

Stock Code: 3563

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

**Consolidated Financial Statements**

**With Independent Auditors' Review Report**

**For the Six Months Ended June 30, 2019 and 2018**

**Company Address:** No. 2-3, Gongye East. 2nd Rd., East Dist.,  
Hsinchu City 300, Taiwan (R.O.C.)  
**Tel:** (03)563-8599

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

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## Independent Auditors' Review Report

The Board of Directors of Machvision Inc. Co., Ltd.:

### Introduction

We have reviewed the accompanying consolidated balance sheets of Machvision Inc. Co., Ltd. and its subsidiaries, as of June 30, 2019 and 2018, the related consolidated statements of comprehensive income for the three months ended June 30, 2019 and 2018, and for the six months ended June 30, 2019 and 2018, the consolidated statements of changes in equity and cash flows for the six months then ended, and the related notes to the consolidated financial statements [including a summary of significant accounting policies]. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

### Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Basis for Qualified Conclusion

As stated in Note 4(b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$493,581 thousand and \$248,510 thousand, constituting 12% and 8% of consolidated total assets as of June 30, 2019 and 2018, respectively, total liabilities amounting to \$99,983 thousand and 38,978 thousand, constituting 4% and 2% of consolidated total liabilities as of June 30, 2019 and 2018, respectively, and total comprehensive loss amounting to \$4,507 thousand, (\$11,365) thousand, (\$2,793) thousand and (\$11,312) thousand, constituting 1%, (4)%, 0% and (2)% of consolidated total comprehensive income (loss) for the three months and the six months ended June 30, 2019 and 2018, respectively.

**Qualified Conclusion**

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of MACHVISION Inc. and its subsidiaries as of June 30, 2019 and 2018, and of its consolidated financial performance for the three months and six months ended June 30, 2019 and 2018, and its consolidated cash flows for the six months ended June 30, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

KPMG

Bo-Shu Huang

CPA:

An-Tien Yu

Reference number

Issue no.  
: Tai-Finance-Securities-(6)-0920122026  
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July 24, 2019

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
Reviewed only, not audited in accordance with generally accepted auditing standards as of June 30, 2019 and 2018  
MACHVISION INC. CO., LTD. AND SUBIDIARIES

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Consolidated Balance Sheets

March 31, 2019, December 31, 2018, and March 31, 2018

Units: NT\$ thousand

(Expressed in Thousands of New Taiwan Dollars)

Assets		June 30, 2019		December 31, 2018		June 30, 2018		Liabilities and Equity		June 30, 2019		December 31, 2018		June 30, 2018	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
<b>Current Assets:</b>															
1100	Cash and cash equivalents (Note 6(a))	\$ 1,818,792	45	1,764,842	51	1,695,907	53	2130	Contract liabilities - current (Note 6(o))	\$ 84,760	2	82,716	2	489,724	15
1151	Notes receivable (Note 6(b))	11,499	-	18,379	1	6,246	-	2150	Notes payable	230	-	1,358	-	439	-
1170	Accounts receivable (Note 6(b))	1,486,538	37	1,076,197	31	947,306	30	2170	Accounts payable	310,657	8	318,692	9	270,674	9
130x	Inventories (Note 6(c))	268,104	7	234,001	7	267,020	8	2209	Other payables (Note 6(p))	499,659	12	457,106	14	363,548	11
1410	Prepayments	13,223	-	8,785	-	18,486	1	2216	Dividend payable (Note 6(m))	1,150,422	28	-	-	426,082	13
1479	Other current assets	13,741	-	7,178	-	8,779	-	2230	Current tax liabilities	142,230	4	271,716	8	114,154	4
	<b>Total current assets</b>	<b>3,611,897</b>	<b>89</b>	<b>3,109,382</b>	<b>90</b>	<b>2,943,744</b>	<b>92</b>	2250	Provision - current (Note 6(i))	31,597	1	45,353	1	31,703	1
<b>Non-Current Assets:</b>								2280	Lease liabilities - current (Note 6(h))	7,538	-	-	-	-	-
1510	Financial assets at fair value through profit or loss - non-current (Note 6(d))	9,644	-	9,644	-	9,644	-	2399	Other current liabilities - other	10,328	-	13,498	1	9,956	-
1600	Property, plant and equipment (Notes 6(e))	252,562	6	238,607	7	208,524	7		<b>Total current liabilities</b>	<b>2,237,421</b>	<b>55</b>	<b>1,190,439</b>	<b>35</b>	<b>1,706,280</b>	<b>53</b>
1755	Right-of-use assets (Note 6(f))	72,400	2	-	-	-	-	2570	Deferred tax liabilities	780	-	780	-	-	-
1780	Intangible asset	248	-	303	-	358	-	2640	Net defined benefit liabilities - non-current	9,497	-	9,497	-	8,757	-
1840	Deferred tax assets	25,686	1	25,686	1	13,730	-	2580	Lease liabilities - non-current (Note 6(h))	64,960	2	-	-	-	-
1920	Refundable deposits	9,834	-	5,285	-	3,508	-		<b>Total liabilities</b>	<b>2,312,658</b>	<b>57</b>	<b>1,200,716</b>	<b>35</b>	<b>1,715,037</b>	<b>53</b>
1932	Long-term receivable (Note 6(b))	64,331	2	80,951	2	23,680	1	<b>Equity Attributable to Owners of The Corporation (Note 6(m)):</b>							
1995	Other non-current assets - other (Note 8)	4,142	-	2,189	-	2,187	-	3100	Ordinary shares	426,082	11	426,082	12	426,082	13
	<b>Total non-current assets</b>	<b>438,847</b>	<b>11</b>	<b>362,665</b>	<b>10</b>	<b>261,631</b>	<b>8</b>		Capital surplus:						
	<b>Total Assets</b>	<b>\$ 4,050,744</b>	<b>100</b>	<b>3,472,047</b>	<b>100</b>	<b>3,205,375</b>	<b>100</b>	3211	Capital surplus - additional paid-in capital	59,485	1	59,485	2	59,485	2
								3235	Capital surplus - changes equity of in subsidiaries	4	-	4	-	4	-
								3280	Capital surplus - others	23	-	3	-	3	-
										<b>59,512</b>	<b>1</b>	<b>59,492</b>	<b>2</b>	<b>59,492</b>	<b>2</b>
									Retained earnings:						
								3310	Legal reserve	309,915	8	180,274	5	180,274	6
								3320	Special reserve	2,957	-	2,507	-	2,507	-
								3350	Unappropriated retained earnings	836,003	20	1,544,754	44	774,321	24
										<b>1,148,875</b>	<b>28</b>	<b>1,727,535</b>	<b>49</b>	<b>957,102</b>	<b>30</b>
									Other equity:						
								3410	Exchange differences on translation of foreign financial statements	(2,520)	-	(2,957)	-	(2,122)	-
									<b>Total equity attributable to of the parent</b>	<b>1,631,949</b>	<b>40</b>	<b>2,210,152</b>	<b>63</b>	<b>1,440,554</b>	<b>45</b>
								36xx	<b>Non-Controlling Interests</b>	<b>106,137</b>	<b>3</b>	<b>61,179</b>	<b>2</b>	<b>49,784</b>	<b>2</b>
									<b>Total equity</b>	<b>1,738,086</b>	<b>43</b>	<b>2,271,331</b>	<b>65</b>	<b>1,490,338</b>	<b>47</b>
									<b>Total Liabilities and Equity</b>	<b>\$ 4,050,744</b>	<b>100</b>	<b>3,472,047</b>	<b>100</b>	<b>3,205,375</b>	<b>100</b>

See accompanying notes to consolidated financial statements.

