultation results for accounting principles to a specific transaction or the type of audit opinion that might be rendered on the financial reports	None
Written views from the successor CPA regarding the matters on which the securities firm disagreed with the former CPA	None

(3) The reply letter from the former CPA: None.

6. If the Chairman, President and Financial or Accounting Manager of the Company who had Worked for the Independent Auditor or the Related Party in the Past Year, the name, title and duration should be disclosed: None.

7. State of Changes to Shareholdings and Pledge of Stock Rights Held by Directors, Supervisors, Managers and Major Shareholders who Hold More Than 10% Share Proportion in the Latest Annual Year and Until the Printing Date of the Annual Report.

## (1) Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders

Unit: Share

Title	Name	2018		As of April 26 <sup>th</sup> , 2019	
		Holding Increase (decrease)	Pledged Holding Increase (decrease)	Holding Increase (decrease)	Pledged Holding Increase (decrease)
Director	TECO Image Systems Co.,Ltd.	0	0	0	0
Director	IKUJIN KO	0	0	0	0
Director	Hsu Chiang	0	0	0	0
Director	TECO Electric & Machinery Co., Ltd.	0	0	0	0
Director	Lien Chao-Chih	0	0	0	0
Director	KROM Electronics Co., Ltd.	0	0	0	0
Director	Hsieh Ying-Sheng	0	0	0	0
Director	Tung An Investment Co., Ltd.	0	0	0	0
Director	Wei Yao-Ming	0	0	0	0
Independent Director	Wang Hsiu-Ming	0	0	0	0
Independent Director	Wang Wei	0	0	0	0
Supervisor	Kuang Yuan Corporation	0	0	0	0
Supervisor	Wu Hui-Mei	0	0	0	0
Supervisor	Hsu Ko-Hisn (Note 1)	0	0	0	0
Supervisor	Lin Hung-Ming (Note 2)	0	0	0	0
Supervisor	Chang Min-Yu	0	0	0	0
General Manager	Yang Chi-Chang	0	0	0	0
Vice General Manager	Chen Chien-Lung (Note 3)	0	0	0	0
Vice General Manager	Chen Ho-Hsin	0	0	0	0
Vice General Manager	Chiu Yao-Te (Note 4)	0	0	0	0
Vice Assistant President	Chen Hung-Chi	0	0	0	0
Vice Assistant President	Ou Sheng-Chih (Note 5)	0	0	0	0
Vice Assistant President	Wang Yuan-Sheng (Note 6)	0	0	0	0
Vice Assistant President	Yen Chun-Mei (Note 7)	0	0	0	0

Note 1: Discharged from the post of supervisor on February 22<sup>nd</sup>, 2018.

Note 2: Directors and supervisors were re-elected at the General Shareholder Meeting in 2018 and the new supervisors took the post on June 27<sup>th</sup>, 2018.

Note 3: Resigned on January 24<sup>th</sup>, 2019.

Note 4: Took the post on August 6<sup>th</sup>, 2018 and was appointed Vice General Manager on November 9<sup>th</sup>, 2018.

Note 5: Transferred from advisor to Vice Assistant President on July 6<sup>th</sup>, 2018 and was appointed Director of Finance.

Note 6: Discharged from the post of Director of Finance and Accounting on July 6<sup>th</sup>, 2018 and resigned on July 20<sup>th</sup>, 2018.

Note 7: Took the post on July 6<sup>th</sup>, 2018 and was appointed Director of Accounting.

(2) Information regarding the transfer of shares with the counterparty being the related party: None.

(3) Information regarding the pledge of shares with the counterparty being the related party: None.

8. Information Disclosing the Spouse, Kinship within the Second Degree and Relationship between any of the Top Ten Shareholders:

April 26<sup>th</sup>, 2019

Unit: Share %

Name (Note 1)	Shareholding		Spouse & minor shareholding		Shareholding by nominee arrangement		Top 10 sharholders that are stakeholders among one another or are spouses or within two degrees of kinship; list the title/ name and relation		Remark
	Shares	%	Shares	%	Shares	%	Title or (Name)	Relation	
TECO Image Systems Co.,Ltd, Rep.: IKUJIN KO	21,928,260	17.26%	0	0	0	0	Tung An Investment	The relation between the President at Tung An Investment and the President at TECO Image System are father and son.	No
							Tung Yuan International Investment	1. The relation between the President at Tung Yuan International Investment and the President at TECO Image System are father and son. 2. Tung Yuan International Investment is a director of TECO Image systems.	
							Kuang Yuan Corporation	Kuang Yuan Corporation is the supervisor of TECO Image Systems'.	
Tung An Investment Co., Ltd. Rep.: Huang Mao-Hsiung	7,913,310	6.23%	0	0	0	0	TECO Image Systems	The relation between President at TECO Image Systems and the President at Tung An Investment are father and son.	No
							Tung Yuan International Investment	1. Tung Yuan International Investment and Tung An Investmetn share the same President. 2. Tung Yuan International Investment is the supervisor of Tung An Investment's.	
							TECO Electric & Machinery	1. Tung An Investment is the company re-invested by TECO Electric & Machinery with equity method. 2. TECO Electric & Machinery is a director of Tung An Investment's.	
Northern America Entrusted Hermes Investment Funds (Cayman Islands)	6,909,000	5.44%	0	0	0	0	No	No	No
Tung Yuan International Investment Co., Ltd. Rep.: Huang Mao-Hsiung	4,326,447	3.41%	0	0	0	0	TECO Image Systems	The relation between President at TECO Image Systems and the President at Tung Yuan International Investment are father and son.	No
							Tung An Investment	Tung An Investment and Tung Yuan International Investment share the same President.	
							TECO Electric & Machinery	1. Tung Yuan International Investment is the company re-invested by TECO Electric & Machinery with equity method. 2. TECO Electric & Machinery is a director of Tung Yuan International Investment's.	
Creative Sensor Trust Account entrusted to Yuanta Commercial Bank	3,787,000	2.98%	0	0	0	0	No	No	No
Fidelity Funds Investment Account entrusted to Standard Chartered Bank	3,110,000	2.45%	0	0	0	0	No	No	No
TECO Electric & Machinery Co., Ltd Re.: Chiu Chun-Chih	2,137,044	1.68%	0	0	0	0	Tung An Investment	Tung An Investment is the company re-invested by TECO Electric & Machinery with equity method.	No
							Tung Yuan International Investment	Tung Yuan International Investment is the company re-invested by TECO Electric & Machinery with equity method.	
							Kuang Yuan Corporation	Kuang Yuan Corporation is a director of TECO Electric & Machinery's.	
FidelityAsia Value Funds Investment Account entrusted to JPMorgan Chase Bank, N.A., Taipei Branch	1,919,000	1.51%	0	0	0	0	No	No	No
Hou A-Chung	1,637,000	1.29%	0	0	0	0	No	No	No
DFA Emerging Marets Core Securities Investment Account entrusted to Citi Bank	1,138,000	0.90%	0	0	0	0	No	No	No

Note 1: All of the top ten shareholders should be listed and the name of corporate shareholder and its representative's name should be provided if it is a corporate shareholder.

Note 2: The calculation of shareholding ratio refers to the calculation under shareholder's name, spouse's name, minor children's name or in other people's name.

9. The Shareholding of the Company, Director, Supervisor, Management and the Business that is Controlled by the Company Directly or Indirectly on the Invested Company, calculated for the consolidated shareholding ratio.

March 31, 2019; Unit: Thousand Shares

Reinvested entities	Investment by the Company		Investments by directors, supervisors, managers and directly or indirectly controlled enterprises		Total investment	
	Shares	%	Shares	%	Shares	%
Creative Sensor Inc.(BVI)	29,415	100%	0	0	29,415	100%
Creative Sensor (USA) Co	100	100%	0	0	100	100%
Creative Sensor Co., LTD. (Hong Kong)	0	0	29,501	100%	29,501	100%
Wuxi Creative Sensor Co., Ltd.	0	0	Investment certificate	100%	Investment certificate	100%
Nanchang Creative Sensor Co., Ltd	0	0	Investment certificate	100%	Investment certificate	100%

The long-term investments are 100% possessed by the Company, and there is no involvement of shareholding of the company, director, supervisor, management, and the business that is controlled by the company directly or indirectly on the same invested company.

## IV. Capital Overview

### 1. Capital and Shares

#### (1) Source of Capital Stock

April 26<sup>th</sup>, 20196

Unit: NT\$ thousand; thousand shares

Month/Year	Issue price (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount	Shares	Amount	Source of capital	Capital increased by assets other than cash	Others
06.1998	10.0	4,000	40,000	1,000	10,000	Establishment	None	-
05.1999	10.0	6,000	60,000	6,000	60,000	Capital increased by cash in NT\$50,000,000	None	-
06.2000	12.5	72,000	720,000	36,000	360,000	Capital increased by cash in NT\$300,000,000	None	Note 1
06.2002	12.5	72,000	720,000	50,000	500,000	Capital increased by cash in NT\$140,000,000	None	Note 2
11.2002	18.0	72,000	720,000	70,000	700,000	Capital increased by cash in NT\$200,000,000	None	Note 3
07.2004	10.0	112,900	1,129,000	78,239	782,390	Capitalization of retained earnings in NT\$ 82,390,000	None	Note 4
06.2005	10.0	112,900	1,129,000	87,331	873,316	Capitalization of retained earnings in NT\$90,926,000	None	Note 5
11.2005	43.0	112,900	1,129,000	98,968	989,686	Capital increased by cash in NT\$116,370,000	None	Note 6
03.2006	55.8	112,900	1,129,000	99,821	998,216	Domestic unsecured corporate bond transferred to 853,030 shares of ordinary stock.	None	-
08.2006	10.0	160,000	1,600,000	123,027	1,230,277	Capitalization of retained earnings in NT\$232,060,000	None	Note 7
01.2007	36.23	160,000	1,600,000	123,560	1,235,603	Domestic unsecured corporate bond transferred to 532,690 shares of ordinary stock.	None	-
04.2007	36.23	160,000	1,600,000	126,663	1,266,627	Domestic unsecured corporate bond transferred to 3,102,351 shares of ordinary stock.	None	-
07.2007	36.23	160,000	1,600,000	126,682	1,266,820	Domestic unsecured corporate bond transferred to 19,320 shares of ordinary stock.	None	-
08.2008	10.0	160,000	1,600,000	130,000	1,300,000	Capitalization of retained earnings in NT\$33,180,000	None	Note 8
02.2009	10.0	160,000	1,600,000	127,000	1,270,000	Cancellation of treasury stock in NT\$30,000,000	None	Note 9
04.2010	30.1	160,000	1,600,000	127,035	1,270,350	Employee stock option certificates transferred to 35,000 shares of ordinary stock	None	-
04.2011	28.94	160,000	1,600,000	127,055	1,270,550	Employee stock option certificates transferred to 20,000 shares of ordinary stock	None	-

Note 1: Approval number of new stock issuance by increased cash capital: (89) Tai Tsai Cheng (1) Letter No.: 520533 issued by Securities and Futures Commission, Ministry of Finance on June 23<sup>rd</sup>, 2000.

Note 2: Approval number of new stock issuance by increased cash capital: (91) Tai Tsai Cheng (1) Letter No.: 111551 issued by Securities and Futures Commission, Ministry of Finance on March 25<sup>th</sup>, 2002.

Note 3: Approval number of new stock issuance by increased cash capital: (91) Tai Tsai Cheng (1) Letter No.: 0910161006 issued by Securities and Futures Commission, Ministry of Finance on November 14<sup>th</sup>, 2002.

Note 4: Approval number of capitalization by retained earnings: (93) Tai Tsai Cheng (1) Letter No.: 0930127004 issued by Securities and Futures Commission, Ministry of Finance on June 17<sup>th</sup>, 2004.

Note 5: Approval number of capitalization by retained earnings: Chin Kuan ChengYi Letter No.: 0940122245 issued by Financial Supervisory Commission, Executive Yuan on June 2<sup>nd</sup>, 2005.

Note 6: Approval number of new stock issuance by increased cash capital: Chin Kuan ChengYi Letter No.: 0940149562 issued by Financial Supervisory Commission, Executive Yuan on November 25<sup>th</sup>, 2005.

Note 7: Approval number of capitalization by retained earnings: Chin Kuan ChengYi Letter No.: 0950127763 issued by Financial Supervisory Commission, Executive Yuan on June 30<sup>th</sup>, 2006.

Note 8: Approval number of capitalization by retained earnings: Chin Kuan ChengYi Letter No.: 0970033055 issued by Financial Supervisory Commission, Executive Yuan on July 2<sup>nd</sup>, 2008.

Note 9: Approval number of treasury stock share cancellation: Chin Kuan ChengYi Letter No.: 0970069736 issued by Financial Supervisory Commission, Executive Yuan on December 19<sup>th</sup>, 2008.

April 26<sup>th</sup>, 2019  
Unit: Thousand shares

Share type	Authorized capital			Remark
	Issued shares (Note 1)	Un-issued shares (Note 2)	Total shares	
Common stock	127,055	32,945	160,000	-

Note 1: Stocks of listed companies.

Note 2: Un-issued shares include reservation for convertible bond.

Note 3: Information related to offering and issuance with shelf registration system: Not applicable..

(2) Shareholder structure

April 26<sup>th</sup>, 2019

Shareholder structure Quantity	Governmental agencies	Financial institutions	Other judicial person	Foreign institutions & natural persons	Domestic natural persons	Total
No. of shareholders	0	0	126	70	25,492	25,688
Shareholding(shares)	0	0	42,169,651	21,086,932	63,798,417	127,055,000
Percentage (%)	0.00%	0.00%	33.19%	16.60%	50.21%	100%

(3) Shareholding Distribution Status

April 26<sup>th</sup>, 2019  
Unit: share

Class of shareholding	No. of shareholders	Shareholding(shares)	Percentage
1 to 999	16,455	339,180	0.27%
1,000 to 5,000	6,642	14,209,439	11.18%
5,001 to 10,000	1,331	10,023,522	7.89%
10,001 to 15,000	440	5,289,537	4.16%
15,001 to 20,000	269	4,921,043	3.87%
20,001 to 30,000	210	5,240,888	4.12%
30,001 to 50,000	155	6,145,618	4.84%
50,001 to 100,000	96	6,655,853	5.24%
100,001 to 200,000	47	6,541,657	5.15%
200,001 to 400,000	21	5,828,672	4.59%
400,001 to 600,000	8	3,989,000	3.14%
600,001 to 800,000	3	2,229,530	1.75%
800,001 to 1,000,000	1	836,000	0.66%
1,000,001 or above	10	54,805,061	43.13%
Total	25,688	127,055,000	100.00%

Note: Our Company does not issue preferred stock.

(4) List of Major Shareholders: shareholders with shareholding ratio of top 10%  
April 26<sup>th</sup>, 2019

Shareholder's name	Shareholding	Shares	Percentage (%)
TECO Image Systems Co.,Ltd.		21,928,260	17.26%
Tung An Investment Co., Ltd.		7,913,310	6.23%
Northern America Entrusted Hermes Investment Funds (Cayman Islands)		6,909,000	5.44%
Tung Yuan International Investment Co., Ltd.		4,326,447	3.41%
Creative Sensor Trust Account entrusted to Yuanta Commercial Bank		3,787,000	2.98%
Fidelity Funds entrusted to Standard Chartered Bank		3,110,000	2.45%
TECO Electric & Machinery Co., Ltd.		2,137,044	1.68%
Fidelity Asia Value Funds Investment Account entrusted to JPMorgan Chase Bank, N.A., Taipei Branch		1,919,000	1.51%
Hou A-Chung		1,637,000	1.29%
DFA Emerging Markets Core Securities Investment Account entrusted to Citi Bank		1,138,000	0.90%

(5) Share Prices for the Past Two Fiscal Years, together with the Company's Net Worth per Share, Earnings per Share, Dividends per Share, and Related Information

Unit: NT\$; thousand shares

Item	Year		2017	2018	Current fiscal year up to March 31 <sup>st</sup> , 2019 (Note 8)
	Market price per share (Note 1)	Highest		28.95	28.00
	Lowest		20.85	17.80	19.80
	Average		24.06	24.91	21.49
Net worth per share (Note 2)	Before distribution		26.79	25.49	26.54
	After distribution		25.19	23.89	-
Earnings per share	Weighted average shares		127,055	127,055	127,055
	Earnings per share (Note 3)	Before adjustment	1.65	1.62	0.31
		After adjustment	-	-	-
Dividends per share	Cash dividend		1.6	1.3	
	Stock grants	Before adjustment	-	-	-
		After adjustment	-	-	-
	Accumulated undistributed dividends (Note 4)		-	-	-
Return on investment	Price-earnings ratio (Note 5)		14.58	14.21	-
	Price-dividend ratio (Note 6)		15.04	17.71	-
	Cash dividend yield rate (Note 7)		6.65%	5.65%	-

Note 1: The highest and the lowest market price of the ordinary stock in each fiscal year should be listed and the average market price should be calculated according to the turnover and volume in each year.

Note 2: It should be based on the issued shares by the end of the year and be listed according to the distribution on the Board of Directors' resolution in the next fiscal year.

Note 3: If the stock grants cause the demand of tracing back for adjustment, the earnings per share before and after adjustment should both be listed.

Note 4: If condition of equity securities issuance specifies the undistributed dividends of the fiscal year can be accumulated to the fiscal year that is with surplus, the accumulated unpaid stock dividends up to the end of current fiscal year should be disclosed.

Note 5: Price-earnings (P/E) ratio = Average market price / Earnings per share

Note 6: Price-dividend (P/D) ratio = Average market price / Cash dividends per share

Note 7: Cash dividend yield rate = Cash dividend per share / Average market price

Note 8: The consolidated financial statements for quarter one in 2018 have been audited by CPAs.

(6) Company's Dividend Policy and Status of Implementation

a. Dividend policy regulated in Articles of Incorporation

The company should allocate the surplus profits (if any) in the following orders:

i. Taxes withholding.

ii. Deficit coverage.

iii. Set aside 10% as legal reserve but it will not be limited if the legal reserve has accumulated to the total capital of the company.

iv. Allowance or reversal for special capital reserve according to the regulation from the competent authority.

v. If there is any remaining amount after deducting the amount from above i to iv, it should be consolidated with the accumulated undistributed earnings and drafted the surplus distribution proposal by Board of Directors for Shareholder's Meeting to make resolution.

The operation of our company is classified as the industry with steady growth. In consideration of the plans for plant expansion and re-investment in the future, the distribution of the earnings is based on the issuance of 80% of shareholder dividends. The ratio of cash dividends for the above shareholder dividend distributed in each fiscal year is based on 50% but must not be lower than 5%.

b. The implementation of the dividend distribution proposal at the shareholder meeting is as below: (but it hasn't been approved by Board of Shareholders)

The proposal of surplus distribution in 2018 has been approved by Board of Directors on March 25<sup>th</sup>, 2019. It is planned to distribute shareholder dividends of NT\$165,171,500; that is cash dividend per share is NT\$1.3.

(7) Effect upon Business Performance and Earnings Per Share of Any Stock Dividend

Distribution Proposed or Adopted at the Most Recent Shareholders' Meeting: Not applicable.

(8) Employee Dividends and Director and Supervisor Remuneration:

a. The percentages or ranges with respect to employee dividends and director/supervisor compensation, as set forth in the Company's Articles of Incorporation:

If there are profits in the fiscal year, the Company should allocate 5%-15% of the year's profit as employee bonus as well as less than 5% as the remuneration to directors and supervisors. However, if the company suffers from the accumulated loss in the previous fiscal year, the profit of the year should be used to cover the loss before allocating employee dividends and remuneration to directors and supervisors. These should be allocated based on the balanced amount in proportion.

b. The basis for estimating employee dividends and director and supervisor remuneration for the current period, the basis for calculating the number of shares

distributed as stock dividends, the actual amount distributed and the variance with the estimates as well as accounting treatment: If there is a variance between the estimated and actual distributed amounts, the variance shall be regarded as the profit (loss) for 2019 based on the changes in accounting estimates.

c. Information on dividend distribution approved by the Board of Directors:

- i. If there is variance between the employee dividends and remuneration for directors and supervisors distributed in cash or stock and the annual estimated recognition amount, the variance amount, reasons and handling status should be disclosed:

The proposal for 2018 directors, supervisors, and employee dividends was approved by the Board of Directors on March 25<sup>th</sup>, 2019. NT\$9,260,989 will be distributed to the remuneration to directors and supervisors and NT\$27,782,966 will be distributed to employee dividends. All of these will be issued in cash and it is planned to report to the Board of Shareholders on June 25<sup>th</sup>, 2019.

