

Hiwin Technologies Corporation

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hiwin Technologies Corporation

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

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

Key audit matters of the Company's financial statements for the year ended December 31, 2018 are as follows:

Revenue recognition

The sales of the Company mainly rely on distribution channels. Revenue from the sale of goods is recognized when the Company satisfies the performance obligations. There is a risk that revenue might be recognized even when specific conditions have not been satisfied. Because of the risk of misstatement and materiality of sales revenue generated by distribution channels, we identified sales revenue as a key audit matter. The accounting policy on sales revenue recognition is disclosed in Note 4 to the financial statements.

Our key audit procedures performed in respect of revenue recognition included the following:

1. We understood and tested the design and operating effectiveness of related internal controls over the acceptance of order and shipping procedures; we selected sample sales transactions of distribution channels and verified that the receiving of the order and the timing of the revenue recognition were in accordance with the terms of transaction.
2. We validated the terms of transactions against sales contracts and orders with major distributors to ensure that the terms of transaction and the timing of the revenue recognition are in accordance; we tested the records of sales returns against source documents and we checked whether there was any unusual item during the year and after the balance sheet date.

Valuation and impairment assessment of inventory

As of December 31, 2018, the carrying amount of inventory was \$5,977,276 thousand. Such carrying amount of inventory is the lower of cost or net realizable value which is determined subject to the management's judgment and estimation uncertainty. Therefore, valuation and impairment assessment of inventory is identified as a key audit matter. The accounting policy on the valuation and impairment assessment of inventory and the details of inventory are disclosed in Notes 4, 5 and 11 to the financial statements.

Our key audit procedures performed in respect of the valuation and impairment assessment included the following:

1. We understood the related internal control and procedures on the valuation of inventory and assessed that valuation including impairment assessment conforms to the approved procedures.
2. We assessed the reasonableness of provision for impairment of inventory by reference to aging of inventories and the level of inventory consumed and sold during the year.
3. We tested the net realizable value of sample inventory items against the selling price, and we checked the completeness and accuracy of the information of net realizable value.
4. We compared the actual sales amount of the sample inventory items with the book value to ascertain that the carrying value of the inventory does not exceed the net realizable value.
5. We evaluated the adequacy of provision for obsolete and damaged stock based on the condition of inventory during our observation of inventory counts.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of an audit in accordance with the 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the 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 financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Hsiao-Fang Yen and Done-Yuin Tseng.