Chairman: Wang, Guang-Shiah

President: Chen, Fu-Sheng

Accounting Supervisor: Tsai, Chia-Fen

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
Reviewed only, not audited in accordance with generally accepted auditing standards as of March 30, 2019 and 2018  
Machvision Inc. Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the three months and six months ended June 30, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars, Except for Earning Per Common Share)

	For the three months ended June 30				For the six months ended June 30				
	2019		2018		2019		2018		
	Amount	%	Amount	%	Amount	%	Amount	%	
4000	<b>Operating Revenue (Note 6(o))</b>								
	\$	779,880	100	736,179	100	1,450,652	100	1,302,217	100
5000	<b>Operating Costs (Notes 6(c), 6(e), 6(f), 6(k), 6(p) and 7)</b>								
		254,536	33	192,821	26	469,873	32	383,012	29
5900	<b>Gross Profit</b>								
		525,344	67	543,358	74	980,779	68	919,205	71
6000	<b>Operating Expenses (Notes 6(b), 6(e), 6(f), 6(k), 6(p) and 7)</b>								
6100	Selling expenses	55,263	7	66,017	9	108,283	7	117,844	9
6200	Administrative expenses	34,607	4	80,792	11	64,821	5	125,219	10
6300	Research and development expenses	55,598	7	35,714	5	103,231	7	61,753	5
6450	Expected credit impairment loss (or gain)	(13,939)	(2)	326	-	(6,154)	-	1,482	-
	<b>Total operating expenses</b>	<b>131,529</b>	<b>16</b>	<b>182,849</b>	<b>25</b>	<b>270,181</b>	<b>19</b>	<b>306,298</b>	<b>24</b>
	<b>Net operating income</b>	<b>393,815</b>	<b>51</b>	<b>360,509</b>	<b>49</b>	<b>710,598</b>	<b>49</b>	<b>612,907</b>	<b>47</b>
7000	<b>Non-Operating Income and Expenses (Notes 6(h) and 6(q))</b>								
7010	Other income	2,322	-	2,781	-	4,709	-	4,258	-
7020	Other gains and losses	3,469	-	33,911	5	12,521	1	25,796	2
7050	Finance costs	(261)	-	-	-	(503)	-	-	-
	<b>Total non-operating income and expenses</b>	<b>5,530</b>	<b>-</b>	<b>36,692</b>	<b>5</b>	<b>16,727</b>	<b>1</b>	<b>30,054</b>	<b>2</b>
	<b>Profit Before Income Tax</b>	<b>399,345</b>	<b>51</b>	<b>397,201</b>	<b>54</b>	<b>727,325</b>	<b>50</b>	<b>642,961</b>	<b>49</b>
7950	<b>Less: INCOME TAX EXPENSE (Note 6(l))</b>	<b>77,143</b>	<b>10</b>	<b>74,265</b>	<b>10</b>	<b>141,018</b>	<b>10</b>	<b>117,770</b>	<b>9</b>
	<b>Net Profit for The Period</b>	<b>322,202</b>	<b>41</b>	<b>322,936</b>	<b>44</b>	<b>586,307</b>	<b>40</b>	<b>525,191</b>	<b>40</b>
8300	<b>Other Comprehensive Income (Loss):</b>								
8360	<b>Items that may be reclassified subsequently to profit or loss</b>								
8361	Financial statements translation differences for foreign operations	(261)	-	252	-	437	-	385	-
8399	Income tax expense relating to components of other comprehensive income(loss)	-	-	-	-	-	-	-	-
	<b>Total Items that may be reclassified subsequently to profit or loss</b>	<b>(261)</b>	<b>-</b>	<b>252</b>	<b>-</b>	<b>437</b>	<b>-</b>	<b>385</b>	<b>-</b>
8300	<b>Other comprehensive income (loss) for the period</b>	<b>(261)</b>	<b>-</b>	<b>252</b>	<b>-</b>	<b>437</b>	<b>-</b>	<b>385</b>	<b>-</b>
	<b>Total Comprehensive Income for the period</b>	<b>\$ 321,941</b>	<b>41</b>	<b>323,188</b>	<b>44</b>	<b>586,744</b>	<b>40</b>	<b>525,576</b>	<b>40</b>
	<b>Net income attribute to:</b>								
	Owners of the parent company	\$ 310,363	39	324,101	44	571,762	39	525,271	40
8620	Non-Controlling Interests	11,839	2	(1,165)	-	14,545	1	(80)	-
		<b>\$ 322,202</b>	<b>41</b>	<b>322,936</b>	<b>44</b>	<b>586,307</b>	<b>40</b>	<b>525,191</b>	<b>40</b>
	<b>Comprehensive Income Attributed To:</b>								
	Owners of the parent company	\$ 310,102	39	324,353	44	572,199	39	525,656	40
	Non-Controlling Interests	11,839	2	(1,165)	-	14,545	1	(80)	-
		<b>\$ 321,941</b>	<b>41</b>	<b>323,188</b>	<b>44</b>	<b>586,744</b>	<b>40</b>	<b>525,576</b>	<b>40</b>
9750	<b>Earnings Per Share (Note 6(n))</b>								
9710	Basic earning per shares (Units: New Taiwan dollars)	<b>\$ 7.28</b>		<b>7.61</b>		<b>13.42</b>		<b>12.33</b>	
9810	Diluted earning per shares (Units: New Taiwan dollars)	<b>\$ 7.25</b>		<b>7.57</b>		<b>13.32</b>		<b>12.27</b>	

See accompanying notes to consolidated financial statements.

Chairman: Wang, Guang-Shiah

President: Chen, Fu-Sheng

Accounting Supervisor: Tsai, Chia-Fen

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**Machvision Inc. Co., Ltd. and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**For the six months ended June 30, 2019 and 2018**  
**(Express in Thousand of New Taiwan Dollars)**

**Interests attributable to parent company owner**

	<u>Retained earnings</u>					<u>Total</u>	<u>Other interests</u>	<u>Total equity attributable to owners of the parent</u>	<u>Non-Controlling Interests</u>	<u>Total Equity</u>
	<u>Ordinary shares</u>	<u>Capital surplus</u>	<u>Legal reserve</u>	<u>Special reserves</u>	<u>Unappropriated earnings</u>		<u>Exchange differences on translation of foreign financial statements</u>			
<b>Balance at January 1, 2018</b>	\$ 426,082	59,489	134,000	2,041	721,872	857,911	(2,507)	1,340,977	49,864	1,390,841
Appropriation and distribution of retained earning										
Legal reserve	-	-	46,274	-	(46,274)	-	-	-	-	-
Special reserve	-	-	-	466	(466)	-	-	-	-	-
Cash dividend of ordinary share	-	-	-	-	(426,082)	(426,082)	-	(426,082)	-	(426,082)
Other changes in capital surplus	-	3	-	-	-	-	-	3	-	3
Profit for the period	-	-	-	-	525,271	525,271	-	525,271	(80)	525,191
Other comprehensive income (loss) for the period	-	-	-	-	-	-	385	385	-	385
Comprehensive Income for the period	-	-	-	-	525,271	525,271	385	525,656	(80)	525,576
<b>Balance at June 30, 2018</b>	<b>\$ 426,082</b>	<b>59,492</b>	<b>180,274</b>	<b>2,507</b>	<b>774,321</b>	<b>957,101</b>	<b>(2,122)</b>	<b>1,440,554</b>	<b>49,784</b>	<b>1,490,338</b>
<b>Balance at January 1, 2019</b>	\$ 426,082	59,492	180,274	2,507	1,544,754	1,727,531	(2,957)	2,210,152	61,179	2,271,331
Appropriation and distribution of retained earning										
Legal reserve	-	-	129,641	-	(129,641)	-	-	-	-	-
Special reserve	-	-	-	450	(450)	-	-	-	-	-
Cash dividend of ordinary share	-	-	-	-	(1,150,422)	(1,150,422)	-	(1,150,422)	-	(1,150,422)
Other changes in capital surplus	-	20	-	-	-	-	-	20	-	20
Profit for the period	-	-	-	-	571,762	571,762	-	571,762	14,545	586,307
Total other comprehensive income (loss) for the period	-	-	-	-	-	-	437	437	-	437
Total Comprehensive Income for the period	-	-	-	-	571,762	571,762	437	572,199	14,545	586,744
Changes in non-controlling interests	-	-	-	-	-	-	-	-	30,413	30,413
<b>Balance at June 30, 2019</b>	<b>\$ 426,082</b>	<b>59,512</b>	<b>309,915</b>	<b>2,957</b>	<b>836,003</b>	<b>1,148,871</b>	<b>(2,520)</b>	<b>1,631,949</b>	<b>106,137</b>	<b>1,738,086</b>

See accompanying notes to consolidated financial statements.

Chairman: Wang, Guang-Shiah

President: Chen, Fu-Sheng

Accounting Supervisor: Tsai, Chia-Fen

**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**Machvision Inc. Co., Ltd. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**(Express in Thousand of New Taiwan Dollars)**

