

**MACHVISION INC. CO., LTD.
AND SUBSIDIARIES**

Consolidated Financial Statements

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

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Representation Letter

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

Company name: Machvision Inc. Co., Ltd.

Chairman: Guang-Shiah Wang

Date: February 13, 2019



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Independent Auditors' Report

To the Board of Directors of Machvision Inc. Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Machvision Inc. Co., Ltd. (the "Company") and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years 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 of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 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"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and 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 for 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

Please refer to notes 4(m) and 6(n) for disclosures related to revenue recognition.

Description of key audit matter:

Revenue is the key indicator used by investors and management while evaluating the Group's finance or operating performance. The Group adopted IFRS 15 and the accuracy of the timing and amount of revenue recognition have significant impact on the financial statements, for which the assumptions and judgments of revenue measurement and recognition rely on subjective judgments of the management. Therefore, we consider it as one of our key audit matters.

How the matter was addressed in our audit:

Understanding and testing the effectiveness of the design of, and implementing the internal control of sales and collecting cycles; reviewing the revenue recognition of significant sales contracts to determine whether the key judgment, estimation, and accounting treatment are reasonable; understanding the type of products and the sales of machinery equipment of the top 10 customers; calculating the turnover days of sales and accounts receivable to ensure whether clients' credit terms are in accordance with the ratios, and analyzing the changes in the top 10 customers from the most recent period and prior year to determine if there were any abnormalities; selecting sales transaction from a certain period of time before and after the last shipping date, and verifying them with the vouchers to determine the accuracy of the timing whether there are any abnormalities; as well as understanding whether there is a significant subsequent sales returns.

2. Impairment of trade receivables

Please refer to notes 4(g) and 6(b) for disclosures related to impairment of trade receivables.

Description of key audit matter:

The notes, accounts and long-term accounts receivable constituted 34% of total consolidated assets of the Group as of December 31, 2018, and the impairment of notes, accounts and long term accounts receivable depends on the evaluation of the management based on the evidence of internal and external factors, both subjective and objective. Therefore, we consider them as one of our key audit matters.

How the matter was addressed in our audit:

Testing the effectiveness of control points relating to cash collection; obtaining the list of accounts receivable balance to send confirmations for selected samples; acquiring the Group's computation of impairment loss rate to review its appropriateness; deriving the aging analysis of accounts receivables to verify the accuracy of aging periods by examining relevant documents of selected receivables; reviewing whether the recognition of provision for the impairment loss is based on the impairment loss rate; and evaluating whether the recognition of impairment on accounts receivable made by the management is reasonable.

3. Inventory measurement

Please refer to notes 4(h), 5 and 6(c) for disclosures related to inventory measurement.

Description of key audit matter:

The inventories of the Group are mainly optical inspection machinery equipment and their related parts. The products may be outdated or no longer meet the market demand due to the rapid changes in technology, the demand of related products and their prices may fiercely fluctuate, and the impairment of inventory depends on the evaluation of the management based on the evidence of internal and external factors, both subjective and objective. Therefore, we consider them as one of our key audit matters.

How the matter was addressed in our audit:

Assessing the accounting policy on inventory measurement to determine its reasonableness; reviewing the inventory aging documents and analyzing the changes to ensure that the process of inventory valuation is in conformity with the accounting policies; understanding and evaluating whether if the basis used for net realizable value is reasonable; selecting samples and verifying them to ensure they are consistent with the vouchers; and reviewing whether the disclosure of inventory measurement made by the management is appropriate.

Other Matter

The Company has prepared its parent company only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unqualified 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, interpretation as well as related guidance endorsed 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 audit committee) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Po-Shu Huang and Ann Tien Yu.

KPMG

Taipei, Taiwan (Republic of China)
February 13, 2019

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

| | December 31, 2018 | | December 31, 2017 | | December 31, 2018 | | December 31, 2017 | |
|--|---------------------|------------|---------------------|------------|-------------------|---------------------|-------------------|-------------------|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Assets | | | | | | | | |
| Current assets: | | | | | | | | |
| 1100 Cash and cash equivalents (note 6(a)) | \$ 1,764,842 | 51 | 751,469 | 39 | 2130 | \$ 82,716 | 2 | - |
| 1151 Notes receivable (note 6(b)) | 18,379 | 1 | 2,953 | - | 2150 | 1,358 | - | 524 |
| 1170 Accounts receivable, net (note 6(b)) | 1,076,197 | 31 | 708,948 | 37 | 2170 | 318,692 | 9 | 185,895 |
| 130x Inventories (note 6(c)) | 234,001 | 7 | 186,551 | 10 | 2209 | 457,106 | 14 | 218,538 |
| 1410 Prepayments | 8,785 | - | 3,256 | - | 2230 | 271,716 | 8 | 65,811 |
| 1479 Other current assets | 7,178 | - | 5,406 | - | 2250 | 45,353 | 1 | 20,188 |
| Total current assets | <u>3,109,382</u> | <u>90</u> | <u>1,658,583</u> | <u>86</u> | <u>2399</u> | <u>1,190,439</u> | <u>35</u> | <u>520,804</u> |
| Non-current assets: | | | | | | | | |
| 1510 Financial assets at fair value through profit or loss—non-current (note 6(d)) | 9,644 | - | - | - | | 780 | - | - |
| 1543 Financial assets carried at cost—non-current (note 6(e)) | - | - | 9,644 | 1 | 2570 | 9,497 | - | 8,757 |
| 1600 Property, plant and equipment (note 6(f)) | 238,607 | 7 | 213,862 | 11 | 2640 | 1,200,716 | 35 | 529,561 |
| 1780 Intangible assets (note 6(g)) | 303 | - | 566 | - | | | | |
| 1840 Deferred income tax assets (note 6(k)) | 25,686 | 1 | 13,730 | 1 | 3100 | 426,082 | 12 | 426,082 |
| 1920 Refundable deposits | 5,285 | - | 5,767 | - | | 59,485 | 2 | 59,485 |
| 1932 Long-term receivables (notes 6(b)) | 80,951 | 2 | 16,064 | 1 | | 4 | - | 4 |
| 1995 Other non-current assets (note 8) | 2,189 | - | 2,186 | - | 3211 | 3 | - | - |
| Total non-current assets | <u>362,665</u> | <u>10</u> | <u>261,819</u> | <u>14</u> | <u>3235</u> | <u>59,492</u> | <u>2</u> | <u>59,489</u> |
| Total assets | <u>\$ 3,472,047</u> | <u>100</u> | <u>\$ 1,920,402</u> | <u>100</u> | | <u>\$ 1,727,535</u> | <u>49</u> | <u>\$ 857,913</u> |
| | | | | | | | | |
| Liabilities and Equity | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Current contract liabilities (note 6(n)) | | | | | | | | |
| Notes payable | | | | | | | | |
| Accounts payable | | | | | | | | |
| Other payables (note 6(p)) | | | | | | | | |
| Current tax liabilities | | | | | | | | |
| Provisions—current (note 6(h)) | | | | | | | | |
| Other current liabilities | | | | | | | | |
| Total current liabilities | | | | | | | | |
| Non-Current liabilities: | | | | | | | | |
| Deferred income tax liabilities (note 6(k)) | | | | | | | | |
| Net defined benefit liabilities (note 6(i)) | | | | | | | | |
| Total liabilities | | | | | | | | |
| Equity attributable to shareholders of the company (note 6(l)): | | | | | | | | |
| Ordinary shares | | | | | | | | |
| Capital surplus: | | | | | | | | |
| Additional paid-in capital | | | | | | | | |
| Changes in equities of subsidiaries | | | | | | | | |
| Other capital surplus | | | | | | | | |
| Retained earnings: | | | | | | | | |
| Legal reserve | | | | | | | | |
| Special reserve | | | | | | | | |
| Unappropriated retained earnings | | | | | | | | |
| Other equity interest: | | | | | | | | |
| Foreign currency translation differences for foreign operations | | | | | | | | |
| Total equity attributable to shareholders of the company | | | | | | | | |
| Non-controlling interests | | | | | | | | |
| Total equity | | | | | | | | |
| Total liabilities and equity | | | | | | | | |