- ii. The amount of stock dividends distributed to employees and the ratio of net income in individual or separate financial report as well as the total amount of employee dividends: No stock dividends allocated.

d. If there is a variance between the actual implementation of distribution to employees, directors, and supervisors (including shares, amount, and stock price allocated) in the previous fiscal year and recognized distribution to employees, directors and supervisors, the variance amount, reasons and handling status should be specified:

Unit: NT\$ thousand

Item	Object	Amount approved by Board of Directors	Actual amount distributed	Distribution method
Employee dividends	Employees in our company	28,352,618	28,352,618	Cash
Remuneration to directors and supervisors	Our Company's directors and supervisors	9,450,873	9,450,873	
合計		37,803,491	37,803,491	

(9) Status of Buyback of Treasury Stock: None

2. Status of Corporate Bonds: None

3. Status of Preferred Stocks: None.

4. Status of Depository Receipts: None

5. Status of Employee Stock Options: None

6. Status of Status of New Restricted Employee Shares Compensation: None

7. Status of Status of New Shares Issuance in Connection with Mergers and Acquisitions:

None

8. Implementation of Capital Utilization: None.

## V. Operation Overview

### I. Business Activities

#### 1. Business Scope

##### A. Company's main business content

- (1) Electronic Parts and Components Manufacturing
- (2) Computers and Computing Peripheral Equipments Manufacturing
- (3) Wired Communication Equipment and Apparatus Manufacturing
- (4) Telecommunication Equipment and Apparatus Manufacturing
- (5) Restrained Telecom Radio Frequency Equipments and Materials Manufacturing
- (6) Photographic and Optical Equipment Manufacturing
- (7) International Trade
- (8) Restrained Telecom Radio Frequency Equipments and Materials Import
- (9) Wholesale of Electronic Materials
- (10) Wholesale of Computing and Business Machinery Equipment
- (11) Wholesale of Telecom Instruments
- (12) Wholesale of Precision Instruments
- (13) Retail Sale of Electronic Materials
- (14) Retail sale of Computing and Business Machinery Equipment
- (15) Retail Sale of Telecom Instruments
- (16) Retail Sale of Precision Instruments
- (17) Software Design Services
- (18) Precision Instruments Manufacturing
- (19) All business items that are not prohibited or restricted by law, except those that are subject to special approval

##### B. Percentage of sales revenue

Unit: NT\$ thousand

Item	2017		2018	
	Revenue	Percentage (%)	Revenue	Percentage (%)
Image sensorss	3,957,862	100	4,576,761	100
Total	3,957,862	100	4,576,761	100

##### C. Current Products

The main business item in our group is design, manufacturing, and sales of CISM (Contact Image Sensor Module).

## D. Future Products Currently Being Planned

In terms of main CIS application products and market demands, our group has already developed whole series products in order to meet the demands of various scanner and input devices (such as MFP scanners and copy machine...etc.). The key tasks for the R&D in 2019 are as below:

- a. Continuing improving CISM cost and quality.
- b. The design of ultraspeed A4 digital CISM.
- c. The design of ultraspeed A3 digital CISM.
- d. Development of next-generation thin CISM.
- e. Developing niche CISM module for the application to banking and handheld devices.
- f. Sensing module with COB packaging technology for the application to environmental detection and MEMS sensor packaging.
- g. Industry 4.0 optical inspection application.
- h. Automatic optical inspection module with high resolution and high depth of focus.
- i. Infrared thermographic QVGA and VGA cassette mechanism module.

## 2. Industry Overview

### A. The present and the future:

The main business in our group is designing, manufacturing, and selling CISM and the scope of product application includes personal computer peripherals scanner, multi-function printer for offices or work stations, digital copy machine, electronic whiteboard, and fingerprint and note identification system. Therefore, the development of computer peripheral equipment industry is closely related to our company.



The industrial status of the main computer peripheral product application related to CISM that is manufactured by our group is as below:

Unit: Million PCs

Annual product	2016	2017	2018
Multi-function printer	72.3	74.4	74.8

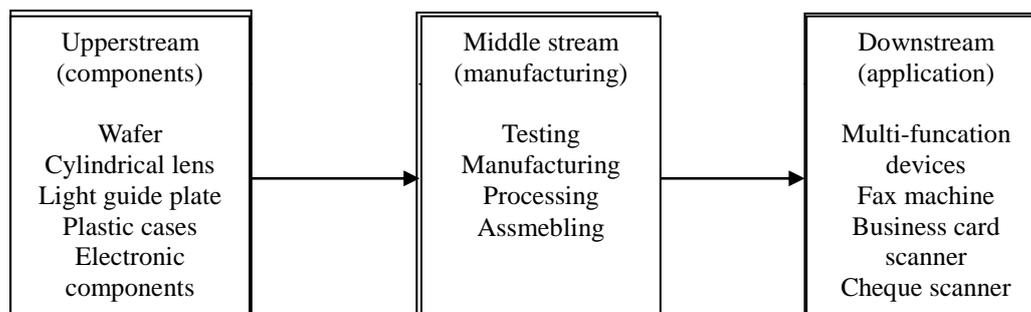
Source of information: IDC

Due to the module design of CISM facilitates the application and assembly by system integrators, the use of CISM has become the main stream with the many years' development in personal and SOHO commercial scanner products. The bread-winning

product in our group can be used on scanners, fax machine, and multi-function printers.

#### B. Relationship with upstream, middle-stream, and downstream companies:

Our group purchases wafer, cylindrical lens, light guide plate, plastic cases and other electronic components for CISM products. After anterior processing, including wafer testing, wafer dicing, mounting, wire bonding, and coating as well as posterior processing, they will be tested and inspected before the finished products are directly sold to professional OEM factories. The relationship with upstream, middle-stream, and downstream companies in the industry are as below:



#### C. Product Trends and Competition

##### (1) Product Trends

CISM has become the key component used for multi-function printers. The key focuses are low cost, low power consumption, and light & thin and these are the niche for the development of our group. Through the collaboration with customers in developing new product, we move towards solutions with ultraspeed, high precision, and high depth of focus. The team at Creative Sensor has established confidence among our customers no matter it is R&D, price, quality or service.

##### (2) Status of industrial market competition

CISM is contact image sensor and our group currently maintains the leading position in the market. Through total automated production lines, we achieve minimum cost and best quality in order to respond to the increasing labor cost for production in our group.

#### 3. Technology and R&D Overview

R&D investment and successfully developed technologies or products in the most recent fiscal year.

a. The consolidated R&D expenses invested in 2018 and up to March 31<sup>st</sup> of the current fiscal year were NT\$72,233 thousand and NT\$15,052 thousand respectively.

b. Technologies or products that were successfully developed:

- (1) Models for annual mass production for customers in Taiwan, Japan and USA.
- (2) Completing the development of ultraspeed A4 CISM and introducing it to mass production.
- (3) Completing the development of new testing machine.
- (4) Development of the fifth generation thin CISM.
- (5) Development of key components with ultraspeed and large size.

#### 4. Short and Long Term Business Development Plans

##### A. Short-term business development plans:

- (1) Expanding market share of customers and introducing new customers in order to

strengthen leading position in the market.

- (2) Developing niche CISM modules for the application to banking and handheld devices.
- (3) Developing the design of high depth of focus image input module to strengthen the competition in high-end MFP market.
- (4) Expanding A3 CISM's penetration rate in high-end laser printer in order to replace original A3 CCDM products.
- (5) Developing COB packaging technology and promoting it in the new application areas.

B. Long-term business development plans:

- (1) Development of new products should focus on the use of products beyond multi-function printers.
- (2) Application of COB packaging technology design sensing module should be used to products for environmental detection and MEMS sensor packaging.
- (3) Other market development for light in/out devices.

II. Market and Sales Overview

1. Market Analysis

A. Areas of distribution for primary products

The sales areas of the products offered by our group are mainly information technology and consumer electronics manufacturers in Asia, USA, and Europe. Currently, most of them are international famous OEM or system manufacturers.

B. Market share

CISM market share

Unit: %

Year	2016	2017	2018
Creative Sensor's global market share	52.3%	49.8%	58.1%

Note: The calculation was based on the sales volume of IDC multi-function printer (excluded the ratio of OEM CISM by the end customers).

C. Future market supply and demand and future growth

(1) In terms of supply:

CISM is the key component for image processing and it is mainly used to scanners and multi-function printers. Our group has well-developed in CISM supply chain and is capable of achieving comprehensive planning and arrangement in providing CISM with integrated scanner front-end function to allow customer applying the product more flexibly. Our group possesses high competitive to respond to the market change.

(2) In terms of demand:

At the moment, the market demand for multi-function printer continues shrinking and we aim to speed up the development of CIS application in other areas. New product development will move towards IoT development and Industry 4.0 application in order to take the initiative in expanding the source of revenue growth.

D. Competitive niche

(1) Strict quality requirements and excellent manufacturing process technology:

Our company's clients are international famous manufacturers and their requirements towards quality are relatively higher. The continuous quality improvement plans carried out inside our company is constantly striving for perfection and our company has obtained international quality system certification, including ISO9001 and ISO14001. Our plants even advanced implements the enhancement of whole clean room ESD protection environment. Moreover, all production lines are moved towards automation and line production in order to produce high-standard products. The design for product quality can be adjusted to meet different customer demands. In addition, we can also provide better design integration capability among the same trade in the industry to make sure the total product quality is higher than the industrial standards.

(2) Excellent supplier integration capability:

Due to the close coordination and development among relevant suppliers for CISM important components, like sensing elements, circuit board, focus lens and light source, the requirements on quality are very important. The R&D design adopts the approach of close cooperation and collaboration to obtain business opportunities from customers. On the other hand, our group is able to purchase materials for production with steady and reasonable prices through the close working relationship and the scale of purchasing to enhance product competition in our company.

(3) Complete R&D team and technical capability:

The R&D team in our group has worked for many years in the research and development of CISM. We are capable of design the product on our own, have obtained many patents and work with relevant suppliers to develop important raw materials. Therefore, the quality and technology & innovation competence in our group is leading the standard in the industry.

(4) Expansion of product application areas:

Our group applies our experiences in CISM production technology accumulated for many years to relevant technology and development of upstream and downstream products. Other than current products, the production of niche CISM module has gradually expanded the width and depth of production lines. With the application of COB packaging and image technical capacity in our company, we start to step into industry 4.0 optical inspection application and MEMS sensor packaging in order to expand business niche and develop new application areas.

(5) Advantages and disadvantages of the company's vision of development and response measures:

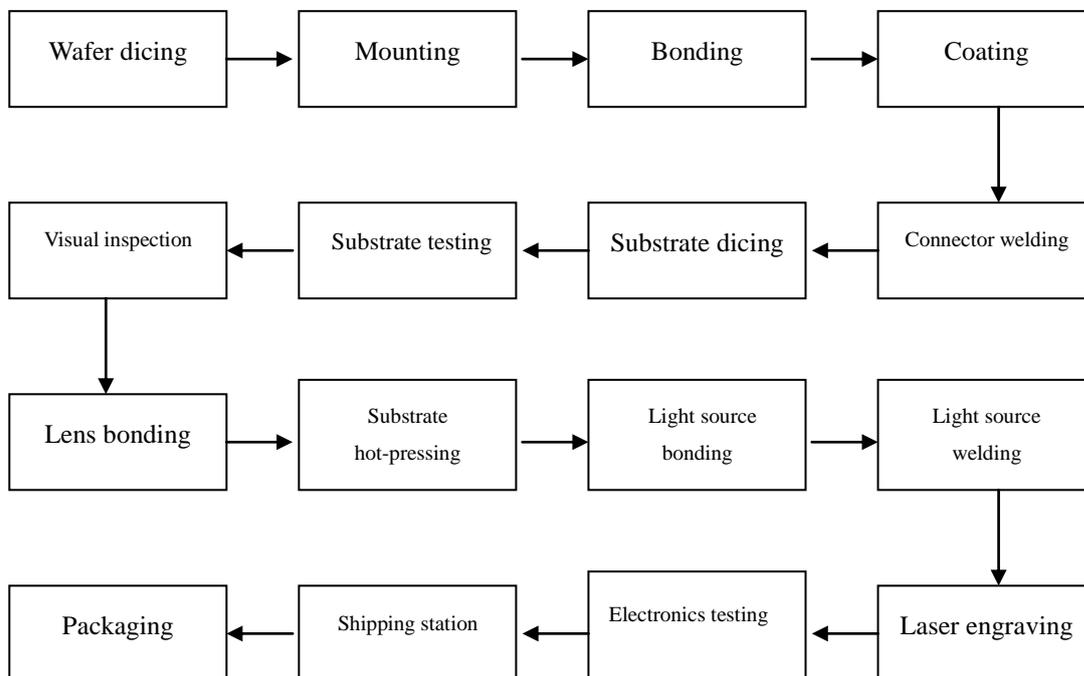
Item	Advantages	Disadvantages	Response measures
1. Industrial vision	The market of multi-function printer is still the main stream of office/home products and it is with steady demands. Besides, CIS industry is still an oligopoly market with high entry threshold. With the limited domestic and overseas manufacturing competition, the market demands won't be decreased in middle and long terms.	Multi-function printer has reached the phase of well-development. Its growth starts slowing down and the growth of product revenue in our company starts to ease up.	<ul style="list-style-type: none"> <li>i. Developing ultra-high speed and high resolution products to be used in high-end ink jet and laser MFP in order to expand product penetration rate and maintain continuous revenue growth.</li> <li>ii. Working with domestic relevant suppliers to develop important raw materials in order to reduce costs.</li> <li>iii. Applying COB packaging and image technical capability to AOI linear sensing camera module and infrared thermographic sensor in order to expand operation niche and develop new application areas.</li> </ul>
2. Position in the industry	Currently, our market share in color contact image sensor is number one in the world. We have better production scale, competition, and cost control capability.	Both upstream and downstream are oligopoly markets with weaker price control ability. The competing suppliers tend to get into price competition due to the desire of business opportunity.	<ul style="list-style-type: none"> <li>i. Reinforcing the development of high-end products and low-cost module products to give consideration to enhance added value and market share in order to widen the different with other competitors.</li> <li>ii. Continuing the improvement of manufacturing process and developing raw materials of high efficiency and low cost with suppliers to reduce production cost.</li> </ul>
3. Status of main material supply	Our group has the relationship of strategic alliances with our key materials suppliers in long-term cooperation. We can control the quality and quantity of the materials and components supplied.	Part products of key material suppliers belong to oligopoly market with less flexibility in price.	<ul style="list-style-type: none"> <li>i. Working with relevant suppliers to develop important materials to reduce costs.</li> <li>ii. Continuing maintaining good working relationship with suppliers to obtain steady source of supply.</li> </ul>
4. Sales of main product	The product quality and delivery time in our group are highly recognized by customers. We have stable market share and steadily take the leading position in color CIS market. Our sales volume will continue growing by continuing developing new customers and working with customers for new product development.	<ul style="list-style-type: none"> <li>i. Downstream product market has outstanding off season and peak season for products and it affects the production capacity planning.</li> <li>ii. With high customer concentration.</li> </ul>	<ul style="list-style-type: none"> <li>i. Being active in developing businesses as well as attracting new customers and new orders in order to increase the diversity of customer groups.</li> <li>ii. Gaining long-term and stable orders to deploy production capacity properly in order to reduce the operational costs for the too obvious off-season and peak-season.</li> </ul>
5. Financial status	Our group has maintained stable profiting in the long time plus our management personnel emphasize the control for accounts receivable and inventory highly. Therefore, the business activities all presents the status of cash inflow with sound financial structure. We have sufficient equity fund.	The products that we offer are too specialized and the relevant industry has been well-developed. It causes slow growth in revenue and profiting, and these weaken our profiting capability..	Developing new businesses to shift the sources of business profiting in the future. Moreover, we have sufficient funds at the moment to handle the demand for the expenses in the future.

## 2. Important Applications and Manufacturing Processes of Main Products:

### a. Important applications of major products

Item	Main product	Application
Contact image sensor	CIS	Multi-function printer Fax machine Image scanner Copy machine Business card scanner Note identification machine

### b. Manufacturing process



## 3. Supply Status of Main Materials

Main material	Source of supply	Status of supply
Wafer	Japan, Singapore, Taiwan	Good
Cylindrical lens	Japan, Hong Kong	Good
Light source guide plate	Japan, Hong Kong, Taiwan	Good
Printed circuit board	Taiwan, China	Good

4. Names of customers who contributed to more than 10% of total purchase (or sales) amount in one of the most recent two years and the corresponding purchase (or sales) amounts and percentages

a. List of main suppliers in the most recent two years

Unit: NT\$ thousand

Item	2017				2018				Quarter 1 in 2019			
	Name	Amount	As a percentage of net purchase (%)	Relationship with issuer	Name	Amount	As a percentage of net purchase (%)	Relationship with issuer	Name	Amount	As a percentage of net purchase up to the end of previous quarter (%)	Relationship with issuer
1	Company A	600,401	21.20%	None	Company A	642,663	18.55%	None	Company A	138,942	20.83%	None
2	Compny B	481,841	17.01%	"	Compny B	522,887	15.09%	"	Compny B	103,768	15.56%	"
3	Company C	343,131	12.11%	Note	Company C	427,814	12.35%	Note	Company C	92,773	13.91%	Note
	Others	1,407,131	49.68%	--	Others	1,871,861	54.01%	--	Others	331,479	49.70%	-
	Net purchase	2,832,504	100.00%		Net purchase	3,465,225	100.00%		Net purchase	666,962	100.00%	

Note: It is the main management for the group.

Reasons for changes: The list of our suppliers in the past two years is not involved with significant changes. However, we are active in sourcing new suppliers in order to spread out the risk of purchase and stabilize the source of supply with the provision of not affecting the quality of materials.

b. List of main customers in the most recent two years

Unit: NT\$ thousand

Item	2017				2018				Quarter 1 in 2019			
	Name	Amount	As a percentage of net sales (%)	Relationship with issuer	Name	Amount	As a percentage of net sales (%)	Relationship with issuer	Name	Amount	As a percentage of net sales up to the end of previous quarter (%)	Relationship with issuer
1	Company A	849,485	21.46%	None	Company A	1,049,680	22.93%	None	Company A	203,028	19.89%	None
2	Company B	647,523	16.36%	"	Company B	663,442	14.50%	"	Company B	156,161	15.30%	"
3	Company C	512,143	12.94%	"	Company C	655,781	14.33%	"	Company C	146,160	14.32%	"
4	Company D	489,816	12.38%	"	Company D	530,744	11.60%	"	Company D	142,414	13.95%	"
	Others	1,458,895	36.86%	--	Others	1,677,114	36.64%	--	Others	372,906	36.54%	-
	Net sales	3,957,862	100.00%		Net sales	4,576,761	100.00%		Net sales	1,020,669	100.00%	

Reasons for changes: Due to our company produces specialized products and our customers are international famous manufacturers, we have stable source of customers. Other than maintaining good working relationship with existing customers, our company also works hard to develop new source of customers.