	<b>For the six months ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash Flows From Operating Activities:</b>		
<b>Profit before tax</b>	\$ 727,325	642,961
<b>Adjustments :</b>		
Adjustments to reconcile profit		
Depreciation	8,271	6,709
Amortization	55	208
Expected credit impairment loss	(6,154)	1,482
Interest expenses	503	-
Interest income	(4,524)	(3,109)
Total Adjustments to reconcile profit	(1,849)	5,290
Changes in operating assets and liabilities:		
Changes in operating assets		
Notes receivable	6,880	(3,293)
Accounts receivable	(404,187)	(239,840)
Inventories	(34,103)	(80,469)
Prepayments	(4,438)	(15,230)
Other current assets	(6,470)	(3,300)
Long-term account receivable	16,439	(7,616)
Total change in operating assets, net	(425,879)	(349,748)
Net changes in operating liabilities:		
Contract liabilities	2,044	471,510
Notes payable	(1,128)	(85)
Accounts payable	(8,035)	84,779
Other payables	42,553	145,010
Provision	(13,756)	11,515
Other current liabilities	(3,170)	(1,678)
Total changes in operating liabilities, net	18,508	711,051
Total changes in operating assets and liabilities, net	(407,371)	361,303
Total adjustments	(409,220)	366,593
Cash provided by operations activities	318,105	1,009,554
Interest received	4,612	3,036
Income tax paid	(270,504)	(69,427)
<b>Net cash provided by operating activities</b>	<b>52,213</b>	<b>943,163</b>
<b>Cash Flows From Investing Activities:</b>		
Acquisition of property, plant and equipment	(19,673)	(1,211)
Increase(decrease) in refundable deposits	(4,549)	2,259
Increase(decrease) in other non-current assets	(921)	(1)
<b>Net cash (used in) investing activities</b>	<b>(25,143)</b>	<b>1,047</b>
<b>Cash Flows From Financing Activities:</b>		
Decrease in lease payable	(3,715)	-
Change in non-controlling interests	30,413	-
Surplus not paid due to overdue	20	3
<b>Net cash used in financing activities</b>	<b>26,718</b>	<b>3</b>
<b>Effects of Exchange Rate Changes On Cash and Cash Equivalents</b>	<b>162</b>	<b>225</b>
<b>Net Increase In Cash and Cash Equivalents</b>	<b>53,950</b>	<b>944,438</b>
<b>Cash and Cash Equivalents at The Beginning of The Period</b>	<b>1,764,842</b>	<b>751,469</b>
<b>Cash and Cash Equivalents at The End of The Period</b>	<b>\$ 1,818,792</b>	<b>1,695,907</b>

See accompanying notes to consolidated financial statements.

Chairman: Wang, Guang-Shiah

President: Chen, Fu-Sheng

Accounting Supervisor: Tsai, Chia-Fen



**Reviewed only, not audited in accordance with generally accepted auditing standards**  
**MACHVISION INC. CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**For the Six Months Ended June 30, 2019 and 2018**  
**(Express in Thousand 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 (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 dated June 30, 2019 include the Company and its subsidiaries (the Group). The Group is mainly engaged in the manufacturing, maintenance 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 issued on July 24, 2019.

**(3). Application of new, amended and revised standards and interpretations**

(A) The impact from application of amendments to the Regulations endorsed, issued into effect and amended by the Financial Supervisory Commission (FSC)

The Group's 2019 consolidated financial report has been prepared in accordance with the International Financial Reporting Standards approved by the Financial Supervisory Commission (hereinafter referred to as FSC) in 2019. Differences between this version and the previous version are listed as follows:

New/amended IFRSs	Effective Date Announced by IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019

Except for the following, the initial application of the IFRSs endorsed into effect has no material impact on the consolidated financial statements: The description of material impacts are as follows:

1. IFRS 16 "Leases"

International Financial Reporting Standards No. 16 "Leases" (hereinafter referred to as IFRS 16) has replaced the original International Accounting Standards No. 17 "Leases" (hereinafter referred to as IFRS 17), the IFRIC Interpretations No. 4 ". Determining whether an Arrangement contains a Lease" (hereinafter referred to as IFRIC 4), IFRIC 15 "Business Leasing: Incentives", and IFRIC 27 "Assessing the substance of the transaction in the legal form involving the lease".

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

The Group applies IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. The description of changes in relevant accounting policies are as follows:

(1) Definition of a lease

The Group originally applied IFRIC 4 to contracts on the effective date in order to determine whether those contracts are, or contain, a lease. After the amendments to accounting policies, the Group will elect to apply IFRS 16 to contracts in order to determine whether those contracts are, or contain, a lease. Please refer to attachment 4-3 for the accounting policies.

For transitional provisions under IFRS 16, the Group expects to apply the practical expedients to exempt it from assessment of whether the transaction before the initial application date is a lease. Hence, the Group directly applies IFRS16 for previous contracts identified as leases. Contracts identified as not containing a lease under IAS 17 and IFRIC 4 will not be reassessed. Therefore, the definition of a lease set out in IFRS 16 is only applicable to contracts signed or changed on the initial and subsequent application date.

(2) Lessee

Transactions with the Group as lessee are previously classified based on whether lease contracts have transferred almost all risks and returns of the underlying asset. Under IFRS16, the Group will recognize right-of-use assets or investment properties for all lease contracts on the consolidated balance sheets.

The leased office equipment will be exempted from recognition for low-value and short-term leases.

For transitional provision, the contracts previously classified as operating lease under IAS 17 are measured at the present value of residual lease payments, and discounted with the Group's incremental borrowing rate on the initial application date. The right-of-use assets are calculated by one of the following:

- A. The carrying amount of right-of-use assets initially under IFRS16 from the effective date, but discounted with the lessee's incremental borrowing rate on the initial application date. This method is applied to large real estate leases; or
- B. The amount of lease liabilities adjusted for all lease prepayments or lease payables related to the lease. This method is applied to all other leases.

In addition, the Group expects to apply the following practical expedients for transitional provisions under IFRS16:

- A. The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- B. Assessment results of onerous leases in accordance with IAS 37 "provision, contingent liabilities and contingent assets" before the initial application date instead of the impairment assessment of right-of-use assets.

(Continued)

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

- C. The Group will account for those leases for which the lease term ends within 12 months after the initial application date as exempted from recognition of right-of-use assets and lease liabilities.
- D. The Group will exclude initial direct costs from the measurement of right-of-use assets on the initial application date.
- E. The Group will use hindsight, such as in determining lease terms, for the extension or termination option of lease contracts.

(3) Impact on the financial statements

For the transitional provisions under IFRS16, the Group recognized NT\$71,348 thousand as right-of-use assets and lease liabilities at the initial application date. The lease liability is discounted with the Group's weighted average incremental borrowing rate of 1.5% on the initial application date.

Adjustment on the amount of operating lease commitments disclosed in the fiscal year prior to the initial application date and the amount of lease liabilities recognized on the initial application date are as follows:

	<u>January 1, 2019</u>
The amount of operating lease commitments are disclosed in the consolidated financial statements in December 31, 2018	\$ 700
To reasonably determine the extension or termination option of lease contracts	<u>93,003</u>
	<u>\$ 93,703</u>
Discounted with the Group's incremental borrowing rate in January 1, 2019	\$ 71,348
Finance lease payables recognized in December 31, 2018	-
Lease liabilities recognized in January 1, 2019	<u>\$ 71,348</u>

(B) New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs issued and amended by the IASB (the Board) but not yet endorsed and issued into effect by the FSC are summarized as follows:

<u>New Revised or Amended Standards and Interpretations</u>	<u>Effective Date per IASB</u>
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"	to be determined by IASB
IFRS 17 Insurance Contracts	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of material"	January 1, 2020

The Group is continuously assessing the possible impacts that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impacts when the assessment is completed.

**(4). Summary of significant accounting policies**

Except for the following, the summary of significant accounting policies of this consolidated financial statement is equivalent to that in 2018. Please refer to Note 4 in the 2018 consolidated financial statement for related information.

(Continued)

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

## (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 and IAS 34 “Interim Financial Reporting” endorsed and issued into effect by the FSC. Disclosure information included in the consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements in accordance with the IFRS, IAS and IFRIC endorsed and issued into effect by the FSC (hereinafter referred to as “the IFRS endorsed by the FSC”).

## (b) Basis of consolidation

## (i) Principles of preparation of consolidated financial statements

The consolidated entities include the Machvision Inc. Co., Ltd. and its subsidiaries.

The consolidation of the financial statements are prepared from the date which Machvision has control over the subsidiary until the date when the Group ceases to have control.

The transactions between the Corporation and its subsidiaries, balances and any unrealized gains and expenses have been eliminated on consolidation.

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

Investor	Subsidiary	Nature of Businesses	Percentage of Ownership			Note
			June 30, 2019	December 31, 2018	June 30, 2018	
The Company	Machvision Inc.	Investment	100.00%	100.00%	100.00%	
The Company	Autovision Technology Inc.	Manufacturing of computer peripheral products	45.00%	45.00%	45.00%	Note 1
The Company	Sigold Optics. Inc.	Manufacturing of optical inspection machinery equipment	49.47%	49.47%	49.47%	Note 2
The Company	Machvision Korea Co., Ltd.	Maintaining and trading of machinery equipment	100.00%	- %	- %	
The Company	Machvision Holding (Samoa) Limited	Investment	100.00%	- %	- %	
Machvision Inc.	Machvision (Dongguan) Inc.	Maintaining and trading of machinery equipment	100.00%	100.00%	100.00%	
Machvision Holding (Samoa) Limited	Guangdong GreatSense Intelligent Equipment Co., Ltd.	Maintaining and trading of machinery equipment	51.00%	- %	- %	

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 operating policy decision.

Note 2: The Company holds 49.47% of ownership of Sigold Optics Inc. However, it remains to be a subsidiary since the Company retains control of its financial and operational policy decision.

