Stock Code:6669

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

WIWYNN CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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

Address: 8, No. 90, Sec.1, Xintai 5th Rd., Xizhi Dist., New Taipei City, Taiwan
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The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

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

Company name: Wiwynn Corporation
Chairman: Simon Lin
Date: March 20, 2019

KPMG

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Independent Auditors' Report

To the Board of Directors of Wiwynn Corporation:

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

1. Revenue recognition

   Refer to note 4(n) "Revenue" and note 6(r) to the consolidated financial statements for the disclosure of revenue recognition.

   Description of key audit matter

   The Group is a listed Company on the Emerging Stock Market in related to public interest, and the investors are highly expecting the financial performance, resulting in revenue recognition is one of the key judgmental areas of our audit.

How the matter was addressed in our audit

Our principal audit procedures included testing of the design and implement of controls over sales and collection of receivable transactions; evaluate if there is any significant abnormal changes through performing trend analysis on top 10 customers by comparing the related changes or differences; assessing and testing if the management obtained sufficient external evidence showing that the control of the products have been transferred to the customers to support the timing of revenue recognition; evaluating the adequacy of revenues recognition by testing the sale transactions during the period before and after the balance sheets date.

2. Inventory valuation

Refer to note 4(h) "Inventories", note 5 "Significant accounting assumptions and judgments, and major sources of estimation uncertainty" and note 6(e) to the consolidated financial statements for the disclosure of valuation of inventory.

Description of key audit matter

Inventories are stated at the lower of cost or net realizable value. With the rapid development of technology, the advance of new electronic products may significantly change consumer demands, which leads to product obsolescence that may result in the cost of inventory to be higher than the net realizable value. Consequently, the valuation of inventories has been identified as one of the key Judgmental areas of our audit.

How the matter was addressed in our audit

Our principal audit procedures included analyze the change of inventory aging by assessing and testing the inventory aging report, understanding the sales price which is used to evaluate the inventory valuation by management and the subsequent market price information as well as selecting the original transition documentation in order to test the appropriateness of the net realize values reviewing if the estimation and assumption used for inventory valuation and other disclosure for inventories made by management were appropriateness.

Other Matter

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

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

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

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

Those charged with governance (including the Audit Committee) 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 the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partners on the audit resulting in this independent auditors' report are Ya-Ling Chen and Chia-Hsin Chang.

KPMG

Taipei, Taiwan (Republic of China)
March 20, 2019

Notes to Readers

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

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

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Wiwynn Corporation and Subsidiaries

Consolidated Balance Sheets

December 31, 2018 and 2017

(expressed in thousands of New Taiwan dollars)

		December 31, 2018		December 31, 2017	
	Assets	**Amount**	**%**	**Amount**	**%**
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 1,403,592	5	6,399,143	25
1170	Accounts receivable, net (notes 6(c)(r))	9,462,834	34	8,621,032	34
1180	Accounts receivable - related parties, net (notes 6(c)(r) and 7)	24,196	-	188,349	1
1200	Other receivables (note 6(d))	7,578	-	284,415	1
1210	Other receivables-related parties (notes 6(d) and 7)	98,779	-	559,127	2
130X	Inventories (note 6(e))	13,863,936	49	9,163,117	35
1479	Other current assets (note 6(h))	2,722,455	10	394,337	1
	Total current assets	27,583,370	98	25,609,520	99
	Non-current assets:				
1600	Property, plant and equipment (note 6(f))	125,543	-	51,568	-
1780	Intangible assets (note 6(g))	7,242	-	5,224	-
1840	Deferred tax assets (note 6(n))	291,066	1	40,348	-
1990	Other non-current assets (notes 6(f)(h) and 8)	196,821	1	166,274	1
	Total non-current assets	620,672	2	263,414	1
	Total assets	$ 28,204,042	100	25,872,934	100

		December 31, 2018		December 31, 2017	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
	Current liabilities:				
2100	Short-term borrowings (notes 6(i) and 8)	$ 2,962,661	11	5,041,970	19
2120	Financial liabilities at fair value through profit or loss-current (note 6(b))	-	-	4,046	-
2130	Contract liabilities-current (note 6(r))	381,814	1	-	-
2170	Accounts payable	1,120,338	4	1,551,364	6
2180	Accounts payable - related parties (note 7)	3,842,663	14	13,901,616	54
2200	Other payables	1,162,375	4	909,550	4
2220	Other payables-related parties (note 7)	692,868	2	155,620	1
2230	Current tax liabilities	1,438,451	5	369,897	1
2250	Provisions-current (notes 6(k)(r))	-	-	188,226	1
2399	Other current liabilities	232,842	1	658,345	2
	Current liabilities	11,834,012	42	22,780,634	88
	Non-current liabilities:				
2540	Long-term borrowings (note 6(j))	5,522,236	20	-	-
2570	Deferred tax liabilities (note 6(n))	70,382	-	21,580	-
2640	Net defined benefit liabilities (note 6(m))	625	-	53,623	-
2670	Other non-current liabilities	-	-	651	-
	Non-current liabilities	5,593,243	20	75,854	-
	Total liabilities	17,427,255	62	22,856,488	88
	Equity (notes 6(m)(o)(p)):				
3110	Common shares	1,520,288	6	1,060,775	4
3200	Capital surplus	2,853,756	10	545,921	2
3300	Retained earnings	6,229,893	22	1,417,887	6
3400	Other equity	172,850	-	(8,137)	-
	Total equity	10,776,787	38	3,016,446	12
	Total liabilities and equity	$ 28,204,042	100	25,872,934	100

See accompanying notes to consolidated financial statements.

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

Wiwynn Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan dollars, except for earnings per share)

		2018		2017	
		Amount	%	Amount	%
4100	**Net revenues (notes 6(k)(r)(s) and 7)**	$ 181,064,815	100	85,674,525	100
5000	**Cost of sales (notes 6(e)(f)(g)(m), 7 and 12)**	170,417,659	94	81,432,355	95
	Gross profit from operations	10,647,156	6	4,242,170	5
	Operating expenses (notes 6(c)(f)(g)(l)(m)(p)(u), 7 and 12):				
6100	Selling expenses	1,552,238	1	767,248	1
6200	Administrative expenses	701,310	-	360,965	1
6300	Research and development expenses	1,282,642	1	1,274,342	1
6450	Expected credit loss	10,424	-	-	-
	Total operating expenses	3,546,614	2	2,402,555	3
	Net operating income	7,100,542	4	1,839,615	2
	Non-operating income and expenses (note 6(t)):				
7010	Other income	47,743	-	6,574	-
7020	Other gains and losses	245,665	-	7,606	-
7050	Finance costs	(300,482)	-	(211,352)	-
	Total non-operating income and expenses	(7,074)	-	(197,172)	-
7900	**Income before tax**	7,093,468	4	1,642,443	2
7950	**Income tax expense (note 6(n))**	1,515,891	1	433,961	1
	Net Income	5,577,577	3	1,208,482	1
8300	**Other comprehensive income (notes (m)(n)(o)):**				
8310	**Items that may not be reclassified subsequently to profit or loss**				
8311	Gains on remeasurements of defined benefit plans	10	-	-	-
8349	Income tax related to items that may not be reclassified to profit or loss	(2)	-	-	-
	Total items that may not be subsequently reclassified subsequently to profit or loss	8	-	-	-
8360	**Items that may be reclassified subsequently to profit or loss:**				
8361	Exchange differences on translation of foreign financial statements	180,987	-	(6,873)	-
8362	Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	(127)	-
8399	Income tax related to items that may be reclassified to profit or loss	-	-	-	-
	Total items that may be reclassified subsequently to profit or loss	180,987	-	(7,000)	-
8300	**Other comprehensive income (net of tax)**	180,995	-	(7,000)	-
8500	**Total comprehensive income**	**$ 5,758,572**	**3**	**1,201,482**	**1**
	Profit attributable to:				
8610	Owners of parent	**$ 5,577,577**	**3**	**1,208,482**	**1**
	Comprehensive income attributable to:				
8710	Owners of parent	**$ 5,758,572**	**3**	**1,201,482**	**1**
	Earnings per share (expressed in New Taiwan dollars) (note 6(q))				
9750	**Basic earnings per share**	**$ 38.00**		**9.73**	
9850	**Diluted earnings per share**	**$ 36.31**		**9.05**	

See accompanying notes to consolidated financial statements.

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Wiwynn Corporation and Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan dollars)

	Equity attributable to owners of parent									
			Retained earnings				Other equity			
	Common shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Total	Total equity
Balance on January 1, 2017	$ 888,343	487,785	43,223	-	388,268	431,491	(1,264)	127	(1,137)	1,806,482
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	31,127	-	(31,127)	-	-	-	-	-
Cash dividends	-	-	-	-	(88,834)	(88,834)	-	-	-	(88,834)
Stock dividends	133,252	-	-	-	(133,252)	(133,252)	-	-	-	-
Net income	-	-	-	-	1,208,482	1,208,482	-	-	-	1,208,482
Other comprehensive income	-	-	-	-	-	-	(6,873)	(127)	(7,000)	(7,000)
Total comprehensive income	-	-	-	-	1,208,482	1,208,482	(6,873)	(127)	(7,000)	1,201,482
Issue of common shares-employee stock options	39,180	43,022	-	-	-	-	-	-	-	82,202
Share-based payments	-	15,114	-	-	-	-	-	-	-	15,114
Balance on December 31, 2017	1,060,775	545,921	74,350	-	1,343,537	1,417,887	(8,137)	-	(8,137)	3,016,446
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	120,848	-	(120,848)	-	-	-	-	-
Special reserve	-	-	-	8,137	(8,137)	-	-	-	-	-
Cash dividends on ordinary share	-	-	-	-	(510,386)	(510,386)	-	-	-	(510,386)
Stock dividends	255,193	-	-	-	(255,193)	(255,193)	-	-	-	-
Net income	-	-	-	-	5,577,577	5,577,577	-	-	-	5,577,577
Other comprehensive income	-	-	-	-	8	8	180,987	-	180,987	180,995
Total other comprehensive income	-	-	-	-	5,577,585	5,577,585	180,987	-	180,987	5,758,572
Cash subscription	200,000	2,200,000	-	-	-	-	-	-	-	2,400,000
Issue of common shares-employee stock options	4,320	1,937	-	-	-	-	-	-	-	6,257
Share-based payments	-	105,898	-	-	-	-	-	-	-	105,898
Balance on December 31, 2018	**$ 1,520,288**	**2,853,756**	**195,198**	**8,137**	**6,026,558**	**6,229,893**	**172,850**	**-**	**172,850**	**10,776,787**

See accompanying notes to consolidated financial statements.