### 5. Production Volumes and Values Table for the Most Recent Two Years

Unit: NT\$ Million; Thousand pcs

Main product	Year Production volumes and values	2017			2018		
		Capacity	Volume	Value	Capacity	Volume	Value
Total		44,360	30,060	3,988	45,396	34,948	4,674

### 6. Sales Volumes and Values for the Most Recent Two Years

Unit: NT\$ Million; Thousand pcs

Main product	Year Sales volumes and values	2017				2018			
		Domestic sales		Export		Domestic sales		Export	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Image sensor		0	8	29,833	3,950	0	3	34,223	4,574
Total		0	8	29,833	3,950	0	3	34,223	4,574

### III. Employee Information in the Most Two Years and until the Printing Date of the Annual Report

Item		Year	2017	2018	Up to March 31 <sup>st</sup> , 2019
Total number of employees	Indirect labor		405	406	398
	Direct labor		612	838	754
	Total		998	1244	1152
Average age			30.20	29.45	30.73
Average years of service			3.72	3.01	3.27
Education distribution ratio (%)	Ph.D		0%	0%	0%
	Master		10%	2%	2%
	Bachelor's degree		18%	21%	21%
	Senior high school		18%	40%	35%
	Below senior high school		54%	37%	42%

### IV. Expenditure on Environmental Protection

Please state the total expenditure caused by the loss (including compensation) from polluting the environment and punishment in the most recent year and until the printing date of the annual report as well as explain the future coping strategies (including improvement) and potential expenditure (including the estimated amount for loss, punishment, and compensation for not taking any responding strategies; please specify the fact for not being able to estimate it reasonably if it is not able to be estimated reasonably):

Our group is the manufacturer in electronic components manufacturing industry and there is no generation of exhaust, waste water and noise pollution during the manufacturing process. Therefore, we do not have any loss caused by polluting environment and we predict that there won't be expenditure for major environment protection in the future.

## V. Labor Relations

1. Various Employee Welfare, Further Education, Training, and Retirement System in our Company, the Implementation Status as well as Labor-Employer Agreement and the implementation of employee rights and interests maintenance:

A. Employee welfare measures and the implementation status:

- a. Employees in our company are entitled to labor insurance and national health insurance since the first day of work. Employees in overseas subsidiaries are also entitled to local insurance system since the first day of work.
- b. According to the regulations of employee stock option in our company, 10%-15% stock will be reserved for employee's stock option when dealing with capital increase by cash. We also implement employee bonus system.
- c. Our company has established Employee Welfare Committee to coordinate and in charge of the operation of various welfare measures. The labor conditions of leaves and working hours are carried out according to the regulations of Labor Standards Act. Various welfare measures have been planned.
- d. Current employee welfare includes:
  - ① Cash gifts for the three traditional holidays/festivals and birthday cash gifts
  - ② End-of-year bonus and performance bonus
  - ③ End-of-year banquet party
  - ④ Periodic domestic or overseas travel
  - ⑤ Cash gifts for wedding and funeral
  - ⑥ Subsidy for children's education
  - ⑦ Extra labor insurance, health insurance and group insurance according to law
  - ⑧ Stock option when capital increased by cash

B. Employee continuous education, training system and the implementation

- a. Employee's education training will be implemented according to the company's relevant regulation in "Measures for the implementation of educational training", "Measures for the implementation of internal educational training", "Measures for implementation of dispatched training", "Methods of subsidy for language testing", and "Methods of subsidy for on-the-job continuous education". We work actively in providing various learning and developing opportunities and environment to our employees in order to cultivate excellent talents with international vision and willingness of learning.
- b. Statistics of educational training hours in 2018: Manager training course and internal & external training courses to enhance core competence and professional ability were provided in 2018 with total 118 participants and 944 hours. In average, each employee received 8.1 hours of training in 2018 and the training expense in the whole year was NT\$462,981.

C. Retirement scheme and the implementation:

- a. The retirement scheme and method for the employees in our company are handled according to Labor Standard Act and Labor Pension Act. The retirement scheme for employees in overseas subsidiaries is carried out according to pension insurance system regulated by Government of People's Republic of China
- b. "Supervisory Committee of Workers' Retirement Preparation Fund" has been established to supervise the implementation of retirement scheme.
- c. In accordance with the provision of R.O.C. Financial and Accounting Standard No.18, our company commissions to the actuary for the evaluation and calculation of labor retirement preparation fund and propose the evaluation report.

Since July 1<sup>st</sup>, 2005, our company contributes 6% of employee wage to employee's personal retirement account every month according to the regulation of Labor Pension Act. Overseas subsidies comply with the retirement insurance system regulated by Government of People's Republic of China and the fund will be contributed in a certain ratio based on the total salary of employee's. The pension every month will be managed, coordinated and arranged by the government.

D. Labor-employer agreement and measures of employee rights and interests maintenance:

Our group carried out the management method of self-management and all employees' participation. Each departmental manager communicates with the employees in the department effectively through regular business meetings and educational trainings. Therefore, the labor-employer relation in our company is harmless.

E. Employee code of conduct:

In order to clearly spell out the rights and obligations between the employer and employees, as well as to maintain order in the workplace, the "Code of Practice" has been established and filed with the competent authority before being announced publicly. In addition, the following codes of practice are established and promoted in order to reduce the operation risk in our company, avoid the behavior of damaging shareholder's interests, and provide guidance to the employees in our company:

- a. Integrity management: Employees must not directly or indirectly provide, promise, request or receive any improper benefits, or carry out any behavior that violates integrity or entrusted obligation.
- b. Compliance with antitrust behavior: An attitude of high awareness should be maintained towards competitors and business contacts. The position of not able to disclose sensitive information should be clearly expressed and must not provide any special discount.
- c. Reporting illegal and dishonest behavior: If any employee is found violating ethical standard set by the company, such as occupying the company's property, affecting the accuracy of the company's financial statements, and receiving external improper benefits, it should be reflected through internal proper channel.

F. Operational procedure of handling internal important information:

In order to establish good internal important information handling and disclosure mechanism, avoid improper information disclosure, and ensure the consistency and correctness of the information released externally, our group adds “Management of insider trading prevention” on the internal control system. It has been submitted to and approved by Board of Directors on December 21<sup>st</sup>, 2009 as well as informed to all employees and managers.

G. Safety of working environment and employee protection:

a. Protection of working environment

- ①Our group obtained certification of ISO14001 Environment Management System. The environmental policies promoted in our group include: (1)complying and meeting the legal rules for environment protection and other requirements; (2)supporting resource recycling and reusing and implementing industrial waste reduction to achieve pollution prevention; (3)reducing the use of hazardous substances, fulfilling pollution control and management, and devoting to green product design and manufacturing; (4)preventing accident and disaster and strengthening disaster prevention exercise.
- ②Equipment safety: The elevators and freight elevators in the building of where our company is located are inspected regularly according to the law. We entrust external vendor to conduct labor safety and health examination to avoid increasing labor risk and we request employees to wear protective equipment.
- ③Fire safety: Complete fire system is installed according to the regulations of Fire Services Act, including fire water spraying system and evacuation system like escape sling and emergency light. Lighting, fire, CO2 testing are carried every year.
- ④Our group implements drinking water test every half a year. Besides, comprehensive disinfection on working environment is carried out regularly every year in order to maintain the hygiene in the working environment.

b. Protection of employee safety

- ①Our group has set up “Code of Practice for Safety and Health” to ensure employees’ physical and mental rights and interests as well as reducing the critical dangers caused by operation. In addition, “Attendance method for natural disaster, power failure and material pending” is set up to facilitate the response to the accident.
  - ②Medical healthcare: Our group provides employees health examination once a year.
  - ③Labor safety and health training is held regularly every year to increase employees’ relevant knowledge and reduce occupational injury.
  - ④The front counter in our group provides alcohol disinfection and mask for employees and visitors to reduce spreading around the flu in the working environment.
  - ⑤In order to avoid incident of labor safety, we request workers to wear protective equipment and establish relevant operating procedures.
2. Please state the loss that the company encountered caused by labor dispute in the most recent year and until the printing date of the annual report and disclose current and future possible estimated amount and coping measures. If it is not able to be estimated reasonably, please explain: None.

VI. Important Contracts: None.

## VI. Financial Information

### 1. Five-Year Balance Sheet and Statement of Comprehensive Income

#### (1) The condensed balance sheet

##### a. The consolidated condensed balanced sheet- International Financial Reporting Standards

Unit: NT\$ thousand

Item	Year	Financial information for the recent 5 years					Financial information from the current fiscal year up to March 31st, 2019 (Note 2)
		2014	2015	2016	2017	2018	
Current assets		3,102,748	2,885,432	3,041,354	3,168,989	3,466,786	3,301,789
Real estate, plant and equipment		987,475	902,558	786,190	613,890	485,435	466,674
Intangible assets		9,844	8,713	6,369	4,306	6,909	6,179
Other assets		914,060	802,087	778,839	808,864	675,174	738,542
Total assets		5,014,127	4,598,790	4,612,752	4,596,049	4,634,304	4,513,184
Current liabilities	Before distribution	1,300,113	969,030	1,144,945	1,131,232	1,284,592	1,028,751
	After distribution	1,541,517	1,197,729	1,348,233	1,334,520	Note 3	Note 3
Non-current liabilities		81,913	61,591	53,367	60,458	111,553	112,908
Total liabilities	Before distribution	1,382,026	1,030,621	1,198,312	1,191,690	1,396,145	1,141,659
	After distribution	1,623,430	1,259,320	1,401,600	1,394,978	Note 3	Note 3
Consolidated net income attributed to stockholders of the Company		3,632,101	3,568,169	3,414,440	3,404,359	3,238,159	3,371,525
Capital stock		1,270,550	1,270,550	1,270,550	1,270,550	1,270,550	1,270,550
Capital surplus		677,467	677,467	677,467	677,467	677,467	677,467
Retained earnings	Before distribution	1,061,591	1,113,340	1,143,166	1,152,065	1,154,222	1,193,001
	After distribution	820,187	884,641	939,878	948,777	Note 3	Note 3
Other Interests		632,467	506,812	323,257	304,277	135,920	230,507
Treasury stock		0	0	0	0	0	0
Non-controlling interests		0	0	0	0	0	0
Shareholders equity	Before distribution	3,632,101	3,568,169	3,414,440	3,404,359	3,238,159	3,371,525
	After distribution	3,390,697	3,339,470	3,211,152	3,201,071	Note 3	Note 3

Note 1: The financial information from 2014 to 2018 has been audited and certified by accountants according to Financial Reporting Standards in our country.

Note 2: The financial information for the first quarter in 2019 has been audited and certified by accountants according to International Financial Reporting Standards.

Note 3: The earning allocation has not been approved by the shareholders meeting.

b. Entity condensed balance sheet - International Financial Reporting Standards

Unit: NT\$ thousand

Year Item		Financial information for the recent 5 years				
		2014	2015	2016	2017	2018
Current assets		1,257,231	989,905	1,341,985	1,257,172	1,344,074
Real estate, plant and equipment		32,656	22,982	14,728	8,770	6,443
Intangible assets		3,291	2,698	1,925	960	3,502
Other assets		3,359,418	3,327,734	3,249,495	3,264,807	3,249,211
Total assets		4,652,596	4,343,319	4,608,133	4,531,709	4,603,230
Current liabilities	Before distribution	938,582	713,559	1,140,326	1,073,943	1,267,545
	After distribution	1,179,986	942,258	1,343,614	1,277,231	Note 2
Non-current liabilities		81,913	61,591	53,367	53,407	97,526
Total liabilities	Before distribution	1,020,495	775,150	1,193,693	1,127,350	1,365,071
	After distribution	1,261,899	1,003,849	1,396,981	1,330,638	Note 2
Consolidated net income attributed to stockholders of the Company		3,632,101	3,568,169	3,414,440	3,404,359	3,238,159
Capital stock		1,270,550	1,270,550	1,270,550	1,270,550	1,270,550
Capital surplus		677,467	677,467	677,467	677,467	677,467
Retained earnings	Before distribution	1,061,591	1,113,340	1,143,166	1,152,065	1,154,222
	After distribution	820,187	884,641	939,878	948,777	Note 2
Other Interests		622,493	506,812	323,257	304,277	135,920
Treasury stock		0	0	0	0	0
Non-controlling interests		0	0	0	0	0
Shareholders equity	Before distribution	3,632,101	3,568,169	3,414,440	3,404,359	3,238,159
	After distribution	3,390,697	3,339,470	3,211,152	3,201,071	Note 2

Note 1: The financial information from 2014 to 2018 has been audited and certified by accountants according to International Financial Reporting Standards.

Note 2: The earning allocation has not been approved by the shareholders meeting.

## (2) Condensed Statement of Income

## a. Consolidated condensed statement of income- International Financial Reporting Standards

Unit: NT\$ thousand

Item \ Year	Financial information for the recent 5 years					Financial information from the current fiscal year up to March 31st, 2019 (Note 2)
	2014	2015	2016	2017	2018	
Operating revenue	5,374,179	4,864,840	4,309,299	3,957,862	4,576,761	1,020,669
Gross profit	721,228	728,785	664,203	551,959	552,868	104,504
Operating income (loss)	346,735	313,992	297,797	213,120	226,435	38,690
Non-operating income and expenses	57,613	128,290	67,094	70,568	91,753	9,575
Net income before tax	404,348	442,282	364,891	283,688	318,188	48,265
Income from continuing operation before tax	308,496	293,600	257,536	210,019	205,800	38,779
Loss from discontinued operation	0	0	0	0	0	0
Net income (loss)	308,496	293,600	257,536	210,019	205,800	38,779
Other comprehensive income (net income after tax)	(8,138)	(116,128)	(182,566)	(16,812)	(168,712)	94,587
Total comprehensive income	300,358	177,472	74,970	193,207	37,088	133,366
Consolidated net income attributed to stockholders of the Company	308,496	293,600	257,536	210,019	205,800	38,779
Consolidated net income attributed to non-controlling interest	0	0	0	0	0	0
Total comprehensive income attributed to stockholders of the Company	300,358	177,472	74,970	193,207	37,088	133,366
Total comprehensive income attributed to non-controlling interest	0	0	0	0	0	0
Earnings per share	2.43	2.31	2.03	1.65	1.62	0.31

Note 1: The financial information from 2014 to 2018 is the consolidated financial statements audited and certified by accountants according to International Financial Reporting Standards.

Note 2: The financial information for the first quarter in 2019 is the consolidated financial statements audited and certified by accountants according to International Financial Reporting Standards.

b. Entity condensed statement of income- International Financial Reporting Standards

Unit: NT\$ thousand

Year Item	Financial information for the recent 5 years				
	2014	2015	2016	2017	2018
Operating revenue	5,354,320	4,842,825	4,291,231	3,941,913	4,563,815
Gross profit	468,180	486,056	437,780	381,756	375,869
Operating income (loss)	182,439	165,394	148,667	116,249	125,317
Non-operating income and expenses	189,832	147,120	141,175	126,476	149,081
Net income before tax	372,271	312,514	289,842	242,725	274,398
Income from continuing operation before tax	308,496	293,600	257,536	210,019	205,800
Loss from discontinued operation	0	0	0	0	0
Net income (loss)	308,496	293,600	257,536	210,019	205,800
Other comprehensive income (net income after tax)	(8,138)	(116,128)	(182,566)	(16,812)	(168,712)
Total comprehensive income	300,358	177,472	74,970	193,207	37,088
Consolidated net income attributed to stockholders of the Company	308,496	293,600	257,536	210,019	205,800
Consolidated net income attributed to non-controlling interest	0	0	0	0	0
Total comprehensive income attributed to stockholders of the Company	300,358	177,472	74,970	193,207	37,088
Total comprehensive income attributed to non-controlling interest	0	0	0	0	0
Earnings per share	2.43	2.31	2.03	1.65	1.62

Note 1: The financial information from 2014 to 2018 is the individual financial statements audited and certified by accountants according to International Financial Reporting Standards.

(3) Name and audited opinions of certified public accountants for the most recent five years

Year	Name of certified public accountant	Audited opinions
2014	Lin Chun-Yao; Wu Yu-Lung	No reserved opinions
2015	Lin Chun-Yao; Chang Shu-Chiung	No reserved opinions
2016	Lin Chun-Yao; Chang Shu-Chiung	No reserved opinions
2017	Chang Shu-Chiung; Tsing Hui-Chin	No reserved opinions
2018	Chang Shu-Chiung; Tsing Hui-Chin	No reserved opinions

## 2. Five-Year Financial Analysis

### (1) Financial analysis

#### a. Consolidated financial analysis in the recent five years- using International Financial Reporting Standards

Year		Financial analysis for the recent 5 years					
		2014	2015	2016	2017	2018	Current fiscal year up to March 31st, 2019
Financial structure (%)	Ratio of liabilities to assets	27.56	22.41	25.98	25.93	30.13	25.30
	Ratio of long-term capital to fixed assets	376.11	402.16	441.09	564.40	690.04	746.65
Solvency (%)	Current ratio	238.65	297.76	265.63	280.14	269.87	320.95
	Quick ratio	205.41	266.79	241.35	250.81	231.16	281.85
	Times interest earned ratio	64.51	48.69	N/A	N/A	N/A	N/A
Operating ability	Receivable turnover (times)	7.48	8.16	8.19	7.32	7.82	6.85
	Average collection period	49	45	45	50	47	53
	Inventory's turnover (times)	10.72	11.29	12.61	11.17	9.71	8.15
	Payables turnover (times)	4.77	5.45	5.27	4.49	4.85	4.59
	Average days in sales	34	32	29	33	38	45
	Real estate, plant and equipment turnover (times)	5.1	5.13	5.09	5.65	8.33	8.58
	Total asset turnover (times)	1.07	1.01	0.94	0.86	0.99	0.89
Profitability (%)	Return on total assets (%)	6.24	6.27	5.59	4.56	4.46	3.39
	Return on equity (%)	8.67	8.16	7.38	6.16	6.20	4.69
	Profit before tax to capital stock (%)	31.82	34.81	28.72	22.33	25.04	15.19
	Profit ratio (%)	5.74	6.04	5.98	5.31	4.50	3.80
	Earnings per share (NT\$)	2.43	2.31	2.03	1.65	1.62	0.31
Cash flow	Cash flow ratio (%)	44.39	59.22	26.41	43.12	33.44	2.46
	Cash flow adequacy ratio (%)	123.3	154.55	159.95	150.69	143.25	125.41
	Cash reinvestment ratio (%)	8.29	6.41	1.84	5.53	4.44	0.48
Leverage	Operational Leverage	2.91	3.08	2.87	3.51	3.49	4.34
	Financial leverage	1.02	1.03	1.00	1.00	1.00	1.00
Reasons for financial ratio changes in the recent two years: (The analysis can be waived if the change is less than 20%)							
<ol style="list-style-type: none"> <li>Increase on the ratio of long-term capital to real estate, plant and equipment was caused by the decrease of book value after depreciation.</li> <li>N/A shown on times interest earned ratio was caused by no interest expenense in 2017 and 2018.</li> <li>The increase of real estate, plant and equipment turnover rate was caused by the increase of sales and the book value of real estate, plant and equipment after depreciation.</li> <li>The decrease of cash flow ratio was caused by the increase of inventory in 2018 leading to the decrease of cash flow generated by business activities.</li> </ol>							

Note 1: The financial information from 2014 to 2018 is the consolidated financial statements audited and certified by accountants according to International Financial Reporting Standards.