(Continued)

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

(c) Lease (applicable on January 1, 2019)

1. Lease judgments

The Group determines whether contracts are, or contain, a lease upon the formation on contract. If the contract transfers control rights of an identified asset over a period, the contract is, or contain, a lease. The Group considers the following items to assesses whether contracts are a lease:

- (1) The lease contract involves identified assets that is clearly specified in the contract or implicitly specified at the time the asset is made available for use. An identified asset can be physically distinct or represents substantially all of the capacity of the asset. If the supplier has substantive rights to substitute alternative assets, the asset is not an identified asset; and
- (2) Has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- (3) A customer has the right to direct the use of an identified asset throughout the period of use only if either:
  - The customer has the right to direct how and for what purpose the asset is used throughout the period of use.
  - The relevant decisions about how and for what purpose the asset is used are predetermined and:
    - The customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
    - The customer designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

On the commencement date or when reassessing whether the contract contains a lease, the Group allocates the consideration in the contract between the separate lease components of the contract on a relative stand-alone selling price basis.

2. Lessee

The Group recognizes the right-of-use asset and lease liability on the commencement date. The right-of-use asset is measured at cost, which includes the original lease liability, any lease payment on or before the effective date of the lease modification, and the initial direct costs and the estimated dismantling and removal costs of the underlying asset, less any lease incentives receivable.

The Group subsequently depreciates, generally on a straight-line basis, the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the Group determines whether right-of-use asset is impaired on a regular basis, and recognizes an impairment loss and the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. Lease payments are discounted using the interest rate implicit in the lease as described above if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate. Generally, the Group elects the incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprises the following:

- (1) Fixed payments or in-substance fixed payments.
- (2) Variable payments that depend on an index or a rate made during the lease term and initially measured using the index or rate at the commencement date.
- (3) Prepayments of residual value guarantees; and
- (4) The determined payment amount or termination penalties for exercising an option or terminating a lease.

Lessees are also required to remeasure lease payments upon a change in any of the following:

**(Continued)**

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

- (1) Future lease payments resulting from a change in an index or rate.
- (2) The amounts expected to be payable by the lessee from residual value guarantees.
- (3) The assessment of whether to exercise an option to purchase the underlying asset.
- (4) The estimate of whether to extend or terminate a lease, and the assessment of changing the period of the lease.
- (5) The underlying asset, scope and other terms.

The Group recognizes the amount of the remeasurement of the lease liability to reflect the aforementioned change in index or rate for lease payments, the change in residual value guarantees, and the change in assessment of whether to purchase, extend or terminate a lease. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee recognizes any remaining amount of the remeasurement in profit or loss.

For a modification that fully or partially decreases the scope of the lease, the Group shall decrease the carrying amount of the right-of-use asset to reflect partial or full termination of the lease, and shall recognize any difference of remeasuring the lease liability in profit or loss.

The Group recognizes lease liabilities or right-of-use assets that do not meet the definition of investment property as its balance sheet line items.

The Group elects not to recognize lease liabilities or right-of-use assets to either short-term leases or leases for which the underlying asset is of low value, and shall instead recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

**(d) Employee benefit**

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

**(e) Income taxes**

The Group measures and discloses interim period income taxes in accordance with paragraph B12 of IAS 34 “Interim Financial Reporting”.

The income tax is calculated by multiplying the interim period pre-tax profit by the best estimate of the manager’s effective tax rate for the annual and recognized as current income tax expense.

The income tax is recognized directly in equity or other comprehensive income by applying the tax rate that would be applicable when it is expected to be realized or settled according to the temporary difference between the carrying amount and tax basis of related assets and liabilities of the financial statement.

**5. Significant accounting assumptions, judgments and major sources of estimation uncertainty**

Managers must make judgments, estimates and assumptions when preparing the consolidated financial statements in accordance with preparation standards and IAS 34 “Interim Financial Reporting” endorsed by the FSC, as it will influence accounting policies and the amount of assets, liabilities, income and expenses in the statements. There may be differences between actual results and estimations.

The same critical accounting judgments and key sources of estimates and uncertainty have been followed in these consolidated financial statements as were applied in Note 5 of the Group’s consolidated financial statements for the year ended December 31, 2018.

(Continued)

MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

**6. Explanation of significant accounts**

(a) Cash and Cash Equivalents

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Cash on hand	\$ 889	1,013	1,121
Saving deposits	939,906	327,667	311,496
Checking deposits	-	500	-
Foreign currency deposits	219,374	141,532	95,294
Time deposits	658,623	1,294,130	1,287,996
Cash and cash equivalents per statements of cash flow	<u>\$ 1,818,792</u>	<u>1,764,842</u>	<u>1,695,907</u>

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) of the group interest rate risk and sensitivity analysis of the Group's financial assets and liabilities.

(b) Notes accounts and long-term accounts receivable

	<u>June30,2019</u>	<u>December31,2018</u>	<u>June30,2018</u>
Notes receivable	\$ 11,499	18,379	6,246
Accounts receivable	1,492,904	1,088,717	952,460
Long-term account receivable	64,975	81,776	23,926
Less: Allowance for impairment	6,366	12,520	5,154
Unrealized Interest Income	644	825	246
	<u>\$ 1,562,368</u>	<u>1,175,527</u>	<u>977,232</u>

The Group estimates the expected credit losses for all notes receivable and trade receivable via a simplified approach, which is the expected credit losses in the duration period. for the purpose of measurement, the notes receivable and trade receivable are classified based on the common credit risk which represents the customer's payment capability in compliance with the terms of the contract, as well as the forward-looking information including the macroeconomic and related industry information. The Group's credit loss of notes receivable and trade receivable was as follows:

## MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

	<b>June 30, 2019</b>		
	<b>Gross carrying amount</b>	<b>Weighted average of credit loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 1,322,864	0.0002%	3
1 to 90 days past due	120,307	0.18%	216
91~180 days past due	54,641	1.395%	762
181~270 days past due	68,960	5.036%	3,473
271~365 days past due	96	46.939%	46
Over 365 days past due	1,866	100.000%	1,866
	<b><u>\$ 1,568,734</u></b>		<b><u>6,366</u></b>

	<b>December 31, 2018</b>		
	<b>Gross carrying amount</b>	<b>Weighted average of credit loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 879,030	0%	-
1 to 90 days past due	232,506	0.069%	161
91~180 days past due	47,205	0.966%	456
181~270 days past due	7,935	2.974%	236
271~365 days past due	16,474	41.096%	6,770
Over 365 days past due	4,897	100.000%	4,897
	<b><u>\$ 1,188,047</u></b>		<b><u>12,520</u></b>

	<b>June 30, 2018</b>		
	<b>Gross carrying amount</b>	<b>Weighted average of credit loss rate</b>	<b>Loss allowance provision</b>
Not overdue	\$ 813,727	0%	-
Less than 90 days	103,540	0.005%	5
91~180 days	38,625	0.027%	10
181~270 days	19,733	0.286%	57
271~365 days	2,605	35.539%	926
Over 365 days	4,156	100.000%	4,156
	<b><u>\$ 982,386</u></b>		<b><u>5,154</u></b>

(Continued)



**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

The movements in the allowance of notes receivable and account receivable were as follows:

	<b>From January 2019 to June 2019</b>	<b>From January 2018 to June 2018</b>
Balance, beginning of the period	\$ 12,520	3,674
Impairment losses (reversal) recognized on receivable	(6,154)	1,482
Foreign exchange losses	-	(2)
Balance, end of the period	<u><u>\$ 6,366</u></u>	<u><u>5,154</u></u>

The Group did not hold any collateral or discount over the notes receivable, account receivable and long-term receivable.

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:

	<b>June30,2019</b>	<b>December31,2018</b>	<b>June30,2018</b>
Finished goods	\$ 71,162	42,284	38,209
Work in process	60,408	48,961	81,494
Raw materials	136,534	142,756	147,317
	<u><u>\$ 268,104</u></u>	<u><u>234,001</u></u>	<u><u>267,020</u></u>

The Group's inventories were not provided as assets pledged.