Deloitte & Touche
Taichung, Taiwan
Republic of China

March 26, 2019

Notice to Readers

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

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

HIWIN TECHNOLOGIES CORPORATION

BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,433,225	3	\$ 1,071,127	3
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	282	-	548	-
Notes receivable from unrelated parties, net (Notes 4, 5 and 10)	189,647	-	290,417	1
Trade receivables from unrelated parties, net (Notes 4, 5 and 10)	3,699,722	8	2,755,161	8
Trade receivables from related parties, net (Notes 4, 5 and 27)	3,138,408	7	2,172,060	7
Inventories (Notes 4, 5 and 11)	5,977,276	14	3,422,111	10
Other current assets (Note 27)	374,372	1	332,382	1
Total current assets	14,812,932	33	10,043,806	30
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	930,840	2	-	-
Held-to-maturity financial assets - non-current (Note 4)	-	-	2,919	-
Financial assets at amortized cost - non-current (Note 4)	2,803	-	-	-
Financial assets measured at cost - non-current (Notes 4 and 9)	-	-	317,144	1
Investments accounted for using the equity method (Notes 4, 12, 22, 23 and 27)	4,345,941	10	3,907,514	12
Property, plant and equipment (Notes 4, 13, 27 and 28)	20,804,336	47	16,833,733	51
Deferred tax assets (Notes 4 and 20)	399,682	1	230,702	1
Prepayments for machinery and equipment (Notes 14 and 27)	2,864,639	7	1,750,533	5
Refundable deposits (Note 4)	16,996	-	15,925	-
Other non-current assets (Note 4)	49,584	-	24,305	-
Total non-current assets	29,414,821	67	23,082,775	70
TOTAL	\$ 44,227,753	100	\$ 33,126,581	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 15 and 28)	\$ 4,550,000	10	\$ 3,381,036	10
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	5,775	-	3,038	-
Contract liabilities - current (Note 4)	104,833	-	-	-
Notes payable	12,431	-	8,815	-
Trade payables to unrelated parties	5,165,874	12	3,747,182	12
Trade payables to related parties (Note 27)	34,942	-	41,845	-
Other payables (Notes 16 and 27)	2,241,906	5	1,280,071	4
Current tax liabilities (Notes 4 and 20)	615,008	1	317,650	1
Current portion of long-term borrowings (Notes 15 and 28)	1,604,194	4	1,600,492	5
Other current liabilities (Note 4)	46,987	-	86,623	-
Total current liabilities	14,381,950	32	10,466,752	32
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 15 and 28)	4,792,936	11	5,818,110	17
Deferred tax liabilities (Notes 4 and 20)	421,253	1	206,609	1
Net defined benefit liabilities - non-current (Notes 4 and 17)	287,229	1	280,180	1
Guarantee deposits	12,875	-	300	-
Credit balance for investments accounted for using the equity method (Notes 4 and 12)	151,051	-	61,534	-
Total non-current liabilities	5,665,344	13	6,366,733	19
Total liabilities	20,047,294	45	16,833,485	51
EQUITY				
Common stock	3,005,620	7	2,801,573	8
Capital surplus	3,236,274	7	308,630	1
Retained earnings				
Legal reserve	2,166,826	5	1,893,024	6
Special reserve	250,940	1	265,533	1
Unappropriated earnings	15,145,659	34	11,275,276	34
Other equity	375,140	1	(250,940)	(1)
Total equity	24,180,459	55	16,293,096	49
TOTAL	\$ 44,227,753	100	\$ 33,126,581	100

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

HIWIN TECHNOLOGIES CORPORATION

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

	2018		2017	
	Amount	%	Amount	%
SALES (Notes 4 and 27)	\$ 24,600,218	100	\$ 17,053,792	100
COST OF GOODS SOLD (Notes 11, 19 and 27)	<u>15,172,408</u>	<u>62</u>	<u>10,932,061</u>	<u>64</u>
GROSS PROFIT	9,427,810	38	6,121,731	36
UNREALIZED GAIN (Note 4)	<u>(580,844)</u>	<u>(2)</u>	<u>(189,752)</u>	<u>(1)</u>
REALIZED GROSS PROFIT	<u>8,846,966</u>	<u>36</u>	<u>5,931,979</u>	<u>35</u>
OPERATING EXPENSES (Notes 19 and 27)				
Selling and marketing expenses	478,366	2	406,664	2
General and administrative expenses	1,106,090	4	669,429	4
Research and development expenses	<u>1,184,638</u>	<u>5</u>	<u>1,003,157</u>	<u>6</u>
Total operating expenses	<u>2,769,094</u>	<u>11</u>	<u>2,079,250</u>	<u>12</u>
PROFIT FROM OPERATIONS	<u>6,077,872</u>	<u>25</u>	<u>3,852,729</u>	<u>23</u>
NON-OPERATING INCOME AND EXPENSES				
Subsidy revenue (Note 4)	38,174	-	51,943	-
Finance costs (Notes 4 and 19)	(80,098)	-	(101,733)	(1)
Share of profit or loss of subsidiaries and associates accounted for using equity method (Notes 4 and 12)	132,493	1	(588,435)	(3)
Interest income (Notes 4 and 27)	37,739	-	27,085	-
Other income (Note 27)	66,661	-	46,139	-
Net foreign exchange gain (Notes 4 and 30)	48,374	-	11,076	-
Other expenses	(12,860)	-	(1,707)	-
Valuation loss on financial assets (liabilities) at fair value through profit or loss (Note 4)	(17,757)	-	(67,577)	-
Impairment loss (Note 4)	<u>-</u>	<u>-</u>	<u>(48,473)</u>	<u>-</u>
Total non-operating income and expenses	<u>212,726</u>	<u>1</u>	<u>(671,682)</u>	<u>(4)</u>
PROFIT BEFORE INCOME TAX	6,290,598	26	3,181,047	19
INCOME TAX EXPENSE (Notes 4 and 20)	<u>898,341</u>	<u>4</u>	<u>443,028</u>	<u>3</u>
NET PROFIT FOR THE YEAR	<u>5,392,257</u>	<u>22</u>	<u>2,738,019</u>	<u>16</u>