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
MACHVISION INC. CO., LTD. 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 Common Share)

| | 2018 | | 2017 | |
|--|---------------------|-----------|-----------------|------------|
| | Amount | % | Amount | % |
| 4000 Operating revenue (notes 6(n) and (o)) | \$ 3,111,876 | 100 | 1,420,888 | 100 |
| 5000 Operating costs (notes 6(c), (f), (j), (p) and 7) | <u>945,194</u> | <u>30</u> | <u>511,285</u> | <u>36</u> |
| 5900 Gross profit from operations | <u>2,166,682</u> | <u>70</u> | <u>909,603</u> | <u>64</u> |
| 6000 Operating expenses (notes 6(b), (f), (j), (p) and 7): | | | | |
| 6100 Selling expenses | 242,446 | 8 | 134,973 | 9 |
| 6200 Administrative expenses | 161,796 | 5 | 64,614 | 5 |
| 6300 Research and development expenses | 169,439 | 6 | 143,758 | 10 |
| 6450 Expected credit losses for bad debt expense | <u>8,849</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total operating expenses | <u>582,530</u> | <u>19</u> | <u>343,345</u> | <u>24</u> |
| Net operating income | <u>1,584,152</u> | <u>51</u> | <u>566,258</u> | <u>40</u> |
| 7000 Non-operating income and expenses (note 6(q)): | | | | |
| 7010 Other income | 8,788 | - | 5,556 | - |
| 7020 Other gains and losses | <u>29,284</u> | <u>1</u> | <u>(25,024)</u> | <u>(2)</u> |
| Total non-operating income and expenses | <u>38,072</u> | <u>1</u> | <u>(19,468)</u> | <u>(2)</u> |
| 7900 Profit from continuing operations before income tax | 1,622,224 | 52 | 546,790 | 38 |
| 7950 Less: income tax expenses (note 6(k)) | <u>314,507</u> | <u>10</u> | <u>85,366</u> | <u>6</u> |
| Profit | <u>1,307,717</u> | <u>42</u> | <u>461,424</u> | <u>32</u> |
| 8300 Other comprehensive income (loss): | | | | |
| 8310 Items that will not be reclassified subsequently to profit or loss | | | | |
| 8311 Remeasurements of the defined benefit plans | (698) | - | 54 | - |
| 8349 Income tax expense relating to items that may be reclassified to profit or loss | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>(698)</u> | <u>-</u> | <u>54</u> | <u>-</u> |
| 8360 Items that may be reclassified subsequently to profit or loss | | | | |
| 8361 Financial statements translation differences for foreign operations | (676) | - | (561) | - |
| 8399 Income tax expense relating to components of other comprehensive income (loss) | <u>226</u> | <u>-</u> | <u>95</u> | <u>-</u> |
| Total Items that may be reclassified subsequently to profit or loss | <u>(450)</u> | <u>-</u> | <u>(466)</u> | <u>-</u> |
| 8300 Other comprehensive income, net of tax | <u>(1,148)</u> | <u>-</u> | <u>(412)</u> | <u>-</u> |
| Total comprehensive income | <u>\$ 1,306,569</u> | <u>42</u> | <u>461,012</u> | <u>32</u> |
| Net income attributable to: | | | | |
| Shareholders of the parent | \$ 1,296,402 | 42 | 462,744 | 32 |
| 8620 Non-controlling interests | <u>11,315</u> | <u>-</u> | <u>(1,320)</u> | <u>-</u> |
| | <u>\$ 1,307,717</u> | <u>42</u> | <u>461,424</u> | <u>32</u> |
| Total comprehensive income attributable to: | | | | |
| Shareholders of the parent | \$ 1,295,254 | 42 | 462,332 | 32 |
| Non-controlling interests | <u>11,315</u> | <u>-</u> | <u>(1,320)</u> | <u>-</u> |
| | <u>\$ 1,306,569</u> | <u>42</u> | <u>461,012</u> | <u>32</u> |
| Earnings per share (note 6(m)): | | | | |
| 9710 Basic earnings per share (in New Taiwan dollars) | <u>\$ 30.43</u> | | <u>10.86</u> | |
| 9810 Diluted earnings per share (in New Taiwan dollars) | <u>\$ 30.11</u> | | <u>10.78</u> | |

See accompanying notes to consolidated financial statements.

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

MACHVISION INC. CO., LTD. AND SUBSIDIARIES**Consolidated Statements of Changes in Equity****For the years ended December 31, 2018 and 2017****(Expressed in Thousands of New Taiwan Dollars)**

| | Equity attributable to owners of parent | | | | | | Total other equity interest | Non-controlling interests | Total equity | |
|--|---|-----------------|---------------|-----------------|-------------------------|-----------|-----------------------------|---------------------------|--------------|---|
| | Ordinary shares | Capital surplus | Legal reserve | Special reserve | Unappropriated earnings | Total | | | | Exchange differences on translation of foreign financial statements |
| Balance at January 1, 2017 | \$ 426,082 | 59,570 | 114,121 | - | 459,949 | 574,070 | (2,041) | 1,057,681 | 29,973 | 1,087,654 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | |
| Legal reserve appropriated | - | - | 19,879 | - | (19,879) | - | - | - | - | - |
| Special reserve appropriated | - | - | - | 2,041 | (2,041) | - | - | - | - | - |
| Cash dividends of ordinary share | - | - | - | - | (178,955) | (178,955) | - | (178,955) | - | (178,955) |
| Net income | - | - | - | - | 462,744 | 462,744 | - | 462,744 | (1,320) | 461,424 |
| Other comprehensive income | - | - | - | - | 54 | 54 | (466) | (412) | - | (412) |
| Total comprehensive income | - | - | - | - | 462,798 | 462,798 | (466) | 462,332 | (1,320) | 461,012 |
| Changes in non-controlling interests | - | (81) | - | - | - | - | - | (81) | 21,211 | 21,130 |
| Balance at December 31, 2017 | 426,082 | 59,489 | 134,000 | 2,041 | 721,872 | 857,913 | (2,507) | 1,340,977 | 49,864 | 1,390,841 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | |
| Legal reserve appropriated | - | - | 46,274 | - | (46,274) | - | - | - | - | - |
| Special reserve appropriated | - | - | - | 466 | (466) | - | - | - | - | - |
| Cash dividends of ordinary share | - | - | - | - | (426,082) | (426,082) | - | (426,082) | - | (426,082) |
| Other changes in capital surplus | - | 3 | - | - | - | - | - | 3 | - | 3 |
| Net income | - | - | - | - | 1,296,402 | 1,296,402 | - | 1,296,402 | 11,315 | 1,307,717 |
| Other comprehensive income | - | - | - | - | (698) | (698) | (450) | (1,148) | - | (1,148) |
| Total comprehensive income | - | - | - | - | 1,295,704 | 1,295,704 | (450) | 1,295,254 | 11,315 | 1,306,569 |
| Balance at December 31, 2018 | \$ 426,082 | 59,492 | 180,274 | 2,507 | 1,544,754 | 1,727,535 | (2,957) | 2,210,152 | 61,179 | 2,271,331 |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
MACHVISION INC. CO., LTD. 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 operating activities: | | |
| Net income before tax | \$ 1,622,224 | 546,790 |
| Adjustments: | | |
| Adjustments to reconcile profit and loss: | | |
| Depreciation | 8,783 | 8,577 |
| Amortization | 263 | 485 |
| Expected credit loss / Provision for bad debt expense | 8,849 | 3,325 |
| Interest income | (6,751) | (3,163) |
| Loss on disposal of property, plant and equipment | 727 | 12 |
| Total adjustments to reconcile profit | <u>11,871</u> | <u>9,236</u> |
| Changes in assets / liabilities relating to operating activities: | | |
| Net changes in operating assets: | | |
| Notes receivable | (15,426) | 1,531 |
| Accounts receivable | (376,098) | (362,895) |
| Inventories | (47,450) | (31,643) |
| Prepayments | (5,529) | 9,351 |
| Other current assets | (1,772) | (3,315) |
| Long-term accounts receivable | <u>(65,538)</u> | <u>(7,795)</u> |
| Total changes in operating assets, net | <u>(511,813)</u> | <u>(394,766)</u> |
| Net changes in operating liabilities: | | |
| Contract liabilities | 64,502 | - |
| Notes payable | 834 | (213) |
| Accounts payable | 132,797 | 53,352 |
| Other payables | 238,568 | 85,719 |
| Provisions | 25,165 | 9,124 |
| Other current liabilities | 1,864 | 23,556 |
| Net defined benefit liability | <u>42</u> | <u>58</u> |
| Total changes in operating liabilities, net | <u>463,772</u> | <u>171,596</u> |
| Total changes in operating assets / liabilities, net | <u>(48,041)</u> | <u>(223,170)</u> |
| Total adjustments | <u>(36,170)</u> | <u>(213,934)</u> |
| Cash provided by operating activities | 1,586,054 | 332,856 |
| Interest income received | 7,402 | 3,179 |
| Income tax paid | <u>(119,552)</u> | <u>(55,827)</u> |
| Net cash provided by operating activities | <u>1,473,904</u> | <u>280,208</u> |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (34,916) | (6,995) |
| Proceeds from disposal of property, plant and equipment | 220 | - |
| Increase (decrease) in refundable deposits | 482 | (1,310) |
| Increase in (decrease) other non-current assets | <u>(3)</u> | <u>101</u> |
| Net cash used in investing activities | <u>(34,217)</u> | <u>(8,204)</u> |
| Cash flows from financing activities: | | |
| Cash dividends paid | (426,082) | (178,955) |
| Changes in non-controlling interests | - | 21,130 |
| Surplus not paid due to overdue | <u>3</u> | <u>-</u> |
| Net cash used in financing activities | <u>(426,079)</u> | <u>(157,825)</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>(235)</u> | <u>(318)</u> |
| Net increase in cash and cash equivalents | 1,013,373 | 113,861 |
| Cash and cash equivalents at beginning of period | <u>751,469</u> | <u>637,608</u> |
| Cash and cash equivalents at end of period | <u>\$ 1,764,842</u> | <u>751,469</u> |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

(1) History and organization

MACHVISION INC. CO., LTD. (the Company) was incorporated in June 9, 1998 as a company limited by shares under the laws of the Republic of China (ROC). The address of the Company's registered office is No. 2-3, Gongye East 2nd Road, Hsinchu Science Park, Hsinchu 30075, Taiwan, R.O.C. The consolidated entities in the consolidated financial statements include the Company and its subsidiaries (the Group). The Group are mainly engaged in the manufacturing and trading of optical inspection machinery equipment.