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

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Losses on decline in market value of inventory	<u><u>\$ 2,974</u></u>	<u><u>8,885</u></u>	<u><u>6,731</u></u>	<u><u>14,221</u></u>

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

	<b>June30,2019</b>	<b>December31,2018</b>	<b>June30,2018</b>
Mandatorily measured at fair value through profit or loss non current:			
Domestic unlisted equity securities - Yayatech Co. Ltd.	<u><u>\$ 9,644</u></u>	<u><u>9,644</u></u>	<u><u>9,644</u></u>

(Continued)

## MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

## (e) Property, plant and equipment

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

	<u>Buildings</u>	<u>Mechanical equipment</u>	<u>Other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost:					
Balance as of January 1, 2019	\$ 235,761	4,357	11,378	27,874	279,37
Additions	12,791	114	4,423	2,345	19,67
Reclassification	9,376	-	-	(10,408)	(1,032
Disposals	-	(556)	(1,720)	-	(2,276
Effect of movement in exchange rate differences	374	-	24	-	39
Balance as of June 30, 2019	<b><u>\$ 258,302</u></b>	<b><u>3,915</u></b>	<b><u>14,105</u></b>	<b><u>19,811</u></b>	<b><u>296,13</u></b>
Balance as of January 1, 2018	\$ 235,624	3,957	10,609	-	250,19
Additions	-	-	1,211	-	1,21
Disposal	-	(2,300)	(768)	-	(3,068
Effect of movement in exchange rate differences	210	-	8	-	21
Balance as of June 30, 2018	<b><u>\$ 235,834</u></b>	<b><u>1,657</u></b>	<b><u>11,060</u></b>	<b><u>-</u></b>	<b><u>248,55</u></b>
Depreciation and impairment loss:					
Balance as of January 1, 2019	\$ 34,022	1,162	5,579	-	40,76
Depreciation	3,440	402	1,119	-	4,96
Disposals	-	(556)	(1,720)	-	(2,276
Effect of movement in exchange rate differences	118	-	5	-	12
Balance as of June 30, 2019	<b><u>\$ 37,580</u></b>	<b><u>1,008</u></b>	<b><u>4,983</u></b>	<b><u>-</u></b>	<b><u>43,57</u></b>
Balance as of January 1, 2018	\$ 27,967	3,141	5,220	-	36,32
Depreciation	5,481	187	1,041	-	6,70
Disposals	-	(2,300)	(768)	-	(3,068
Effect of movement in exchange rate differences	57	-	1	-	5
Balance as of June 30, 2018	<b><u>\$ 33,505</u></b>	<b><u>1,028</u></b>	<b><u>5,494</u></b>	<b><u>-</u></b>	<b><u>40,02</u></b>
Carrying amounts:					
January 1, 2019	<b><u>\$ 201,739</u></b>	<b><u>3,195</u></b>	<b><u>5,799</u></b>	<b><u>27,874</u></b>	<b><u>238,60</u></b>
June 30, 2019	<b><u>\$ 220,722</u></b>	<b><u>2,907</u></b>	<b><u>9,122</u></b>	<b><u>19,811</u></b>	<b><u>252,56</u></b>
January 1, 2018	<b><u>\$ 207,657</u></b>	<b><u>816</u></b>	<b><u>5,389</u></b>	<b><u>-</u></b>	<b><u>213,86</u></b>
June 30, 2018	<b><u>\$ 202,329</u></b>	<b><u>629</u></b>	<b><u>5,566</u></b>	<b><u>-</u></b>	<b><u>208,52</u></b>

(Continued)

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

## (f) Right of use assets

The movement in the cost and depreciation of the leased land, buildings, employees' dormitories and transportation equipment were as follow:

	<b>Land and buildings</b>	<b>Other equipment</b>	<b>Total</b>
Cost of right of use assets:			
Balance as of January 1, 2019	\$ -	-	-
Effect of retrospective application	62,107	9,241	71,348
Balance as of January 1, 2019	62,107	9,241	71,348
Additions	2,812	1,515	4,327
Effect of movement in exchange rate	24	13	37
Balance as of June 30, 2019	<b>\$ 64,943</b>	<b>10,769</b>	<b>75,712</b>
Depreciation and impairment loss of right of use assets:			
Balance as of January 1, 2019	\$ -	-	-
Current depreciation	1,057	2,253	3,310
Net effect of exchange differences	2	-	2
Balance as of June 30, 2019	<b>\$ 1,059</b>	<b>2,253</b>	<b>3,312</b>
Carry amounts:			
June 30, 2019	<b>\$ 63,884</b>	<b>8,516</b>	<b>72,400</b>

The Group's leased land under operating leases for the six months ended June 30, 2018.

## (g) Intangible assets

The Group had no significant recognition (reversal) for the addition, disposal and impairment of intangible assets during the six months ended June 30, 2019 and 2018. Please refer to Note 12(a) for the balance of amortized intangible assets, and Note 6(g) of the 2018 Consolidated Financial Report.

## (h) Lease liabilities

The Group lease liabilities are as follows:

	<b>June 30, 2019</b>		
	<b>Future minimum lease payments</b>	<b>Interest</b>	<b>Present value of minimum lease payments</b>
Less than 1 year	\$ 7,538	-	7,538
1-5 years	15,396	547	14,849
Over 5 years	71,642	21,531	50,111
	<b>\$ 94,576</b>	<b>22,078</b>	<b>72,498</b>
Current	<b>\$ 7,538</b>	-	<b>7,538</b>
Non-current	<b>\$ 87,038</b>	<b>22,078</b>	<b>64,960</b>

(Continued)

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

The amounts recognized in profit or loss were as follows:

	<b>For the three months ended June 30</b>	<b>For the six months ended June 30</b>
Lease liabilities and interest on	<u>\$ 261</u>	<u>503</u>
Short-term lease expenses	<u>\$ 1,632</u>	<u>2,830</u>
Low-value lease expenses (excluding cost of short-term leases of low-value assets)	<u>\$ 160</u>	<u>356</u>
		<b>For the six months ended June 30</b>
Total cash outflow for leases		<u>\$ 6,545</u>

(i) Provision

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Warranties	<u>\$ 31,597</u>	<u>45,353</u>	<u>31,703</u>

As there were no significant change in the Group's provision for liabilities for the six months ended June 30, 2019 and 2018, please refer to Note 6(h) of the 2018 Consolidated Financial Report.

(j) Operating leases

There were no significant new operating leases for the six months ended June 30, 2018, please refer to Note 6(i) of the 2018 Consolidated Financial Report.

(k) Employee benefits

(i) Defined benefit plans

Management believes that there was no material market volatility, no material reimbursement and settlement or other material one-time events. As a result, the pension cost in the accompanying interim consolidated financial statements was measured and disclosed according to the actuarial report as of December 31, 2018 and 2017.

The Group expenses were as follows:

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Operating cost	\$ 6	5	12	10
Operating expenses	9	10	19	19
Total	<u>\$ 15</u>	<u>15</u>	<u>31</u>	<u>29</u>

(Continued)

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

## (ii) Defined contribution plans

The contributions of the Group to the Bureau of the Labor Insurance and China Labor and Social Security Bureau for the employees' pension benefits were as follows:

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Operating cost	\$ 1,328	1,063	2,673	1,821
Operating expenses	1,572	1,568	3,141	2,973
Total	<b>\$ 2,900</b>	<b>2,631</b>	<b>5,814</b>	<b>4,794</b>

## (l) Income tax

The Income tax expense is estimated by the pretax net profit during the reporting period, which is multiplied by the best estimate of the effective tax rate of the management for the whole year.

The Group's income taxes were as follows:

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Current income tax:				
Current period incurred	\$ 79,041	71,173	142,916	114,678
	(1,898)	3,092	(1,898)	3,092
Income tax expense	<b>\$ 77,143</b>	<b>74,265</b>	<b>141,018</b>	<b>117,770</b>

The Company income tax have examined and approved by the tax authorities to 2016.

## (m) Capital and other equity

Except for the following, there was no significant change in the Group's capital and other equity for the six months ended June 30, 2019 and 2018. Please refer to Note 6(l) of the 2018 Consolidated Financial Report.

## 1. Retained earnings

Under the dividend policy as set forth in the Company revised Articles of Incorporation in May 29, 2019, the surplus earning distribution or loss offsetting proposal may be proposed at the close of each quarter or each half of the fiscal year. If the Company made profit in each half of the fiscal year, the profit shall be first utilized for paying taxes, estimate employee compensation, offsetting losses of previous years, and setting aside as legal reserve 10% of the remaining profit. However when the legal reserve amounts to the authorized capital, this shall not apply. Aside from the above, the Company may set aside a special reserve in accordance with relevant laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders by issuing new shares.

(Continued)

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

If the Company made profit in the fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, and setting aside as legal reserve 10% of the remaining profit. However, when the legal reserve amounts to the authorized capital, this shall not apply. Aside from the above, the Company may set aside or reverse the special reserve in accordance with relevant laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders by issuing new shares.

According to Article 240 Paragraph 5 of the Act, the Company may, by a resolution adopted by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares of the company, have the surplus profit distributable as dividends and bonuses or as legal reserve or capital surplus in accordance with Article 241 Paragraph 1 of the Company Act in whole or in part distributed in the form of cash, and shall be reported to the Shareholders' Meeting.