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

Wiwynn Corporation and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Income before tax	$ 7,093,468	1,642,443
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	49,647	31,847
Amortization expense	5,021	4,613
Expected credit loss	10,424	-
Net losses on financial assets or liabilities at fair value through profit or loss	25,051	8,381
Interest expense	300,482	211,352
Interest income	(47,664)	(6,517)
Share-based payments	105,898	15,114
Gain on disposal of investments	-	(824)
Unrealized foreign exchange losses	108,669	-
Total adjustments to reconcile profit	557,528	263,966
Changes in operating assets and liabilities:		
Changes in operating assets:		
Increase in accounts receivable, net	(725,645)	(5,352,241)
Decrease (increase) in accounts receivable-related parties, net	164,153	(615,513)
Decrease (increase) in other receivable	271,860	(185,850)
Decrease (increase) in other receivable-related parties	466,697	(849)
Increase in inventories	(4,368,986)	(4,239,118)
Increase other current assets	(2,341,695)	(120,601)
Total changes in operating assets	(6,533,616)	(10,514,172)
Changes in operating liabilities:		
Decrease in financial liabilities held-for-trading financial liabilities-current	(29,097)	(5,748)
Increase in contract liabilities-current	381,814	-
Increase (decrease) in accounts payable	(467,931)	383,357
Increase (decrease) in accounts payable-related parties	(10,058,953)	11,568,170
Increase in other payable	176,214	469,704
Increase (decrease) in other payable-related parties	200,042	67,693
Increase (decrease) in provisions-current	(188,226)	141,745
Increase (decrease) in other current liabilities	(433,826)	468,086
Increase (decrease) in net defined benefit liabilities	(53,641)	699
Increase in other non-current liabilities	-	39
Total changes in operating liabilities	(10,473,604)	13,093,745
Total changes in operating assets and liabilities	(17,007,220)	2,579,573
Total adjustments	(16,449,692)	2,843,539
Cash inflow (outflow) generated from operations	(9,356,224)	4,485,982
Interest received	46,788	5,580
Interest paid	(297,074)	(208,495)
Income taxes paid	(555,054)	(71,078)
Net cash flows from (used in) operating activities	(10,161,564)	4,211,989
Cash flows from (used in) investing activities:		
Acquisition of available-for-sale financial assets	-	(940,000)
Proceeds from disposal of available-for-sale financial assets	-	1,660,971
Acquisition of property, plant and equipment	(61,614)	(27,829)
Acquisition of intangible assets	(7,039)	(2,753)
Increase in other non-current assets	(636)	(151,558)
Increase in prepayments for equipment	(91,352)	(11,117)
Net cash flows from (used in) investing activities	(160,641)	527,714
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	33,931,048	45,902,562
Decrease in short-term borrowings	(36,072,797)	(45,346,569)
Increase in long-term borrowings	5,413,567	-
Cash dividends paid	(510,386)	(88,834)
Cash subscription	2,400,000	-
Exercise of employee stock options	6,257	82,202
Net cash flows from financing activities	5,167,689	549,361
Effect of exchange rate changes on cash and cash equivalents	158,965	(166,640)
Net increase (decrease) in cash and cash equivalents	(4,995,551)	5,122,424
Cash and cash equivalents at beginning of period	6,399,143	1,276,719
Cash and cash equivalents at end of period	**$ 1,403,592**	**6,399,143**

See accompanying notes to consolidated financial statements.

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

Wiwynn Corporation and Subsidiaries

Notes to Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan dollars, Unless Otherwise Specified)

(1) Company history

Wiwynn Corporation (the "Company") was incorporated on March 3, 2012, as a company limited by shares under the laws of the Republic of China (ROC). Wiwynn Corporation and subsidiaries (the Group) were engaged in research, development, design, testing and sales of abovementioned products, semi-products, peripheral equipments and parts:

(i) Computer and peripheral equipments

(ii) Data storage media

(iii) Electric appliances and media products

(iv) Information software

(v) Export business relating to the business of the Company

(vi) Management consult services

(vii) Information software services

(viii) Data processing services

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

The consolidated financial statements were authorized for issuance by the board of directors on March 20, 2019.

(3) New standards, amendments and interpretations adopted:

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

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018

WIWYNN CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

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

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sale of products, revenue is currently recognized by respective transaction terms, which is taken to be the point in time at which the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

(Continued)

WIWYNN CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

For certain contracts that permit a customer to return an item, revenue is currently recognized when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. Otherwise, a revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made. Under IFRS 15, revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As a consequence, for those contracts for which the Group is unable to make a reasonable estimate of return, revenue is expected to be recognized sooner than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the statement of financial position.

2) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS15 on the Group' s consolidated financial statements:

	December 31, 2018			January 1, 2018		
Impacted line items on the consolidated balance sheets	**Balances prior to the adoption of IFRS 15**	**Impact of changes in accounting policies**	**Balances upon adoption of IFRS 15**	**Balances prior to the adoption of IFRS 15**	**Impact of changes in accounting policies**	**Balances upon adoption of IFRS 15**
Provisions-current	$ 381,814	(381,814)	-	188,226	(188,226)	-
Contract liabilities-current	-	381,814	381,814	-	188,226	188,226
Impact on liabilities		-			-	

	For the year ended December 31, 2018		
Impacted line items on the consolidated statements of cash flows	**Balances prior to the adoption of IFRS 15**	**Impact of changes in accounting polices**	**Balances upon adoption of IFRS 15**
Cash flows from (used in) operating activities:			
Adjustments:			
Contract liabilities-current	$ -	381,814	381,814
Provisions-current	193,588	(381,814)	(188,226)
Impact on net cash flows from (used in) operating activities		**$ -**	

(ii) IFRS 9 "Financial Instruments"

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

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

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

1) Classification of financial assets and financial liabilities

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

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

2) Impairment of financial assets

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

3) Transition

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

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

(Continued)

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

－The determination of the business model within which a financial asset is held.

－ The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

－The designation of certain investments in equity instruments not held for trading as at FVOCI.

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

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

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

	IAS 39		IFRS 9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial assets				
Cash and cash equivalents	Loans and receivables (note 1)	6,399,143	Amortized cost	6,399,143
Trade and other receivables, net	Loans and receivables (note 1)	7,678,318	Amortized cost	7,678,318
Trade and other receivables, net	Loans and receivables (note 2)	1,974,605	Fair value through other comprehensive income	1,974,605
Other financial assets (Refundable deposits and restricted deposits)	Loans and receivables (note 1)	155,244	Amortized cost	155,244

Note1: Cash and cash equivalents, trade and other receivable, and other financial assets that were classified as loans and receivables under IAS 39. Therefore, these assets have been classified as amortized cost under IFRS 9.

Note2: Trade and other receivables that was classified as loans and receivables under IAS 39. These assets have been classified as fair value through other comprehensive income under IFRS 9.

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(y).

(iv) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Loss”

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The changes in aforementioned accounting policies did not lead significant adjustments on the consolidated financial statements.

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

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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

(i) IFRS 16 “Leases”

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

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

(Continued)

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1) Determining whether an arrangement contains a lease

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

· IFRS 16 definition of a lease to all its contracts; or

· a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

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

2) Transition

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

· retrospective approach; or

· modified retrospective approach with optional practical expedients.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

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

· apply a single discount rate to a portfolio of leases with similar characteristics.

· apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.

· exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.

· use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices and warehouses. The Group estimated that the right-of-use assets and the lease liabilities to increase by 70,229 thousand and 72,409 thousand respectively, as well as the retained earnings to decrease by 2,204 thousand on January 1, 2019. No significant impact is expected for the Group’s finance leases. Besides, the Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

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(ii) IFRIC 23 Uncertainty over Income Tax Treatments

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

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

So far, the Group assessed that the initial application of the above interpretations would not have any material impact on its financial statements.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

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

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

New, Revised or Amended Standards and Interpretations	**Effective date per IASB**
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

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

(4) Summary of significant accounting policies:

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

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

(Continued)

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(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

1) Financial instruments measured at fair value through profit or loss are measured at fair value;

2) The defined benefit liabilities are recognized as the fair value of the plan assets less the present value of the defined benefit obligation.

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements.

Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

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

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(ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding December 31, 2018	Shareholding December 31, 2017	Description
The Company	Wiwynn Technology Service Japan, Inc. (WYJP)	Sales of data storage equipment	100 %	100 %	-
The Company	Wiwynn International Corporation (WYUDE)	Sales of data storage equipment	100 %	100 %	-
The Company	Wiwynn Technology Service Hong Kong Limited (WYHK)	Investment activities and sale of data storage equipment	100 %	100 %	-
The Company	Wiwynn Korea Ltd. (WYKR)	Sales of data storage equipment	100 %	100 %	-
The Company	Wiwynn Technology Service Malaysia Sdn. Bhd. (WYMY)	Sales of data storage equipment	100 %	100 %	-
WYHK	Wiwynn Technology Service Kun Shan Ltd. (WYKS)	Sales of data storage equipment	100 %	100 %	-

(iii) List of subsidiaries which are not included in the consolidated financial statements: None.

(d) Foreign currency

(i) Foreign currency transaction

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- Fair value through other comprehensive income (Available-for-sale)equity investment;
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- Qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

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

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

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

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

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

(i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;

(ii) It is held primarily for the purpose of trading;

(iii) It is expected to be realized within twelve months after the reporting period; or

(iv) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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

An entity shall classify a liability as current when:

(i) It is expected to be settled in the normal operating cycle;

(ii) It is held primarily for the purpose of trading;

(iii) It is due to be settled within twelve months after the reporting period; or

(iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash in bank, and short-term, highly liquid investments that are readily-convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents. If they do not meet the above definition, time deposits should be classified as other current and/or noncurrent financial assets.

(g) Financial instruments

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

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

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

1) Financial assets measured at amortized cost

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

·it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

·its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

· it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

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·its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Group, therefore, those receivables are measured at FVOCI and presented as accounts receivable.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

3) Fair value through profit or loss (FVTPL)

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

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

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, accounts receivable, other receivable, refundable deposits and other financial assets), debt investments measured at FVOCI, accounts receivable measured at FVOCI and contract assets.

(Continued)

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

· debt securities that are determined to have low credit risk at the reporting date; and

· other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivables and contract assets are always measured at an amount equal to lifetime ECL.