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

The consolidated financial statements were approved by the Board of Directors and published on February 13, 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. In addition, based on the announcement issued by the FSC on December 12, 2017, the Group can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation": The differences between the current version and the previous version are as follows:

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective date per IASB</u> |
|--|--------------------------------|
| Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| Amendments to IFRS 9 "Prepayment features with negative compensation" | January 1, 2019 |
| 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 |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective date per IASB</u> |
|--|--------------------------------|
| 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 its initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Group uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

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

1) Sales of goods

For the sale of customized products, past revenue is recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and 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 is recognized when a customer obtains control of the goods. For certain customized product contracts, the customer controls all of the work in progress as the products are being manufactured. When this is the case, revenue is recognized as the products are being manufactured. This result in revenue, and some associated costs, to be recognized earlier – i.e. before the goods are delivered to the customers' premises. The Group analyzed that the contract that was not completed on the first applicable date, and did not recognize any differences in sales and related costs from the past.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

At the time of sale, 12-month warranty service is rendered by the Group. In the past, the warranty liabilities were estimated based on the cost of product maintenance and the probability of product replacement. Under IFRS 15, warranty is differentiated as standard warranty and service type warranty, of which the accounting treatment is applicable to that of the performance obligation. The said transaction is to provide standard warranty stated in the agreement, and therefore, is not expected to cause any material impact on the consolidated financial statements.

2) Impacts on financial statements

The Group estimates the adoption of IFRS 15 do not have any significant impact on the Group's consolidated financial statements for the year ended December 31, 2018.

(ii) IFRS 9 "Financial Instruments"

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

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

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

1) Classification of financial assets and financial liabilities

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

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

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Impairment of financial assets

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

3) Transition

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

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

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 | | | | |
| Equity instruments | Carried at cost (note 1) | 9,644 | FVTPL | 9,644 |
| Trade and other receivables | Loans and receivables (note 2) | 727,965 | Amortized cost | 727,965 |

Note 1: As permitted by IFRS 9, the Group has designated these equity instruments at the date of initial application as measured at FVTPL. However, the changes have no significant influence on the assets and equity of January 1, 2018.

Note 2: Notes receivables, trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

| | 2017.12.31 IAS 39 Carrying Amount | Reclassifications | Remeasurements | 2018.1.1 IFRS 9 Carrying Amount | 2018.1.1 Retained earnings effect | 2018.1.1 Other equity effect |
|---|--|-------------------|----------------|--|--|---------------------------------------|
| Fair value through profit or loss | | | | | | |
| Beginning balance of FVTPL (IAS 39) | \$ - | - | - | | - | - |
| Additions – equity instruments: | | | | | | |
| From financial assets measured at cost | - | 9,644 | - | | - | - |
| Total | \$ - | 9,644 | - | 9,644 | - | - |
| Fair value through other comprehensive income | | | | | | |
| Beginning balance of available-for-sale (including measured at cost) (IAS 39) | \$ 9,644 | - | - | | - | - |
| Subtractions – equity instruments | | | | | | |
| To FVTPL – required reclassification based on classification criteria | - | (9,644) | - | | - | - |
| Total | \$ 9,644 | (9,644) | - | - | - | - |
| Amortized cost | | | | | | |
| Beginning balance of trade and other receivables | \$ 727,965 | - | - | 727,965 | - | - |

(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:

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective date per IASB</u> |
|---|--------------------------------|
| IFRS 16 “Leases” | January 1, 2019 |
| IFRIC 23 “Uncertainty over Income Tax Treatments” | 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.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for its operating leases of offices, factory facilities and warehouses. 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.

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.

The lessee applies the election consistently to all of its leases.

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.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with a lease term that ends within 12 months at 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, warehouses, and cars. The Group estimated that the right-of-use assets and the lease liabilities to increase by \$69,717 thousand on January 1, 2019.

- (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 assessed that the above IFRSs may not be relevant to the Group.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(4) Summary of significant accounting policies

The significant accounting policies presented in the consolidated financial statements are summarized below. The following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, unless otherwise stated (Refer to the summary on significant accounting policies).

(ii) Functional and reporting 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 consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(ii) List of subsidiaries included in the consolidated financial statements

| <u>Investor</u> | <u>Subsidiary</u> | <u>Nature of business</u> | <u>Percentage of ownership</u> | | <u>Notes</u> |
|-----------------|----------------------------|---|--------------------------------|--------------------------|--------------|
| | | | <u>December 31, 2018</u> | <u>December 31, 2017</u> | |
| The Company | Machvision Inc. | Investment | 100.00 % | 100.00 % | |
| The Company | Autovision Technology Inc. | Manufacturing of computer peripheral products | 45.00 % | 45.00 % | Note 1 |

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

| <u>Investor</u> | <u>Subsidiary</u> | <u>Nature of business</u> | <u>Percentage of ownership</u> | | <u>Notes</u> |
|-----------------|-------------------------------|--|--------------------------------|------------------------------|--------------|
| | | | <u>December 31, 2018</u> | <u>December 31, 2017</u> | |
| The Company | Sigold Optics Inc. | Manufacturing of machinery equipment | 49.47 % | 49.47 % | Note 2 |
| Machvision Inc. | Machvision (Dongguan) Inc. | Maintaining and trading of machinery equipment | 100.00 % | 100.00 % | |

Note 1: The Company holds 45% of the ownership of Autovision Technology Inc. However, it remains to be a subsidiary since the Company retains control of its financial and operational policy decision.

Note 2: In March 2017, Sigold Optics Inc. had a capital increase in cash, wherein the Company did not acquire these new common shares proportionally, resulting in the Company's shares in Sigold Optics Inc. to decrease to 49.47%. However, it remains to be a subsidiary since the Company retain control of its financial and operational policy decision.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities 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 the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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

Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the reporting currency at the exchange rates at the reporting date. The income and expenses of foreign operations, 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.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Cash or cash equivalents, assets held for trading purposes or short-term and expected to be converted to cash within twelve months after the reporting period or for intention of sales or consumption within its normal operating cycle are classified as current assets; all other assets are classified as non-current assets.

Liabilities that must be fully liquidated within twelve months after the reporting period are classified as current liabilities; all other liabilities are classified as non-current liabilities.

(f) Cash and cash equivalents

Cash and cash equivalents comprised cash, cash in banks and short term investments with high liquidity that are subject to an insignificant risk of changes in their fair value.

The time deposits with maturity of the Group are listed in cash and cash equivalents because they satisfy the aforementioned definition and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

(g) Financial instruments

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

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

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

1) Financial assets measured at amortized cost

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

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

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

2) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, 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.

3) Impairment of financial assets

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

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

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

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

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

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

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

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 90 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 whether financial assets carried at amortized cost are 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;
- a breach of contract such as a default or being more than 90 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. 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.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements**

4) 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.

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

The Group classifies financial assets into the following categories:

1) Financial assets carried at cost

These are investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured. Such investments are recognized at acquisition cost. If any objective evidence exists suggesting impairment loss, this loss shall be recognized and cannot be reversed.

2) Receivables

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, receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using the trade-date accounting.

Interest income is recognized in profit or loss, and it is included in non-operating income and expense.

3) Impairment of financial assets

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.

The 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 accounted for as objective evidence of impairment

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements**

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 lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, 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. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses and recoveries of accounts receivable are recognized in operating expenses.

4) Derecognition of financial assets

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

(iii) Financial liabilities and equity instruments

1) Other financial liabilities

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

2) Derecognition of financial liabilities

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

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements**

3) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable rights 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.

(h) Inventories

The cost of inventories consists of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories includes an appropriate share of fixed production overhead based on normal capacity and allocated variable production overhead based on actual output. However, unallocated fixed production overhead arising from lower or idle capacity is recognized in cost of goods sold during the period. If actual capacity is higher than normal capacity, fixed production overhead should be allocated based on actual capacity. The method of valuing inventories is the weighted-average method.

Inventories are measured at the lower of cost or net realizable value. Net realizable value is 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. When the cost of inventories is higher than the net realizable value, inventories are written down to net realizable value, and the write-down amount is charged to current year's cost of goods sold. If net realizable value increases in the future, the cost of inventories is reversed within the original write-down amount, and such reversal is treated as a reduction of cost of goods sold.

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

(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.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a straight-line basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

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

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

| | |
|---------------------|------------|
| Buildings | 4~50 years |
| Machinery equipment | 3~15 years |
| Other equipment | 2~10 years |

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

(j) Intangible assets

Intangible assets comprise the computer software expense and the technology capital contributed by the shareholders of the Group and approved by the Ministry of Economic Affairs R.O.C. The cost of computer software is amortized over 3 to 10 years and the capital is amortized over 20 years, both are calculated using the straight-line method and are recorded under operating expenses.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as changes in accounting estimates.

(k) Impairment of non-financial assets

With regard to non-financial assets (other than inventories, deferred tax assets and employee benefits), the Group assesses at the end of each reporting period whether there is any indication that an impairment loss has occurred, and estimates the recoverable amount of assets with an indication of impairment.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. Impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount, increasing the individual asset's or cash generating unit's carrying amount to its estimated recoverable amount. The reversal of an impairment loss of an individual asset or cash generating unit cannot exceed the carrying amount of the individual asset or cash generating unit, less any depreciation or amortization, had it not recognized an impairment loss.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) 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 probable 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.

(m) 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 recognizes revenue when control of the products has been transferred. When the products are delivered to the customer, the ownership of the significant risks and rewards of the products have been transferred to the customer, and the Group is no longer engaged with the management 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.

At the time of sale, the Group renders the standard warranty stated in the agreement, which is recognized as a provision for warranty.