Note 2: The financial information for the first quarter in 2019 is the consolidated financial statements audited and certified by accountants according to International Financial Reporting Standards.

b. Entity financial analysis in the recent five years- using International Financial Reporting Standards

Year		Financial analysis for the recent 5 years				
		2014	2015	2016	2017	2018
Item						
Financial structure (%)	Ratio of liabilities to assets	21.93	17.85	25.90	24.88	29.65
	Ratio of long-term capital to fixed assets	11,373.14	15,793.93	23,545.67	39,427.21	51,772.23
Solvency (%)	Current ratio	133.95	138.73	117.68	117.06	106.04
	Quick ratio	133.65	138.58	117.68	116.92	105.93
	Times interest earned ratio	156.50	274.89	N/A	N/A	N/A
Operating ability	Receivable turnover (times)	7.45	8.07	8.17	7.29	7.80
	Average collection period	49	45	45	50	47
	Inventory's turnover (times)	3,305.91	2,251.56	7,083.55	4,466.95	2,892.23
	Payables turnover (times)	6.62	7.47	5.70	4.17	4.46
	Average days in sales	1	1	1	1	1
	Real estate, plant and equipment turnover (times)	195.65	174.08	227.59	335.51	599.99
	Total asset turnover (times)	1.15	1.12	0.93	0.87	1.00
Profitability (%)	Return on total assets (%)	6.75	6.55	5.75	4.60	4.51
	Return on equity (%)	8.67	8.16	7.38	6.16	6.20
	Profit before tax to capital stock (%)	29.30	24.60	22.81	19.10	21.6
	Profit ratio (%)	5.76	6.06	6.00	5.33	4.51
	Earnings per share (NT\$)	2.43	2.31	2.03	1.65	1.62
Cash flow	Cash flow ratio (%)	26.6	28.85	18.63	23.81	24.11
	Cash flow adequacy ratio (%)	128.83	127.04	111.94	123.83	115.34
	Cash reinvestment ratio (%)	2.53	(0.94)	(0.45)	1.45	2.93
Leverage	Operational Leverage	2.50	2.72	2.84	3.14	2.88
	Financial leverage	1.01	1.01	1.00	1.00	1.00

Reasons for financial ratio changes in the recent two years: (The analysis can be waived if the change is less than 20%)

1. Increase on the ratio of long-term capital to real estate, plant and equipment was caused by the decrease of book value after depreciation.
2. N/A shown on times interest earned ratio was caused by no interest expense in 2017 and 2018.
3. The decrease of inventory turnover rate was caused by the increase of inventory.
4. The increase of real estate, plant and equipment turnover rate was caused by the increase of sales and the book value of real estate, plant and equipment after depreciation.
5. The increase of cash re-investment was caused by the increase of net income before tax in 2018 compared to last year leading to the increase of net cash flow in business activities in 2018.

Note 1: The financial information from 2014 to 2018 is the individual financial statements audited and certified by accountants according to International Financial Reporting Standards.

## 1. Financial structure

- (1) Ratio of liabilities to assets = total liabilities / total assets.
- (2) Ratio of long-term capital to fixed assets = (net shareholders' equity + long-term liabilities) / net value of real estate, plant and equipment.

## 2. Solvency

- (1) Current ratio = current assets / current liabilities.
- (2) Quick ratio = (current assets - inventory - prepaid expense) / current liabilities.
- (3) Times interest earned ratio = PBIT / interest expense for this period.

## 3. Operating ability

- (1) Receivables turnover (including account receivable and note receivable made from operation) = net sales income / remaining sum of average account receivable (including account payable and note payable made from operation) for every period.
- (2) Average collection period = 365 / account receivables' turnover rate.
- (3) Inventory's turnover = cost of sales / average inventory.
- (4) Payables turnover (including account payable and note payable made from operation) = cost of sales/remaining sum of average account payable (including account payable and note payable made from operation) for every period.
- (5) Average days in sales = 365 / Inventory's turnover rate.
- (6) Real estate, plant and equipment turnover rate = net sales / average net value of real estate, plant and equipment.
- (7) Total assets turnover = net sales / total assets.

## 4. Profitability

- (1) Return on total assets = (loss after tax + interest expense x (1-tax rate))/ average total assets.
- (2) Return on equity = loss after tax / net average shareholders' equity.
- (3) Profit ratio = loss after tax / net sales.
- (4) Earnings per share = (net profit after tax - stock dividend of preferred stocks) / weighted average number of issued shares

## 5. Cash flow

- (1) Cash flow ratio = net cash flow of operating activities / current liabilities.
- (2) Cash flow adequacy ratio = net cash flow of operating activities for most recent 5 years / (capital expenditure + addendum of inventory + cash dividend) for most recent 5 years.
- (3) Cash reinvestment ratio = (net cash flow of operating activities - cash dividend) / (gross value of real estate, plant and equipment + long-term investment + other assets + operating capital).

## 6. Leverage

- (1) Operating leverage = (net operating income - current operating cost and expense) / operating profit
- (2) Financial leverage = operating profit / (operating profit - interest expense).

### 3. Supervisors' Report on Financial Reports in the Latest Annual Year

## **Creative Sensor Inc. Supervisors' Audit Report**

Board of Directors submitted 2018 financial statements and consolidated financial reports. The information was audited by accountant Chang Shu-Chiung and Tseng Hui-Chin at PricewaterhouseCoopers. Company's supervisors have reviewed the audited reports as well as business operation report and surplus distribution proposal and believe there is no inconsistency. These financial reports have been properly prepared in accordance with accounting principles and disclosure requirements Article 219 of Corporation Act.

To

The Shareholders' Meeting of 2019

Creative Sensor Inc.

Supervisor: Kuang Yuan Corporation

Rep.: Wu Hui-Mei

Supervisor: Lin Hung-Ming

Supervisor: Chang Min-Yu

March 25<sup>th</sup>, 2019

4. Financial Statements for the Latest Annual Year

Please refer to page 76 to page 141 in this annual report for 2018 financial reports.

5. Financial Difficulties of the Company and its Affiliates in the Latest Annual Year and

Until the Printing Date of the Annual Report and the Impacts to Company's  
Financial Status Should be Clearly Stated: None.

## VII. Review of Financial Conditions, Operating Results, and Risk Management

### I. Financial Condition

#### 1. Comparison and analysis of financial condition

Unit: NT\$ thousand

Item \ Year	Year		Variance		
	2018	2017	Amount	%	Remark
Current assets	3,466,786	3,168,989	297,797	9.4	-
Fixed assets	485,435	613,890	(128,455)	(20.92)	1
Other assets	682,083	813,170	(131,087)	(16.12)	-
Total assets	4,634,304	4,596,049	38,255	0.83	-
Current liabilities	1,284,592	1,131,232	153,360	13.56	-
Total liabilities	1,396,145	1,191,690	204,455	17.16	-
Capital stock	1,270,550	1,270,550	0	0	-
Additional paid-in capital	677,467	677,467	0	0	-
Retained earnings	1,154,222	1,152,065	2,157	0.19	-
Total shareholders' equity	3,238,159	3,404,259	(166,100)	(4.88)	-

Explanation of changes in the two years: The analysis is required only when the ratio of change more than 20% and the absolute amount is more than NT\$10,000 thousand.

1. The decrease of fixed assets was caused by the recognition of depreciation expenses.

### II. Financial Performance

#### 1. Comparison and analysis of financial performance

Item \ Year	Year		Amount of change	Percentage of change (%)	Remark
	2018	2017			
Operating revenues	4,576,761	3,957,862	618,899	15.64	-
Operating costs	4,023,893	3,405,903	617,990	18.14	-
Operating gross income	552,868	551,959	909	0.16	-
Operating expense	326,433	338,839	(12,406)	(3.66)	-
Operating net income	226,435	213,120	13,315	6.25	-
Non-operating income and expense					
Interest income	26,238	20,386	5,852	28.71	1
Other benefits and losses	48,337	26,653	21,684	81.35	2
Financial cost	0	0	0	0	-
Share of profit of associates accounted for using equity methos	17,178	23,529	(6,351)	(26.99)	3
Net profit before tax	318,188	283,688	34,500	12.16	-
Income tax expense	(112,388)	(73,669)	(38,719)	52.56	4
Net incom	205,800	210,019	(4,219)	(2.01)	-

1. Explanation of changes: The analysis is required only when the ratio of change more than 20% and the absolute amount is more than NT\$10,000 thousand. The analysis is as below:

(1)It was mainly caused by the surplus at subsidiaries that was transferred back for time deposit.

(2)It was mainly caused by income subsidy by government, exchange loss and the increase of profit and loss of financial assets.

(3)It was mainly caused by the decrease corporate profiting on re-investment.

(4)It was mainly caused by the increase of net income before tax.

### III. Cash Flow

#### 1. Liquidity analysis of the cash flow in the most recent year:

Item	Year		Percentage of change (%)
	2018	2017	
Cash flow ratio (%)	33.44	43.12	(22.45)
Cash flow adequacy ratio (%)	143.25	150.69	(4.94)
Cash reinvestment ratio (%)	4.44	5.53	(19.75)

1. The decrease of cash flow ratio and cash reinvestment ratio was mainly because of the increase of inventory in 2018 leading to decrease of cash flow in business activities.

2. The decrease of cash flow adequacy ratio was caused by the increase of cash dividends in the recent five years.

#### 2. Improvement Plan for Insufficient Liquidity: Not applicable.

#### 3. Cash Flow Analysis for the Coming Year:

Unit: NT\$ thousand

Cash balance at beginning of period (1)	Estimated net cash inflow from operating activities in the whole year (2)	Estimated net cash inflow from investment and financing activities in the whole year (3)	Estimated cash balance (insufficiency) (1)+(2)+(3)	Estimated capital resources for inadequate cash	
				Investment plans	Financing plans
773,409	411,186	(390,993)	793,602	\$ -	\$ -

1. Analysis of cash flow change in the current fiscal year:

(1) Operating activities: The estimated operating income was stable and continuous profiting. The inventory and account receivables were effectively controlled to generate net cash inflow.

(2) Investment activities: The purchase of machine and equipment caused net cash outflow for investment.

(3) Financing activities: The distribution of cash dividend caused financing activities and presented net cash outflow.

2. Estimated capital resources for inadequate cash and liquidity analysis: Not applicable.

### IV. Effect of Major Capital Expenditures in the Latest Annual Year on Financial Operations: No significant capital expenditure in the most recent year.

### V. Reinvestment Policy in the Latest Annual Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plan for the Coming Year

#### 1. Reinvestment Policy

The reinvestment in our group mainly focuses on our main business, image sensor. It is to coordinate with the company's long-term development plans, and each investment plan is evaluated with careful and conservative attitude.

#### 2. Reasons for Profitability or Losses

Share of profit of associates accounted for using equity method was NT\$17,178,000 and it decreased 26.99% compared to that of NT\$23,529,000 in 2017. It was the decrease of profiting caused by reinvestment.

#### 3. Investment Plans for the Coming Year

The investment plans for the coming year is to continue strengthening the investment for the core business as well as adjust and deploy future development strategies according to future prospect change and the new product development schedule in our group.

VI. Analysis and Evaluation on Risk Matters in the Latest Annual Year and Until the Printing Date of the Annual Report:

1. Effects of Changes in Interest Rate and Exchange Rate and Inflation on the Company's Finance, and Future Response Measures

a. Impact on profits and losses of the company

Unit: NT\$ thousand

Item	Amount in 2018	Ratio on operating income (%)	Ratio on net income before tax (%)
Net interest income	26,238	0.57	8.25
Net exchange loss	51,633	1.13	16.23
Net forward exchange hedging income	(51,786)	(1.13)	(12.28)

b. Change of interest rate

The interest rate risk in our group comes from short-term loan. The loan issued on the basis of floating interest rate puts our group under the risk of cash flow interest rate. Part of interest rate risk is offset by cash and cash equivalents held on the basis of floating interest rate. Facing the inflation impact of loan interest rate, our group reviews market changes at any time and timely adjusts financing strategies. Up to March 31<sup>st</sup>, 2019, our company hasn't activated any loan.

c. Change of exchange rate

The business that our group engages with involves with some non-functional currency (our company and part of subsidiaries use New Taiwan Dollar as functional currency while part subsidiaries use RMB as functional currency), and it will be affected by the inflation of exchange rate. Our company establishes natural hedging strategies through recognized assets and liabilities as well as using SPOT, forward exchange, and currency exchange at the same time. We follow stable and sound principles for hedging in order to reduce the impact on the company's income caused by the inflation of exchange rate. The following is the information of assets and liabilities in foreign currency in our company that are with significant impact by the inflation of exchange rate (unit: NT\$ thousand):

December 31 <sup>st</sup> , 2018						
(Foreign currency: Functional currency)	Foreign currency (\$ thousand)	Exchange rate	Book value (NT\$)	Variance	Sensitivity analysis	
					Income affected	Affecting other comprehensive income
<b>Financial assets</b>						
<u>Item of currency</u>						
US\$:NT\$	\$ 55,185	30.79	\$ 1,699,146	1%	\$ 16,991	\$ -
RMB:NT\$	2,371	4.49	10,646	1%	106	-
US\$:RMB	36,882	6.86	1,135,597	1%	11,356	-
<b>Financial liabilities</b>						
<u>Item of currency</u>						
US\$:NT\$	\$ 35,593	30.79	\$ 1,095,908	1%	\$ 10,959	\$ -
US\$:RMB	25,144	6.86	773,260	1%	7,733	-

December 31<sup>st</sup>, 2017

	Foreign currency (\$ thousand)	Exchange rate	Book value (NT\$)	Vairanc e	Sensitivity analysis	
					Income affected	Affecting other comprehensive income
<b>(Foreign currency: Functional currency)</b>						
<u>Financial assets</u>						
<u>Item of currency</u>						
US\$:NT\$	\$ 40,551	29.77	\$ 1,207,203	1%	\$ 12,072	\$ -
RMB:NT\$	67,408	4.56	307,380	1%	3,074	-
US\$:RMB	31,838	6.53	947,817	1%	9,478	-
<u>Financial liabilities</u>						
<u>Item of currency</u>						
US\$:NT\$	\$ 29,595	29.77	\$ 881,043	1%	\$ 8,810	\$ -
US\$:RMB	21,946	6.53	653,332	1%	6,533	-

d. Inflation

Inflation has caused any adverse impact on the operation in our group. Our group will pay close attention on the company's income affected by the interest rate, exchange rate and inflation at any time and will propose relevant coping measures timely.

2. Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions
  - a. Currently the Company does not possess any high-risk or highly leveraged investments.
  - b. Up to March 31st, 2019, the Company engages with no lending to other parties and providing endorsements and guarantees.
  - c. Based on avoiding risk on foreign currency net position caused by the change of exchange rate, the amount on currency exchange contract that our Company engages with the transaction of financial derivatives was US\$36 million up to March 31st, 2019. Due to the purpose of the operation of financial derivatives in our company is for hedging and our company establishes strict regulation on "Handling Procedures for Asset Acquisition or Disposal" for this kind of transaction. Therefore, the profiting or loss generated will not cause material impact to the income in our company and its future operation will still be focused on hedging.
  - d. Financial products adopt hedge accounting and its purpose and method: Our group does not apply hedge accounting. Other than carefully evaluating the execution of above relevant policies and regularly reporting and controlling, it should comply with "Handling Procedures for Asset Acquisition or Disposal", "Opeating Procedures for Lending Capital to Other People", and "Operating Procedures for Endorsements and Guarantees".
3. Future Research and Development Projects and Corresponding budget:
  - a. Future research and development projects
    - (1) Continuous improvemenet of CISM cost and quality
    - (2) Designing ultraspeed A4 digital CISM
    - (3) Designing ultraspeed A3 digital CISM
    - (4) Development of next-generation thin CISM
    - (5) Developing niche CISM modules to be applied to banking and handheld device
    - (6)Applying COB packaging sensing module to environmental detection and MEMS sensor packaging.
    - (7) Application of Industry 4.0 optical inspection
    - (8)Developing automatic optical inspection modue with high resolution and high depth of focus
    - (9)Developing infrared thermographic imaging QVGA and VGA cassette mechanism

module

(10) Investment in developing infrared thermographic imaging temperature testing module

b. Estimated R&D budget invested: It is estimated the R&D budget for 2019 is around NT\$80 million.

4. Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

The management team in our group has always paid attention on any domestic and overseas policies and regulations that might affect the company's finance and business. Up to now, the changes on relevant policies and regulations do not cause major impact on the finance and business in our company.

5. Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales:

E-mail has replaced fax and become the main communication channel. Due to the development of this trend, handling fax won't be the reason why consumers purchase multi-function printer and the functions of scanning and copying become the main niche for multi-function printer. From fax machine, scanner to multi-function printer that combines fax, scanning, copying, and printing together, our company is able to keep up with the market supply and demand. We maintain high sensitivity towards the change of industrial technology in order to respond and satisfy customer demand rapidly.

6. The Impact of Changes in Corporate Image on the Corporate Risk Management, and the Company's Response Measures:

Our group has always worked hard to maintain corporate image and follow legal rules and regulations. Up to now, there is no event that might affect the company's corporate image.

7. Expected Benefits from, Risk Relating to and Response to Merger and Acquisition Plans: There is no merger or acquisition carried out by our group in the recent year.

8. Expected Benefits from, Risk Relating to and Response to Factory and Expansion Plans: There is no factory expansion plan carried out by our group in recent year.

9. Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration.

The market of multi-function printer mainly leads by brand manufacturers and the market shares of our main customers account for more than half in the world. The concentration of purchasing sources is the characteristics in the industry. In terms of color image sensor supply, it is an oligopoly industry due to there are very few domestic and overseas manufacturers that are equipped with the production technology of color image sensor, the market is demanding, and the industry is with high entry threshold. Currently, the manufacturers in our country or overseas that are capable of manufacturing color CISM are only Asia Tech Image, Canon Japan, and our company. Under the situation of limitation in the source of supply, the concentration of purchasing sources happens to each key manufacturer.

10. Effects of, Risks Relating to and Response to Large Share Transfer or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholding of over 10%: Directors, supervisors or major shareholders who possess more than 10% shares in our company in the most recent year do not engage with large stock transfer or changes.

11. Effects of, Risks Relating to and Response to Changes in Control over the Company: None.

12. Litigation or Non-litigation Matters Should be Clearly Listed the Confirmed Judgement or In-Progress Major Lawsuit, Non-Lawsuit or Administrative Remedies Related to the Company, Directors, Supervisors, General Manager, Actual Person in

Charge and Major Shareholders Holding More than 10% Shares as well as Disclose Dispute Fact, Target Amount, Commencement Date of Lawsuit, Key Parties if the Results Might Have Significant Impact on Shareholder's Equity or Stock Price and the Handling Status up to the Printing Date of the Annual Report: None.