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

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

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

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

The Group holds time deposits for domestic financial institutions, and it is considered to be low credit risk.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 180 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

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

At each reporting date, the Group assesses financial assets carried at amortized cost credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

· significant financial difficulty of the borrower or issuer;

(Continued)

- a breach of contract such as a default or being more than 180 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

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

5) Derecognition of financial assets

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

On derecognition of a debt instrument in its entirety, the Group recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in “other equity – unrealized gains or losses on fair value through other comprehensive income”, in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss, and presented in the line item of non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(Continued)

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

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

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held for trading or is designated as such on initial recognition. Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are accounted for under other income. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

2) Available-for-sale financial assets

Available-for-sale financial assets are nonderivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Dividend income is recognized in profit or loss on the date that the Group’s right to receive payment is established, which in the case of quoted securities is normally the exdividend date. Such dividend income is included in other gain and losses.

3) Loans and receivables

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

Interest income is recognized into profit or loss, and it is included in other income.

(Continued)

4) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

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

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

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

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

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(Continued)

Impairment losses and recoveries of accounts receivable are recognized in profit or loss; impairment losses and recoveries of other financial assets are recognized in other gain or losses.

5) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses on available-for-sale financial assets is recognized in profit or loss, under other gains and losses.

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

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss, under finance costs.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

(Continued)

2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as such on initial recognition. Financial liabilities are classified as held for trading if acquired principally for the purpose of selling in the short term.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and are include in finance costs.

3) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss are measured at fair value, plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is include in finance costs.

4) Derecognition of financial liabilities

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

5) Offsetting of financial assets and liabilities

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

(iv) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the non-financial asset' s host contract are not closely related to the embedded derivatives and the host contract is not measured at FVTPL.

(Continued)

(h) Inventories

Inventories are measured individually at the lower of cost and net realizable value. The standard cost method is adopted for inventory costing and the difference between standard cost and actual cost is allocated proportionately to inventory except for an unfavorable variance from normal capacity. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of the significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

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

(ii) Subsequent cost

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

(iii) Depreciation

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

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

1) Research and developments equipment: 3~5 years

2) Machinery and equipment: 3~4 years

3) Office equipment: 2~4 years

4) Lease improvements: 3 years

5) Other equipment: 4 years

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

(j) Lease

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent rent is recognized as expense in the periods in which they are incurred.

(k) Intangible assets

(i) Research and development

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

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

1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

2) The intention to complete the intangible asset and use or sell it.

3) The ability to use or sell the intangible asset.

4) How the intangible asset will generate probable future economic benefits.

5) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.

6) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditures is measured at cost less accumulated amortization or impairment losses.

(ii) Other Intangible Assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

(iii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iv) Amortization

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual values.

Intangible assets other than goodwill acquired by the Group are software. Amortization is recognized in profit or loss on a straight-line basis 3 years for the estimated useful lives of intangible assets, from the date that they are available for use.

The residual value, the amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at each reporting date. Such change shall be accounted for as changes in accounting estimates.

(l) Impairment of non-financial assets

The carrying amounts of the Company’s non financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for individual asset or a CGU is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount, and that reduction will be accounted as an impairment loss, which loss shall be recognized immediately in profit or loss.

An assessment is made at the end of each reporting period as to whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized.

(m) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(n) Revenue

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

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group’s main types of revenue are explained below.

1) Sale of goods

The Group manufactures and sells data storage equipment to customer. The Group recognizes revenue 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, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group provides customers with the extended warranty. This kind of contract contains two performance obligations and, therefore, the transaction price is allocated to each performance obligation on a relative stand-alone selling price basis. Management estimates the stand-alone selling prices at contract inception based on the observable prices at which the Group would sell the product and the extended warranty separately in similar circumstances and to similar customers.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

2) Financing components

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

(Continued)

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

1) Goods sold

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

2) Services

The Group is involved in repair services. Revenue from repair services is recognized when the services are rendered.

(o) Contract costs (policy applicable from January 1, 2018)

(i) Incremental costs of obtaining a contract

The Group recognizes as an asset the incremental costs of obtaining a contract with a customer if the Group expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

The Group applies the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

(ii) Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets), the Group recognizes an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

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General and administrative costs, costs of wasted materials, labor or other resources to fulfil the contract that were not reflected in the price of the contract, costs that relate to satisfied performance obligations (or partially satisfied performance obligations), and costs for which the Group cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations(or partially satisfied performance obligations), the Group recognizes these costs as expenses when incurred.

(p) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, based on the discounted present value of the said defined benefit obligation. Any unrecognized past service costs and the fair value of any plan assets are deducted for purposes of determining the Group’s net defined benefit obligation. The discount rate used in calculating the present value is the market yield at the reporting date of government bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. If the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In calculating the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

If the benefits of a plan are improved, the pension cost incurred from the portion of the increased benefit relating to past service by employees, is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest), and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings.

(Continued)

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Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment arises from any change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost which had not previously been recognized.

(iii) Short-term employee benefits

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

(q) Share-based payment

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

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(r) Income Taxes

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

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

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the below exceptions:

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

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

(iii) Initial recognition of goodwill.

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

(Continued)

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

(i) The entity has the legal right to settle tax assets and liabilities on a net basis; and

(ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:

1) levied by the same taxing authority; or

2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

(s) Earnings per share

The Group discloses the Company’s basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as employee stock options and employee compensation.

(t) Operating segments

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

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

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

(Continued)

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

Information about judgments made in applying accounting policies do not have significant effects on the amounts recognized in the consolidated financial statements.

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

Valuation of inventories

The Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to note 6(e) for further description of the valuation of inventories.

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	$ 385	299
Demand and checking deposits	1,403,207	6,360,042
Time deposits	-	38,802
	$ 1,403,592	**6,399,143**

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

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

	December 31, 2018	December 31, 2017
Held-for-trading financial liabilities:		
Foreign currency forward and swap contracts	**$ -**	**4,046**

The Group uses derivative financial instruments to hedge the certain foreign exchange risk the Group is exposed to, arising from its operating, financing and investing activities. As of December 31 and December 31, 2017, derivative financial instruments not qualified for hedge accounting were as follows:

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Foreign currency swap contracts:

	December 31, 2017		
	Amount (in thousand)	**Currency**	**Maturity date**
Foreign currency swap purchased	USD$ 3,400	USD to RMB	2018/1/5

Foreign currency forward contracts:

	December 31, 2017		
	Amount (in thousand)	**Currency**	**Maturity date**
Foreign currency forward purchased	USD$ 15,000	USD to RMB	2018/1/5

(c) Accounts receivable

	December 31, 2018	**December 31, 2017**
Accounts receivable－measured at amortized cost	$ 6,209,138	8,621,032
Accounts receivable-related parties－measured at amortized cost	24,196	188,349
Accounts receivable－measured at fair value through other comprehensive income	3,264,120	-
Less: loss allowance	(10,424)	-
	$ 9,487,030	8,809,381

The Group has assessed a portion of its trade receivables that was held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; therefore, such trade receivables were measured at fair value through other comprehensive income from January 1, 2018.

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

	Gross carrying amount	**Weighted - average loss rate**	**Loss allowance provision**
Current	$ 9,471,011	-	-
Past due under 30 days	5,660	-	-
Past due 31 to 60 days	10	-	-
Past due 61 to 90 days	-	-	-
Past due 91 to 180 days	20,773	50%	10,424
Total	$ 9,497,454		10,424

(Continued)

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

	December 31, 2017
Past due under 30 days	$ 187,843
Past due 31~60 days	652,362
Past due 61~90 days	1,194
	$ 841,399

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

		2017	
	2018	**Individually assessed impairment**	**Collectively assessed impairment**
Balance on January 1, per IAS 39	-	-	-
Adjustment on initial application of IFRS 9	-		
Balance on January 1, per IFRS 9	-		
Impairment losses recognized	10,424	-	-
Balance on December 31	**$ 10,424**	**-**	**-**

Resulted from the increase on sale of Hyperscale data center dramatically in 2018. The Group applied the actual expected credit loss approach to accrue impairment allowance, amounted to $10,424 thousand.

The Group applied the incurred loss model to consider the allowance of its accounts receivable as of December 31, 2017. The allowance for doubtful receivables were assessed by using the reference to collectability of accounts receivable. The Group considered any changes in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables over 180 days due to historical experience showing that such receivables are uncollectible. Allowance for impairment loss was recognized against trade receivables between 1 days and 180 days based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The Group did not accrue any allowance for doubtful accounts for the year end December 31, 2017 and the Group expected to be collected in further period.

As of December 31, 2018 and 2017, the accounts receivable were not pledged.

For further credit risk information, please refers to note 6(v).

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The Group and financial institution entered into the accounts receivable factoring contracts. According to the contracts, the Group did not bear the risks of uncollectible of accounts receivable, except the loss of business dispute. Therefore, the accounts receivable factoring met the criteria of financial assets derecognition. As of December 31, 2018, and 2017, the Group sold its accounts receivable without recourse as follows:

Unit: USD in thousands

December 31, 2018

Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral
Yuanta Commercial Bank	$ -	5,000	-	-	None
CITI, New York branch	97,159	300,000	97,159	2.00%~3.18%	None
	$ 97,159	305,000	97,159		

December 31, 2017

Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral
BOA, Taipei branch	$ 15,332	120,000	15,332	1.45%~2.25%	None
CITI, New York branch	205,485	300,000	205,485	1.71%~2.15%	None
	$ 220,817	420,000	220,817		

(d) Other receivables

	December 31, 2018	December 31, 2017
Other receivables	$ 7,578	284,415
Other receivables - related parties	98,779	559,127
Less: loss allowance	-	-
	$ 106,357	843,542

As of December 31, 2018 and 2017, the other receivable were not past due and impaired.

For further credit risk information, please refers to note 6(v).

(e) Inventories

	December 31, 2018	December 31, 2017
Raw materials	$ 6,889,680	5,534,027
Finished goods	5,298,564	3,470,632
Inventory in transit	1,675,692	158,458
	$ 13,863,936	9,163,117

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Except cost of goods sold and inventories recognized as expense, the remaining gains or losses which were recognized as operating cost of deduction of operating cost were as follow:

	2018	2017
Losses on valuation of inventories	235,154	-
Royalty	81,754	44,817
Other	(8,306)	(2,840)
	308,602	**41,977**

As of December 31, 2018 and 2017, the inventories were not pledged.