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) Services

The Group provides maintenance services and improvement of old machines, and revenue is recognized when it satisfies a performance obligation by transferring control of a service to a customer.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(n) 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 plans

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; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on 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. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of 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 order to calculate 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.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized 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.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Short-term employee benefits

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

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

(o) Income tax

Income tax expenses include both current taxes and deferred income taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred income 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 income taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income 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 income 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.

Deferred income 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 income 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.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

A deferred income 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 reevaluated every year on the financial reporting date, 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.

(p) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The weighted average number of common shares outstanding is adjusted retroactively for the increase in common shares outstanding from stock issuance arising from the capitalization of retained earnings, or additional paid in capital.

When computing diluted earnings per share with regards to employee bonuses in the form of stock, the closing price at the balance sheet date is used as the basis of computation in the number of shares to be issued. When computing diluted earnings per share prior to the following year's Board of Directors the effect of dilution from these potential stocks is taken into consideration.

(q) 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 assess its performance.

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

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

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

There are no critical judgments in applying the accounting policies that have significant effect on the amounts recognized in the consolidated financial statements.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to 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 valuation of inventories.

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value is subject to market price fluctuations and market demands after the reporting date.

(6) Explanation of significant accounts

(a) Cash and cash equivalents

| | December 31, 2018 | December 31, 2017 |
|---|------------------------------|------------------------------|
| Cash on hand | \$ 1,013 | 1,387 |
| Saving deposits | 327,667 | 225,585 |
| Checking deposits | 500 | - |
| Foreign currency deposits | 141,532 | 119,670 |
| Time deposits | 1,294,130 | 404,827 |
| Cash and cash equivalents per statements of cash flow | \$ 1,764,842 | 751,469 |

The expiry date of three months to a year on deposit satisfy the highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

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

(b) Notes, accounts and long-term accounts receivable

| | December 31, 2018 | December 31, 2017 |
|--------------------------------|------------------------------|------------------------------|
| Notes receivable | \$ 18,379 | 2,953 |
| Accounts receivable | 1,088,717 | 712,622 |
| Long-term accounts receivable | 81,776 | 16,238 |
| Less: allowance for impairment | 12,520 | 3,674 |
| unrealized interest income | 825 | 174 |
| | \$ 1,175,527 | 727,965 |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

| | Gross carrying amount | Weighted- average expected credit loss rate | Loss allowance provision |
|--------------------------|--------------------------|--|-----------------------------|
| Current | \$ 879,030 | 0% | - |
| 1 to 90 days past due | 232,506 | 0.069% | 161 |
| 91 to 180 days past due | 47,205 | 0.966% | 456 |
| 181 to 270 days past due | 7,935 | 2.974% | 236 |
| 271 to 365 days past due | 16,474 | 41.096% | 6,770 |
| Past due over 365 days | 4,897 | 100.000% | 4,897 |
| | <u>\$ 1,188,047</u> | | <u>12,520</u> |

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

| | December 31, 2017 |
|-------------------------|----------------------|
| 1 to 90 days past due | \$ 4,423 |
| 91 to 365 days past due | 790 |
| Past due over 365 days | 183 |
| | <u>\$ 5,396</u> |

The movement in the allowance for notes, accounts and long-term accounts receivable was as follows:

| | 2018 | 2017 | | Total |
|--|------------------|--|--|--------------|
| | | Individually assessed impairment | Collectively assessed impairment | |
| Balance at January 1, 2018 and 2017 per IAS 39 | \$ 3,674 | 124 | 265 | 389 |
| Adjustment on initial application of IFRS 9 | - | | | |
| Balance at January 1, 2018 per IFRS 9 | 3,674 | | | |
| Impairment loss recognized | 8,849 | 3,240 | 85 | 3,325 |
| Amounts written off | - | (39) | - | (39) |
| Foreign exchange losses | (3) | (1) | - | (1) |
| Balance at December 31, 2018 and 2017 | <u>\$ 12,520</u> | <u>3,324</u> | <u>350</u> | <u>3,674</u> |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Impairment loss recognized for individually assessed impairment is the difference between the carrying amount and the amount expected to be collected. The Group does not hold any collateral for the collected amounts.

The carrying amounts of notes and accounts receivable with short maturity are not discounted under the assumption that the carrying amount approximates the fair value.

(c) Inventories

The components of the Group's inventories were as follows:

| | December 31, 2018 | December 31, 2017 |
|-----------------|------------------------------|------------------------------|
| Finished goods | \$ 42,284 | 33,163 |
| Work in process | 48,961 | 37,093 |
| Raw material | <u>142,756</u> | <u>116,295</u> |
| | <u>\$ 234,001</u> | <u>186,551</u> |

The Group inventories were not provided as pledged assets.

Except for operating costs arising from the ordinary sale of inventories, other gains and losses directly recorded under operating cost were as follows:

| | 2018 | 2017 |
|--|-------------------------|---------------------|
| Losses on decline in market value of inventory | \$ 23,282 | 10,306 |
| Gain on physical count | <u>(86)</u> | <u>(366)</u> |
| | <u>\$ 23,196</u> | <u>9,940</u> |

(d) Financial assets at fair value through profit or loss — non-current

| | December 31, 2018 |
|--|------------------------------|
| Mandatorily measured at fair value through profit or loss: | |
| Unlisted stocks (domestic)—Yayatech Co., Ltd. | <u>\$ 9,644</u> |

(e) Financial assets carried at cost — noncurrent

| | Holding percentage | Original | Book value |
|--------------------------|-------------------------------|------------------------|-----------------------|
| December 31, 2017 | | | |
| Yayatech Co., Ltd. | 5 | <u>\$ 9,644</u> | <u>9,644</u> |

The shares hold by the Group that do not have a quoted market price in an active market were measured at amortized cost in December 31, 2017, and were reclassified to financial assets at fair value through profit or loss in December 31, 2018.

In March 2012, the Group obtained 884 thousand shares of Yayatech Co. Ltd. as compensation and recognized its investment at fair value of \$9,644.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

| | Buildings | Machinery equipment | Other equipment | Construction in progress | Total |
|--------------------------------------|-------------------|------------------------|--------------------|-----------------------------|----------------|
| Cost: | | | | | |
| Balance as of January 1, 2018 | \$ 235,624 | 3,957 | 10,609 | - | 250,190 |
| Additions | 1,735 | 2,700 | 2,607 | 27,874 | 34,916 |
| Disposals | (937) | (2,300) | (1,817) | - | (5,054) |
| Effect of movement in exchange rates | (661) | - | (21) | - | (682) |
| Balance as of December 31, 2018 | <u>\$ 235,761</u> | <u>4,357</u> | <u>11,378</u> | <u>27,874</u> | <u>279,370</u> |
| Balance as of January 1, 2017 | \$ 230,393 | 3,957 | 10,118 | - | 244,468 |
| Additions | 5,548 | - | 1,447 | - | 6,995 |
| Disposals | - | - | (947) | - | (947) |
| Effect of movement in exchange rates | (317) | - | (9) | - | (326) |
| Balance as of December 31, 2017 | <u>\$ 235,624</u> | <u>3,957</u> | <u>10,609</u> | <u>-</u> | <u>250,190</u> |
| Depreciation and impairment losses: | | | | | |
| Balance as of January 1, 2018 | \$ 27,967 | 3,141 | 5,220 | - | 36,328 |
| Depreciation | 6,399 | 321 | 2,063 | - | 8,783 |
| Disposals | (114) | (2,300) | (1,693) | - | (4,107) |
| Effect of movement in exchange rates | (230) | - | (11) | - | (241) |
| Balance as of December 31, 2018 | <u>\$ 34,022</u> | <u>1,162</u> | <u>5,579</u> | <u>-</u> | <u>40,763</u> |
| Balance as of January 1, 2017 | \$ 21,779 | 2,636 | 4,353 | - | 28,768 |
| Depreciation | 6,270 | 505 | 1,802 | - | 8,577 |
| Disposals | - | - | (935) | - | (935) |
| Effect of movement in exchange rates | (82) | - | - | - | (82) |
| Balance as of December 31, 2017 | <u>\$ 27,967</u> | <u>3,141</u> | <u>5,220</u> | <u>-</u> | <u>36,328</u> |
| Carrying amounts: | | | | | |
| December 31, 2018 | <u>\$ 201,739</u> | <u>3,195</u> | <u>5,799</u> | <u>27,874</u> | <u>238,607</u> |
| December 31, 2017 | <u>\$ 208,614</u> | <u>1,321</u> | <u>5,765</u> | <u>-</u> | <u>215,700</u> |
| January 1, 2017 | <u>\$ 207,657</u> | <u>816</u> | <u>5,389</u> | <u>-</u> | <u>213,862</u> |

(g) Intangible assets

| | Industrial capital contribution | Computer software expense | Total |
|--|---------------------------------------|---------------------------------|---------------|
| Cost: | | | |
| Balance as of January 1, 2018 (Balance as of December 31, 2018) | <u>\$ 16,000</u> | <u>1,100</u> | <u>17,100</u> |
| Balance as of January 1, 2017 (Balance as of December 31, 2017) | <u>\$ 16,000</u> | <u>1,100</u> | <u>17,100</u> |

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | <u>Industrial capital contribution</u> | <u>Computer software expense</u> | <u>Total</u> |
|-----------------------------------|--|--|---------------|
| Amortization and impairment loss: | | | |
| Balance as of January 1, 2018 | \$ 15,847 | 687 | 16,534 |
| Amortization | <u>153</u> | <u>110</u> | <u>263</u> |
| Balance as of December 31, 2018 | <u>\$ 16,000</u> | <u>797</u> | <u>16,797</u> |
| Balance as of January 1, 2017 | \$ 15,472 | 577 | 16,049 |
| Amortization | <u>375</u> | <u>110</u> | <u>485</u> |
| Balance as of December 31, 2017 | <u>\$ 15,847</u> | <u>687</u> | <u>16,534</u> |
| Carrying amounts: | | | |
| December 31, 2018 | <u>\$ -</u> | <u>303</u> | <u>303</u> |
| December 31, 2017 | <u>\$ 153</u> | <u>413</u> | <u>566</u> |
| January 1, 2017 | <u>\$ 528</u> | <u>523</u> | <u>1,051</u> |

(i) The amortization of intangible assets were follows:

| | <u>2018</u> | <u>2017</u> |
|--------------------|---------------|-------------|
| Operating expenses | <u>\$ 263</u> | <u>485</u> |

(ii) Impairment Loss

The Group recognized an impairment loss of \$4,000 after assessing the recoverable amount of intangible assets on December 31, 2008. There were no impairment losses as of December 31, 2018 and 2017.