The 2018 and 2017 earnings distribution were resolved in the Shareholders' Meeting in May 29, 2019 and 2018. The dividend payment amount are as follows:

	2018		2017	
	Amount per Share (NTD)	Total Amount	Amount per Share (NTD)	Total Amount
Dividends distributed to ordinary shareholders:				
Cash	\$ 27.00	<u>1,150,422</u>	10.00	<u>426,082</u>

(n). Earnings per share

Basic and diluted earnings per share were calculated as follows:

(i). Basic earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
	Net Profit attributable to share of the Company	<u>\$ 310,363</u>	<u>324,101</u>	<u>571,762</u>
Weighted average number of ordinary shares	<u>42,608</u>	<u>42,608</u>	<u>42,608</u>	<u>42,608</u>
Basic earnings per share (NTD)	<u>\$ 7.28</u>	<u>7.61</u>	<u>13.42</u>	<u>12.33</u>

(Continued)

## MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

## (ii) Diluted earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Net Profit attributable to ordinary shareholders of the Company (diluted)	<u>\$ 310,363</u>	<u>324,101</u>	<u>571,762</u>	<u>525,271</u>
Weighted average number of ordinary shares (basic)	42,608	42,608	42,608	42,608
Effect of potential:				
Employee's stock bonus	209	194	305	218
Weighted average number of ordinary shares (diluted)	<u>42,817</u>	<u>42,802</u>	<u>42,913</u>	<u>42,826</u>
Diluted earnings per share (NTD)	<u>\$ 7.25</u>	<u>7.57</u>	<u>13.32</u>	<u>12.27</u>

## (o) Revenue from Contracts with Customers

## 1. Revenue

Consolidated revenue were as follows

	For the three months ended June 30, 2019		
	Taiwan	China	Total
Primary geographical markets:			
Taiwan	\$ 187,153	-	187,153
China	508,658	52,382	561,040
Others	31,687	-	31,687
	<u>\$ 727,498</u>	<u>52,382</u>	<u>779,880</u>
Primary merchandises/services:			
Sale of optical inspection machinery	\$ 710,240	37,800	748,040
equipment Revenue from services	17,258	14,582	31,840
	<u>\$ 727,498</u>	<u>52,382</u>	<u>779,880</u>

(Continued)

## MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

		<b>For the three months ended June 30,2018</b>		
		<b>Taiwan</b>	<b>China</b>	<b>Total</b>
Primary geographical markets:				
Taiwan	\$	382,897	-	382,897
China		236,378	45,291	281,669
Others		71,613	-	71,613
	<b>\$</b>	<b>690,888</b>	<b>45,291</b>	<b>736,179</b>
Main products/services:				
Sale of optical inspection machinery	\$	678,976	34,700	713,676
equipment Revenue from services		11,912	10,591	22,503
	<b>\$</b>	<b>690,888</b>	<b>45,291</b>	<b>736,179</b>
		<b>For the six months ended June 30,2019</b>		
		<b>Taiwan</b>	<b>China</b>	<b>Total</b>
Primary geographical t markets:				
Taiwan	\$	533,383	-	533,383
China		750,885	102,427	853,312
Others		63,957	-	63,957
	<b>\$</b>	<b>1,348,225</b>	<b>102,427</b>	<b>1,450,652</b>
Main products/services:				
Sales of optical inspection machines and products	\$	1,318,379	78,366	1,396,745
Provision of services		29,846	24,061	53,907
	<b>\$</b>	<b>1,348,225</b>	<b>102,427</b>	<b>1,450,652</b>
		<b>For the six months ended June 30,2018</b>		
		<b>Taiwan</b>	<b>China</b>	<b>Total</b>
Primary geographicalmarkets:				
Taiwan	\$	630,715	-	630,715
China		481,713	86,334	568,047
Others		103,455	-	103,455
	<b>\$</b>	<b>1,215,883</b>	<b>86,334</b>	<b>1,302,217</b>
Main products/services:				
Sales of optical inspection machines and products	\$	1,194,792	65,681	1,260,473
Provision of services		21,091	20,653	41,744
	<b>\$</b>	<b>1,215,883</b>	<b>86,334</b>	<b>1,302,217</b>

(Continued)



**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

2. Contract Balance

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Contract liabilities - Advance receipts	<u>\$ 84,760</u>	<u>82,716</u>	<u>489,724</u>

Please refer to Note 6(b) for the details on accounts receivables and allowance for impairments.

The contract liability mainly comes from the receipt of advanced payments in sales contracts of optical inspection machine, which is included in the Group's revenue upon product delivery. The balance of contract liabilities at January 1, 2019 and 2018 were recognized as revenue of \$82,716 thousand and \$18,166 thousand, respectively, for the six months ended June 30, 2019 and 2018.

(p) Remuneration to employees, directors and supervisors

According to Articles of Incorporation, the accumulated loss shall have been deducted from the pre-tax profit of the current fiscal year, and for any remaining profit, no less than 5% shall be allocated for employee's compensation, whereas no more than 3% shall be allocated for remuneration of the directors and supervisors.

For the three months ended June 30, 2019 and 2018, and the six months ended June 30, 2019 and 2018, the amount of employee compensation were \$41,954 thousand, \$57,196 thousand, \$77,213 thousand and \$84,355 thousand respectively, while the amount of remuneration for directors and supervisors were \$8,407 thousand, \$8,744 thousand, \$15,466 thousand and \$14,178 thousand respectively. The amounts are calculated by multiplying the pre-tax profit before the distribution of employee's compensations and remuneration for directors and supervisors with the ratio in accordance with the Corporation's Articles of Incorporation, which are recognized as operating costs or operating expenses for the period. The Group will perform the accounting treatment if there is discrepancy between the actual distributed amount and the estimated figure for the next fiscal year, and the discrepancy will be recognized as next year's profit/loss.

The Group's employee compensation in 2018 and 2017 were \$161,623 thousand and \$57,820 thousand respectively, while the amount of remuneration for directors and supervisors were \$32,037 thousand and \$12,505 thousand respectively. There was no difference with the resolution of the board of directors. Relevant information is disclosed in the MOPs.

(q) Non-operating income and expenses

1. Other income

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Interest income	\$ 2,226	1,700	4,524	3,109
Others	96	1,081	185	1,149
Total other income	<u>\$ 2,322</u>	<u>2,781</u>	<u>4,709</u>	<u>4,258</u>

(Continued)

## MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

## 2. Other gains and losses

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Gain on disposal of investments	\$ -	-	-	906
Foreign exchange gains	3,474	34,275	12,526	25,254
Others	(5)	(364)	(5)	(364)
Other gains and losses, net	<u>\$ 3,469</u>	<u>33,911</u>	<u>12,521</u>	<u>25,796</u>

## 3. Finance costs

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Interest expenses	<u>\$ 261</u>	<u>-</u>	<u>503</u>	<u>-</u>

## (r) Financial Instruments

Except for the following, there is no significant change in the Carrying amount of the Group's financial instruments and the exposure to credit and market risks due to financial instruments. Please refer to Note 6(r) of the 2018 Consolidated Financial Report.

## (i). Credit risk

The Group's balance of accounts receivable on June 30, 2019, December 31, 2018 and June 30, 2018 were concentrated on a single customer, which accounted for 16%, 15% and 24%, respectively, in the Group's net accounts and notes receivable (including long-term receivable).

## (ii). Liquidity risk

The following indicates the contractual maturities of financial liabilities, including the estimated interest payment and excluding the impact of netting agreements.

	Carry Amount	Contractual cash flows	Within 1 year	1-5 years	Over 5 years
<b>June 30, 2019</b>					
Non-derivative financial liabilities					
Notes payable	\$ 230	230	230	-	-
Accounts payable	310,657	310,657	310,657	-	-
Other payables	55,865	55,865	55,865	-	-
Dividend payable	1,150,422	1,150,422	1,150,422	-	-
Lease liabilities (including non-current)	72,498	94,576	7,538	15,396	71,642
	<u>\$ 1,589,672</u>	<u>1,611,750</u>	<u>1,524,712</u>	<u>15,396</u>	<u>71,642</u>
<b>December 31, 2018</b>					
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>

(Continued)

## MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

	<u>Face value</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>
<b>June 30, 2018</b>					
Non-derivative financial liabilities					
Notes payable	\$ 439	439	439	-	-
Accounts payable	270,674	270,674	270,674	-	-
Other payables	86,921	86,921	86,921	-	-
Dividend payable	426,082	426,082	426,082	-	-
	<u>\$ 784,116</u>	<u>784,116</u>	<u>784,116</u>	<u>-</u>	<u>-</u>

The Group does not expect earlier occurrence of cash flows or that there will be significant difference with the actual amount when analyzed at maturity.

## (iii). Market risk

## (1) Foreign currency risk

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

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
<b>June 30, 2019</b>			
<u>Financial Assets</u>			
<u>Monetary items</u>			
USD	\$ 38,105	31.0680	1,183,855
JPY	\$ 5,518	0.2889	1,594
RMB	\$ 49,343	4.5220	223,130
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	\$ 3,147	31.0680	97,758
RMB	\$ 7,831	4.5220	35,412
<b>December 31, 2018</b>			
<u>Financial Assets</u>			
<u>Monetary items</u>			
USD	\$ 27,942	30.7100	858,114
JPY	\$ 87,286	0.2783	24,292
RMB	\$ 49,529	4.4700	221,393
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	\$ 3,507	30.7100	107,694
RMB	\$ 5,585	4.4700	24,965

(Continued)

## MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
<b>June 30, 2018</b>			
<u>Financial Assets</u>			
<u>Monetary items</u>			
USD	\$ 25,574	30.4830	779,568
JPY	\$ 89,857	0.2760	24,801
RMB	\$ 27,913	4.5980	128,343
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	\$ 2,809	30.4830	85,622
RMB	\$ 4,485	4.5980	20,620

The Group's foreign exchange risk mainly comes from accounts such as cash and cash equivalents, receivable, and payables, which are denominated in foreign currencies, and will generate foreign exchange translation gains (losses). If NTD against the USD, JPY and RMB in June 30, 2019 and 2018 depreciated/appreciated by 3% while all other variables were held constant, net profit for June 30, 2019 and 2018 have increased/decreased by \$30,610 thousand and \$19,835 thousand respectively. The analysis in two periods was on the same basis.