(f) Property, plant and equipment

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

		Research and development equipment	Machinery and equipment	Office equipment	Lease improvements	Other equipment	Total
Cost							
Balance on January 1, 2018	$	81,451	1,913	27,874	23,799	9,792	144,829
Additions		19,778	8,470	12,108	17,819	3,439	61,614
Disposals		(65)	-	(659)	-	-	(724)
Reclassification (Note)		-	4,474	-	-	57,027	61,501
Effect of changes in foreign exchange rates		-	294	263	-	139	696
Balance on December 31, 2018	**$**	**101,164**	**15,151**	**39,586**	**41,618**	**70,397**	**267,916**
Balance on January 1, 2017	$	69,746	223	22,794	20,951	3,835	117,549
Additions		11,705	1,739	5,413	2,848	6,124	27,829
Disposals		-	-	(28)	-	-	(28)
Effect of changes in foreign exchange rates		-	(49)	(305)	-	(167)	(521)
Balance on December 31, 2017	**$**	**81,451**	**1,913**	**27,874**	**23,799**	**9,792**	**144,829**
Accumulated depreciation:							
Balance on January 1, 2018	$	52,489	304	16,436	17,730	6,302	93,261
Depreciation		15,557	2,817	6,122	6,288	18,863	49,647
Disposals		(65)	-	(659)	-	-	(724)
Effect of changes in foreign exchange rates		-	60	84	-	45	189
Balance on December 31, 2018	**$**	**67,981**	**3,181**	**21,983**	**24,018**	**25,210**	**142,373**
Balance on January 1, 2017	$	36,657	56	12,192	10,925	1,722	61,552
Depreciation		15,832	257	4,330	6,805	4,623	31,847
Disposals		-	-	(28)	-	-	(28)
Effect of changes in foreign exchange rates		-	(9)	(58)	-	(43)	(110)
Balance on December 31, 2017	**$**	**52,489**	**304**	**16,436**	**17,730**	**6,302**	**93,261**
Carrying value：							
Balance on December 31, 2018	**$**	**33,183**	**11,970**	**17,603**	**17,600**	**45,187**	**125,543**
Balance on December 31, 2017	**$**	**28,962**	**1,609**	**11,438**	**6,069**	**3,490**	**51,568**
Balance on January 1, 2017	**$**	**33,089**	**167**	**10,602**	**10,026**	**2,113**	**55,997**

(Note): Reclassified from prepayment for equipment.

As of December 31, 2018 and 2017, the property, plant and equipment were not pledged.

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(g) Intangible assets

The cost and accumulated amortization of the intangible assets for the years ended December 31, 2018 and 2017, were as follows:

		Software
Costs:		
Balance on January 1, 2018	$	25,190
Additions		7,039
Effect of changes in foreign exchange rates		8
Balance on December 31, 2018	**$**	**32,237**
Balance on January 1, 2017	$	22,458
Additions		2,753
Effect of changes in foreign exchange rates		(21)
Balance on December 31, 2017	**$**	**25,190**
Accumulated amortization:		
Balance on January 1, 2018	$	19,966
Amortization		5,021
Effect of changes in foreign exchange rates		8
Balance on December 31, 2018	**$**	**24,995**
Balance on January 1, 2017	$	15,372
Amortization		4,613
Effect of changes in foreign exchange rates		(19)
Balance on December 31, 2017	**$**	**19,966**
Carrying value：		
Balance on December 31, 2018	**$**	**7,242**
Balance on December 31, 2017	**$**	**5,224**
Balance on January 1, 2017	**$**	**7,086**

(i) Amortization

For the years ended December 31, 2018 and 2017, the amortization of intangible assets is included in the statement comprehensive income:

		2018	2017
Operating costs	$	-	34
Operating expense		5,021	4,579
	$	**5,021**	**4,613**

(ii) As of December 31, 2018 and 2017, the intangible assets were not pledged as collateral.

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(h) Other current assets and other non-current assets

	December 31, 2018	December 31, 2017
Other current assets:		
Tax refundable	$ 2,637,660	339,638
Other prepayments	79,611	24,885
Others	5,184	29,814
	$ 2,722,455	394,337
Other non-current assets:		
Refundable deposits	3,650	3,004
Restricted deposits	153,665	152,240
Prepayments for equipment	39,506	11,030
	$ 196,821	166,274

(i) Short-term borrowings

The details of the Group for short-term borrowings were as follows:

	December 31, 2018			
	Currency	Interest rate collars	Expiration	Amount
Unsecured bank borrowings	USD	3.35%~4.50%	2019/1/22~2019/2/19	$ 2,962,661
Unused credit line				$ 5,814,201

	December 31, 2017			
	Currency	Interest rate collars	Expiration	Amount
Unsecured bank borrowings	USD	1.83%~2.65%	2018/1/3~2018/1/23	$ 4,904,771
Secured bank borrowings	RMB	4.35%	2018/9/20	137,199
Total				$ 5,041,970
Unused credit line				$ 5,330,240

For the collateral for short-term borrowings, please refer to note 8.

(j) Long-term borrowing

The details of the Group's for long-term borrowing were as follows:

	December 31, 2018			
	Currency	Interest rate collars	Expiration	Amount
Unsecured syndicated bank borrowing	USD	3.86%	2021/5/27	$ 5,522,236
Less: current portion				-
Total				$ 5,522,236
Unused credit line				$ -

(Continued)

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As of April 20, 2018, the Group entered into a three-year syndicated loan agreement with Yuanta Commercial Bank and other thirteen banks. The total credit line under this borrowing agreement is USD $180,000 thousand and is due in three years when the first draw on the borrowing. The first draw on the borrowing must be within six months after the date of the contract signed. Every draw on the borrowing, the period must be more than two months and within six months. The borrowing can be revolving under credit line.

The related financial covenants and restrictions for the syndicated loans mentioned above were as follows:

(i) Current ratio (current assets/current liabilities): shall not be lower than 100%.

(ii) Net financial liability ratio [(financial liabilities-cash and cash equivalents)/tangible net assets value]: shall not be higher than 120%. The financial liabilities include long-term and short-term borrowings (include current portion of long-term borrowings), short-term notes and bills payable and bonds payable (include convertible bond).

(iii) Interest coverage ratio [(income before tax + depreciation + amortization+ interest expense)/interest expense]: shall not be lower than 3 time.

(iv) Tangible net assets value (equity minus intangible assets): shall not be lower than $5,000,000 thousand during 2018 and shall not be lower than $6,000,000 thousand during 2019.

According to the Group's syndicated loan agreement with the bank, during the credit term, the Group is committed to maintain the financial ratios. If a breach of covenant occurs, the Group may have to pay the penalty to the bank.

The aforementioned ratio and criteria shall be reviewed semi-annually from 2019 based on the year-end consolidated financial statements audited by certified public accountant, and the semi-annual consolidated financial statements reviewed by certified public accountant. The Group was in compliance with the above financial covenants and restrictions.

(k) Provisions – current

	2017
Balance on January 1	$ 46,481
Provision made	436,039
Provision used	(294,294)
Balance on December 31	**$ 188,226**

The provision of warranty mainly relates to the selling of products. The provision for warranties represents the estimate basing on historical warranty trends of business, the return of damage products and the warranty term.

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(l) Operating leases

The Group leases the offices and warehouse, under operating leases. The future rental commitments are as follows:

		December 31, 2018	December 31, 2017
Less than one year	$	23,803	15,244
Between one and five years		35,642	32,558
	$	**59,445**	**47,802**

The operating lease expenses for the years ended December 31, 2018 and 2017 are $22,688 thousand and $17,039 thousand, respectively.

The Group leases a number of offices and warehouse under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date.

(m) Employee benefits

(i) Defined benefit plans

Reconciliation of defined benefit obligation at present value and plan asset at fair value are as follows:

		December 31, 2018	December 31, 2017
Present value of defined benefit obligations	$	54,382	53,652
Fair value of plan assets		(53,757)	(29)
Net defined benefit liabilities	$	**625**	**53,623**

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan and Taipei Fubon commercial bank that provides pensions for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Group’s Bank of Taiwan and Taipei Fubon commercial bank labor pension reserve account balance amounted to $53,757 thousand and $29 thousand, respectively, as of December 31, 2018 and 2017. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

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WIWYNN CORPORATION AND SUBSIDIARIES
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2) Movements in present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the Group were as follows:

	2018	2017
Defined benefit obligations at January 1	$ 53,652	52,924
Current service cost and interests cost	739	728
Net remeasurements of defined benefit liability	(9)	-
Defined benefit obligations at December 31	**$ 54,382**	**53,652**

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Group were as follows:

	2018	2017
Fair value of plan assets at January 1	$ 29	-
Net remeasurements of defined benefit assets	1	-
Contribution paid by the employer	53,727	29
Fair value of plan assets at December 31	**$ 53,757**	**29**

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group were as follow:

	2018	2017
Current service cost	**$ 739**	**728**
Operating expense	**$ 739**	**728**

5) Remeasurements of the net defined benefit liability recognized in other comprehensive income

The Group' s remeasurement of the net defined benefit liability recognized in other comprehensive income for the years ended December 31, 2018 and 2017, was as follows:

	2018	2017
Accumulated amount at January 1	$ -	-
Recognized during the period	(10)	-
Accumulated amount at December 31	**$ (10)**	**-**

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	December 31, 2018	December 31, 2017
Discount rate	1.375 %	1.375 %
Future salary increases	3.500 %	4.500 %

The expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date is $84 thousand.

The weighted average lifetime of the defined benefits plans is 16.47 years.

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	Effects to the defined benefit obligation	
	Increase 0.25%	Decrease 0.25%
December 31, 2018:		
Discount rate (change in 0.25%)	$ (1,475)	1,551
Future salary increases (change in 0.25%)	1,488	(1,428)
December 31, 2017:		
Discount rate (change in 0.25%)	(1,639)	1,705
Future salary increases (change in 0.25%)	1,626	(1,574)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above.

The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

(i) Defined contribution plans

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

The pension costs incurred from the contributions amounted to $24,407 thousand and $19,792 thousand for the years ended December 31, 2018 and 2017, respectively.