(h) Provisions

| | <u>Warranties</u> |
|---------------------------------|-------------------|
| January 1, 2018 | \$ 20,188 |
| Provisions made during the year | 32,983 |
| Provisions used during the year | <u>(7,818)</u> |
| December 31, 2018 | <u>\$ 45,353</u> |
| January 1, 2017 | \$ 11,064 |
| Provisions made during the year | 14,067 |
| Provisions used during the year | <u>(4,943)</u> |
| December 31, 2017 | <u>\$ 20,188</u> |

The provision for warranties relates mainly to the machinery equipment sold. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to settle the majority of the liability over the next year.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Operating leases

The Group rented the land located in the Hsinchu Science Park on 1 July 2013 from the Hsinchu Science Park Bureau for a period ending on May 31, 2019, the monthly rent of \$140, and provide deposit of \$1,683 as a deposit (included in other non-current assets). Non-cancellable operating lease rentals payable were as follows:

| | December 31, 2018 | December 31, 2017 |
|----------------------------|------------------------------|------------------------------|
| Less than one year | \$ 700 | 1,680 |
| Between one and five years | - | 700 |
| | \$ 700 | 2,380 |

In 2018 and 2017, the total lease costs and expenses recognized in profit or loss were \$1,680.

(j) Employee benefits

(i) Defined benefit plans

The following table shows a reconciliation between the present value of the defined benefit obligation and the fair value of plan assets:

| | December 31, 2018 | December 31, 2017 |
|--|------------------------------|------------------------------|
| The present value of the defined benefit obligations | \$ 12,549 | 11,595 |
| Fair value of plan assets | (3,052) | (2,838) |
| The net defined benefit liability | \$ 9,497 | 8,757 |

The Group established the pension fund account for the defined benefit plan in Bank of Taiwan. The plan, under the Labor Standards Law, provides benefits based on an employee's length of service and average monthly salary for the six-month period 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 Labors. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$3,052 at the end of the reporting period. 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 Labors.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Movements in present value of the defined benefit obligations

The movements in present value of the Group's defined benefit obligation for the years ended December 31, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|--|------------------|---------------|
| Defined benefit obligation at 1 January | \$ 11,595 | 11,500 |
| Current service costs and interest | 188 | 158 |
| Remeasurements of the net defined benefit liability (asset) | | |
| — Due to changes in financial assumption of actuarial (losses) gains | 766 | (63) |
| Defined benefit obligation at December 31 | <u>\$ 12,549</u> | <u>11,595</u> |

3) Movement of the defined benefit plan assets

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

| | <u>2018</u> | <u>2017</u> |
|---|-----------------|--------------|
| Fair value of plan assets at January 1 | \$ 2,838 | 2,747 |
| Interest revenue | 47 | 38 |
| Remeasurements of the net defined benefit liability | | |
| — Return on plan assets excluding the interest income | 68 | (9) |
| Contributions made | 99 | 62 |
| Fair value of plan assets, December 31 | <u>\$ 3,052</u> | <u>2,838</u> |

4) Expenses recognized in profit or loss

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

| | <u>2018</u> | <u>2017</u> |
|---|---------------|-------------|
| Net interest on the defined benefit liability | <u>\$ 141</u> | <u>120</u> |
| | <u>2018</u> | <u>2017</u> |
| Operating costs | \$ 38 | 24 |
| Selling expenses | 15 | 9 |
| Research and development expenses | 88 | 87 |
| | <u>\$ 141</u> | <u>120</u> |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 5) Remeasurement 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 were as follows:

| | <u>2018</u> | <u>2017</u> |
|----------------------------------|------------------------|---------------------|
| Cumulative amount at January 1 | \$ 4,955 | 5,009 |
| Recognized during the period | <u>698</u> | <u>(54)</u> |
| Cumulative amount at December 31 | <u><u>\$ 5,653</u></u> | <u><u>4,955</u></u> |

- 6) Actuarial assumptions

The following were the Group's principal actuarial assumptions at the reporting dates:

| | <u>2018.12.31</u> | <u>2017.12.31</u> |
|------------------------------|-------------------|-------------------|
| Discount rate | 1.375 % | 1.625 % |
| Future salary increases rate | 3.000 % | 3.000 % |

The Group expects to make contributions of \$62 to its defined benefit plans in the following year starting from the reporting date of 2018.

The weighted average duration of the defined benefit plans is 16.45 years.

- 7) Sensitivity analysis

As of December 31, 2018 and 2017, the present value of the defined benefit obligation were as follow:

| | The impact of defined benefit obligation | |
|-----------------------------|---|-----------------------|
| | <u>Increase 0.25%</u> | <u>Decrease 0.25%</u> |
| December 31, 2018 | | |
| Discount rate | \$ (395) | 412 |
| Future salary increase rate | 398 | (383) |
| December 31, 2017 | | |
| Discount rate | (385) | 402 |
| Future salary increase rate | 390 | (375) |

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions remain 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.

There were no change in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2017.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Defined contribution plans

The Group makes monthly contributions equal 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group contributes a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

Machvision Inc. does not have employees and therefore does not need to pay a pension.

The Group's pension costs under the defined contribution plan were \$10,044 and \$7,511 for 2018 and 2017, respectively. Payment was made to the Bureau of the Labor Insurance and the local authorities of the consolidated overseas subsidiaries.

(k) Income tax

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

(i) Income tax expenses

The amount of income tax for 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|----------------|
| Current income tax expense | | |
| Current period incurred | \$ 321,680 | 87,418 |
| Adjustment for prior periods | <u>3,777</u> | <u>3,709</u> |
| | <u>325,457</u> | <u>91,127</u> |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (8,618) | (5,761) |
| Adjustment of tax rates | <u>(2,332)</u> | <u>-</u> |
| | <u>(10,950)</u> | <u>(5,761)</u> |
| Income tax expenses | <u>\$ 314,507</u> | <u>85,366</u> |

The amount of income tax recognized in other comprehensive income were as follows:

| | <u>2018</u> | <u>2017</u> |
|---|---------------|-------------|
| Items that will not be reclassified subsequently to profit or loss: | | |
| Financial statements translation differences for foreign operations | <u>\$ 226</u> | <u>95</u> |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Reconciliation of income tax expenses and profit before income tax for 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|----------------|
| Profit before income tax | \$ <u>1,622,224</u> | <u>546,790</u> |
| Income tax using the Company's domestic tax rate | \$ 324,444 | 92,955 |
| Effect of tax rates in foreign jurisdiction | (137) | (137) |
| Adjustments according to tax law | (1,961) | 107 |
| Adjustment of tax rates | (2,332) | - |
| Tax treaty rewards | (10,240) | (11,554) |
| Adjustments for prior years income tax | 3,777 | 3,709 |
| Previously overestimate (underestimate) deferred tax assets | (68) | 62 |
| Others | <u>1,024</u> | <u>224</u> |
| Total | \$ <u>314,507</u> | <u>85,366</u> |

(ii) Deferred tax assets and liabilities — Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities were as follows:

Deferred tax assets:

| | <u>Provisions</u> | <u>Loss from investment using equity method</u> | <u>Allowance for inventory valuation</u> | <u>Other</u> | <u>Total</u> |
|--|-------------------|---|--|--------------|---------------|
| Balance at January 1, 2018 | \$ 3,432 | 886 | 4,264 | 5,148 | 13,730 |
| Recognized in profit or loss | 5,638 | 2,222 | 5,169 | (1,299) | 11,730 |
| Recognized in other comprehensive income | - | - | - | 226 | 226 |
| Balance at December 31, 2018 | \$ <u>9,070</u> | <u>3,108</u> | <u>9,433</u> | <u>4,075</u> | <u>25,686</u> |
| Balance at January 1, 2017 | \$ 1,881 | 744 | 2,659 | 2,590 | 7,874 |
| Recognized in profit or loss | 1,551 | 142 | 1,605 | 2,463 | 5,761 |
| Recognized in other comprehensive income | - | - | - | 95 | 95 |
| Balance at December 31, 2017 | \$ <u>3,432</u> | <u>886</u> | <u>4,264</u> | <u>5,148</u> | <u>13,730</u> |

Deferred tax liabilities:

| | <u>Unrealized exchange gain</u> |
|-------------------------------------|---------------------------------|
| Balance at January 1, 2018 | \$ - |
| Recognized in profit or loss | <u>780</u> |
| Balance at December 31, 2018 | <u>780</u> |

(iii) Examination and Approval

The ROC income tax authorities have examined the Company's income tax returns through 2016.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) Capital and other equity

(i) Ordinary shares

As of December 31, 2018 and 2017, the total value of nominal ordinary shares amounted to \$500,000, with a par value of \$10 per share, of which 42,608 thousand shares were issued. All issued shares were paid up upon issuance.