13. Other Major Risks and Coping Measures: None.

VII. Other Important Matters: None.

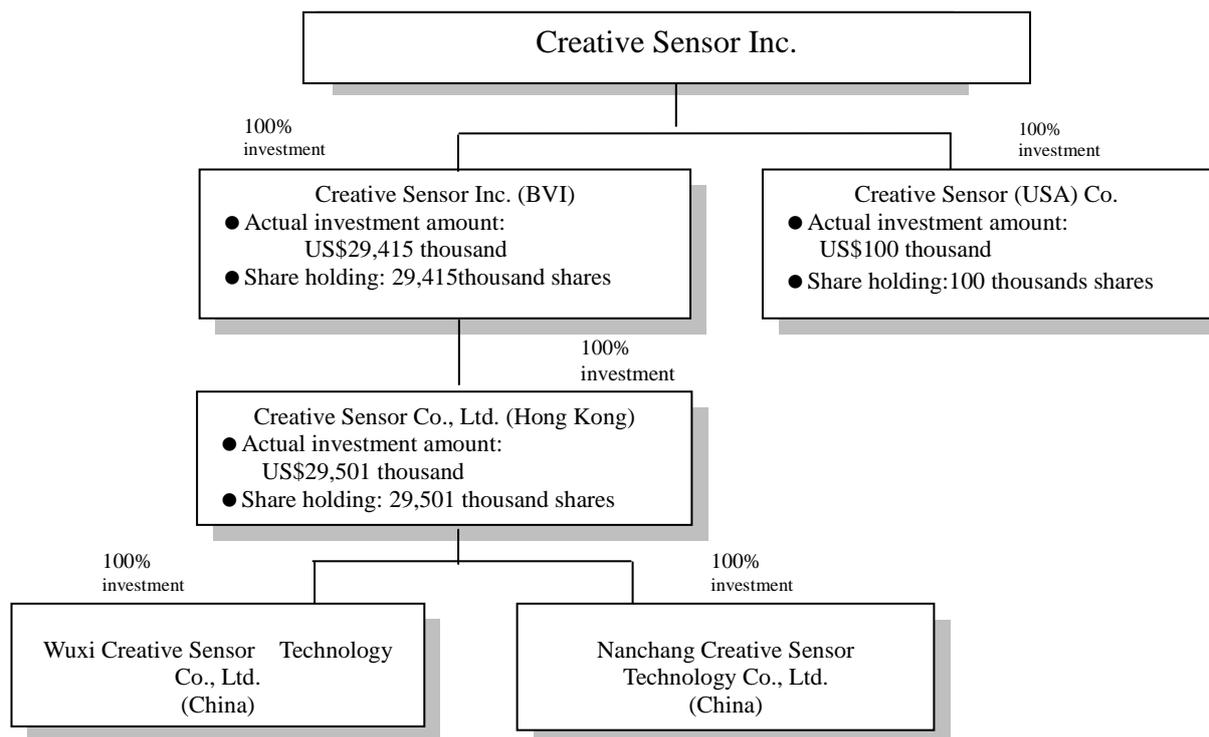
## VIII. Special Disclosures

### I. Information of Affiliated Companies

#### 1 Consolidated Operation Report of Affiliates

##### a. General information of affiliates

##### (1) Organization chart of affiliates



##### (2) Profile of affiliates

12.31.2018

Unit: NT\$ thousand

Name of corporation	Date	Address	Paid-in capital	Major operating or production items
Creative Sensor Inc.	06.2002	Beaufort House, P.O. Box 438, Road Town, Tortola, British Virgin Islands.	974,576	Holding Company
Creative Sensor (USA) Co.	10.2005	19 Peters Canyon RD. STEC Irvine, CA92606	3,169	Collecting market information and maintaining customer relationship
Creative Sensor Co., Ltd.	07.2002	Unit 618 6/F Peninsula CRT., No67 Mody Rd Tst East, Kowloon, HK	977,388	Holding Company
Wuxi Creative Sensor Technology Co., Ltd	08.2002	Lot No. 93, High-Tech Industrial Development Zone, Wuxi City, Jiangsu Province	555,930	Manufacturing image sensor
Nanchang Creative Sensor Technology Co., Ltd.	04.2007	No. 36, Huoju 5 <sup>th</sup> Road, High-Tech Industrial Development Zone, Nanchang City, Jiangxi Province	974,470	Manufacturing image sensor

Note: If the affiliate is an overseas company, relevant numbers should be exchanged to NT\$ with the exchange rate on the reporting date.

(3)The information of identical shareholders presumed to have control and subsidiary relationship: None.

(4)Industries covered by the operations of all affiliates:

The scope of businesses in the whole affiliates of our company's is Holding Company and manufacturing image sensor.

(5)Names and shareholdings or capital increase status of directors, supervisors, and presidents of affiliates

12.31.2018

Unit: thousand shares

Name of corporation	Title	Name	Rep.	No. of shares held	
				Shares	Percentage
Creative Sensor Inc.	Director	Creative Sensor Inc.	IKUJIN KO	29,415	100%
Creative Sensor Co., Ltd	Director	Creative Sensor Inc.	IKUJIN KO	29,501	100%
	Director	Creative Sensor Inc.	Lin Sheng-Chi		
Wuxi Creative Sensor Technology Co., Ltd.	Director	Creative Sensor Co., Ltd.	IKUJIN KO	Capital contribution certificate	100%
	Director	Creative Sensor Co., Ltd.	Lien Chao-Chih		
	Director	Creative Sensor Co., Ltd.	Wang En-Kuo		
	Director	Creative Sensor Co., Ltd.	Yang Chi-Chang		
	Director	Creative Sensor Co., Ltd.	Chen Chien-lung		
	General Manager	Chen Hung-Chi			0
Nanchang Creative Sensor Technology Co., Ltd.	Director	Creative Sensor Co., Ltd.	IKUJIN KO	Capital contribution certificate	100%
	Director	Creative Sensor Co., Ltd.	Lien Chao-Chih		
	Director	Creative Sensor Co., Ltd.	Wang En-Kuo		
	Director	Creative Sensor Co., Ltd.	Yang Chi-Chang		
	Director	Creative Sensor Co., Ltd.	Chen Hung-Chi		
	Director	Creative Sensor Co., Ltd.	Hou Chieh-Feng		
	General Manager	Chen Ho-Hsin			0
Creative Sensor (USA) Co.	Director	Creative Sensor Inc.	IKUJIN KO	100	100%
	Director	Creative Sensor Inc.	Yang Chi-Chang		
	Director	Creative Sensor Inc.	Lin Sheng-Chi		

## b. Operation of Affiliates

12.31.2018  
Unit: NT\$ thousand

Name of corporation	Capital (paid-in)	Total assets	Total liabilities	Net value	Operating revenue	Operating profit (loss)	Net profit (loss) after tax	Earnings per share (NT\$)
Creative Sensor Inc.	974,576	2,647,656	0	2,647,656	0	(50)	152,517	5.19
Creative Sensor (USA) Co.	3,169	3,706	602	3,104	0	(2,324)	48	0.48
Creative Sensor Co., Ltd.	977,388	1,883,755	14,102	1,869,653	0	(926)	108,689	3.68
Wuxi Creative Sensor Co., Ltd.	555,930	877,407	158,087	719,320	502,624	4,991	17,457	(Note 2)
Nanchang Creative Sensor Co., Ltd.	974,470	2,059,251	957,553	1,101,698	3,668,694	96,578	102,973	(Note 2)

Note: If the affiliate is an overseas company, relevant numbers should be exchanged to NT\$ with the exchange rate on the reporting date

Note 2: It is not applicable to some companies.

### (1) Consolidated Financial Statement of Affiliates:

Companies that should be included into affiliates consolidated financial statements are the same as those for parent-affiliate consolidated financial statements. Besides, the information that should be disclosed on affiliates consolidated statements has already been disclosed in the above parent-affiliate consolidated financial statements and it will not need to be prepared again.

### (2) Affiliates' report: None.

2. Private Placement Securities in the Latest Annual Year and Until the Printing Date of the Annual Report: None.
3. The Shares in the Company Held or Disposed of by Subsidiaries in the Latest Annual Year and Until the Printing Date of the Annual Report: None.
4. Other Necessary Supplementary Matters: None.
5. Matters That Have Significantly Affected Shareholder's Equity and Prices of Securities in the Latest Annual and Until the Printing Date of the Annual Report: None.

Creative Sensor Inc.

Declaration of Consolidated Financial Statements of Affiliated Enterprises

For the year ended December 31, 2018, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the company that is required to be included in the consolidated financial statements of affiliates, is the same as the company required to be included in the consolidated financial statements of parent and subsidiary companies under International Financial Reporting Standard 10. Also, if 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, it shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby declare,

Representative: Ko Ikujin

March 25, 2019

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Creative Sensor Inc.

### ***Opinion***

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

### ***Basis for opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Key audit matters***

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

The key audit matters in relation to the consolidated financial statements for the year ended December 31, 2018, are outlined as follows:

## **Impairment assessment of investments accounted for using equity method**

### Description

Please refer to Note 4(14) for accounting policy on investments of associates accounted for using equity method, Note 5 for the details of uncertainty of impairment assessment and assumption of investments accounted for using equity method, and Note 6(7) for the details of investments accounted for using equity method.

The Group applied value-in-use to measure recoverable amount and assessed the impairment of its investment, Teco Image Systems Co., Ltd. (hereinafter referred to as “Teco Image Systems”), accounted for using equity method. Since value-in-use involved forecasting of future years’ cash flow and determination of discounted rate, there is high uncertainty in relation to the assumptions, and the estimated outcome had a significant effect to the valuation of value-in-use, we identified the impairment assessment of investments accounted for using equity method as a key audit matter.

### How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Obtained an understanding of the procedures in estimating future cash flows, and confirmed that the future cash flows which were used in the valuation model was in agreement with the Teco Image Systems’s operation plan.
2. Compared the estimated revenue growth rate, gross rate and operating expense rate which were used in assessing value-in-use with historical data, other independent sources of economic and industry forecasting.
3. Compared the discounted rate which was used in assessing value-in-use with the capital cost in cash-generating units and similar return on assets.
4. Checked the calculation accuracy of the valuation model.

## **Existence of revenues of the newly top 10 significant customers**

### Description

Please refer to Note 4(25) for accounting policy on revenue recognition, Note 6(16) for the details of operating revenue.

The Group was mainly engaged in manufacturing and trading of image sensor and its electronic components. The products were primarily applied in multi-function printers, fax machines and scanners. The Group’s sales counterparties were mostly optimal OEM or system vendors and were based on the long-term business partnership. The Group was improving and developing their market share in order to maintain their leadership in the market.

After comparing the lists of the Group's top 10 significant customers for years ended December 31, 2018 and 2017, there were changes in sales revenue resulting in some customers being newly included in the top 10 list, and impacts the consolidated operating revenue. We considered the existence of sales revenues in relation to those newly top 10 significant customers to be significant to the financial statements. Therefore, we determined the existence of revenues from the newly top 10 significant customers as a key audit matter.

#### How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Assessed the revenue cycle and performed tests to determine that the Group's direct revenue process follows the internal control procedures.
2. Checked the related industry background information in respect of the newly top 10 significant customers.
3. Obtained and selected samples to verify related vouchers of sales revenue from the newly top 10 significant customers.

#### ***Other matter – Parent company only financial reports***

We have audited and expressed an unqualified opinion on the parent company only financial statements of Creative Sensor Inc. as at and for the years ended December 31, 2018 and 2017.

#### ***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 Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 supervisors, are responsible for overseeing the Group's financial reporting process.

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement 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 auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Chang, Shu-Chiung

Chou Tseng, Hui-Chin

For and on behalf of PricewaterhouseCoopers, Taiwan

March 25, 2019

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

**CREATIVE SENSOR INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2018		December 31, 2017		
		AMOUNT	%	AMOUNT	%	
<b>Current assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 773,409	17	\$ 779,885	17
1110	Financial assets at fair value through profit or loss - current	6(2) and 12(4)	276,972	6	392,328	8
1136	Financial assets at amortised cost - current, net	6(4)	1,233,141	26	-	-
1170	Accounts receivable, net	6(5)	636,693	14	531,432	12
1180	Accounts receivable - related parties, net	6(5) and 7	1,653	-	577	-
130X	Inventories, net	6(6)	497,264	11	331,744	7
1476	Other current financial assets	12(4)	-	-	1,095,248	24
1479	Other current assets, others		47,654	1	37,775	1
11XX	<b>Current Assets</b>		<u>3,466,786</u>	<u>75</u>	<u>3,168,989</u>	<u>69</u>
<b>Non-current assets</b>						
1517	Non-current financial assets at fair value through other comprehensive income	6(3)	284,042	6	-	-
1523	Non-current available-for-sale financial assets, net	12(4)	-	-	405,033	9
1550	Investments accounted for using equity method	6(7)	303,321	7	324,929	7
1600	Property, plant and equipment, net	6(8)	485,435	10	613,890	13
1780	Intangible assets		6,909	-	4,306	-
1840	Deferred income tax assets	6(20)	23,213	1	17,038	1
1900	Other non-current assets	6(9)	64,598	1	61,864	1
15XX	<b>Non-current assets</b>		<u>1,167,518</u>	<u>25</u>	<u>1,427,060</u>	<u>31</u>
1XXX	<b>Total assets</b>		<u>\$ 4,634,304</u>	<u>100</u>	<u>\$ 4,596,049</u>	<u>100</u>

(Continued)

**CREATIVE SENSOR INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2018		December 31, 2017	
		AMOUNT	%	AMOUNT	%
<b>Current liabilities</b>					
2170	Accounts payable	\$ 789,060	17	\$ 668,483	15
2180	Accounts payable - related parties	7		85,983	2
2200	Other payables	6(10)		346,911	8
2230	Income tax payable			19,863	-
2300	Other current liabilities			9,992	-
21XX	<b>Current Liabilities</b>	<u>1,284,592</u>	<u>28</u>	<u>1,131,232</u>	<u>25</u>
<b>Non-current liabilities</b>					
2570	Deferred income tax liabilities	6(20)		60,458	1
25XX	<b>Non-current liabilities</b>	<u>111,553</u>	<u>2</u>	<u>60,458</u>	<u>1</u>
2XXX	<b>Total Liabilities</b>	<u>1,396,145</u>	<u>30</u>	<u>1,191,690</u>	<u>26</u>
<b>Equity attributable to owners of parent</b>					
<b>Share capital</b>					
		6(12)			
3110	Capital stock - common stock			1,270,550	28
<b>Capital surplus</b>					
		6(13)			
3200	Capital surplus			677,467	15
<b>Retained earnings</b>					
		6(14)			
3310	Legal reserve			418,413	9
3320	Special reserve			39,847	1
3350	Unappropriated retained earnings			693,805	15
<b>Other equity interest</b>					
		6(15)			
3400	Other equity interest			304,277	6
31XX	<b>Equity attributable to owners of the parent</b>	<u>3,238,159</u>	<u>70</u>	<u>3,404,359</u>	<u>74</u>
3XXX	<b>Total equity</b>	<u>3,238,159</u>	<u>70</u>	<u>3,404,359</u>	<u>74</u>
<b>Significant contingent liabilities and unrecognized contract commitments</b>					
<b>Significant subsequent events</b>					
		11			
3X2X	<b>Total liabilities and equity</b>	<u>\$ 4,634,304</u>	<u>100</u>	<u>\$ 4,596,049</u>	<u>100</u>

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

CREATIVE SENSOR INC. AND SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed in thousands of New Taiwan dollars, except earnings per share)

				Year ended December 31			
				2018		2017	
Items	Notes	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000	<b>Net revenue</b>	6(16) and 7	\$ 4,576,761	100	\$ 3,957,862	100	
5000	<b>Cost of revenue</b>	6(6)(19) and 7	( 4,023,893)	( 88)	( 3,405,903)	( 86)	
5900	<b>Gross profit</b>		<u>552,868</u>	<u>12</u>	<u>551,959</u>	<u>14</u>	
	<b>Operating expenses</b>	6(19)					
6100	Selling expenses		( 93,048)	( 2)	( 91,921)	( 2)	
6200	General and administrative expenses		( 161,152)	( 3)	( 149,520)	( 4)	
6300	Research and development expenses		( 72,233)	( 2)	( 97,398)	( 3)	
6000	<b>Total operating expenses</b>		<u>( 326,433)</u>	<u>( 7)</u>	<u>( 338,839)</u>	<u>( 9)</u>	
6900	<b>Income from operations</b>		<u>226,435</u>	<u>5</u>	<u>213,120</u>	<u>5</u>	
	<b>Non-operating income and expenses</b>						
7010	Other income	6(17)	76,024	2	62,945	1	
7020	Other gains and losses	6(18)	( 1,449)	-	( 15,906)	-	
7060	Share of profit of associates and joint ventures accounted for using equity method, net		<u>17,178</u>	<u>-</u>	<u>23,529</u>	<u>1</u>	
7000	<b>Total non-operating income and expenses</b>		<u>91,753</u>	<u>2</u>	<u>70,568</u>	<u>2</u>	
7900	<b>Profit before income tax</b>		<u>318,188</u>	<u>7</u>	<u>283,688</u>	<u>7</u>	
7950	Income tax expense	6(20)	( 112,388)	( 2)	( 73,669)	( 2)	
8200	<b>Net income</b>		<u>\$ 205,800</u>	<u>5</u>	<u>\$ 210,019</u>	<u>5</u>	
	<b>Other comprehensive income</b>						
	<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>						
8311	Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans	6(11)	\$ 4,358	-	\$ 2,527	-	
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	6(3)(15)	( 120,991)	( 3)	-	-	
8320	Share of other comprehensive loss of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	6(15)	( 20,696)	-	71	-	
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(20)	( 1,044)	-	( 430)	-	
8310	<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>		<u>( 138,373)</u>	<u>( 3)</u>	<u>2,168</u>	<u>-</u>	
	<b>Components of other comprehensive income that will be reclassified to profit or loss</b>						
8361	Exchange differences on translation	6(15)	( 30,242)	( 1)	( 37,097)	( 1)	
8362	Unrealized gains (losses) on valuation of available-for-sale financial assets	6(15)	-	-	10,575	1	
8370	Share of other comprehensive (loss) income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	6(15)	( 97)	-	( 7,542)	-	
8360	<b>Components of other comprehensive income that will be reclassified to profit or loss</b>		<u>( 30,339)</u>	<u>( 1)</u>	<u>( 18,980)</u>	<u>-</u>	
8500	<b>Total comprehensive income for the year</b>		<u>\$ 37,088</u>	<u>1</u>	<u>\$ 193,207</u>	<u>5</u>	
	<b>Basic earnings per share</b>	6(21)					
9750	<b>Total basic earnings per share</b>		<u>\$ 1.62</u>		<u>\$ 1.65</u>		
	<b>Diluted earnings per share</b>	6(21)					
9850	<b>Total diluted earnings per share</b>		<u>\$ 1.60</u>		<u>\$ 1.63</u>		

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

**CREATIVE SENSOR INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in thousands of New Taiwan dollars)

	Notes	Equity attributable to owners of the parent								Total equity	
		Capital surplus			Retained Earnings			Other equity interest			
		Capital stock - common stock	Additional paid-in capital	Treasury stock transactions	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss from financial assets measured at fair value through other comprehensive income		Unrealized gain or loss on available-for-sal e financial assets
<b>2017</b>											
		\$1,270,550	\$ 673,471	\$ 3,996	\$ 392,660	\$ 39,847	\$ 710,659	\$ 202,102	\$ -	\$ 121,155	\$3,414,440
		-	-	-	-	-	210,019	-	-	-	210,019
	6(15)	-	-	-	-	-	2,168	( 37,987 )	-	19,007	( 16,812 )
		-	-	-	-	-	212,187	( 37,987 )	-	19,007	193,207
<b>Appropriations of 2016 earnings</b>											
	6(14)										
		-	-	-	25,753	-	( 25,753 )	-	-	-	-
		-	-	-	-	-	( 203,288 )	-	-	-	( 203,288 )
		\$1,270,550	\$ 673,471	\$ 3,996	\$ 418,413	\$ 39,847	\$ 693,805	\$ 164,115	\$ -	\$ 140,162	\$3,404,359
<b>2018</b>											
		\$1,270,550	\$ 673,471	\$ 3,996	\$ 418,413	\$ 39,847	\$ 693,805	\$ 164,115	\$ -	\$ 140,162	\$3,404,359
	12(4)	-	-	-	-	-	( 3,437 )	-	143,599	( 140,162 )	-
		1,270,550	673,471	3,996	418,413	39,847	690,368	164,115	143,599	-	3,404,359
		-	-	-	-	-	205,800	-	-	-	205,800
	6(15)	-	-	-	-	-	3,082	( 30,339 )	( 141,455 )	-	( 168,712 )
		-	-	-	-	-	208,882	( 30,339 )	( 141,455 )	-	37,088
<b>Appropriations of 2017 earnings</b>											
	6(14)										
		-	-	-	21,002	-	( 21,002 )	-	-	-	-
		-	-	-	-	-	( 203,288 )	-	-	-	( 203,288 )
		\$1,270,550	\$ 673,471	\$ 3,996	\$ 439,415	\$ 39,847	\$ 674,960	\$ 133,776	\$ 2,144	\$ -	\$3,238,159

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

**CREATIVE SENSOR INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31,	
		2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 318,188	\$ 283,688
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(8)(19)	166,719	162,372
Amortization	6(19)	5,529	4,460
Expected credit impairment losses	12(2)	192	-
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	6(2)(18)	51,786	( 31,831 )
Share of profit of associates and joint ventures accounted for using equity method		( 17,178 )	( 23,529 )
Net (gain) loss on disposal of property, plant and equipment	6(18)	( 716 )	695
Interest income	6(17)	( 26,238 )	( 20,386 )
Dividend income	6(17)	( 15,351 )	( 14,769 )
Reversal of impairment loss on non-financial assets	6(8)(18)	( 2,669 )	( 999 )
Changes in operating assets and liabilities			
Changes in operating assets			
Financial asset at fair value through profit or loss		63,570	142,600
Accounts receivable		( 106,529 )	18,091
Inventories		( 173,672 )	( 76,838 )
Other current assets		( 4,743 )	( 8,357 )
Changes in operating liabilities			
Accounts payable		133,125	50,015
Accounts payable - related parties		31,612	2,700
Other payables		15,464	35,551
Other current liabilities		181	( 4,195 )
Cash inflow generated from operations		439,270	519,268
Interest received		21,102	18,790
Dividends received		33,345	29,166
Income tax paid		( 64,089 )	( 79,453 )
Net cash flows from operating activities		<u>429,628</u>	<u>487,771</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in financial assets at amortised cost		( 145,174 )	-
Increase in other financial assets		-	( 31,006 )
Acquisition of property, plant and equipment	6(23)	( 58,634 )	( 17,640 )
Proceeds from disposal of property, plant and equipment		739	206
Acquisition of intangible assets		( 6,239 )	( 1,572 )
Increase in refundable deposits		( 451 )	-
Increase in other non-current assets		1,965	( 4,930 )
Net cash flows used in investing activities		<u>( 207,794 )</u>	<u>( 54,942 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of cash dividends	6(14)	( 203,288 )	( 203,288 )
Net cash flows used in financing activities		<u>( 203,288 )</u>	<u>( 203,288 )</u>
Effect of exchange rate		( 25,022 )	( 60,180 )
Net (decrease) increase in cash and cash equivalents		( 6,476 )	169,361
Cash and cash equivalents at beginning of year		779,885	610,524
Cash and cash equivalents at end of year		<u>\$ 773,409</u>	<u>\$ 779,885</u>

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

CREATIVE SENSOR INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

**1. HISTORY AND ORGANIZATION**

Creative Sensor Inc. (the "Company") was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company and its subsidiaries (collectively referred herein as the "Group") are primarily engaged in manufacturing and trading of image sensor and its electronic components. Starting from May 17, 2005, the Company's stock was officially listed on the Taiwan Stock Exchange.