(Continued)

WIWYNN CORPORATION AND SUBSIDIARIES
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(n) Income Taxes

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

(i) Income tax expense

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

	2018	2017
Current tax expense (gain)		
Current period	$ 1,724,075	439,743
Adjustments for prior periods	(6,266)	2,596
	1,717,809	442,339
Deferred tax expense (gain)		
Origination and reversal of temporary difference	(198,606)	(8,378)
Adjustment in tax rate	(3,312)	-
	(201,918)	(8,378)
Income tax expense	**$ 1,515,891**	**433,961**

The amount of income tax recognized in other comprehensive income for 2018 and 2017 was as follows:

	2018	2017
Components of other comprehensive income that will not be reclassified to profit or loss:		
Gains on remeasurements of defined benefit plans	**$ 2**	**-**

(ii) Reconciliation of income tax and profit before tax for 2018 and 2017 is as follows:

	2018	2017
Income before tax	$ 7,093,468	1,642,443
Income tax using the Company’s domestic tax rate	1,418,694	279,215
Effect of tax rates in foreign jurisdiction	96,652	35,814
10% surtax on undistributed earnings	31,392	5,806
Tax-exempt income	-	(140)
Uncertainty over income tax	-	82,567
Prior-period tax adjustments	(6,266)	2,596
Adjustment in tax rate	(3,312)	-
Others	(21,269)	28,103
	$ 1,515,891	**433,961**

(Continued)

WIWYNN CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) Deferred tax assets and liabilities

1) Unrecognized deferred tax asset and liability

There was no significant unrecognized deferred tax assets and liabilities as of December 31, 2018 and 2017.

2) Recognized deferred tax assets and liabilities

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

	Unrealized exchange loss	Contract liabilities and Provision	Unrealized inter-company profits	Accred expense	Other	Total
Deferred tax assets:						
Balance at January 1, 2018	-	31,998	6,686	-	1,664	40,348
Recognized in profit or loss	19,420	44,365	55,447	127,995	3,493	250,720
Recognized in other comprehensive income	-	-	-	-	(2)	(2)
Balance at December 31, 2018	**19,420**	**76,363**	**62,133**	**127,995**	**5,155**	**291,066**
Balance at January 1, 2017	-	7,902	5,418	11,216	969	25,505
Recognized in profit or loss	-	24,096	1,268	(11,216)	695	14,843
Balance at December 31, 2017	**-**	**31,998**	**6,686**	**-**	**1,664**	**40,348**

	Recognized share of gain of subsidiaries and associates accounted for equity method	Unrealized exchange gain	Total
Deferred income tax liabilities:			
Balance at January 1, 2018	$ 20,356	1,224	21,580
Recognized in profit or loss	50,026	(1,224)	48,802
Balance atDecember 31, 2018	**$ 70,382**	**-**	**70,382**
Balance at January 1, 2017	$ 6,557	8,558	15,115
Recognized in profit or loss	13,799	(7,334)	6,465
Balance at December 31, 2017	**$ 20,356**	**1,224**	**21,580**

3) The ROC income tax authorities have examined the Company's income tax returns for all years through 2016.

(o) Capital and other equity

As of December 31, 2018 and 2017, the Company's authorized common shares consisted of 250,000 thousand and 150,000 thousand shares with a par value of $10 per share, amounted to $2,500,000 thousand and $1,500,000 thousand, of which 152,029 thousand shares and 106,077 thousand shares, respectively, were issued and outstanding.

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(i) Common shares

On June 22, 2018, the Company's shareholders meeting approved a resolution to distribute the retained earnings with the amounts of $255,193 thousand, which consisted of 25,519 thousand shares. The base date for capital increase was set on August 1, 2018, and all the related registration procedures had been completed.

On December 21, 2017, the Company's board of directors approved a resolution to distribute the cash subscription amounted to $200,000 thousand, which consisted of 20,000 thousand shares, with a par value of $120 in New Taiwan dollars. The base date for capital subscription was set on March 19, 2018, and all related registration procedures had been completed.

On May 31, 2017, the Company's shareholders meeting approved a resolution to distribute the retained earnings with the amounts of $133,252 thousand, which consisted of 13,325 thousand shares. The base date for capital increase was set on July 8, 2017, and all the related registration procedures had been completed.

The Company issued 432 thousand and 3,918 thousand new shares of common shares with the amounts of $6,257 thousand and $82,202 thousand for the execution of employee stock options for the years ended December 31, 2018 and 2017. All the related registration procedures had been completed.

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2018	December 31, 2017
A premium issuance of common shares for cash	$ 2,666,622	466,622
Employee stock options	170,949	63,114
others	16,185	16,185
	$ 2,853,756	**545,921**

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

(iii) Retained earnings

The Company's article of incorporation stipulate that if the Company has a profit as a result of the yearly accounting closing, ten percent of the profit net of tax and the amount for making up of any accumulated loss shall be set aside as legal reserve, and thereafter an amount, including the reserved special reserve, shall be set aside, along with any undistributed profits accumulated from previous years to be identified as profits to be distributed. The amount of dividends to shareholders shall not less than ten percent of profit from the currency year.

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1) Legal reserve

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

2) Special reserve

In accordance with Permit No. 1010012865 as issued by the Financial Supervisory Commission on April 6, 2012, a special reserve equal to the contra account of other shareholders' equity is appropriated from current and prior period earnings. When the debit balance of any of the contra accounts in the shareholders' equity is reversed, the related special reserve can be reversed. The subsequent reversals of the contra accounts in shareholders' equity shall qualify for additional distributions.

3) Dividends

As the Company is a technology and capital-intensive enterprise and is in its growth phase, it has adopted a more prudent approach in the appropriation of its remaining earnings as its dividend policy, in order to sustain its long-term capital needs and thereby maintain continuous development and steady growth. Under this approach, the distribution of cash dividend is not lower than 10% of total distribution of dividends.

4) Earnings distribution

The appropriation of 2017 and 2016 earnings that were approved by the shareholders' meeting on June 22, 2018 and May 31, 2017, respectively, were as follows:

	2017	2016
Dividends distributed to ordinary shareholders		
Cash	$ 510,386	88,834
Shares	255,193	133,252
	$ 765,579	**222,086**

(iv) Other equity (net of tax)

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Total
Balance on January 1, 2018	$ (8,137)	-	(8,137)
Exchange differences on translation of foreign financial statements	180,987	-	180,987
Balance on December 31, 2018	**$ 172,850**	**-**	**172,850**

(Continued)

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		Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Total
Balance on January 1, 2017	$	(1,264)	127	(1,137)
Exchange differences on translation of foreign financial statements		(6,873)	-	(6,873)
Unrealized gains (losses) on available-for-sale financial assets		-	(127)	(127)
Balance on December 31, 2017	**$**	**(8,137)**	**-**	**(8,137)**

(p) Share-based payment

As of December 31, 2018 and 2017, the Group had 3 share-based payment agreements as follows:

	Equity-settled		
	Employee stock options issued in 2015	**Employee stock options issued in 2017**	**Cash subscription reserved for employee in 2018**
Grant date	January 26, 2015	June 20, 2017	January 23, 2018
Number of shares granted	1,000,000	8,000,000	3,000,000
Duration	5 years	3 years	-
Recipients	Employee	Employee	Employee
Grant period	(Note 1)	(Note 2)	Immediately

(Note 1) The exercise ratio of the employee stock options over the grant period are as follows :

Employee stock options issued in 2015	
Grant period	**Exercise ratio (cumulative)**
February 15, 2017	1/3
February 15, 2018	2/3
February 15, 2019	3/3

(Note 2) The exercise ratio of the employee stock options over the grant period are as follows :

Employee stock options issued in 2018	
Grant period	**Exercise ratio (cumulative)**
August 1, 2017	1/2
February 1, 2019	2/2

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(i) Determining the fair value of equity instruments granted

1) Employee stock options

The Company adopted the Black-Scholes model to evaluate the fair value of the stock option at the grant date. The assumptions adopted in this valuation model were as follows:

	Employee stock options issued in 2015	Employee stock options issued in 2017
Fair value at grant date (expressed in New Taiwan dollars)	$ 7.19	4.54 / 6.24
Share price at grant date (expressed in New Taiwan dollars)	25.98	25.23
Exercise price (expressed in New Taiwan dollars)	17.40	25.00
Expected volatility	38.87%	34.99%/39.93%
Expected life	2 years	1.56 years/ 2.31 years
Risk-free interest rate	0.60%	0.5053%/0.5936%

2) Cash subscription reserved for employee subscription

The Company adopted the income approach to evaluate the fair value of the cash subscription reserved for employee subscription at grant date. The assumptions adopted in this valuation model were as follows:

	Cash subscription reserved for employee in 2018
Fair value at grant date (expressed in New Taiwan dollars)	$ 26
Share price at grant date (expressed in New Taiwan dollars)	146
Exercise price (expressed in New Taiwan dollars)	120
Discount rate	8.67 %
Lack of Marketability Discount	15 %
Minority Discount	20 %

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(ii) Information of employee stock options

The details of the employee stock options were as follows:

	2018		2017	
	Weighted-average exercise price (expressed in New Taiwan dollars)	Number of options (in thousands)	Weighted-average exercise price (expressed in New Taiwan dollars)	Number of options (in thousands)
Outstanding balance at the beginning of the year	$ 20.28	4,603	10.60	856
Options granted	-	-	25.00	8,000
Options forfeited	-	(127)	-	(335)
Options exercised	14.48	(432)	20.98	(3,918)
Outstanding balance at the end of the year	17.50	**4,044**	20.28	**4,603**
Exercisable number as the end of the year		**123**		**282**

The outstanding employee stock options were as follows:

	December 31, 2018	December 31, 2017
Range of exercise price (expressed in New Taiwan dollars)	$ 21.7 ～10	21.7 ～10
Weighted-average of remaining contractual duration (years)	1.14	2.17

(iii) Expense recognized in profit or loss

	2018	2017
Expense resulting from employee stock options	$ 27,898	15,114
Expense resulting from cash subscription reserved for employee	78,000	-
Total	**$ 105,898**	**15,114**

(q) Earnings per share

The calculation of basic and diluted earnings per share is as follows:

	2018	2017
Basic earnings per share:		
Profit attributable to common shareholders of the Company	**$ 5,577,577**	**1,208,482**
Weighted-average common stock outstanding (in thousands)	**146,791**	**124,159**
	$ 38.00	**9.73**
Diluted earnings per share:		
Profit attributable to common shareholders of the Company	**5,577,577**	**1,208,482**
Weighted-average common stock outstanding (in thousands)	146,791	124,159
Effect of potentially dilutive common stock (in thousands):		
Employee compensation	5,772	6,064
Employee stock options	1,041	3,281
Weighted average common stock outstanding plus the effect of potentially dilutive common stock (in thousands)	**153,604**	**133,504**
	$ 36.31	**9.05**

(Continued)

WIWYNN CORPORATION AND SUBSIDIARIES
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(r) Revenue from contracts with customers

(i) Detail of revenue

The details of revenue for the year end December 31, 2018 were as follows:

	2018
Sale of goods	$ 181,064,815

(ii) Disaggregation of revenue

	2018
Primary geographical markets	
Taiwan	$ 22,534
America	124,900,676
Europe	37,370,735
Asia	12,541,014
Other	6,229,856
	$ 181,064,815
Major products	
Hyperscale data center	$ 181,064,815

(iii) Contract balance

	December 31, 2018	January 1, 2018
Accounts receivable	$ 9,473,258	8,621,032
Accounts receivable – related parties	24,196	188,349
Less: loss allowance	(10,424)	-
	$ 9,487,030	8,809,381

	December 31, 2018	January 1, 2018
Contract liabilities - provisions for warranty	$ 381,814	188,226

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

The contract liabilities primarily related to the advance consideration received from customers for the electronic components under sales contracts, for which revenue is recognized when products are delivered to customers.