(Continued)

HIWIN TECHNOLOGIES CORPORATION

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

	2018		2017	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note17)	\$ (16,254)	-	\$ (49,160)	-
Unrealized gain on investment in equity instruments at fair value through other comprehensive income	519,283	2	-	-
Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method	2,107	-	(1,994)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 20)	<u>5,403</u>	<u>-</u>	<u>8,357</u>	<u>-</u>
	<u>510,539</u>	<u>2</u>	<u>(42,797)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(42,185)	-	17,521	-
Share of the other comprehensive income (loss) of subsidiaries and associates/accounted for using the equity method	414	-	43	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 20)	<u>17,517</u>	<u>-</u>	<u>(2,978)</u>	<u>-</u>
	<u>(24,254)</u>	<u>-</u>	<u>14,586</u>	<u>-</u>
Other comprehensive gain (loss) for the year, net of income tax	<u>486,285</u>	<u>2</u>	<u>(28,211)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 5,878,542</u>	<u>24</u>	<u>\$ 2,709,808</u>	<u>16</u>
EARNINGS PER SHARE (Note 21)				
Basic	<u>\$ 18.44</u>		<u>\$ 9.49</u>	
Diluted	<u>\$ 18.29</u>		<u>\$ 9.46</u>	

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

(Concluded)

HIWIN TECHNOLOGIES CORPORATION

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

	Common Stock (Note 18)	Capital Surplus (Note 18)		Retained Earnings (Note 18)			Other Equity (Note 4)		Total Equity
		Additional Paid-in Capital	Employee stock option	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) Financial Assets at Fair Value Through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2017	\$ 2,746,640	\$ 308,630	\$ -	\$ 1,760,342	\$ 91,624	\$ 9,459,908	\$ (265,533)	\$ -	\$ 14,101,611
Appropriation of 2016 earnings									
Legal reserve	-	-	-	132,682	-	(132,682)	-	-	-
Special reserve	-	-	-	-	173,909	(173,909)	-	-	-
Cash dividends - NT\$1.6 per share	-	-	-	-	-	(439,462)	-	-	(439,462)
Share dividends - NT\$0.2 per share	54,933	-	-	-	-	(54,933)	-	-	-
	54,933	-	-	132,682	173,909	(800,986)	-	-	(439,462)
Difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	-	-	-	-	-	(78,868)	7	-	(78,861)
Net profit for the year ended December 31, 2017	-	-	-	-	-	2,738,019	-	-	2,738,019
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(42,797)	14,586	-	(28,211)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	2,695,222	14,586	-	2,709,808
BALANCE AT DECEMBER 31, 2017	2,801,573	308,630	-	1,893,024	265,533	11,275,276	(250,940)	-	16,293,096
Effect of retrospective application	-	-	-	-	-	33,915	-	139,447	173,362
BALANCE AT JANUARY 1, 2018 AS RESTATED	2,801,573	308,630	-	1,893,024	265,533	11,309,191	(250,940)	139,447	16,466,458
Appropriation of 2017 earnings									
Legal reserve	-	-	-	273,802	-	(273,802)	-	-	-
Special reserve	-	-	-	-	(14,593)	14,593	-	-	-
Cash dividends - NT\$3.5 per share	-	-	-	-	-	(980,551)	-	-	(980,551)
Share dividends - NT\$0.3 per share	84,047	-	-	-	-	(84,047)	-	-	-
	84,047	-	-	273,802	(14,593)	(1,323,807)	-	-	(980,551)
Issuance of ordinary shares for cash	120,000	2,922,204	5,440	-	-	-	-	-	3,047,644
Difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	-	-	-	-	-	(231,634)	-	-	(231,634)
Disposals of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	8,396	-	(8,396)	-
Net profit for the year ended December 31, 2018	-	-	-	-	-	5,392,257	-	-	5,392,257
Other comprehensive income (loss) for the year ended December 31, net of income tax	-	-	-	-	-	(8,744)	(24,254)	519,283	486,285
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	5,383,513	(24,254)	519,283	5,878,542
BALANCE AT DECEMBER 31, 2018	\$ 3,005,620	\$ 3,230,834	\$ 5,440	\$ 2,166,826	\$ 250,940	\$ 15,145,659	\$ (275,194)	\$ 650,334	\$ 24,180,459