**2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION**

These consolidated financial statements were authorised by the Board of Directors on March 25, 2019.

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

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

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

IFRS 9, 'Financial instruments'

- A. Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income and financial asset at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.
- B. The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- C. The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Notes 12(4)B and C.

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

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

#### IFRS 16, 'Leases'

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

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"). It is expected that 'right-of-use asset' and lease liability will be increased by \$46,687 and \$4,899, and other non-current assets will be decreased by \$41,788 on January 1, 2019.

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

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

New Standards, Interpretations and Amendments
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'
Amendments to IFRS 3, 'Definition of a business'
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'

#### IFRS 17, 'Insurance contracts'

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

- A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:
- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
  - (b) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.
  - (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 was not restated. The financial statements for the year ended December 31, 2017 was prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 11 (‘IAS 11’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

- A. Basis for preparation of consolidated financial statements:
- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
  - (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
  - (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results

in the noncontrolling interests having a deficit balance.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)	
			December 31, 2018	December 31, 2017
Creative Sensor Inc.	Creative Sensor Inc. (BVI)	Holding company	100	100
Creative Sensor Inc.	Creative Sensor (USA) Co.	Collection of marketing information and maintaining relationship with customers	100	100
Creative Sensor Inc. (BVI)	Creative Sensor Co. Ltd.	Holding company	100	100
Creative Sensor Co., Ltd.	Wuxi Creative Sensor Technology Co., Ltd.	Manufacturing of image sensor	100	100
Creative Sensor Co., Ltd.	Nanchang Creative Sensor Technology Co., Ltd.	Manufacturing of image sensor	100	100

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions on fund remittance from subsidiaries to the parent company: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

#### B. Translation of foreign operations

The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period;
- (c) All resulting exchange differences are recognized in other comprehensive income.

#### (5) Classification of current and non-current items

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

- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

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

Effective 2018

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

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

Effective 2018

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
  - (a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and
  - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:
 

The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(9) Financial assets at amortised cost

Effective 2018

- A. Financial assets at amortised cost are those that meet all of the following criteria:
- (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
  - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) Accounts and notes receivable

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

(11) Impairment of financial assets

For financial assets at amortised cost, including accounts receivable that have a significant financing component, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(12) Derecognition of financial assets

The Group derecognizes a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(13) Inventories

Inventories are stated at the lower of cost and net realisable value. The perpetual inventory system is adopted for inventory recognition. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(14) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	20 years
Machinery and equipment	3 - 10 years
Office equipment	3 - 5 years
Leasehold improvements	5 years
Other equipment	3 - 5 years

(16) Intangible assets

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 3 to 5 years.

(17) Operating leases (lessee)

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

(18) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(19) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(20) Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is either discharged or cancelled or expires.

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

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.

B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these

financial liabilities at fair value with any gain or loss recognised in profit or loss.

(22) Non-hedging derivatives

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

(23) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.
- ii. Remeasurement arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(24) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.
- F. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(25) Revenue recognition

Sales of goods

- A. The Group manufactures and sells image sensor and electronic components. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

- B. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts and sales discounts and allowances. The sales usually are made with a credit term of 30-75 days after monthly billing, which is consistent with market practice. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.
- C. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(26) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are presented by deducting the grants from the asset's carrying amount and are amortized to profit or loss over the estimated useful lives of the related assets as reduced depreciation expenses

(27) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

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

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

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

None.

(2) Critical accounting estimates and assumptions

Impairment assessment of investments accounted for using equity method

The Group assesses the impairment of an investment accounted for using equity method as soon as there any indication that it might have been impaired and its carrying amount cannot be recoverable. The Group assesses the recoverable amounts of an investment accounted for under the equity method based on the present value of the Group's share of expected future cash flows of the investee, and analyses the reasonableness of related assumptions.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and revolving funds	\$ 373	\$ 182
Checking accounts and demand deposits	616,013	602,015
Time deposits	<u>157,023</u>	<u>177,688</u>
Total	<u>\$ 773,409</u>	<u>\$ 779,885</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to diversify credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

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

#### Effective 2018

<u>Items</u>	<u>December 31, 2018</u>
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Beneficiary certificates	\$ 273,461
Derivative instrument	<u>1,802</u>
	275,263
Valuation adjustment	<u>1,709</u>
Total	<u>\$ 276,972</u>

A. Amounts recognised in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

	<u>Year ended</u> <u>December 31, 2018</u>
Financial assets mandatorily measured at fair value through profit or loss	
Beneficiary certificates	\$ 1,496
Derivative instrument	<u>(53,282)</u>
Total	<u>(\$ 51,786)</u>

B. The Group has no financial assets at fair value through profit or loss pledged to others.

C. The Group entered into contracts relating to derivative financial liabilities which were not accounted for under hedge accounting. The information is listed below:

December 31, 2018

Derivative instruments	Contract amount (Notional principal) (In thousands)	Maturity date of the contract
Cross currency swap	USD 2,000	2019.01.22
Cross currency swap	USD 4,000	2019.02.22
Cross currency swap	USD 5,500	2019.04.12
Cross currency swap	USD 1,000	2019.04.22
Cross currency swap	USD 1,500	2019.06.20
Cross currency swap	USD 3,000	2019.06.21
Forward foreign exchange contracts	USD 3,000	2019.01.23
Forward foreign exchange contracts	USD 2,000	2019.01.29
Forward foreign exchange contracts	USD 1,000	2019.01.29
Forward foreign exchange contracts	USD 2,000	2019.04.26
Forward foreign exchange contracts	USD 2,000	2019.05.21

(a) Cross currency swap

The Group entered into cross currency swap contracts which were exchange swap transactions between foreign currencies to hedge the volatility risk of the exchange rate. However, these cross currency swap contracts are not accounted for under hedge accounting.

(b) Forward foreign exchange contracts

The Group entered into forward foreign exchange contracts to sell USD to hedge the volatility risk of the exchange rate. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

D. The information for the year ended December 31, 2017 is provided in Note 12(4).

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

Effective 2018

Items	December 31, 2018
Non-current items:	
Equity instruments	
Listed stocks	\$ 286,186
Unlisted stocks	3,590
	289,776
Valuation adjustment	( 5,734)
Total	\$ 284,042

A. The Group has elected to classify abovementioned shares that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$284,042 as at December 31, 2018.

- B. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	<u>Year ended</u> <u>December 31, 2018</u>
<u>Equity instruments at fair value through other comprehensive income</u>	
Fair value change recognised in other comprehensive income	(\$ <u>120,991</u> )
Dividend income recognised in profit or loss	
Held at end of year	<u>\$ 15,351</u>

- C. The Group has no financial assets at fair value through other comprehensive income pledged to others.

- D. The information of available-for-sale financial assets for the year ended December 31, 2017 is provided in Note 12(4).

(4) Financial assets at amortised cost

Effective 2018

<u>Items</u>	<u>December 31, 2018</u>
Current items:	
Time deposits with maturity over three months	<u>\$ 1,233,141</u>

- A. Amounts recognised in profit or loss in relation to financial assets at amortised cost are listed below:

	<u>Year ended</u> <u>December 31, 2018</u>
Interest income	\$ 14,700
Loss on disposals	( <u>1,005</u> )
	<u>\$ 13,695</u>

- B. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at amortised cost held by the Group was \$1,233,141.

- C. The Group has no financial assets at amortised cost pledged to others.

- D. Information of financial assets at amortised cost relating to credit risk is provided in Note 12(2).

- E. The information of other financial assets for the year ended December 31, 2017 is provided in Note 12(4).

(5) Accounts receivable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	\$ 636,885	\$ 531,432
Accounts receivable due from related parties	1,653	577
Less: Loss allowance	( 192)	-
	<u>\$ 638,346</u>	<u>\$ 532,009</u>

A. The ageing analysis of accounts receivable (including related parties) that were past due but not impaired is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Without past due	\$ 637,034	\$ 512,970
Up to 30 days	1,504	19,039
	<u>\$ 638,538</u>	<u>\$ 532,009</u>

The above ageing analysis was based on past due date.

B. The Group does not hold any collateral as security.

C. As at December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's accounts receivable were \$638,346 and \$532,009, respectively.

D. Information of accounts receivable relating to credit risk is provided in Note 12(2).

(6) Inventories

	<u>December 31, 2018</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 186,901	(\$ 7,332)	\$ 179,569
Work in progress	23,294	( 90)	23,204
Finished goods	298,628	( 4,137)	294,491
Total	<u>\$ 508,823</u>	<u>(\$ 11,559)</u>	<u>\$ 497,264</u>

	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 127,874	(\$ 3,517)	\$ 124,357
Work in progress	14,688	-	14,688
Finished goods	199,063	( 6,364)	192,699
Total	<u>\$ 341,625</u>	<u>(\$ 9,881)</u>	<u>\$ 331,744</u>

The cost of inventories recognized as expense for the year:

	Years ended December 31,	
	2018	2017
Cost of goods sold	\$ 4,025,414	\$ 3,402,586
Inventory valuation loss	1,678	6,296
Others	( 3,199)	( 2,979)
Total	<u>\$ 4,023,893</u>	<u>\$ 3,405,903</u>

(7) Investments accounted for using equity method

	December 31, 2018	December 31, 2017
K9 Inc.	\$ -	\$ -
Teco Image Systems Co., Ltd	303,321	324,929
	<u>\$ 303,321</u>	<u>\$ 324,929</u>

A. The basic information of the associates that are material to the Group is as follows:

<u>Company name</u>	Principal place of business	<u>Shareholding ratio</u>		Nature of relationship	Methods of measurement
		December 31, 2018	December 31, 2017		
Teco Image Systems Co., Ltd	Taiwan	10.66%	10.66%	Buyer	Equity method

B. The summarized financial information of the associates that are material to the Group is as follows:

Balance sheet

	<u>Teco Image Systems Co., Ltd</u>	
	December 31, 2018	December 31, 2017
Current assets	\$ 1,504,127	\$ 1,889,630
Non-current assets	1,010,122	931,701
Current liabilities	( 742,630)	( 838,503)
Non-current liabilities	( 24,805)	( 30,265)
Total net assets	<u>\$ 1,746,814</u>	<u>\$ 1,952,563</u>
Share in associate's net assets	\$ 186,285	\$ 207,893
Goodwill	117,036	117,036
Carrying amount of the associate	<u>\$ 303,321</u>	<u>\$ 324,929</u>

Statement of comprehensive income

	Years ended December 31,	
	2018	2017
Revenue	\$ 2,162,117	\$ 2,354,414
Profit for the period from continuing operations	\$ 160,483	\$ 220,773
Other comprehensive (loss) income, net of tax	( 197,427)	71,411
Total comprehensive (loss) income	(\$ 36,944)	\$ 292,184
Dividends received from associates	\$ 17,994	\$ 14,395

- C. The Group's material associate, Teco Image Systems Co., Ltd, has quoted market prices. As of December 31, 2018 and 2017, the fair value was \$167,944 and \$199,134, respectively.
- D. The Group owns less than 20% of the voting rights in Teco Image Systems Co., Ltd but holds one-third seats (2 out of 7 board seats) in the Board of Directors of Teco Image. The Group is a substantial shareholder of Teco Image and evaluates its investment accounted for under the equity method.
- E. In January 2008, the Group invested US\$1,000,000 in K9 Inc. Due to the underperformance of K9 Inc. and changes in the Group's investment strategies, the Group adopted the conservatism principle and wrote-off the original investment amount of US\$1,000,000 (approximately NT\$32,314 thousand) in June 2008. As of December 31, 2018 and 2017, the Group's shareholding ratio in K9 Inc. and the ending balance of investment was all 33.82%. For the years ended December 31, 2018 and 2017, the investment income (loss) was both \$0.

(8) Property, plant and equipment

	<u>Buildings and structures</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Others equipment</u>	<u>Construction in progress and equipment to be inspected</u>	<u>Total</u>
<u>At January 1, 2018</u>							
Cost	\$ 640,818	\$ 1,549,118	\$ 49,281	\$ 41,868	\$ 30,547	\$ 396	\$ 2,312,028
Accumulated depreciation and impairment	( 407,168)	( 1,186,781)	( 43,679)	( 31,784)	( 28,726)	-	( 1,698,138)
	<u>\$ 233,650</u>	<u>\$ 362,337</u>	<u>\$ 5,602</u>	<u>\$ 10,084</u>	<u>\$ 1,821</u>	<u>\$ 396</u>	<u>\$ 613,890</u>
<u>2018</u>							
Opening net book value as at January 1	\$ 233,650	\$ 362,337	\$ 5,602	\$ 10,084	\$ 1,821	\$ 396	\$ 613,890
Additions	-	2,897	4,325	2,186	349	34,797	44,554
Disposals	-	( 23)	-	-	-	-	( 23)
Transfer	-	32,732	-	-	819	( 33,551)	-
Reclassifications	-	-	-	-	-	( 1,528)	( 1,528)
Gain on reversal of impairment	-	2,669	-	-	-	-	2,669
Depreciation	( 47,667)	( 108,316)	( 3,757)	( 5,945)	( 1,034)	-	( 166,719)
Net exchange differences	( 2,736)	( 4,655)	( 34)	( 16)	( 9)	42	( 7,408)
Closing net book value as at December 31	<u>\$ 183,247</u>	<u>\$ 287,641</u>	<u>\$ 6,136</u>	<u>\$ 6,309</u>	<u>\$ 1,946</u>	<u>\$ 156</u>	<u>\$ 485,435</u>
<u>At December 31, 2018</u>							
Cost	\$ 631,003	\$ 1,492,832	\$ 52,395	\$ 43,763	\$ 31,209	\$ 156	\$ 2,251,358
Accumulated depreciation and impairment	( 447,756)	( 1,205,191)	( 46,259)	( 37,454)	( 29,263)	-	( 1,765,923)
	<u>\$ 183,247</u>	<u>\$ 287,641</u>	<u>\$ 6,136</u>	<u>\$ 6,309</u>	<u>\$ 1,946</u>	<u>\$ 156</u>	<u>\$ 485,435</u>

	<u>Buildings and structures</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Others equipment</u>	<u>Construction in progress and equipment to be inspected</u>	<u>Total</u>
<u>At January 1, 2017</u>							
Cost	\$ 654,501	\$ 1,529,585	\$ 51,925	\$ 77,968	\$ 31,431	\$ 63,266	\$ 2,408,676
Accumulated depreciation and impairment	( 367,295)	( 1,121,475)	( 42,771)	( 61,967)	( 28,071)	( 907)	( 1,622,486)
	<u>\$ 287,206</u>	<u>\$ 408,110</u>	<u>\$ 9,154</u>	<u>\$ 16,001</u>	<u>\$ 3,360</u>	<u>\$ 62,359</u>	<u>\$ 786,190</u>
<u>2017</u>							
Opening net book value as at January 1	\$ 287,206	\$ 408,110	\$ 9,154	\$ 16,001	\$ 3,360	\$ 62,359	\$ 786,190
Additions	-	201	66	-	59	8,573	8,899
Disposals	-	( 32)	-	-	-	( 869)	( 901)
Transfer	-	68,409	155	-	106	( 68,670)	-
Reclassifications	-	-	-	-	-	( 367)	( 367)
Gain on reversal of impairment	-	130	-	-	-	869	999
Depreciation	( 46,926)	( 104,410)	( 3,597)	( 5,811)	( 1,628)	-	( 162,372)
Net exchange differences	( 6,630)	( 10,071)	( 176)	( 106)	( 76)	( 1,499)	( 18,558)
Closing net book value as at December 31	<u>\$ 233,650</u>	<u>\$ 362,337</u>	<u>\$ 5,602</u>	<u>\$ 10,084</u>	<u>\$ 1,821</u>	<u>\$ 396</u>	<u>\$ 613,890</u>
<u>At December 31, 2017</u>							
Cost	\$ 640,818	\$ 1,549,118	\$ 49,281	\$ 41,868	\$ 30,547	\$ 396	\$ 2,312,028
Accumulated depreciation and impairment	( 407,168)	( 1,186,781)	( 43,679)	( 31,784)	( 28,726)	-	( 1,698,138)
	<u>\$ 233,650</u>	<u>\$ 362,337</u>	<u>\$ 5,602</u>	<u>\$ 10,084</u>	<u>\$ 1,821</u>	<u>\$ 396</u>	<u>\$ 613,890</u>

A. For the years ended December 31, 2018 and 2017, the Group recognized impairment loss both amounting to \$0 and gain on reversal of impairment was \$2,669 and \$999, respectively, after assessing and comparing the carrying amount and recoverable amount of property, plant and equipment.

B. The Group has not pledged property, plant and equipment as a collateral or capitalise the interest.

(9) Other non-current assets

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Long-term prepaid rents	\$ 41,788	\$ 43,542
Prepayments for equipment	2,245	4,420
Refundable deposits	4,630	4,179
Others	15,935	9,723
	<u>\$ 64,598</u>	<u>\$ 61,864</u>

On June 29, 2007, the Group signed a land use right contract with Gaoxin branch of the Bureau of Land and Resources Bureau in Nanchang City, Jiangxi Province, People's Republic of China with a term of 50 years. All rentals had been paid on the contract date. The Group recognized rental expenses of \$1,104 and \$1,090 for the years ended December 31, 2018 and 2017, respectively.

(10) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accrued employees' compensation and directors' and supervisors' remuneration	\$ 37,044	\$ 37,803
Royalties payable	52,191	52,191
Bonus payable	107,266	119,698
Wages and salaries payable	71,034	49,241
Service fees payable	6,798	7,301
Payables on equipment	6,627	20,707
Freight payable	6,811	3,641
Others	57,444	56,329
	<u>\$ 345,215</u>	<u>\$ 346,911</u>

(11) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Act., covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Act,. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. In June 2017 and July 2018, the Department of Labor, Taipei City Government approved that the Company stop contributing to the retirement fund temporarily for 2018 and 2019.