The major change in the balance of contract liabilities is the difference between the time frame of the performance obligation to be satisfied and the payment to be received. There was no significant changes during the period.

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(iv) Transaction price allocated to the remaining performance obligations

The Group recognizes revenue related to warranty service in the amount to which the Group has a right to invoice, thus the Group applies the practical expedient of IFRS 15 and does not disclose information about the transaction price allocated to the remaining performance obligations of the contract.

(s) Revenue

The detail of revenue for the year ended December 31, 2017, was as follows:

	2017
Hyperscale data center	$ 85,674,525

(t) Non-operating income and expenses

(i) Other income

The details of other income were as follows:

	2018	2017
Interest income	$ 47,664	6,517
Other	79	57
Total	$ 47,743	6,574

(ii) Other gains and losses

The details of other gains and losses were as follows:

	2018	2017
Gains on disposal of investments	$ -	824
Foreign exchange gains, net	260,238	7,387
Losses on valuation of financial assets and liabilities at fair value	(25,051)	(8,381)
Others	10,478	7,776
	$ 245,665	7,606

(iii) Finance costs

	2018	2017
Interest expenses		
Bank loans	$ (300,482)	(211,352)

(u) Employee's and directors' compensation

According to the Company's Article of Incorporation, if the Company has profit (which means income before tax excluding the amounts of employees' and directors' compensation) shall be contributed by the following rules. However, if the amount Company have accumulated deficit, it shall reserve the amount for offsetting deficit.

(i) No less than 5% of profit as employees' compensation. The Company may distributed in the form of shares or in cash, and the qualification requirements of employees, including the employees of subsidiaries of the Company meeting certain specific requirement shall be determined by the Board of Directors.

(ii) No more than 1% of profit as the compensation in cash to the Directors.

The Company accrued and recognized employees' compensation amounted to $368,000 thousand and $146,530 thousand, respectively and directors' compensation amounted to $15,000 thousand and $6,800 thousand, respectively, based on the net income before tax which excluding the amounts of employees' and directors' compensation and the ratio stipulated in the Company's Article of Incorporation. The above are both accounted for under operating expense for the years ended December 31, 2018 and 2017. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2018 and 2017.

(v) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

The Group's majority customers are in Cloud Infrastructure and Hyperscale Date Center industries. To reduce concentration of credit risk, the Group evaluates customers' financial positions periodically and requires customers to provide collateral, if necessary. In addition, the Group evaluates the aging of accounts receivable periodically, accrue allowance for doubtful accounts and purchasing insurance contracts of accounts receivable, if necessary. Historically, bad debt expense has always been under management's expectation. As of December 31, 2018 and 2017, 91.38% and 79.42% of the Group's accounts receivable were concentrated on 2 specific customers, respectively. Accordingly, concentrations of credit risk exist.

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(ii) Receivable and debt securities

For credit risk exposure of accounts receivables, please refer to note 6(c). Other financial assets at amortized cost includes other receivables. For the detail of loss allowance on December 31, 2017, please refer to note 6(d).

All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(g). For the detail of loss allowance on December 31, 2018, please refer to note (c).

As of December 31, 2018, the other receivable were not accrue any loss allowance.

(iii) Liquidity risk

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

	Carrying amount	Contractual cash flow	Within 1 year	1-2 years	2-5 years	More than 5 years
December 31, 2018						
Non-derivative financial liabilities						
Variable-interest-rate instruments:						
Short-term borrowings	$ 2,962,661	2,973,402	2,973,402	-	-	-
Long-term borrowings	5,522,236	6,035,087	213,444	213,444	5,608,199	-
Non-interest-bearing liabilities:						
Accounts payable (including related parties)	4,963,001	4,963,001	4,963,001	-	-	-
Other payables (including related parties)	1,439,211	1,439,211	1,439,211	-	-	-
Total	**$ 14,887,109**	**15,410,701**	**9,589,058**	**213,444**	**5,608,199**	**-**
December 31, 2017						
Non-derivative financial liabilities						
Variable-interest-rate instruments:						
Short-term borrowings	$ 5,041,970	5,050,103	5,050,103	-	-	-
Non-interest-bearing liabilities:						
Accounts payable (including related parties)	15,452,980	15,452,980	15,452,980	-	-	-
Other payables (including related parties)	762,007	762,007	762,007	-	-	-
Subtotal	21,256,957	21,265,090	21,265,090	-	-	-
Derivative financial liabilities						
Foreign currency swap contacts:						
Outflow	544	102,027	102,027	-	-	-
Inflow	-	(101,483)	(101,483)	-	-	-
Carrying amount	544	544	544	-	-	-
Foreign currency forward contracts:						
Outflow	3,502	3,502	3,502	-	-	-
Carrying amount	3,502	3,502	3,502	-	-	-
Subtotal	4,046	4,046	4,046	-	-	-
Total	**$ 21,261,003**	**21,269,136**	**21,269,136**	**-**	**-**	**-**

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

(iv) Market risk

1) Currency risk

The Group's significant exposure to foreign currency risk was as follows:

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD	527,856	30.733	16,222,593	529,694	29.848	15,810,310
CZK	1,821,875	1.363	2,483,945	-	-	-
Financial liabilities						
Monetary items						
USD	423,033	30.733	13,001,064	476,693	29.848	14,228,344

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable (including related parties) and other receivables (including related parties), loans and borrowings, accounts payable (including related parties) and other payables (including related parties) that are denominated in foreign currency. A strengthening (weakening) 5 % of appreciation (depreciation) of the NTD against the USD and CZK for the years ended December 31, 2018 and 2017, would increase (decrease) the net income by $228,219 thousand and $65,652 thousand, respectively. The analysis is performed on the same basis for 2018 and 2017.

3) Foreign exchange gain and loss on monetary items

Since the Group has many kinds of functional currency, the information on foreign exchange gains (losses) on monetary items is disclosed by total amount. For 2018 and 2017, foreign exchange gains (loss) (including realized and unrealized portions) amounted to $260,238 thousand and $7,387 thousand, respectively.

(v) Interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Group's financial assets and liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of non-derivative financial instruments on the reporting date. Regarding liabilities with variable rates, the analysis is based on the assumption that the liabilities were outstanding for lifetime on the reporting date.

If the interest rate increased / decreased by 1%, the Group's net income would have decreased / increased by $67,911 thousand and $30,458 thousand, respectively, for the years ended December 31, 2018 and 2017, with all other variable factors that remain constant. This is mainly due to the Group's borrowings at floating variable rate.

(Continued)

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(vi) Fair value information

1) Categories and fair values of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It shall not include fair value information of the financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value and investments in equity instruments which do not have any quoted price in an active market in which the fair value cannot be reasonably measured.

	December 31, 2018				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 1,403,592	-	-	-	-
Accounts receivable (including related parties)	9,487,030	-	-	-	-
Other receivable (including related parties)	106,357	-	-	-	-
Other non-current assets	157,315	-	-	-	-
Subtotal	$ 11,154,294	-	-	-	-
Financial liabilities measured at amortized cost					
Short-term borrowings	$ 2,962,661	-	-	-	-
Long-term borrowings	5,522,236	-	-	-	-
Accounts payable (including related parties)	4,963,001	-	-	-	-
Other payables (including related parties)	1,439,211	-	-	-	-
Subtotal	$ 14,887,109	-	-	-	-

	December 31, 2017				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Loans and receivables					
Cash and cash equivalents	$ 6,399,143	-	-	-	-
Accounts receivable (including related parties)	8,809,381	-	-	-	-
Other receivable(including related parties)	843,542	-	-	-	-
Other non-current assets	155,244	-	-	-	-
Subtotal	$ 16,207,310	-	-	-	-
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	$ 4,046	-	4,046	-	4,046
Financial liabilities measured at amortized cost					
Short-term borrowings	5,041,970	-	-	-	-
Accounts payable (including related parties)	15,452,980	-	-	-	-
Other payables (including related parties)	762,007	-	-	-	-
Subtotal	$ 21,256,957	-	-	-	-

(Continued)

2) Valuation techniques for financial instruments measured at fair value

a) Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques generally accepted by market participants such as the discounted cash flow or option pricing models. Fair value of foreign currency forward and swap contracts are usually determined by the forward currency exchange rate.

3) Transfers between Level 1 and Level 2.

The Group didn't have any transfer between levels for the years ended December 31, 2018 and 2017.

4) Changes between Level 3: none.

(w) Financial risk management

(i) Overview

1) Credit risk

2) Liquidity risk

3) Market risk

The following likewise discusses the Group’s objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the accompanying consolidated financial statements.

(ii) Structure of risk management

The Group’ s finance management department provides business services for the overall internal department. It sets the objectives, policies and processes for managing the risk and the methods used to measure the risk arising from both the domestic and international financial market operations.

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

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to financial instruments fails to meet its contractual obligations that arise principally from the Group' s accounts receivable and investment.

1) Accounts and other receivable

The Group' s credit policy is transacting with creditworthy customers, and obtains collateral to mitigate risks arising from financial loss due to default. The Group will transact with corporations of credit ratings equivalent to investment grade and such ratings are provided by independent rating agencies. Where it is not possible to obtain such information, the Group will assess the ratings based on other publicly available financial information and transactions records with its major customers. The Group continues to monitor the exposure to credit risk and counterparty credit rating, and evaluate the customers' credit rating and credit limit via automatic finance system to manage the credit exposure.

The Group did not have any collateral or other credit enhancements to avoid credit risk of financial assets.