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

HIWIN TECHNOLOGIES CORPORATION

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 6,290,598	\$ 3,181,047
Adjustments for :		
Depreciation expenses	1,330,812	1,176,025
Amortization expenses	17,850	8,560
Expected credit loss recognized on trade receivables	2,807	-
Reversal of impairment loss on receivables	-	(61,259)
Net loss on fair value change of financial assets and liabilities at fair value through profit or loss	5,493	2,490
Finance costs	80,098	101,733
Interest income	(37,739)	(27,085)
Dividend income	(23,511)	(344)
Compensation costs of employee share options	52,644	-
Share of profit or loss of subsidiaries and associates	(132,493)	588,435
Loss on disposal of property, plant and equipment	12,065	1,178
Impairment loss recognized on financial assets	-	34,000
Impairment loss recognized (reversed) on non-financial assets	(1,000)	12,473
Unrealized gains	580,844	189,752
Unrealized foreign currency exchange gain, net	(37,429)	(27,410)
Other	116	114
Changes in operating assets and liabilities		
Financial instruments held for trading	-	4,265
Financial assets mandatorily classified as at fair value through profit or loss	(2,490)	-
Notes receivable	101,788	(180,313)
Trade receivables	(1,874,785)	(323,306)
Inventories	(2,423,191)	(477,808)
Other current assets	(42,110)	351,313
Contract liabilities	58,391	-
Notes payable	3,616	(1,136)
Trade payables	1,409,269	1,887,671
Other payables	944,176	488,805
Other current liabilities	6,806	12,481
Net defined benefit liabilities	(9,205)	(4,595)
Cash generated from operations	6,313,420	6,937,086
Interest received	37,859	27,128
Dividend received	23,511	344
Interest paid	(81,291)	(101,703)
Income taxes paid	(532,399)	(154,086)
Net cash generated from operating activities	<u>5,761,100</u>	<u>6,708,769</u>

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HIWIN TECHNOLOGIES CORPORATION