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	\$ 8,624	\$ 12,303
Fair value of plan assets	( 19,606)	( 18,842)
Net defined benefit assets	<u>(\$ 10,982)</u>	<u>(\$ 6,539)</u>

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

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan asset</u>	<u>Net defined benefit asset</u>
Year ended December 31, 2018			
Balance at January 1	\$ 12,303	(\$ 18,842)	(\$ 6,539)
Interest expense (income)	<u>160</u>	<u>( 245)</u>	<u>( 85)</u>
	<u>12,463</u>	<u>( 19,087)</u>	<u>( 6,624)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	( 519)	( 519)
Change in financial assumptions	141	-	141
Experience adjustments	<u>( 3,980)</u>	<u>-</u>	<u>( 3,980)</u>
	<u>( 3,839)</u>	<u>( 519)</u>	<u>( 4,358)</u>
Balance at December 31	<u>\$ 8,624</u>	<u>(\$ 19,606)</u>	<u>(\$ 10,982)</u>

	Present value of defined benefit obligations	Fair value of plan asset	Net defined benefit asset
Year ended December 31, 2017			
Balance at January 1	\$ 14,698	(\$ 18,647)	(\$ 3,949)
Interest expense (income)	235	( 298)	( 63)
	<u>14,933</u>	<u>( 18,945)</u>	<u>( 4,012)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	103	103
Change in financial assumptions	561	-	561
Experience adjustments	( 3,191)	-	( 3,191)
	<u>( 2,630)</u>	<u>103</u>	<u>( 2,527)</u>
Balance at December 31	<u>\$ 12,303</u>	<u>(\$ 18,842)</u>	<u>(\$ 6,539)</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS19 paragraph 142. The percentage composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.
- (e) The principal actuarial assumptions used were as follows:

	Years ended December 31,	
	2018	2017
Discount rate	1.20%	1.30%
Future salary increases	3.00%	3.00%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

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

	<u>Discount rate</u>		<u>Future salary increases</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ <u>347</u> )	\$ <u>364</u>	\$ <u>334</u>	(\$ <u>322</u> )
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ <u>470</u> )	\$ <u>492</u>	\$ <u>451</u>	(\$ <u>434</u> )

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

- (f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amounts to \$0.
- (g) As of December 31, 2018, the weighted average duration of that retirement plan is 17 years.
- B. (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6 % of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The Company’s mainland China subsidiaries, Nanchang Creative Sensor Technology Co., Ltd. and Wuxi Creative Sensor Technology Co., Ltd., have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees’ monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- (c) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017, were \$17,289 and \$15,622, respectively.

(12) Capital stock

- A. As of December 31, 2018, the Company’s authorized capital was \$1,600,000, consisting of 160,000 thousand shares of ordinary stock (including 15,000 thousand shares reserved for employee stock options), and the paid-in capital was \$1,270,550 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.
- B. For the years ended December 31, 2018 and 2017, there was no movement in the number of the Company’s shares which was both 127,055 thousand shares.

(13) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the

Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(14) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall be distributed in the following order:

- (a) Pay all taxes.
- (b) Cover accumulated deficit.
- (c) Set aside 10% for legal reserve until the legal reserve equals the total capital stock balance.
- (d) Set aside or reverse special reserve in accordance with related regulations.
- (e) The appropriation of the amount of distributable earnings after deducting items from (a) to (d), along with the accumulated unappropriated earnings, shall be proposed by the Board of Directors and resolved by the shareholders.

The Company operates in a steady growth environment. Since the Company has plans for plant expansion and reinvestment, the current distributable earnings shall be appropriated as shareholders' bonus that account for 80% of the amount. Dividends to shareholders in the form of cash shall generally account for 50% but shall account for at least 5%.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

D. (a) Details of 2017 and 2016 earnings appropriation resolved by the stockholders on June 27, 2018 and June 15, 2017, respectively, are as follows:

	Years ended December 31,			
	2017		2016	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 21,002	\$ -	\$ 25,753	\$ -
Cash dividends	203,288	1.6	203,288	1.6
<b>Total</b>	<b>\$ 224,290</b>		<b>\$ 229,041</b>	

The abovementioned earnings appropriation for the year of 2017 was in agreement with the amounts proposed by the Board of Directors on March 21, 2018.

(b) The 2018 earnings appropriation which was proposed at the Board of Directors' meeting on March 25, 2019, is as follows:

	Year ended December 31, 2018	
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 20,580	\$ -
Cash dividends	165,171	1.3
Total	<u>\$ 185,751</u>	

Information about earnings appropriation as resolved at the Board of Directors' and stockholders' meetings will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

E. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6 (19).

(15) Other equity items

	Unrealised gains (losses) on valuation	Currency translation	Total
At January 1, 2018	\$ 140,162	\$ 164,115	\$ 304,277
Effect of retrospective application and retrospective restatement:			
— Group	( 3,590)	-	( 3,590)
— Associates	7,027	-	7,027
Valuation adjustment:			
— Group	( 120,991)	-	( 120,991)
— Associates	( 20,464)	-	( 20,464)
Currency translation differences:			
— Group	-	( 30,242)	( 30,242)
— Associates	-	( 97)	( 97)
At December 31, 2018	<u>\$ 2,144</u>	<u>\$ 133,776</u>	<u>\$ 135,920</u>

	Available-for-sale investment	Currency translation	Total
At January 1, 2017	\$ 121,155	\$ 202,102	\$ 323,257
Valuation adjustment of available- for-sale investments:			
— Group	10,575	-	10,575
— Associates	8,432	-	8,432
Currency translation differences:			
— Group	-	( 37,097)	( 37,097)
— Associates	-	( 890)	( 890)
At December 31, 2017	<u>\$ 140,162</u>	<u>\$ 164,115</u>	<u>\$ 304,277</u>

(16) Operating revenue

	Year ended December 31, 2018
Revenue from contracts with customers	\$ <u>4,576,761</u>

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the following major geographical regions:

Year ended December 31, 2018	China	Others	Total
Revenue from external customer contracts	\$ <u>2,295,882</u>	\$ <u>2,280,879</u>	\$ <u>4,576,761</u>

The Group derives revenue from the transfer of goods and services at a point in time.

B. Related disclosures for the year ended December 31, 2017, operating revenue are provided in Note 12(5) B.

(17) Other income

	Years ended December 31,	
	2018	2017
Interest income:		
Interest income from bank deposits	\$ 11,538	\$ 20,386
Interest income from financial assets measured at amortised cost	<u>14,700</u>	<u>-</u>
Total interest income	<u>26,238</u>	<u>20,386</u>
Rental revenue	4,061	4,036
Government grants	12,259	4,272
Dividend income	15,351	14,769
Directors' and supervisors' remuneration	13,381	14,722
Other income, others	<u>4,734</u>	<u>4,760</u>
	\$ <u>76,024</u>	\$ <u>62,945</u>

(18) Other gains and losses

	Years ended December 31,	
	2018	2017
Gains (losses) on disposal of property, plant and equipment	\$ 716	(\$ 695)
Foreign exchange gains (losses)	51,633	( 44,723)
(Losses) gains on financial assets (liabilities) at fair value through profit or loss	( 51,786)	31,831
Gains on reversal of impairment loss recognised in profit or loss - property, plant and equipment	2,669	999
Other gains and losses	( 4,681)	( 3,318)
	<u>(\$ 1,449)</u>	<u>(\$ 15,906)</u>

(19) Employee benefit expense, depreciation and amortization

For the years ended December 31, 2018 and 2017, employee benefit expense, depreciation and amortization categorized by function were summarized as follows:

	Year ended December 31, 2018		
	Operating costs	Operating expenses	Total
Employee benefit expense			
Wages and salaries	\$ 349,438	\$ 160,488	\$ 509,926
Labor and health insurance fees	31,077	10,178	41,255
Pension costs	10,996	6,208	17,204
Other personnel expense	11,216	7,461	18,677
Depreciation	148,842	17,877	166,719
Amortization	3,777	1,752	5,529

	Year ended December 31, 2017		
	Operating costs	Operating expenses	Total
Employee benefit expense			
Wages and salaries	\$ 283,996	\$ 174,788	\$ 458,784
Labor and health insurance fees	30,622	10,266	40,888
Pension costs	9,228	6,331	15,559
Other personnel expense	8,986	7,342	16,328
Depreciation	144,907	17,465	162,372
Amortization	2,708	1,752	4,460

- A. According to the Articles of Incorporation of the Company, the profit before deduction of employees' compensation and directors' and supervisors' remuneration and after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall account for 5%~15% for employees' compensation and shall not be higher than 5% for directors' and supervisors' remuneration.
- B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at \$27,783 and \$28,352, respectively; directors' and supervisors' remuneration was accrued at \$9,261 and \$9,451, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated based on the distributable profit of current year for the year ended December 31, 2018. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$27,783 and \$9,261, respectively, and the employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2017 financial statements were \$28,352 and \$9,451, respectively, and the employees' compensation will be distributed in the form of cash..

Information about employees' compensation and directors' and supervisors' remuneration of the Company as approved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(20) Income tax

A. Income tax expense

(a) Components of income tax expense:

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Current tax:		
Total current tax	\$ 68,296	\$ 64,329
10% tax imposed on undistributed surplus earnings	-	2,948
Prior year income tax (over) under estimation	( 204)	( 146)
Total current tax	<u>68,092</u>	<u>67,131</u>
Deferred tax:		
Origination and reversal of temporary differences	20,869	7,183
Impact of change in tax rate	23,007	-
Effect of exchange rate	420	( 645)
Total deferred tax	<u>44,296</u>	<u>6,538</u>
Income tax expense	<u>\$ 112,388</u>	<u>\$ 73,669</u>

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

	Years ended December 31,	
	2018	2017
Remeasurement of defined benefit obligations	\$ 872	\$ 430
Impact of change in tax rate	172	-
	<u>\$ 1,044</u>	<u>\$ 430</u>

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate (Note)	\$ 92,759	\$ 64,267
Effect from items disallowed by tax regulations	( 6,230)	( 6,708)
Prior year income tax underestimation	( 204)	( 146)
Tax on undistributed surplus earnings	-	2,948
Change in assessment of realisation of deferred tax assets	3,056	13,308
Effect from changes in tax regulation	<u>23,007</u>	<u>-</u>
Income tax expense	<u>\$ 112,388</u>	<u>\$ 73,669</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

C. Amounts of deferred tax assets or liabilities as a result of temporary difference and investment tax credit are as follows:

	2018			
	<u>January 1</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>December 31</u>
Temporary differences:				
—Deferred tax assets:				
Unrealized gain on affiliates	\$ 499	(\$ 178)	\$ -	\$ 321
Unrealized inventory valuation losses	2,421	596	-	3,017
Unrealized expenses	4,079	7,402	-	11,481
Loss on scraps of property, plant and equipment	1,747	( 27)	-	1,720
Unrealized grant revenue	2,425	( 722)	-	1,703
Impairment loss on property, plant and equipment	5,867	( 896)	-	4,971
	<u>\$ 17,038</u>	<u>\$ 6,175</u>	<u>\$ -</u>	<u>\$ 23,213</u>
—Deferred tax liabilities:				
Unrealised exchange gain	(\$ 1,443)	\$ 767	\$ -	(\$ 676)
Gain on investments accounted for using equity method	( 57,903)	( 50,418)	-	( 108,321)
Unrealized valuation gain on financial assets	-	( 360)	-	( 360)
Defined benefit plan	( 1,112)	( 40)	( 1,044)	( 2,196)
	<u>(\$ 60,458)</u>	<u>(\$ 50,051)</u>	<u>(\$ 1,044)</u>	<u>(\$ 111,553)</u>
	<u>(\$ 43,420)</u>	<u>(\$ 43,876)</u>	<u>(\$ 1,044)</u>	<u>(\$ 88,340)</u>

2017

Temporary differences:	<u>January 1</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>December 31</u>
— Deferred tax assets:				
Unrealized gain on affiliates	\$ 697	(\$ 198)	\$ -	\$ 499
Unrealized inventory valuation losses	791	1,630	-	2,421
Unrealized valuation loss on foreign financial assets	3,061	( 3,061)	-	-
Unrealized expenses	893	3,186	-	4,079
Loss on scraps of property, plant and equipment	1,784	( 37)	-	1,747
Unrealized grant revenue	3,255	( 830)	-	2,425
Impairment loss on property, plant and equipment	5,786	81	-	5,867
Unrealized exchange gain	1,293	( 1,293)	-	-
	<u>\$ 17,560</u>	<u>(\$ 522)</u>	<u>\$ -</u>	<u>\$ 17,038</u>
— Deferred tax liabilities:				
Unrealised exchange gain	\$ -	(\$ 1,443)	\$ -	(\$ 1,443)
Gain on investments accounted for using equity method	( 52,696)	( 5,207)	-	( 57,903)
Defined benefit plan	( 671)	( 11)	( 430)	( 1,112)
	<u>(\$ 53,367)</u>	<u>(\$ 6,661)</u>	<u>(\$ 430)</u>	<u>(\$ 60,458)</u>
	<u>(\$ 35,807)</u>	<u>(\$ 7,183)</u>	<u>(\$ 430)</u>	<u>(\$ 43,420)</u>

D. The amounts of deductible temporary difference that are not recognized as deferred tax assets are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Deductible temporary differences	<u>\$ 39</u>	<u>\$ 87</u>

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

F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(21) Earnings per share

	<u>Year ended December 31, 2018</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 205,800	127,055	\$ 1.62
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 205,800	127,055	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	1,626	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 205,800	\$ 128,681	\$ 1.60

Year ended December 31, 2017

	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 210,019	127,055	\$ 1.65
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 210,019	127,055	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	1,410	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 210,019	\$ 128,465	\$ 1.63

(22) Operating leases

The Group leases in operational assets under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years, and all these lease agreements are renewable at the end of the lease period. Rental is increased every 3 to 5 years to reflect market rental rates. The Group recognized rental expenses of \$19,394 and \$18,987 for these leases in profit or loss for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	\$ 17,691	\$ 19,751
Later than one year but not later than five years	1,556	3,564
Total	\$ 19,247	\$ 23,315

(23) Supplemental cash flow information

Investing activities with partial cash payments:

	Years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	\$ 44,554	\$ 8,899
Add: Opening balance of payable on equipment	20,707	29,448
Less: Ending balance of payable on equipment	( 6,627)	( 20,707)
Cash paid during the year	<u>\$ 58,634</u>	<u>\$ 17,640</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
KROM ELECTRONICS CO., LTD	The Group's key management
Teco Image Systems Co., Ltd	Associates
Teco Image Systems (DongGuan) Co., Ltd	Associates

(2) Significant related party transactions and balances

A. Operating revenue

	Years ended December 31,	
	2018	2017
Sales of goods:		
— Associates	<u>\$ 6,930</u>	<u>\$ 4,141</u>

Sales to aforementioned related parties are based on the price lists in force and term that would be available to third parties. The term is 30 days after monthly billing upon shipment of goods.

B. Purchases

	Years ended December 31,	
	2018	2017
Purchases of goods:		
— The Group's key management		
— KROM ELECTRONICS	<u>\$ 427,814</u>	<u>\$ 343,131</u>

Purchases from related parties are based on the price lists in force and terms that would be available to third parties.

C. Receivables from related parties

	December 31, 2018	December 31, 2017
	Accounts receivable:	
— Associates	<u>\$ 1,653</u>	<u>\$ 577</u>

The sales and price term to aforementioned related parties are approximately the same as the third parties which is 30 days after monthly billing upon shipment of goods.

D. Payables to related parties

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts payable:		
– The Group’s key management		
– KROM ELECTRONICS	\$ 115,601	\$ 85,983

The purchase and price term to aforementioned related parties are approximately the same as the third parties which is 60 days after monthly billing upon the purchase. The payables bear no interest.

(3) Key management compensation

For the years ended December 31, 2018 and 2017, the key management compensation (including salaries and other short-term employee benefits) paid to directors, supervisors, general manager and vice general manager was \$40,686 and \$34,883, respectively, including employees’ compensation and directors’ and supervisors’ remuneration accrued in the profit or loss for the years ended December 31, 2018 and 2017.

8. PLEGGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

Please refer to Note 6(22).

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

Please refer to Note 6(14).

12. OTHERS

(1) Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase treasury shares to optimise capital structure. The Group monitors capital on the basis of the gearing ratio or net worth per share. The former is calculated as net debt divided by total capital while the latter is calculated with total equity divided by number of shares. Total borrowings is net debt. Total capital is calculated as ‘equity’ as shown in the consolidated balance sheet plus net debt.

During the year ended December 31, 2018, the Group's strategy, which was unchanged from 2017, was to maintain the gearing ratio within 0% to 20%.

The gearing ratios at December 31, 2018 and 2017 were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Net debt	\$ -	\$ -
Total equity	<u>\$ 3,238,159</u>	<u>\$ 3,404,359</u>
Total capital	<u>\$ 3,238,159</u>	<u>\$ 3,404,359</u>
Gearing ratio	<u>\$ -</u>	<u>\$ -</u>

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 276,972	\$ -
Financial assets held for trading	-	392,328
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	284,042	-
Available-for-sale financial assets	-	405,033
Financial assets at amortised cost		
Cash and cash equivalents	773,409	779,885
Accounts receivable (including related parties)	638,346	532,009
Guarantee deposits paid	4,630	4,179
Other financial assets	-	1,095,248
Financial assets at amortised cost	<u>1,233,141</u>	<u>-</u>
	<u>\$ 3,210,540</u>	<u>\$ 3,208,682</u>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	\$ -	\$ -
Financial liabilities at amortised cost		
Accounts payable (including related parties)	904,661	754,466
Other payables	<u>345,215</u>	<u>346,911</u>
	<u>\$ 1,249,876</u>	<u>\$ 1,101,377</u>

#### B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Group treasury) in accordance with internal plans or policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments as well as acquisition and disposal of assets.

#### C. Significant financial risks and degrees of financial risks

##### (a) Market risk

##### Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use cross currency swap and forward foreign exchange contracts, transacted with Group treasury.
- iii. The Group hedges foreign exchange rate by using forward exchange contracts and cross currency swap. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2)

and 12(4).

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

December 31, 2018						
Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis			
			Degree of variation	Effect on profit or loss	Effect on other comprehensive income	
<b>(Foreign currency: functional currency)</b>						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD : NTD	\$ 55,185	30.79	\$ 1,699,146	1%	\$ 16,991	\$ -
RMB : NTD	2,371	4.49	10,646	1%	106	-
USD : RMB	36,882	6.86	1,135,597	1%	11,356	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD : NTD	\$ 35,593	30.79	\$ 1,095,908	1%	\$ 10,959	\$ -
USD : RMB	25,114	6.86	773,260	1%	7,733	-
December 31, 2017						
Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis			
			Degree of variation	Effect on profit or loss	Effect on other comprehensive income	
<b>(Foreign currency: functional currency)</b>						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD : NTD	\$ 40,551	29.77	\$ 1,207,203	1%	\$ 12,072	\$ -
RMB : NTD	67,408	4.56	307,380	1%	3,074	-
USD : RMB	31,838	6.53	947,817	1%	9,478	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD : NTD	\$ 29,595	29.77	\$ 881,043	1%	\$ 8,810	\$ -
USD : RMB	21,946	6.53	653,332	1%	6,533	-

- v. The summary amount for the years ended December 31, 2018 and 2017, of total exchange gain (loss), including realised and unrealised, arising from significant foreign exchange variation on the monetary items held by the Group, were \$51,633 and (\$44,723), respectively.

### Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- ii. The Group's investments in equity securities comprise, beneficiary certificates, domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 10% with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have increased/decreased by \$27,517 and \$38,863, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. For the year ended December 31, 2018, other components of equity would have increased/decreased by \$28,404, respectively, as a result of other comprehensive income classified as equity investment at fair value through other comprehensive income. For the year ended December 31, 2017, shareholders' equity would have increased/decreased by \$40,503, as a result of gains/losses on equity instrument classified as available-for-sale.