(ii) Capital surplus

In accordance with the ROC Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10% of the actual share capital amount.

(iii) Retained earnings

According to the Company's Articles, if the Company makes a profit in each semi fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, and setting aside 10% of the remaining profit as legal reserve, until the legal reserve is equal to the paid in capital. Then any remaining profit, together with any undistributed retained earnings, shall be distributed according to the distribution plan proposed by the Board of Directors. Distribution in cash shall have the approval from the board of directors. Whereas if it is in shares, it shall have to be proposed by the board of directors during the shareholders' meeting for approval.

1) Legal reserve

According to the Company Act, 10% of net income after tax should be set aside as legal reserve until it is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25% of the paid-in capital.

2) Special reserve

In accordance with Ruling No.1010012865 issued by the Financial Supervisory Commission on 6 April 2012, a portion of current period earnings and undistributed prior period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal to the current period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Earnings distribution

The appropriations of 2017 and 2016 earnings as dividends to stockholders that were approved by the Company's shareholders during their meetings on May 29, 2018, and May 26, 2017, respectively, were as follows:

| | <u>2017</u> | | <u>2016</u> | |
|--|---------------------------------------|-------------------------|---------------------------------------|-------------------------|
| | <u>Amount per share (NTD)</u> | <u>Total Amount</u> | <u>Amount per share (NTD)</u> | <u>Total Amount</u> |
| Dividends distributed to ordinary stockholders: | | | | |
| Cash (earnings) | \$ 10.00 | <u><u>426,082</u></u> | 4.20 | <u><u>178,955</u></u> |

(m) Earnings per share

The calculation of the Company's basic and diluted earnings per share for years ended December 31, 2018 and 2017 were as follows:

(i) Basic earnings per share

| | <u>2018</u> | <u>2017</u> |
|--|----------------------------|-----------------------|
| Net income attributable to ordinary shareholders of the Company | \$ <u><u>1,296,402</u></u> | <u><u>462,744</u></u> |
| Weighted-average number of ordinary shares | <u><u>42,608</u></u> | <u><u>42,608</u></u> |
| Basic earnings per share (in NTD) | \$ <u><u>30.43</u></u> | <u><u>10.86</u></u> |

(ii) Diluted earnings per share

| | <u>2018</u> | <u>2017</u> |
|--|----------------------------|-----------------------|
| Net income attributable to ordinary shareholders of the Company (diluted) | \$ <u><u>1,296,402</u></u> | <u><u>462,744</u></u> |
| Weighted-average number of ordinary shares (basic) | 42,608 | 42,608 |
| Effect of potential ordinary shares | | |
| Employee's stock bonus | <u>451</u> | <u>383</u> |
| Weighted-average number of ordinary shares (diluted) | <u><u>43,059</u></u> | <u><u>42,922</u></u> |
| Diluted earnings per share (in NTD) | \$ <u><u>30.11</u></u> | <u><u>10.78</u></u> |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Revenue from contracts with customers

(i) Disaggregation of revenue

| | 2018 | | |
|--|---------------------|----------------|------------------|
| | <u>Taiwan</u> | | <u>Total</u> |
| Primary geographical markets: | | | |
| Taiwan | \$ 1,533,869 | - | 1,533,869 |
| China | 1,124,876 | 246,028 | 1,370,904 |
| Others | 207,103 | - | 207,103 |
| | <u>\$ 2,865,848</u> | <u>246,028</u> | <u>3,111,876</u> |
| Primary merchandises / Services lines: | | | |
| Sale of optical inspection machinery equipment | \$ 2,822,436 | 202,563 | 3,024,999 |
| Revenue from services | 43,412 | 43,465 | 86,877 |
| | <u>\$ 2,865,848</u> | <u>246,028</u> | <u>3,111,876</u> |

(ii) Contract balance

| | <u>December 31, 2018</u> | <u>January 1, 2018</u> |
|---|------------------------------|----------------------------|
| Contract liabilities — Advance receipts | \$ <u>82,716</u> | <u>18,214</u> |

For details on accounts receivable and allowance for impairment, please refer to note 6(b).

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at the beginning of the period was \$18,166 thousand.

The contract liability is mainly due to advance receipts, wherein the Company will recognize revenue when the product is delivered to the customer.

(o) Revenue

The details of the Group's revenue were as follows:

| | <u>2017</u> |
|-----------------------|---------------------|
| Sale of goods | \$ 1,345,653 |
| Revenue from services | 75,235 |
| | <u>\$ 1,420,888</u> |

(p) Remuneration to employees, directors and supervisors

The Company's articles of incorporation, which were authorized by the board of directors but has yet to be approved by the shareholders, require that earnings shall first be offset against and deficit, then, a minimum of 5% will be distributed as employee remuneration, and a maximum of 3% will be allocated as remuneration to directors and supervisors.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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For the years ended December 31, 2018 and 2017, the Company estimated its employee remuneration amounting to \$161,623 and \$57,820, and directors' and supervisors' remuneration amounting to \$32,037 and \$12,505, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2018 and 2017. Related information would be available at the Market Observation Post System website. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2018 and 2017.

(q) Non-operating income and expenses

(i) Other income

| | <u>2018</u> | <u>2017</u> |
|----------------------|-----------------|--------------|
| Interest income | \$ 6,751 | 3,163 |
| Other income, Others | 2,037 | 2,393 |
| Total Other income | <u>\$ 8,788</u> | <u>5,556</u> |

(ii) Other gains and losses

| | <u>2018</u> | <u>2017</u> |
|--|------------------|-----------------|
| Losses on disposals of property, plant and equipment | \$ (727) | (12) |
| Gains on disposals of investments | 906 | - |
| Foreign exchange gains (losses) | 29,469 | (24,636) |
| Others | (364) | (376) |
| Other gains and losses, net | <u>\$ 29,284</u> | <u>(25,024)</u> |

(r) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration of credit risk

The business of the customer of the Group is the manufacturing of the printed circuit board. As of December 31, 2018 and 2017, the accounts receivable that concentration of credit risk on an individual customer amounted to \$176,157 and \$253,065, respectively.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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(ii) Liquidity risk

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

| | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>Within a year</u> | <u>1-2 years</u> | <u>2-5 years</u> | <u>Over 5 years</u> |
|--------------------------------------|----------------------------|-----------------------------------|--------------------------|------------------|------------------|-------------------------|
| December 31, 2018 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Notes payable | \$ 1,358 | 1,358 | 1,358 | - | - | - |
| Accounts payable | 318,692 | 318,692 | 318,692 | - | - | - |
| Other payables | 105,122 | 105,122 | 105,122 | - | - | - |
| | <u>\$ 425,172</u> | <u>425,172</u> | <u>425,172</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| December 31, 2017 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Notes payable | \$ 524 | 524 | 524 | - | - | - |
| Accounts payable | 185,895 | 185,895 | 185,895 | - | - | - |
| Other payables | 45,191 | 45,191 | 45,191 | - | - | - |
| | <u>\$ 231,610</u> | <u>231,610</u> | <u>231,610</u> | <u>-</u> | <u>-</u> | <u>-</u> |

The Group is not expecting the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to foreign currency risk

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

| | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>NTD</u> |
|--------------------------|-----------------------------|--------------------------|------------|
| December 31, 2018 | | | |
| Financial assets: | | | |
| Monetary items: | | | |
| USD | \$ 27,942 | 30.7100 | 858,114 |
| JPY | \$ 87,286 | 0.2783 | 24,292 |
| CNY | \$ 49,529 | 4.4700 | 221,393 |
| Financial liabilities: | | | |
| Monetary items: | | | |
| USD | \$ 3,507 | 30.7100 | 107,694 |
| CNY | \$ 5,585 | 4.4700 | 24,965 |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>NTD</u> |
|--------------------------|-----------------------------|--------------------------|------------|
| December 31, 2017 | | | |
| Financial assets: | | | |
| Monetary items: | | | |
| USD | \$ 23,530 | 29.7650 | 700,378 |
| JPY | \$ 90,528 | 0.2643 | 23,927 |
| CNY | \$ 12,518 | 4.5670 | 57,168 |
| Financial liabilities: | | | |
| Monetary items: | | | |
| USD | \$ 1,718 | 29.7650 | 51,148 |
| CNY | \$ 3,412 | 4.5670 | 15,583 |

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, receivables, accounts payables that are denominated in foreign currency. A weakening or strengthening 3% appreciation or depreciation of the NTD against the USD and CNY as of December 31, 2018 and 2017, would have increased or decreased the net profit after tax by \$23,307 and \$17,797, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary item

Since the Group has many kind of functional currencies, the information on foreign exchange gains (loss) on monetary items is disclosed based on the total amount. For the years ended December 31, 2018 and 2017, foreign exchange gains (losses) (including realized and unrealized portion) amounted to \$29,469 and \$(24,636).