2) Investment

The credit risk exposure in the bank deposits and other financial instruments are measured and monitored by the Group' s finance department. Since the Group' s transactions resulted from the external parties with good credit standing and investment grade above financial institutions, publicly-traded stocks companies and non publicly-traded stocks companies, with good credit ratings, there are no incompliance issues and therefore no significant credit risk.

3) Guarantee

According to the Group's policy, the Group can only provide guarantee to which is listed under the regulation. The Group did not provide guarantees as of December 31, 2018 and 2017.

(iv) Liquidity risk

The Group maintains sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group' s management supervises the bank loan facilities and ensures in compliance with the terms of the loan agreements.

The loan was an important source of liquidity for the Group. As of December 31, 2018 and 2017, the Group has unused credit lines for bank loans of $5,777,804 thousand and $5,330,240 thousand, respectively.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities. The currencies used in these transactions are denominated in USD.

The foreign currency assets and liabilities might lead to the interest risk since the fluctuation of the market exchange rate influence the Group's future cash flow. The Group entering into forward and swap contracts are intended to manage the exchange rate risk due to the Group's current and future demand for foreign currency. The contract periods are decided in consideration of the Group's foreseeable assets and liabilities and expected cash flow. At the maturity date of the derivative contract, the Group will settle these contracts using the foreign currencies arising from the assets denominated in foreign currency.

2) Interest risk

The Group's short-term borrowings, bear floating interest rates. The changes in effective rate along with the fluctuation of the market interest rate influence the Group's future cash flow. The Group reduces the interest risks by negotiating the loan interest rates frequently with banks.

3) Other market price risk

The Group monitors the risk arising from its available-for-sale security instruments, which are held for monitoring cash flow requirements and unused capital. The management of the Group monitors the combination of equity securities and open-market funds in its investment portfolio based on cash flow requirements. Material investments within the portfolio are managed on an individual basis, and all buy-and-sell decisions are approved by the Board of directors.

(x) Capital management

The Group's meets its objectives for managing capital to safeguard the capacity to continue to operate, and provide a return to the shareholders, also, to benefit other related parties, at the same time, to maintain an optional capital structure to reduce the cost of capital. Capital includes common share, capital surplus and retained earnings. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares or sell assets to settle any liabilities.

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The Group's debt to asset ratio and debt to capital ratio at the end of the reporting period as of December 31, 2018 and 2017, were as follows:

	December 31, 2018	December 31, 2017
Debt to asset ratio	62%	88%
Debt to capital ratio	162%	758%

(y) Investing and financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2018	Cash flows	Non-cash changes Foreign exchange movement	December 31, 2018
Long-term borrowings	$ -	5,413,567	108,669	5,522,236
Short-term borrowings	5,041,970	(2,141,749)	62,440	2,962,661
Total liabilities from financing activities	$ 5,041,970	3,271,818	171,109	8,484,897

(7) Related-parties transactions:

(a) Parent company and ultimate controlling party

Wistron Corporation is both the parent company and the ultimate controlling party of the Group. As of December 31, 2018, it owns 51.18%, of all shares outstanding of the Company.

(b) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

Name of related party	Relationship with the Group
Wistron Corporation (WHQ)	Parent Company
Wistron InfoComm (Czech). s.r.o. (WCZ)	Other related parties
Wistron Optronics (Kunshan) Co., Ltd. (WOK)	Other related parties
Wistron NeWeb corporation (WNC)	Other related parties
Wistron Mexico S.A. de C.V. (WMX)	Other related parties
Cowin Worldwide Corporation (COWIN)	Other related parties
ICT Service Management Solutions (India) Private Limited (WIN)	Other related parties
Wibase Industrial Solutions (WIS)	Other related parties
International Standards Labs. (ISL)	Other related parties
Wistron InfoComm (Zhongshan) Corporation (WZS)	Other related parties
SMS InfoComm Technology Services and Management Solutions Ltd. (WBR)	Other related parties
Wistron InfoComm (Kushan) Co., Ltd. (WAKS)	Other related parties

(Continued)

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Name of related party	Relationship with the Group
SMS InfoComm Corporation (WTX)	Other related parties
Wistron InfoCommon Technology (Texas) corporation (WITT)	Other related parties
Wistron InfoCommon Technology (America) corporation (WITX)	Other related parties
WiAdvance Technology Corporation (AGI)	Other related parties
Wistron K.K. (WJP)	Other related parties

(c) Significant transactions with related parties

(i) Sales

The amounts of significant sales and outstanding balances between the Group and related parties were as follows:

	Sales		Receivables from related parties	
	2018	**2017**	**December 31, 2018**	**December 31, 2017**
WHQ	$ 4,530	6,292	93	546
Other related parties	1,087,792	222,710	24,103	187,803
	$ 1,092,322	**229,002**	**24,196**	**188,349**

The selling price and payment terms of sales to related parties depend on the economic environment and market competition, and are not significantly different from those with third-party customers.

(ii) Purchases

The amounts of significant purchase and outstanding balances between the Group and related parties were as follows:

	Purchases		Payables to related parties	
	2018	**2017**	**December 31, 2018**	**December 31, 2017**
WHQ	$ 54,113,299	27,550,464	859,744	11,024,864
Other related parties：				
WCZ	39,672,520	11,255,478	2,886,854	2,818,902
Other related parties	14,014	-	-	-
	$ 93,799,833	**38,805,942**	**3,746,598**	**13,843,766**

Trading terms of purchase transactions with related parties are not significantly different from those with third-party vendors.

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(iii) Processing Fee

The amounts of processing and outstanding balance between the Group and related parties were as follows:

	Processing Fee		Payables to related parties	
	2018	2017	December 31, 2018	December 31, 2017
WMX	$ 756,279	439,668	96,065	57,850

Trading terms of processing fee transactions with related parties are not significantly different from those with third-party venders.

(iv) Operating Expense

The amounts of operating expense between the Group and related parities were as follow:

	2018	2017
WHQ	$ 1,027,918	657,421
Other related parties	58,618	9,106
	$ 1,086,536	666,527

(v) Other receivables

The Group purchased raw materials on behalf of related parties, post-employment benefit and etc. The outstanding balance were as follows:

	Other receivables from related parties	
	December 31, 2018	December 31, 2017
WHQ	$ 26	53,623
Other related parties:		
COWIN	92,507	464,485
Others related parties	6,246	41,019
	$ 98,779	559,127

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(vi) Other payable

The Group purchased research and development materials and related parties paid traveling expenses on behalf of the Group, testing services and etc. The outstanding balance were as follows:

	Other payables to related parties	
	December 31, 2018	December 31, 2017
WHQ	$ 688,318	148,771
Other related parties	4,550	6,849
	$ 692,868	155,620

(vii) Endorsements and guarantees

As of December 31, 2017, WHQ provided endorsements and guarantees to the Group for fulfillment the obligation on an agreement and bank loans amounting to $8,790,236 thousand. There were no such transaction in 2018.

(d) Transactions with key management personnel

Key management personnel compensation were comprised as follows:

	2018	2017
Short-term employee benefits	$ 73,820	48,827
Post-employment benefits	939	681
	$ 74,759	49,508

(8) Pledged assets:

The carrying amounts of pledged assets were as follow:

Pledged assets	Object	December 31, 2018	December 31, 2017
Other non-current assets	Custom guarantee	$ -	3,000
Other non-current assets	Bank loans	153,665	149,240
		$ 153,665	152,240

(9) Significant commitments and contingencies:

Alacritech Inc. had filed an action against the Company patent infringement in East Texas Court in the US on June 2016. The Company has appointed a lawyer to handle the case. The court ruled suspension due to the patent infringement had been transferred to review by Patent Trial and Appeal Board. The court will decide to proceed based on the result of Patent Trial and Appeal Board.

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(10) Losses due to major disasters: None.

(11) Subsequent events:

On December 27, 2018, the Company’s Board of Directors had approved a resolution to distribute the cash subscription which consisted of 18,810 thousand shares with a per value of $248. The cash subscription was effective on January 9, 2019, after filed to FSC. In addition, the base date of cash subscription was set on March 26, 2019.

(12) Other:

(a) A summary of employee benefits, depreciation, and amortization by function, were as follows:

By function / By item	For the years ended December 31					
	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	336	925,120	925,456	-	620,212	620,212
Labor and health insurance	17	53,109	53,126	-	41,577	41,577
Pension	11	25,135	25,146	-	20,520	20,520
Remuneration of directors	-	15,000	15,000	-	6,800	6,800
Others	530	18,398	18,928	37	18,037	18,074
Depreciation	6,072	43,575	49,647	1,684	30,163	31,847
Amortization	-	5,021	5,021	34	4,579	4,613

(13) Other disclosures:

(a) Information on significant transactions:

(i) Loans to other parties: None

(ii) Guarantees and endorsements for other parties: Table 1 attached.

(iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures): None.

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock: Table 2 attached.

(v) Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None.

(Continued)

(vi) Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None.

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT$300 million or 20% of the capital stock: Table 3 attached.

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock: Table 4 attached.

(ix) Trading in derivative instruments: None.

(x) Significant intercompany transactions and business relationships between parent company and its subsidiaries: Table 5 attached.

(b) Information on investments:

The following are the information on investees for the years ended December 31, 2018 (excluding information on investees in mainland China): Table 6 attached.

(c) Information on investment in mainland China: Table 7 attached.

(14) Segment information:

(a) General information

The Group has one reportable segment. This segment is mainly involved in manufacturing and sale of servers and storage in cloud infrastructure and hyperscale date center.

(b) Profit or loss data of the reporting segment (including specific revenues and expenses), assets and liabilities of the segment, the basis of measurement, and the related eliminations:

The accounting policies of the operating segments are the same as those described in note 4. The Group evaluates the performance of operating segment on the basis of operating income but not including any extraordinary activity and foreign exchange gain or losses. The information relating to profit or loss data of the reporting segment (including specific revenues and expenses), assets and liabilities of the segment are the same as those described in the consolidated financial statements. Please refer to the consolidated balance sheets and the consolidated statements of comprehensive income.

(c) Products and services information:

The Group is a single operation segment, therefore, the Group’ s revenue was not disclosed by categories of products or services.

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(d) Geographical information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets that are based on the geographical location of the assets.

Revenue from external customers:

Geography	2018	2017
Taiwan	$ 22,534	11,057
America	124,900,676	69,331,730
Europe	37,370,735	11,336,603
Asia	12,541,014	3,910,197
Others	6,229,856	1,084,938
	$ 181,064,815	**85,674,525**

Non-current assets:

Geography	2018	2017
Taiwan	$ 305,532	210,469
America	23,935	12,500
Asia	139	97
	$ 329,606	**223,066**

Non-current assets include the property, plant and equipment, intangible assets and other non-current assets, aside from deferred tax assets.