The Group disclosed net foreign exchange gains (losses) of monetary items by aggregated foreign currencies due to the variety of the foreign currency transactions and functional currencies of the group entities. for the six months ended June 30, 2019 and 2018, (realized and unrealized) net foreign exchange gains (losses) were \$12,526 thousand and \$25,254 thousand, respectively.

## (2) Interest rate risk

The details of interest rate risk exposure were as follows

	<u>Carry amount</u>		
	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Assets with variable interest rate converted to cash:			
Bank deposits	<u>\$ 1,817,903</u>	<u>1,763,329</u>	<u>1,694,786</u>

The sensitivity analysis below has been determined on the basis of the exposure to interest rates for both derivative and non-derivative instruments at balance sheet dates. for floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the balance sheet dates was outstanding for the entire period. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had increased or decreased 1%, the Group's net income before tax would have increased or decreased by \$7,272 thousand and \$6,779 thousand for the six months ended June 30, 2019 and 2018 respectively with all variable factors remain constant.

(Continued)

## MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

## (iv). Fair value

## (1) Categories and fair value of financial instruments

The Group's fair value of financial assets and liabilities (including the fair value hierarchy. However, it is not necessary to disclose the fair value for the reasonable approximation of the carrying amount of financial instruments, as well as investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured) were as follows:

	<b>June 30, 2019</b>				
	<b>Carrying amounts</b>	<b>Fair value</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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 at amortized cost					
Cash and cash equivalents	1,818,792	-	-	-	-
Notes receivable, trade receivable and long-term receivable	1,562,368	-	-	-	-
Refundable deposits	9,834	-	-	-	-
Other non-current assets	3,190	-	-	-	-
Subtotal	3,394,184	-	-	-	-
Total	<b>\$ 3,403,828</b>	<b>-</b>	<b>-</b>	<b>9,644</b>	<b>9,644</b>
Financial liabilities at amortized cost					
Notes payable	\$ 230	-	-	-	-
Accounts payable	310,657	-	-	-	-
Other payables	55,865	-	-	-	-
Dividend payable	1,150,422	-	-	-	-
Lease liabilities (including non-current)	72,498	-	-	-	-
Total	<b>\$ 1,589,672</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(Continued)

## MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

	December 31, 2018				
	Carrying amounts	Fair value			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 at amortized cost					
Cash and cash equivalents	1,764,842	-	-	-	-
Notes receivable, trade receivable and long-term receivable	1,175,527	-	-	-	-
Refundable deposits	5,285	-	-	-	-
Other non-current assets	2,189	-	-	-	-
Subtotal	<u>2,947,843</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,957,487</u>	<u>-</u>	<u>-</u>	<u>9,644</u>	<u>9,644</u>
Financial liabilities at amortized cost					
Notes payable	\$ 1,358	-	-	-	-
Accounts payable	318,692	-	-	-	-
Other payables	105,122	-	-	-	-
Total	<u>\$ 425,172</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	June 30, 2018				
	Carrying amounts	Fair value			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 at amortized cost					
Cash and cash equivalents	1,695,907	-	-	-	-
Notes receivable, trade receivable and long-term receivable	977,232	-	-	-	-
Refundable deposits	3,508	-	-	-	-
Other non-current assets	2,187	-	-	-	-
Subtotal	<u>2,678,834</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,688,478</u>	<u>-</u>	<u>-</u>	<u>9,644</u>	<u>9,644</u>
Financial liabilities at amortized cost					
Notes payable	\$ 439	-	-	-	-
Accounts payable	270,674	-	-	-	-
Other payables	86,921	-	-	-	-
Dividend payable	426,082	-	-	-	-
Total	<u>\$ 784,116</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

- (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 re taking place “regularly” is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market price 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.

- (3) Fair value hierarchy

The Group uses observable market inputs for measuring its assets and liabilities as much as possible. The fair value levels are classified as follows according to the input values for the assessment:

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

No transfers between the Group’s fair value levels.

- (4) Reconciliation of leve3 fair values

	<b>Unquoted equity instruments</b>
Balance at June 30, 2019 (Balance at January 1,2019)	<u>\$ 9,644</u>
Balance at June 30, 2019 (Balance at January 1,2018)	<u>\$ 9,644</u>

**(Continued)**

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

(5) Quantitative information of significant unobservable inputs (Level 3) through fair value

Item	Valuation technique	Significant unobservable inputs	Relation between significant unobservable inputs and fair value
Financial assets at fair value through profit or loss – investment of equity instruments without active market	Guideline publicly traded company method	<ul style="list-style-type: none"> <li>• P/B multiplier (June 30, 2019, December 31, 2018 and June 30, 2018 were 3.79, 3.79 and 3.33 respectively)</li> <li>• P/E multiplier (June 30, 2019, December 31, 2018 and June 30, 2018 were 12.47, 12.47 and 24.98 respectively)</li> <li>• Discount for Lack of Market ability (June 30, 2019, December 31, 2018 and June 30, 2018 were all 20%)</li> </ul>	<ul style="list-style-type: none"> <li>• Higher P/B multiplier and P/E multiplier will cause an increase in the fair value</li> <li>• Higher discount for Lack of Market ability will cause a decrease in fair value.</li> </ul>

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

The Group's measurement on the fair of financial instruments is deemed reasonable despite different valuation models or assumptions may lead to different results. 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:

	Input	Assumptions	Other comprehensive income	
			Favorable	Unfavorable
<b>June 30, 2019</b>				
Financial assets at fair value through profit or loss				
Investment of equity instruments without active market	Market illiquidity discount rate	10%	1,368	(1,368)
<b>December 31, 2018</b>				
Financial assets at fair value through profit or loss				
Investment of equity instruments without active market	Market illiquidity discount rate	10%	1,368	(1,368)
<b>June 30, 2018</b>				
Financial assets at fair value through profit or loss				
Investment of equity instruments without active market	Market illiquidity discount rate	10%	1,206	(1,206)

The favorable and unfavorable effects represent the change in fair value, and the fair value is based on a variety of un-observable inputs calculated using a valuation technique.

**(Continued)**



**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

## (s) Financial risk management

There was no significant change in the Group's objectives and policies on financial risk management and the information disclosed in Note 6(s) of the 2018 Consolidated Financial Report.

## (t) Capital management

The Group's objectives, policies and procedures of capital management were equivalent to that of the 2018 Consolidated Financial Report, and there was no significant change between the quantitative information on items of capital management and that of the 2018 Consolidated Financial Report. Please refer to Note 6(t) of the 2018 Consolidated Financial Statements for related information.

## (u) Reconciliation of liabilities arising from financing activities

The Group's liability adjustment associated with financing activities for the six months ended June 30, 2019 were as follows:

	January 1, 2019	Cash flows	Non-cash adjustments		Interest expenses	June 30, 2019
			Increase in right-of- use assets	Effects of exchange rate changes		
Lease liabilities	\$ 71,348	(3,715)	4,327	35	503	72,498
Total liabilities from financing activities	<b>\$ 71,348</b>	<b>(3,715)</b>	<b>4,327</b>	<b>35</b>	<b>503</b>	<b>72,498</b>

**7. Related-party Transactions**

Compensation of key management personnel:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 19,991	11,103	35,122	19,047
Post-employment benefits	57	57	114	114
	<b>\$ 20,048</b>	<b>11,160</b>	<b>35,236</b>	<b>19,161</b>

**8. Pledge assets**

The carrying value of assets pledged as collaterals were as follows:

<u>Pledged assets</u>	<u>Object asset</u>	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Other non-current assets:				
Time deposits	Guarantee for customs	\$ 1,507	506	506
Time deposits	Guarantee for the Hsinchu Science Park Bureau	1,683	1,683	1,683
		<b>\$ 3,190</b>	<b>2,189</b>	<b>2,187</b>

**9. Commitments and contingencies: None**

**10. Losses due to major disasters: None.**

**11. Subsequent events: None**

(Continued)

MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

12. Others

(I) Employee benefits expense, depreciation, depletion and amortization expense categorized by function were as follows:

Function Item	For the three months ended June 30 2019			For the three months ended June 30 2018		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
Employee benefits expense						
Salaries	29,770	89,219	118,989	17,784	99,959	117,743
Labor and health insurance	2,440	2,959	5,399	1,847	2,224	4,071
Pension	1,334	1,581	2,915	1,068	1,578	2,646
Remuneration of directors	-	8,909	8,909	-	5,903	5,903
Other employee benefits	3,295	5,508	8,803	5,092	6,744	11,836
Depreciation	1,616	2,739	4,355	2,716	1,779	4,495
Amortization	-	27	27	-	87	87

Function Item	For the six months ended June 30 2019			For the six months ended June 30 2018		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
Employee benefits expense						
Salaries	57,265	162,146	219,411	33,823	161,354	195,177
Labor and health insurance	4,860	5,750	10,610	3,436	4,516	7,952
Pension	2,685	3,160	5,845	1,831	2,992	4,823
Remuneration of directors	-	16,076	16,076	-	9,564	9,564
Other employee benefits	9,293	12,654	21,947	7,617	10,959	18,576
Depreciation	3,281	4,990	8,271	3,943	2,766	6,709
Amortization	-	55	55	-	208	208

(II) Seasonal of operations:

The Group's business operations are not affected by seasonal or cyclical factors.