(iv) Interest rate analysis

The detail of interest rate exposure were as follows:

| | <u>Carrying amount</u> | |
|--|------------------------------|------------------------------|
| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
| Assets with variable interest rates converted to cash: | | |
| Cash in banks | \$ <u>1,763,329</u> | <u>1,440,570</u> |

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

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If the interest rate had increased or decreased by 1%, the Group's net income before tax would have increase or decrease by \$14,107 and \$6,226 for the years ended December 31, 2018 and 2017, respectively, with all other variable factors remain constant.

(v) Information of fair value

1) Categories and fair value of financial instruments

Except for the followings, carrying amount of the Group's financial assets and liabilities are valued approximately to their fair value, and are not based on observable market date and the value measurements which are not reliable. No additional fair value disclosure is required in accordance to the regulations.

| | Carrying amount | December 31, 2018 | | | Total |
|---|--------------------|-------------------|---------|---------|-------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets at fair value through profit or loss | | | | | |
| Financial assets mandatorily measured at fair value through profit or loss | \$ 9,644 | - | - | 9,644 | 9,644 |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | 1,764,842 | - | - | - | - |
| Accounts, notes and long-term receivables | 1,175,527 | - | - | - | - |
| Refundable deposits | 5,285 | - | - | - | - |
| Other non-current assets | 2,189 | - | - | - | - |
| Subtotal | 2,947,843 | - | - | - | - |
| Total | \$ 2,957,487 | - | - | 9,644 | 9,644 |
| Financial liabilities measured at amortized cost | | | | | |
| Notes payable | \$ 1,358 | - | - | - | - |
| Accounts payable | 318,692 | - | - | - | - |
| Other payables | 105,122 | - | - | - | - |
| Total | \$ 425,172 | - | - | - | - |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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| | December 31, 2017 | | | | |
|--|---------------------|------------|----------|----------|----------|
| | Carrying amount | Fair value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Available-for-sale financial assets | | | | | |
| Financial assets carried at cost | \$ 9,644 | - | - | - | - |
| Receivables | | | | | |
| Cash and cash equivalents | 751,469 | - | - | - | - |
| Accounts, notes and long-term receivables | 727,965 | - | - | - | - |
| Refundable deposits | 5,767 | - | - | - | - |
| Other non-current assets | 2,186 | - | - | - | - |
| Subtotal | <u>1,487,387</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 1,497,031</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Financial liabilities measured at amortized cost | | | | | |
| Notes payable | \$ 524 | - | - | - | - |
| Accounts payable | 185,895 | - | - | - | - |
| Other payables | 45,191 | - | - | - | - |
| Total | <u>\$ 231,610</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

2) Valuation techniques for financial instruments measured at fair value – Non-derivative financial instruments

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

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

If the financial instruments have no quoted market price in an active market, the Group shall use the market comparison approach to evaluate the fair value. The main assumption used in computing the market price is based on the investee's equity and the quoted price from a competitor. The estimated price has been discounted due to the lack of liquidity in the price of securities .

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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3) Fair value hierarchy

The Group used the fair value that can be observed in the market to measure the value of assets and liabilities. Fair value levels are based on the degree in which the fair value can be observed and grouped in to Levels 1 to 3 as follows:

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

4) Reconciliation of Level 3 fair values

| | Unquoted equity instruments |
|---|------------------------------------|
| Balance at January 1, 2018 (Balance at December 31, 2018) | \$ 9,644 |

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

| Item | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|----------------------------|--|--|
| Financial assets at fair value through profit or loss— Equity investments without an active market | Comparative listed company | <ul style="list-style-type: none"> · Price book ratio (As of December 31, 2018 was 3.79) · P/E ratio (As of December 31, 2018 was 12.47) · Market illiquidity discount rate (As of December 31, 2018 was 20%) | <p>The estimated fair value would increase (decrease) if</p> <ul style="list-style-type: none"> · the price book ratio and the P/E ratio the were higher (lower) · the market illiquidity discount were lower (higher) |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 6) Fair value measurements in Level 3— sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income:

| December 31, 2018 | Input | Assumptions | Other comprehensive income | |
|---|----------------------------------|-------------|----------------------------|--------------|
| | | | Favourable | Unfavourable |
| Financial assets at fair value through profit or loss | | | | |
| Equity investments without an active market | Market illiquidity discount rate | 10% | 1,368 | (1,368) |

The favourable and unfavourable effects represent the changes in fair value, and the fair value is based on a variety of unobservable inputs calculated using a valuation technique.

- (s) Financial risk management

- (i) Overview

The Group has exposures to the following risks from its financial instruments:

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

This note has the information on risk exposure and the objectives, policies and process of risk measurement and management. For detailed information, please refer to the related note on each risk.

- (ii) Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The chairman and the general manager are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on its activities.

The Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

- (iii) Credit risk

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

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The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the management also considers the demographics of the Group's customer base, including the default risk of the industry and the country in which customers operate, as these factors may have an influence on credit risk.

The Group's receivables are mainly due to one customer, which account for 15% and 35% of the total amount of receivables as of December 31, 2018 and 2017, respectively. The Group's receivables are concentrated on the industry type of the printed circuit board manufacturers.

The Group has established a credit policy, under which, each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

If the Group retains the rights to the products that have already been sold, the Group shall also have the right to require collateral if payment has not been received. The Group does not require any collateral for receivables.

The Group has established an allowance of doubtful accounts to reflect actual and estimated potential losses resulting from uncollectible account and trade receivables. The allowance of doubtful accounts consists primarily of specific losses regarding individual customers and estimates of potential losses based on statistics from payment histories of similar customer groups.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group aims to maintain the level of its cash and cash equivalents at an amount in excess of the expected cash flows on operating expenses and financial liabilities. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Group has unused short term bank facilities of \$365,355 and \$260,000, as of December 31, 2018 and 2017, respectively.

(v) Market Risk

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

The Group does not enter into any commodity contracts other than to meet the Group's expected usage and sales requirements.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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(t) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. Capital consists of ordinary shares, capital surplus and retained earnings of the Group. The Board of Directors monitors the return on capital, as well as the level of dividends to ordinary shareholders.

The Group's debt-to-adjusted-capital ratio at the end of the reporting period was as follows:

| | December 31, 2018 | December 31, 2017 |
|---------------------------------|------------------------------|------------------------------|
| Total liabilities | \$ 1,200,716 | 529,561 |
| Less: cash and cash equivalents | <u>1,764,842</u> | <u>751,469</u> |
| Net debt | <u>\$ (564,126)</u> | <u>(221,908)</u> |
| Total equity | <u>\$ 2,271,331</u> | <u>1,390,841</u> |

As of December 31, 2018, there were no changes in the Group's approach of capital management.

(7) Related-party transactions

The compensation of the key management personnel comprised the following:

| | 2018 | 2017 |
|------------------------------|------------------|---------------|
| Short-term employee benefits | \$ 56,394 | 22,566 |
| Post-employment benefits | <u>228</u> | <u>228</u> |
| | <u>\$ 56,622</u> | <u>22,794</u> |

(8) Pledged assets

The carrying values of pledged assets were as follows:

| Pledged assets | Object | December 31, 2018 | December 31, 2017 |
|---------------------------|---|------------------------------|------------------------------|
| Other non-current assets: | | | |
| Time deposits | Guarantee for customs | \$ 506 | 503 |
| Time deposits | Guarantee for rent the land from the Hsinchu Science Park Bureau | <u>1,683</u> | <u>1,683</u> |
| | | <u>\$ 2,189</u> | <u>2,186</u> |

(9) Commitments and contingencies: None.

(10) Losses Due to Major Disasters: None.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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(11) **Subsequent Events: None.**

(12) **Other**

The following is a summary statement of employee benefits, depreciation and amortization expensed by function:

| By function By item | 2018 | | | 2017 | | |
|----------------------------|-----------------|--------------------|---------|-----------------|--------------------|---------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefits | | | | | | |
| Salary | 100,011 | 304,878 | 404,889 | 60,662 | 187,463 | 248,125 |
| Labor and health insurance | 7,800 | 9,671 | 17,471 | 4,586 | 8,194 | 12,780 |
| Pension | 4,207 | 5,978 | 10,185 | 2,302 | 5,329 | 7,631 |
| Directors' remuneration | - | 32,204 | 32,204 | - | 8,379 | 8,379 |
| Others | 17,153 | 24,183 | 41,336 | 4,849 | 12,288 | 17,137 |
| Depreciation | 4,834 | 3,949 | 8,783 | 4,603 | 3,974 | 8,577 |
| Amortization | - | 263 | 263 | - | 485 | 485 |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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(13) Other disclosures:

(a) Information on significant transactions:

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

- (i) Loans to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):

| Name of holder | Nature and name of security | Relationship with the security issuer | Account name | Ending balance | | | | Maximum investment in 2018 | Notes |
|----------------|-----------------------------|---------------------------------------|---|------------------|------------|--------------------|--------------|----------------------------|--------|
| | | | | Number of shares | Book value | Holding percentage | Market value | | |
| The Company | Yayatech Co., Ltd. | - | Financial assets at fair value through profit or loss | 884,000 | 9,644 | 5.00 % | 9,644 | 9,644 | Note 1 |

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

| Name of company | Counter-party | Relationship | Transaction details | | | | Arm's-length transaction | | Account / note receivable (payable) | | Remarks |
|-----------------|----------------------------|--------------|---------------------|---------|---------------------------------------|---------------|-------------------------------|--------------------------------|-------------------------------------|---|----------|
| | | | Purchase / Sale | Amount | Percentage of total purchases / sales | Credit period | Unit price | Credit period | Balance | Percentage of total accounts / notes receivable (payable) | |
| The Company | Machvision (Dongguan) Inc. | Subsidiary | (Sale) | 148,172 | 5.00 % | | Not significantly differentes | Dependent on capital budgeting | 186,441 | 16 % | (Note 1) |

Note 1: The transactions have been eliminated upon consolidation.