### Cash flow and fair value interest rate risk

- i. The Group's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.
- ii. As of December 31, 2018 and 2017, the borrowing facilities have not been drawn by the Group.

### (b) Credit risk

#### Effective 2018

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
- iv. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

- v. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
  - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
  - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
  - (iii) Default or delinquency in interest or principal repayments;
  - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- vi. The Group classifies customers' accounts receivable in accordance with customer types. The Group applies the simplified approach using loss rate methodology to estimate expected credit loss under the provision matrix basis.
- vii. The Group wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights. As of December 31, 2018, the Group had no written-off financial assets that are still under recourse procedures.
- viii. The Group's accounts receivable arose from customers with excellent credit, and the expected loss rate was 0.03%. On December 31, 2018, the total book value of accounts receivable and loss allowance were \$638,538 and \$192, respectively.
- ix. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	<u>2018</u>
	Accounts receivable (including related parties)
At January 1_IFRS 9	\$ -
Provision for impairment	192
At December 31	<u>\$ 192</u>

For provisioned loss for the year ended December 31, 2018, the impairment losses arising from customers' contracts amount to \$192.

- x. For investments in debt instruments at amortized cost, the credit rating levels are presented below:

	<u>December 31, 2018</u>			
		<u>Lifetime</u>		
	<u>12 months</u>	<u>Significant increase in credit risk</u>	<u>Impairment of credit</u>	<u>Total</u>
Financial assets at amortised cost	<u>\$ 1,233,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,233,141</u>

The financial assets at amortised cost held by the Group are all time deposits with maturity over three months. The credit risk rating has no significant abnormal situation.

xi. Credit risk information of 2017 is provided in Note 12(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The table below analyzes the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities

<u>December 31, 2018</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>
Accounts payable (including related parties)	\$ 904,661	\$ -	\$ -
Other payables	345,215	-	-

Non-derivative financial liabilities

<u>December 31, 2017</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>
Accounts payable (including related parties)	\$ 754,466	\$ -	\$ -
Other payables	346,911	-	-

- iii. The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks and beneficiary certificates is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Groups investment in derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability.

B. Financial instruments not measured at fair value

The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, financial assets at amortised cost - current, other financial assets - current, guarantee deposits paid, accounts payable and other payables are approximate to their fair values.

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

(a) The related information of natures of the assets and liabilities are as follows:

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 275,170	\$ -	\$ -	\$ 275,170
Derivative instruments	-	1,802	-	1,802
Financial assets at fair value through other comprehensive income				
Equity securities	<u>284,042</u>	<u>-</u>	<u>-</u>	<u>284,042</u>
Total	<u>\$ 559,212</u>	<u>\$ 1,802</u>	<u>\$ -</u>	<u>\$ 561,014</u>

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 388,626	\$ -	\$ -	\$ 388,626
Derivative instruments	-	3,702	-	3,702
Available-for-sale financial assets				
Equity securities	<u>405,033</u>	<u>-</u>	<u>-</u>	<u>405,033</u>
Total	<u>\$ 793,659</u>	<u>\$ 3,702</u>	<u>\$ -</u>	<u>\$ 797,361</u>

(b) The methods and assumptions the Group used to measure fair value are as follows:

- i The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Open-end fund</u>
Market quoted price	Closing price	Net assets value

- ii The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts and cross currency swap are usually valued based on the current forward exchange rate.

D. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

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

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

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

- i. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.
- ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting.
- iii. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(b) Available-for-sale financial assets

- i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- iii. They are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income.

(c) Receivables

Accounts receivable are receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(d) Impairment of financial assets

- i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
  - (i) Significant financial difficulty of the issuer or debtor;
  - (ii) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

- (iii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
  - (iv) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Financial assets at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

	Measured at fair value through profit or loss	Available-for- sale-equity Measured at fair value through other comprehensive income-equity	Other financial assets Measured at amortised cost	Total	Effects	
					Retained earnings	Other equity
<b>IAS39</b>	\$ 392,328	\$ 405,033	\$ 1,095,248	\$ 1,892,609	\$ 693,805	\$ 304,277
Transferred into and measured at fair value through other comprehensive income-equity	-	-	-	-	3,590	( 3,590)
Effect on investments accounted for using equity method	-	-	-	-	( 7,027)	7,027
<b>IFRS9</b>	<u>\$ 392,328</u>	<u>\$ 405,033</u>	<u>\$ 1,095,248</u>	<u>\$ 1,892,609</u>	<u>\$ 690,368</u>	<u>\$ 307,714</u>

- (a) Under IAS 39, because the equity instruments, which were classified as: available-for-sale financial assets, amounting to \$405,033, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" amounting to \$405,033, increased retained earnings and decreased other equity interest in the amounts of \$3,590 and \$3,590 on initial application of IFRS 9.
- (b) Under IAS 39, because the cash flows of debt instruments, which were classified as: other financial assets - current, amounting to \$1,095,248, met the condition that it is intended to settle the principal and interest on the outstanding principal balance, they were reclassified as "financial assets at amortised cost" amounting to \$1,095,248 on initial application of IFRS 9.
- (c) Effects on investments accounted for using equity method under IFRS 9 (reclassifying 'financial assets at fair value through profit or loss and available-for-sale financial assets' as 'financial assets at fair value through other comprehensive income') were decreasing retained earnings in the amount of \$7,027 and increasing other equity interest in the amount of \$7,027.

C. The significant accounts for the year ended December 31, 2017 are as follows:

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

<u>Items</u>	<u>December 31, 2017</u>
Current items:	
Financial assets held for trading	
Beneficiary certificates	\$ 387,104
Non-hedging derivatives	<u>3,702</u>
	390,806
Valuation adjustment	<u>1,522</u>
Total	<u>\$ 392,328</u>

- i. The Group recognised net profit amounting to \$24,406 on financial assets held for trading for the year ended December 31, 2017.
- ii. The Group has no financial assets at fair value through profit or loss pledged to others.
- iii. The non-hedging derivative instruments transaction and contract information are as follows:

<u>Derivative instruments</u>	<u>December 31, 2017</u>	
	Contract amount (Notional principal) (in thousand)	Expiry date
Current items:		
Cross currency swap	USD 4,000	2018.01.22
Cross currency swap	USD 1,000	2018.01.30
Cross currency swap	USD 1,000	2018.01.30
Cross currency swap	USD 5,500	2018.02.12
Cross currency swap	USD 2,000	2018.03.20
Cross currency swap	USD 2,000	2018.03.29
Cross currency swap	USD 3,000	2018.04.20
Cross currency swap	USD 1,500	2018.04.20

The Group entered into cross currency swap contracts which were exchange rate swap transaction between foreign currencies to hedge exchange rate risk. However, it did not meet the condition of hedge accounting, thus it was not accounted for using hedge accounting.

(b) Available-for-sale financial assets

<u>Items</u>	<u>December 31, 2017</u>
Non-current items:	
Listed stocks	\$ 286,186
Unlisted stocks	<u>3,590</u>
Subtotal	289,776
Adjustments for change in value of available-for-sale financial assets	118,847
Accumulated impairment	( 3,590)
Total	<u>\$ 405,033</u>

- i. For the year ended December 31, 2017, the Group recognized other comprehensive income due to change in fair value in the amount of \$10,575.
- ii. The Group has no available-for-sale financial assets pledged to others.

(c) Other current financial assets

	<u>December 31, 2017</u>
Time deposits	<u>\$ 1,095,248</u>

It refers to time deposits with original maturity over three months.

D. Credit risk information for the year ended December 31, 2017 is as follows:

- (a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with good rating are accepted.
- (b) For the year ended December 31 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The credit quality of accounts receivable (including related parties) that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

	<u>December 31, 2017</u>
Group 1	\$ 7,898
Group 2	5,639
Group 3	<u>499,433</u>
	<u>\$ 512,970</u>

Group 1: New customers (less than 6 months from the first transaction).

Group 2: Existing customers (more than 6 months from the first transaction) with share capital less than \$500,000.

Group 3: Existing customers (more than 6 months from the first transaction) with share capital exceeding \$500,000.

(d) The ageing analysis of accounts receivable that were past due but not impaired are as follows:

	<u>December 31, 2017</u>
Up to 30 days	\$ 19,039
31 to 90 days	-
91 to 180 days	-
Over 180 days	-
	<u>\$ 19,039</u>

The above ageing analysis was based on past due date, the credit quality did not change significantly and the related accounts can still be recovered after assessment. There was no concern about impairment.

(e) As of December 31, 2017, no impairment was recognized for the Group's accounts receivable.

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

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

Sales of goods

The Group manufactures and sells image sensor products and electrical components. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

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

	<u>Year ended</u> <u>December 31, 2017</u>
Sales of goods	<u>\$ 3,957,862</u>

C. There were no effects on description of current balance sheet and comprehensive income statement items if the Group continues adopting above accounting policies.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

According to the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, the significant transactions for the year ended December 31, 2018 are as follows:

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

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 5.

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

- A. Basic information: Please refer to table 6.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland China: Please refer to table 4.

### 14. SEGMENT INFORMATION

#### (1) General information

The Group operates business only in a single industry. The Chief Operating Decision-Maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

The Group’s Chief Operating Decision-Maker evaluates performance based on information such as segment profit or loss before tax and segment assets.

#### (2) Measurement of segment information

The Group’s Chief Operating Decision-Maker evaluates performance based on information such as segment profit or loss before tax and segment assets.

### (3) Segment information

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

	Year ended December 31, 2018		
	Single operating segment	Reconciliation and elimination	Total
Reportable segments income			
Revenue from external customers	\$ 4,576,761	\$ -	\$ 4,576,761
Total	<u>\$ 4,576,761</u>	<u>\$ -</u>	<u>\$ 4,576,761</u>
Reportable segments profit	<u>\$ 318,188</u>	<u>\$ -</u>	<u>\$ 318,188</u>
Reportable segments income			
Segments profit, including:			
Interest income	\$ 26,238	\$ -	\$ 26,238
Depreciation and amortization	\$ 172,248	\$ -	\$ 172,248
Share of profit of associates and joint ventures accounted for using equity method	\$ 17,178	\$ -	\$ 17,178
Segment assets	\$ 4,634,304	\$ -	\$ 4,634,304
Income tax expense	\$ 112,388	\$ -	\$ 112,388
	Year ended December 31, 2017		
	Single operating segment	Reconciliation and elimination	Total
Reportable segments income			
Revenue from external customers	\$ 3,957,862	\$ -	\$ 3,957,862
Total	<u>\$ 3,957,862</u>	<u>\$ -</u>	<u>\$ 3,957,862</u>
Reportable segments profit	<u>\$ 283,688</u>	<u>\$ -</u>	<u>\$ 283,688</u>
Reportable segments income			
Segments profit, including:			
Interest income	\$ 20,386	\$ -	\$ 20,386
Depreciation and amortization	\$ 166,832	\$ -	\$ 166,832
Share of profit of associates and joint ventures accounted for using equity method	\$ 23,529	\$ -	\$ 23,529
Segment assets	\$ 4,596,049	\$ -	\$ 4,596,049
Income tax expense	\$ 73,669	\$ -	\$ 73,669

(4) Reconciliation for segment income

The Group has only one reportable operating segment. The profit and assets of the reportable segment are consistent with that in the consolidated financial statements. Related information is as follows:

	Years ended December 31,	
	2018	2017
Reportable segments income	\$ 318,188	\$ 283,688
Income before tax from continuing operations	\$ 318,188	\$ 283,688
Reportable segment assets	\$ 4,634,304	\$ 4,596,049
Total assets	\$ 4,634,304	\$ 4,596,049

(5) Information on products and services

It is not applicable since the Group operates a single segment.

(6) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	Years ended December 31,			
	2018		2017	
	Revenue	Non-current assets	Revenue	Non-current assets
China	\$ 2,295,882	\$ 531,225	\$ 2,015,311	\$ 659,452
Others	2,280,879	9,946	1,942,551	9,730
	\$ 4,576,761	\$ 541,171	\$ 3,957,862	\$ 669,182

(7) Major customer information

Information relating to major customers who account for more than 10% of sales revenue disclosed on the consolidated statements of comprehensive income for the years ended December 31, 2018 and 2017 is as follows:

Customers	Years ended December 31,			
	2018		2017	
	Sales amount	Proportions (%)	Sales amount	Proportions (%)
Company A	\$ 1,049,680	23	\$ 849,485	22
Company B	663,442	15	489,816	12
Company C	655,781	14	647,523	16
Company D	530,744	12	512,143	13

## Creative Sensor Inc. and subsidiaries

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

Year ended December 31, 2018

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

					As of December 31, 2018				
Securities held by	Marketable securities categories (Note 1)	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares (in thousands)	Book value (Note 2)	Ownership (%)	Fair value	Footnote
The Company	Beneficiary certificate	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,642	\$ 45,610	-	\$ 45,610	
"	"	Allianz Global Investors Taiwan Money	-	"	1,776	28,054	-	28,054	
"	"	FSITC Taiwan Money Market Fund	-	"	227	40,372	-	40,372	
"	"	Prudential Financial Money Market Fund	-	"	3,313	50,605	-	50,605	
"	"	Jih Sun Money Market Fund	-	"	2,422	30,303	-	30,303	
"	"	FSITC Money Market Fund	-	"	4,070	60,203	-	60,203	
"	"	Union Money Market Fund	-	"	1,519	20,023	-	20,023	
						<u>\$ 275,170</u>		<u>\$ 275,170</u>	
					As of December 31, 2018				
Securities held by	Marketable securities categories (Note 1)	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares (in thousands)	Book value (Note 2)	Ownership (%)	Fair value	Footnote
The Company	Stock	TECO ELECTRIC & MACHINERY CO., LTD.	A company which accounts the Company using equity method	Financial assets at fair value through other comprehensive income- non-current	10,000	\$ 174,500	0.50%	\$ 174,500	
"	"	Koryo Electronics Co., Ltd.	-	"	2,871	70,627	5.54%	70,627	
"	"	MUTUALPAK	-	"	108	-	0.89%	-	
"	"	Taiwan Pelican Express Co., Ltd.	-	"	1,781	38,915	1.87%	38,915	
						<u>\$ 284,042</u>		<u>\$ 284,042</u>	

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

Note 2: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Creative Sensor Inc. and subsidiaries  
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more  
Year ended Decemberber 31, 2018

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction		Percentage of total purchases (sales)	Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount		Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
The Company	Wuxi Creative Sensor Technology Co., Ltd.	The Company's third-tier subsidiary	Purchases	\$ 486,850	12%	75~90 days after monthly billing	\$ -	Note	(\$ 139,695)	13%	-
"	Nanchang Creative Sensor Technology Co., Ltd.	"	"	3,663,137	88%	75~90 days after monthly billing	-	Note	( 903,744)	86%	-
Nanchang Creative Sensor Technology Co., Ltd.	Krom Electronics Co., Ltd	The compmany is a director of the Company's ultimate holding company	"	397,261	13%	60 days after monthly billing	-	Note	( 106,442)	13%	-

Note: The payment term is 45~90 days after monthly billing for third parties and is 75 days after semi-monthly billing for foreign parties.

Creative Sensor Inc. and subsidiaries  
 Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more  
 Year ended December 31, 2018

Table 3

Expressed in thousands of NTD  
 (Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Wuxi Creative Sensor Technology Co., Ltd.	The Company	Parent company	\$ 139,695	3.62	\$ -	-	\$ 92,399	\$ -
Nanchang Creative Sensor Technology Co., Ltd.	"	"	903,744	4.56	-	-	625,444	-

Creative Sensor Inc. and subsidiaries  
Significant inter-company transactions during the reporting periods  
Year ended Decemberber 31, 2018

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	The Company	Wuxi Creative Sensor Technology Co., Ltd.	1	Accounts payable	\$ 139,695	75~90 days after monthly billing	3.01%
"	"	"	"	Purchases	486,850	"	10.64%
"	"	Nanchang Creative Sensor Technology Co., Ltd.	"	Accounts payable	903,744	75~90 days after monthly billing	19.50%
"	"	"	"	Purchases	3,663,137	"	80.04%

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

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

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to:

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

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

Note 4: Individual transactions not reaching \$10,000 and their corresponding transactions will not be disclosed.

Creative Sensor Inc. and subsidiaries  
Information on investees  
Year ended December 31, 2018

Table 5

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income(loss) recognised by the Company for the year ended December 31, 2018 (Note)	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
The Company	Creative Sensor Inc.	British Virgin Islands	Holding company	\$ 974,576	\$ 974,576	29,414,994	100	\$ 2,644,502	\$ 152,517	\$ 151,199	Subsidiary
The Company	Creative Sensor (USA) Co.	U.S.A.	Collection of marketing information and maintaining customer relationship	3,169	3,169	100,000	100	3,103	48	48	Subsidiary
The Company	K9 Inc.	South Korea	Packaging for image sensor module	32,314	32,314	845,000	33.82	-	-	-	Investee accounted for using equity method
The Company	Teco Image Systems Co., Ltd.	Taiwan	Design, manufacturing and trading of multi-function printer, fax machine and scanner	271,728	271,728	11,996,000	10.66	303,321	160,483	17,178	Investee accounted for using equity method
Creative Sensor Inc.	Creative Sensor Co., Ltd.	Hong Kong	Holding company	977,388	977,388	29,501,368	100	1,869,653	108,689	-	Subsidiary

Note: The Company has not directly recognised the income (loss) on investment in Creative Sensor Co., Ltd.

Creative Sensor Inc. and subsidiaries  
Information on investments in Mainland China  
Year ended Decemberber 31, 2018

Table 6

Expressed in thousands of NTD  
(Except as otherwise indicated)

A. Information on reinvestment in Mainland Area

Investee in Mainland China	Main business activities	Paid-in capital (Note 2)	Investment method (Note 1)	Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the year ended December 31, 2018			Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 (Note 3)	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 (Note 3)	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 4)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
				as of January 1, 2018 (Note 3)	Remitted to Mainland China	Remitted back to Taiwan								
Wuxi Creative Sensor Technology Co., Ltd.	Image Sensor	\$ 555,930	Note 1	\$ 459,233	\$ -	\$ -	\$ 459,233	\$ 17,457	100	\$ 17,457	\$ 718,217	\$ 149,550	None	
Nanchang Creative Sensor Technology Co., Ltd.	Image Sensor	974,470	Note 1	446,455	-	-	446,455	102,973	100	101,655	1,099,696	-	"	

Note 1: Through investing in an existing company in the third area (Creative Sensor Inc.), which then invested in the investee in Mainland China.

Note 2: The paid-in capital of two investee companies in the original currency amounted to RMB\$123,920 thousand and RMB\$217,215 thousand, respectively.

Note 3: Wuxi Creative Sensor Technology Co., Ltd.'s accumulated amount of remittance from Taiwan to Mainland China as of January 1 and December 31, 2018 in the original currency was both US\$14,915 thousand. Nanchang Creative Sensor Technology Co., Ltd.'s accumulated amount of remittance from Taiwan to Mainland China as of January 1 and December 31, 2018 in the original currency was both US\$14,500 thousand.

Note 4: Investment income (loss) recognised for the year ended December 31, 2018 was evaluated and disclosed based on the financial statements that are audited and attested by R.O.C. parent company's CPA.

B. Ceiling on reinvestments in Mainland Area

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
The Company	\$ 905,688	\$ 908,459	\$ 1,942,895

Note 1: Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 in original currency amounted to US\$29,415 thousand.

Note 2: Investment amount in the original currency approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) amounted to US\$29,505 thousand.

Furthermore, Wuxi Creative Sensor Technology Co., Ltd. distributed dividends to Creative Sensor Co., Ltd., then invested US\$15,300 thousand in Nanchang Creative Sensor Technology Co., Ltd.