13. Other Disclosure

(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
				Name 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%	9,644		

- (iv) Individual securities acquired of disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock : None.

(Continued)

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**

- (v) Acquisitions 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 transaction for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock:
- (viii) Receivable from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital:

Company Name	Related Party	Relationship	Ending Balance	Turnover rate	Overdue amount		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
The Company	Machvision (Dongguan) Inc.	Subsidiaries	215,458	0.42	94,415	Base on financial planning	- (As of July 24, 2019)	-

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

No.	Name of counterparty	Existing relationship with the counter-party	Transaction details			
			Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
0	Machvision (Dongguan) Inc.	1	Operating revenue	42,167	Not significantly differences	2.91%
0	Sigold Optics. Inc.	1	Operating revenue	33,600	Not significantly differences	2.32%
0	Sigold Optics. Inc.	1	Operating cost	27,706	Not significantly differences	1.91%
0	Machvision (Dongguan) Inc.	1	Accounts receivable – related parties (including long-term accounts receivable)	215,458	Dependent on capital budgeting	5.32%
0	Sigold Optics. Inc.	1	Accounts receivable – related parties (including long-term accounts receivable)	41,866	Not significantly differences	1.03%
0	Machvision (Dongguan) Inc.	1	Other payables – related parties	47,405	Dependent on capital budgeting	1.17%
0	Sigold Optics. Inc.	1	Trade payables – related parties	44,171	Not significantly differences	1.09%

Note 1: Company numbering is as follows:

1. Parent company is 0.
2. Subsidiary starts from 1.

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

1. 1 represents downstream transactions.
2. 2 represents upstream transaction.

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

**(II) Information On Investees:**

Information on investees from January 1, 2019 to June 30, 2019 were as follows (excluding the investees in China):

**(Continued)**

## MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement

Name of Investor	Name of investee	Address	Scope of business	Original Cost		Ending balance			Net Income of Investee	Investment income (Losses) (Note 3)	Note
				End of the period	End of last year	Shares	Percentage of ownership	Book value			
The Corporation	Machvision Holding (Samoa) Limited	Samoa	General investments	50,114	50,114	1,607,276	100.00%	(2,820)	(30,011)	(30,011)	Note 1 and note 2
The Corporation	Machvision Holding (Samoa) Limited	Samoa	General investments	22,992	-	1,600,000	100.00%	22,325	(743)	(743)	Note 2
The Corporation	Autovision Technology Inc.	Taiwan	Computers and Computing Peripheral Equipment Manufacturing	9,000	2,250	900,000	45.00%	9,831	644	290	Note 2
The Corporation	Sigold Optics. Inc.	Taiwan	Optical inspection machine manufacturing	49,470	49,470	4,947,000	49.47%	71,149	29,497	14,592	Note 2
The Corporation	Machvision Korea Co., Ltd.	Korea	Equipment maintenance and wholesale	21,542	-	10,000	100.00%	19,407	(1,903)	(1,903)	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 profit or loss accounted for using the equity method was calculated based on financial reports of the invested company that were not audited or reviewed by a certified public accountant.

(Continued)

**MACHVISION INC. CO., LTD .AND SUBSIDIARIED Notes to the Consolidated Financial Statement**
**(III) Information on investments in Mainland China**
**1. The names of investees in Mainland China, the main businesses and products, and other information:**

Units: NT\$ thousand

Name of investment in Mainland China	Major operations	Issued capital	Method of Investment (Note 1)	Beginning remittance balance – cumulative investment (amount) from Taiwan	Current remittance / receivable (amount)		Ending remittance balance - cumulative investment (amount) from Taiwan	Net income of investee	Direct / indirect shareholdings or investments (%) in the Company	Current investment gains and losses (Note 3)	Book value (Note 2)	Remittance of investment income in current period
				(amount)	Invested amount	Returned amount						
Machvision (Dongguan) Inc.	Maintaining and trading of machinery equipment	50,042	(II)1.	50,042	-	-	50,042	(30,011)	100%	(30,011)	963	-
Guangdong GreatSense Intelligent Equipment Co., Ltd	Maintaining and trading of machinery equipment	45,155	(II)2.	-	22,992	-	22,992	(1,457)	51%	(743)	22,325	-

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

- (I) Remittance from thirdregion companies to invest in Mainland China.
- (II) Through the establishment of thirdregion companies then investing in Mainland China.
  1. Investments in China through Machvision (Samoa) Inc.
  2. Investments in China through Machvision Holding (Samoa) Ltd.
- (III) Through transferring the investment to thirdregion existing companies then investing in Mainland China.
- (IV) Other methods: EX: delegated investments..

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.

**(2) Limitation on investment in Mainland China:**

Company Name	Accumulated investment amount in Mainland China as of End of the Period	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
The Company	73,034	111,399	979,169 (Note)

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

**3. Significant transactions:**

Please refer to details in the "Relationships between Parent Company and Subsidiaries and Significant Transactions" for the significant transactions directly or indirectly related to the investment in China for the six months ended June 30, 2019.

**14. Segment Information**

The Corporation's business operations are focused in a single industry, mainly in the manufacturing, sales and testing of optical inspection machines and equipment. The end use of the Corporation's products are similar. The operational decision makers evaluate the Corporation's overall performance and allocate resources for the Corporation's overall business operations. Hence, there is only one reportable segment for the Corporation.

The Group's reportable segments and adjustments were as follows:

	Taiwan	China	Adjustment and Elimination	Total
<b>For the three months ended June30 2019</b>				
Revenue:				
Revenue from external customers	\$ 730,635	49,245	-	779,880
Inter-segment revenue	66,807	3,137	(69,944)	-
<b>Total revenue</b>	<b>\$ 797,442</b>	<b>52,382</b>	<b>(69,944)</b>	<b>779,880</b>
<b>Reportable segment revenue or loss</b>	<b>\$ 410,921</b>	<b>(17,106)</b>	<b>-</b>	<b>393,815</b>

(Continued)

## Notes for the consolidated financial statements of Machvision Inc. Co., Ltd. and its subsidiaries

	<u>Taiwan</u>	<u>China</u>	<u>Adjustment and Elimination</u>	<u>Total</u>
<b>For the three months ended June30 2018</b>				
Revenue:				
Revenue from external customers	\$ 690,888	45,291	-	736,179
Inter-segment revenue or loss	33,011	-	(33,011)	-
<b>Total revenue</b>	<b>\$ 723,899</b>	<b>45,291</b>	<b>(33,011)</b>	<b>736,179</b>
<b>Reportable segment revenue or loss</b>	<b>\$ 367,510</b>	<b>(7,001)</b>	<b>-</b>	<b>360,509</b>
<b>For the six months ended June30 2019</b>				
Revenue:				
Revenue from external customers	\$ 1,351,362	99,290	-	1,450,652
Inter-segment revenue	107,308	3,137	(110,445)	-
<b>Total revenue</b>	<b>\$ 1,458,670</b>	<b>102,427</b>	<b>(110,445)</b>	<b>1,450,652</b>
<b>Reportable segment revenue or loss</b>	<b>\$ 741,594</b>	<b>(30,996)</b>	<b>-</b>	<b>710,598</b>
<b>For the six months ended June30 2018</b>				
Revenue:				
Revenue from external customers	\$ 1,215,883	86,334	-	1,302,217
Inter-segment revenue	69,460	-	(69,460)	-
<b>Total revenue</b>	<b>\$ 1,285,343</b>	<b>86,334</b>	<b>(69,460)</b>	<b>1,302,217</b>
<b>Reportable segment revenue or loss</b>	<b>\$ 626,637</b>	<b>(13,730)</b>	<b>-</b>	<b>612,907</b>

For the three months ended June 30, 2019 and 2018 and the six months ended June 30, 2019 and 2018, the total revenue of the reportable segment should exclude the inter-segment revenue of \$69,944 thousand, \$33,011 thousand, \$110,445 thousand and \$69,460 thousand, respectively.

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