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

| Name of related party | Counter-party | Relationship | Balance of receivables from related party (note 3) | Turnover rate | Past-due receivables from related party | | Subsequently received amount of receivable from related party | Allowance for bad debts |
|-----------------------|----------------------------|--------------|--|---------------|---|--------------------------------|---|-------------------------|
| | | | | | Amount | Action taken | | |
| The Company | Machvision (Dongguan) Inc. | Subsidiary | 186,441 | 1.11 | 59,410 | Dependent on capital budgeting | 5,876 (Until February 13, 2019) | - |

- (ix) Trading in derivative instruments: None.
- (x) Business relationships and significant intercompany transactions:

| No. (Note 1) | Name of company | Name of counter-party | Existing relationship with the counter-party (Note 2) | Transaction details | | | |
|--------------|-----------------|----------------------------|---|---|-----------------|--------------------------------|--|
| | | | | Account name | Amount (Note 5) | Trading terms | Percentage of the total consolidated revenue or total assets |
| 0 | The Company | Machvision (Dongguan) Inc. | 1 | Operating revenue | 148,172 | Not significantly differentes | 4.76 % |
| 0 | The Company | Sigold Optics Inc. | 1 | Operating cost | 31,459 | Not significantly differentes | 1.01 % |
| 0 | The Company | Machvision (Dongguan) Inc. | 1 | Accounts receivable—related parties (including long-term accounts receivable) | 186,441 | Dependent on capital budgeting | 5.36 % |
| 0 | The Company | Machvision (Dongguan) Inc. | 1 | Other payables—related parties | 37,059 | Dependent on capital budgeting | 1.07 % |

Note 1: Company numbering is as follows:

- (1) Parent company is 0.
(2) Subsidiary starts from 1.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note 2: The number of the relationship with the transaction counterparty represents the following:

- (1) 1 represents downstream transactions.
- (2) 2 represents upstream transactions.

Note 3: For balance sheet items, over 1% of total consolidated assets, and for profit or loss items, over 1% of total consolidated revenue were selected for disclosure.

(b) Information on investees:

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

| Name of investor | Name of investee | Address | Scope of business | Original cost | | Ending balance | | | Maximum investment amount in 2018 | Net income of investee (Note 1) | Investment income (losses) (Note 1) | Notes |
|------------------|----------------------------|---------|---|-------------------|-------------------|----------------|-------------------------|---------------------|-----------------------------------|---------------------------------|-------------------------------------|-----------|
| | | | | December 31, 2018 | December 31, 2017 | Shares | Percentage of ownership | Book value (Note 1) | | | | |
| The Company | Machvision Inc. | Samoa | Investment | 50,114 | 50,114 | 1,607,276 | 100.00 % | 25,743 | 50,114 | (9,987) | (9,987) | Note 1, 2 |
| The Company | Autovision Technology Inc. | Taiwan | Manufacturing of computer peripheral products | 2,250 | 2,250 | 225,000 | 45.00 % | 2,791 | 2,250 | 2,516 | 1,132 | Note 2 |
| The Company | Sigold Optics Inc. | Taiwan | Manufacturing of machinery equipment | 49,470 | 49,470 | 4,947,000 | 49.47 % | 56,557 | 49,470 | 19,655 | 9,724 | Note 2 |

Note 1: The company is a limited company

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

Note 3: The investment income was recognized under the equity method and based on the financial statements audited by the auditor of the Company

(c) Information on investment in mainland China:

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

| Name of investee investment in Mainland China | Major operations | Issued capital | Method of investment (Note 1) | Beginning remittance balance - cumulative investment (amount) from Taiwan | Current remittance / recoverable investment (amount) | | Ending remittance balance - cumulative investment (amount) from Taiwan | Net income of investee | Direct / indirect shareholdings or investments (%) in the Company | Maximum investment amount in 2018 | Current investment gains and losses (Notes 4) | Book value | Remittance of investment income in current period |
|---|--|----------------|-------------------------------|---|--|-----------------|--|------------------------|---|-----------------------------------|---|------------|---|
| | | | | | Invested amount | Returned amount | | | | | | | |
| Machvision (Dongguan) Inc. | Maintaining and trading of machinery equipment | 50,042 | (2) | 50,042 | - | - | 50,042 | (9,987) | 100 % | 50,042 | (9,987) | 30,383 | - |

Note 1: The method of investment is divided into the following four categories:

- (1) Remittance from thirdregion companies to invest in Mainland China.
- (2) Through the establishment of thirdregion companies then investing in Mainland China.
- (3) Through transferring the investment to thirdregion existing companies then investing in Mainland China.
- (4) Other methods: EX: delegated investments.

Note 2: Investing in Machvision (Dongguan) Inc. through Machvision Inc.

Note 3: The transactions within the Group were eliminated in the consolidated financial statements

Note 4: The investment income was recognized under the equity method and based on the financial statements audited by the auditor of the Company.

(ii) Limitation on investment in Mainland China:

| Company name | Accumulated investment amount in Mainland China as of December 31, 2018 | Investment (amount) approved by Investment Commission, Ministry of Economic Affairs | Maximum investment amount set by Investment Commission, Ministry of Economic Affairs |
|--------------|---|---|--|
| The Company | 50,042 | 111,399 | 1,326,091 (Note) |

Note: It represents 60% of the Company's net equity.

(iii) Significant transactions:

Please refer to "Business relationships and significant intercompany transaction" for the indirect and direct business transactions in China. All transactions were eliminated upon consolidation.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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(14) Segment information:

(a) General information

The Group is mainly engaged in the manufacturing, trading and testing of optical inspection machinery equipment, as well as their related products. The operating decision maker focuses on the entirety of the Group for the purpose of resource allocation and assessment performance. The Group is identified as a single reportable segment.

(b) Information on income and loss, assets, liabilities, basis of measurement, and the reconciliation for reportable segments

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

The operating segment accounting policies are consistent with those described in note 4 "Significant Accounting Policies".

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

Information on reportable segments and reconciliation for the Group is as follows:

| | 2018 | | | |
|-----------------------------------|---------------------|-----------------|---|------------------|
| | Taiwan | China | Adjustments or elimination | Total |
| Revenue: | | | | |
| Revenue from external customers | \$ 2,865,848 | 246,028 | - | 3,111,876 |
| Inter-segment revenues | 216,234 | - | (216,234) | - |
| Total revenue | <u>\$ 3,082,082</u> | <u>246,028</u> | <u>(216,234)</u> | <u>3,111,876</u> |
| Reportable segment profit or loss | <u>\$ 1,594,360</u> | <u>(10,208)</u> | <u>-</u> | <u>1,584,152</u> |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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| | 2017 | | | Total |
|-----------------------------------|---------------------|----------------|----------------------------------|------------------|
| | Taiwan | China | Adjustments or elimination | |
| Revenue: | | | | |
| Revenue from external customers | \$ 1,272,166 | 148,722 | - | 1,420,888 |
| Inter-segment revenues | <u>124,453</u> | <u>-</u> | <u>(124,453)</u> | <u>-</u> |
| Total revenue | <u>\$ 1,396,619</u> | <u>148,722</u> | <u>(124,453)</u> | <u>1,420,888</u> |
| Reportable segment profit or loss | <u>\$ 568,079</u> | <u>(1,821)</u> | <u>-</u> | <u>566,258</u> |

In 2018 and 2017, inter-segment revenues of \$216,234 and \$124,453, respectively, should be eliminated from total revenue.

(c) Information on products and services

Revenue from the external customers were as follows:

| Products and services | 2018 | 2017 |
|-----------------------|---------------------|------------------|
| Sale of goods | \$ 3,024,999 | 1,345,653 |
| Revenue from services | <u>86,877</u> | <u>75,235</u> |
| Total | <u>\$ 3,111,876</u> | <u>1,420,888</u> |

(d) Geographic information

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

| Geographic information | 2018 | 2017 |
|----------------------------------|---------------------|---------------------|
| Revenue from external customers: | | |
| Taiwan | \$ 1,533,869 | 437,668 |
| China | 1,370,904 | 865,380 |
| Other | <u>207,103</u> | <u>117,840</u> |
| Total | <u>\$ 3,111,876</u> | <u>1,420,888</u> |
| | December 31, | December 31, |
| | 2018 | 2017 |
| Non-current assets: | | |
| Taiwan | \$ 216,004 | 192,057 |
| China | <u>22,906</u> | <u>22,371</u> |
| Total | <u>\$ 238,910</u> | <u>214,428</u> |

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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Non-current assets include property, plant and equipment, and intangible assets, not including financial instruments and deferred tax assets.

(e) Information about major customers

| | <u>2018</u> | <u>2017</u> |
|-------------------|---------------------|----------------|
| A Group in Taiwan | \$ 960,380 | 322,203 |
| B Group in Taiwan | 347,967 | 141,068 |
| C Group in Taiwan | 322,228 | 22,480 |
| D Group in Taiwan | <u>131,026</u> | <u>158,220</u> |
| Total | <u>\$ 1,761,601</u> | <u>643,971</u> |