(e) Major customers

The amounts of sales to external customers representing greater than 10% of net revenue were as follows:

Customer	2018	2017
Customer A	$ 90,858,378	48,765,338
Customer B	79,699,127	32,391,478
	$ 170,557,505	**81,156,816**

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Table 1 Guarantees and endorsements for other parties:

(December 31, 2018)

No.	Name of guarantor	Counter - party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise (Note 2)	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements	Ratio of accumulated amounts of endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements (Note 1)	Parent company endorsement s/guarantees to subsidiary	Subsidiary endorsement s/guarantees to parent company	Endorsement s/guarantees to subsidiary in Mainland China
		Name	Relationship with the company (Note 3)										
0	The Company	WYKS	3	3,233,036	307,310	153,665	-	-	1.43%	5,388,393	Y	N	Y

(Note 1) The total amount for guarantees and endorsements provided by the Company to other entities shall not exceed 50% of the Company's lastest net worth, which was audited or reviewed by Certified Public Accountant.

(Note 2) The total amount for guarantees and endorsements provided by the Company to any individual entity shall not exceed 30% of the Company's lastest net worth, which was audited or reviewed by Certified Public Accountant.

(Note 3) Relationship with the Company:

1. Ordinary business relationship.
2. Subsidiary which owned more than 50% by the guarantor.
3. An investee owned more than 50% in total by both the guarantor and its subsidiary.
4. An investee owned more than 90% by the guarantor or its subsidiary.
5. Fulfillment of contractual obligations by providing mutual endorsements and guarantees for peer or joint builders in order to undertake a construction project.
6. An entity that is guaranteed and endorsed by all capital-contributing shareholders in proportion to their shareholding percentages.
7. The companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre - construction homes pursuant to the Consumer Protection Act for each other.

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Table 2 Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock :

(December 31, 2018)

Name of company	Category and name of security	Account name	Name of counter - party	Relationship with the company	Beginning balance		Purchases		Sales				Ending balance		Notes
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount	
The Company	WYUDE/ Stock	Investment accounted for using equity method	Cash subscriptiom	The Company's subsidiary	9,100	319,416	160,000	4,749,328	-	-	-	-	169,010	5,322,048	(Note)

(Note): The aforementioned transactions have been eliminated in the consolidated financial statements.

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Table 3 Related-party transactions for purchases and sales with amounts exceeding the lower of NT$100 million or 20% of the capital stock:
(December 31, 2018)

Name of company	Related Party	Nature of relationship	Transaction details				Transaction with terms different from others		Notes/ Accounts receivable (payable)		Note
			Purchase/Sales	Amount	Percentage of total purchases / sales	Payment terms	Unit price	Payment Terms	Ending balance	Percentage of total notes / accounts receivable (payable)	
The Company	WYUDE	The Company's subsidiary	Sale	19,975,547	26.08%	OA120	-	-	7,081,699	59.49%	(Note)
"	WYJP	The Company's subsidiary	Sale	3,085,415	4.03%	OA90	-	-	315,483	2.65%	(Note)
"	WYKR	The Company's subsidiary	Sale	1,681,231	2.19%	OA90	-	-	84,800	0.71%	(Note)
"	WYHK	The Company's subsidiary	Sale	1,200,889	1.57%	OA90	-	-	22,938	0.19%	(Note)
"	WYKS	The Company's subsidiary	Sale	951,182	1.24%	OA90	-	-	397,007	3.34%	(Note)
"	WIN	Other related company	Sale	724,029	0.95%	OA90	-	-	-	-	-
"	WCZ	Other related company	Purchase	39,238,952	59.05%	OA60	-	-	(2,866,554)	75.05%	-
"	WHQ	The Company's parent company	Purchase	26,134,639	39.33%	OA90	-	-	(859,744)	22.51%	-
"	WYUDE	The Company's subsidiary	Purchase	1,056,908	1.59%	OA90	-	-	(71,631)	1.88%	(Note)
WYUDE	WYHQ	WYUDE's parent company	Sale	1,056,908	0.80%	OA90	-	-	71,631	1.41%	(Note)
"	WBR	WYUDE's other related company	Sale	312,018	0.25%	OA90	-	-	893	0.02%	-
"	WHQ	The Company's parent company	Purchase	27,978,660	21.55%	OA90			(317,611)	19.43%	(Note 1)
"	WYHQ	WYUDE's parent company	Purchase	19,975,547	15.45%	OA120	-	-	(7,081,699)	71.05%	(Note)
"	WCZ	WYUDE's other related company	Purchase	433,568	0.33%	OA90	-	-	(20,300)	0.16%	-
"	WMX	WYUDE's other related company	Processing fee	756,279	0.58%	OA90	-	-	(96,065)	0.75%	-
WYJP	The Company	WYJP's parent company	Purchase	3,085,415	100.00%	OA90	-	-	(315,483)	100.00%	(Note)
WYKR	The Company	WYKR's parent company	Purchase	1,681,231	100.00%	OA90	-	-	(84,800)	100.00%	(Note)
WYHK	The Company	WYHK's parent company	Purchase	1,200,889	100.00%	OA90	-	-	(22,938)	100.00%	(Note)
WYKS	The Company	WYKS's parent company	Purchase	951,182	98.55%	OA90	-	-	(397,007)	100.00%	(Note)

(Note): The aforementioned inter - company transactions have been eliminated in the consolidated financial statements.

(Note 1) The Company purchased from WHQ on the behalf of WYUDE.

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Table 4 Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

(December 31, 2018)

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Loss allowance	Notes
					Amount	Action taken			
The Company	WYUDE	The Company's subsidiary	7,081,699	356.93%	-	-	-	-	(Note)
"	WYJP	The Company's subsidiary	315,483	1207.85%	-	-	-	-	(Note)
"	WYKS	The Company's subsidiary	397,007	185.98%	79,312	Collecting	79,312	-	(Note)
Other Receivables									
The Company	WYUDE	The Company's subsidiary	4,477,851	-	-	-	-	-	(Note)

(Note): The aforementioned inter - company transactions have been eliminated in the consolidated financial statements.

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Table 5 Significant intercompany transactions and business relationships between parent company and its subsidiary:

(December 31, 2018)

No.	Name of company	Name of counter-party	Nature of relationship (Note 1)	Intercompany transactions			
				Account name	Amount	Trading Terms	Percentage of the consolidated net revenue or total assets (Note 3)
0	The Company	WYUDE	1	Sales	19,975,547	OA120	11.03%
0	"	WYJP	1	Sales	3,085,415	OA90	1.70%
0	"	WYKR	1	Sales	1,681,231	OA90	0.93%
0	"	WYHK	1	Sales	1,200,889	OA90	0.66%
0	"	WYKS	1	Sales	951,182	OA90	0.53%
0	"	WYUDE	1	Accounts Receivable	7,081,699	OA120	25.11%
0	"	WYJP	1	Accounts Receivable	315,483	OA90	1.12%
0	"	WYKR	1	Accounts Receivable	84,800	OA90	0.30%
0	"	WYHK	1	Accounts Receivable	22,938	OA90	0.08%
0	"	WYKS	1	Accounts Receivable	397,007	OA90	1.41%
1	WYUDE	The Company	2	Sales	1,056,908	OA90	0.58%
1	"	The Company	2	Accounts Receivable	71,631	OA90	0.25%

Note 1: relationship:

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Subsidiary to subsidiary.

Note 2: The section only discloses the information of sales and accounts receivable of inter-company transactions, as well as is not disclosed the purchase and accounts payable of counter-party due to duplicate.

Note 3: Calculated by using the transaction amount, divided by the consolidated net revenues and total assets.

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Table 6 Information on investments (excluding investees in mainland China):

The following are the information on investees for the twelve months ended December 31, 2018 (excluding information on investees in mainland China):

Name of the investor	Name of investee	Location	Main business and products	Original investment amount		Balance as of December 31, 2018			The highest percentage of the periods	Net income (losses) of the investee	Share of profits/losses of investee	Notes
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership	Carrying value				
The Company	WYJP	Japan	Sales of data storage equipment	6,620	6,620	-	100.00%	95,940	100.00%	63,784	63,784	(Note)
"	WYUDE	U.S.A	Sales of data storage equipment	5,021,581	272,253	169,010	100.00%	5,322,048	100.00%	74,514	74,514	(Note)
"	WYHK	Hong Kong	Investing activities and sale of data storage equipment	12,181	12,181	400	100.00%	91,201	100.00%	51,823	51,823	(Note)
"	WYKR	South Korea	Sales of data storage equipment	2,903	2,903	20	100.00%	59,000	100.00%	42,238	42,238	(Note)
"	WYMY	Malaysia	Sales of data storage equipment	15,109	15,109	2,050	100.00%	14,967	100.00%	(187)	(187)	(Note)

(Note): The aforementioned transactions have been eliminated in the consolidated financial statements.

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Table 7 Information on investment in mainland China:

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

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment (Note 2)	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net income (loss) of the investee	The highest percentage of the periods	Percentage of ownership	Investment income (losses) (Note 3)2.	Book value	Accumulated remittance of earnings in current period	Note
					Outflow	Inflow								
WYKS	Sales of data storage equipment	10,659	2	- (Note 1)	-	-	-	24,025	100%	100%	24,025	45,701	-	(Note 5)

(ii) Limitation on investment in mainland China

Accumulated Investment in Mainland China as of December 31, 2018 (Note 1)	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 4)
-	-	6,466,072

(Note 1) Wiwynn Technology Service Hong Kong Limited used its own capital to invest in WYKS.

(Note 2) Ways to invest in mainland China:

1.Direct investment in mainland China.

2.Reinvestment in mainland China through third place.

3.Others

(Note 3) The three categories of investment income (losses) recognized were as follows:

1. The financial statements of the investee company were reviewed by the global accounting firm in cooperation with R.O.C. accounting firm.

2. The financial statements of the investee company were reviewed by the same auditor of the Taiwan parent company.

3. Others

(Note 4) Amount of upper limit on investment was the higher between sixty percent of total equity or total consolidated equity.

(Note 5) The aforementioned inter-company transactions have been eliminated in the consolidated financial statements.

(iii) Significant transactions

For the year ended December 31, 2018, the significant inter-company transactions with the subsidiary in mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".