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

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition financial assets at fair value through other comprehensive income	\$ (32,334)	\$ -
Proceeds from sale of financial assets at fair value through other comprehensive income	14,750	-
Return of capital from financial assets at fair value through other comprehensive income	96,533	-
Net cash outflow on acquisition of subsidiaries (Note 22)	(240,480)	-
Payments for property, plant and equipment	(3,346,522)	(2,385,953)
Proceeds from disposal of property, plant and equipment	5,486	2,555
Increase in refundable deposits	(1,071)	(5,305)
Decrease in other financial assets	-	41,928
Increase in other non-current assets	(46,751)	(21,625)
Increase in prepayments for machinery and equipment	<u>(3,195,050)</u>	<u>(1,620,190)</u>
Net cash used in investing activities	<u>(6,745,439)</u>	<u>(3,988,590)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (repayments of) short-term borrowings	1,168,964	(645,894)
Proceeds from long-term borrowings	1,531,860	1,076,000
Repayments of long-term borrowings	(2,553,332)	(1,916,913)
Increase in guarantee deposit received	12,575	-
Dividends paid	(980,551)	(439,462)
Proceeds from issuance of ordinary shares	2,995,000	-
Acquisition of additional shares of subsidiary	<u>(828,079)</u>	<u>(591,386)</u>
Net cash generated from (used in) financing activities	<u>1,346,437</u>	<u>(2,517,655)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	362,098	202,524
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,071,127</u>	<u>868,603</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,433,225</u>	<u>\$ 1,071,127</u>

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

(Concluded)

HIWIN TECHNOLOGIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

1. GENERAL INFORMATION

Hiwin Technologies Corporation (the “Company”) was incorporated on October 11, 1989. It manufactures and sells ballscrews, linear guideways, industrial robots, aerospace automation equipment parts, CNC (computer numerical control) milling machines and medical equipment.

The Company was approved by the Securities and Futures Bureau (SFB), Financial Supervisory Commission (FSC) to become a public corporation on April 16, 1997. The shares of the Company have been listed on the Taiwan Stock Exchange (TSE) since June 26, 2009.

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

2. APPROVAL OF FINANCIAL STATEMENTS

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

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

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

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

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

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

Classification, measurement and impairment of financial assets

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

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

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 1,071,127	\$ 1,071,127	(a)
Derivatives	Held-for-trading	Mandatorily at fair value through profit or loss	548	548	-
Notes receivable, trade receivables and refundable deposits	Loans and receivables	Amortized cost	5,233,563	5,233,563	(a)
Debt securities	Held-to-maturity	Amortized cost	2,919	2,919	(b)
Equity securities	Financial assets measured at cost	Fair value through other comprehensive income - equity instruments	317,144	490,506	(c)

Financial Assets	IAS 39		IFRS 9		Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
	Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	Carrying Amount as of January 1, 2018			
<u>FVTPL</u>	\$ 548	\$ -	\$ -	\$ 548	\$ -	\$ -	
<u>FVTOCI</u>	-	-	-	-	-	-	
Remeasurement of financial assets at cost (IAS 39)	-	317,144	173,362	490,506	33,915	139,447	(c)
<u>Amortized cost</u>	-	317,144	173,362	490,506	33,915	139,447	
Add: Reclassification from loans and receivables (IAS 39)	-	6,304,690	-	6,304,690	-	-	(a)
Add: Reclassification from held-to-maturity (IAS 39)	-	2,919	-	2,919	-	-	(b)
	-	6,307,609	-	6,307,609	-	-	
	<u>\$ 548</u>	<u>\$ 6,624,753</u>	<u>\$ 173,362</u>	<u>\$ 6,798,663</u>	<u>\$ 33,915</u>	<u>\$ 139,447</u>	

- a) Cash and cash equivalents, notes receivable, trade receivables and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.
- b) Debt investments previously classified as held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.
- c) Investments in unlisted shares previously measured at cost under IAS 39 have been classified at designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$173,362 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

The Company recognized under IAS 39 impairment loss on certain investments in equity securities previously measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$33,915 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of \$33,915 thousand in retained earnings on January 1, 2018.

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

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

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

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

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

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

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

IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for lease that will supersede IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations.

Definition of a lease

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

The Company as lessee

Upon initial application of IFRS 16, the Company will recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest

method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the statements of cash flows.

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

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

The Company expects to apply the following practical expedients:

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

The Company as lessor

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ -	\$ 269,082	\$ 269,082
Total effect on assets	<u>\$ -</u>	<u>\$ 269,082</u>	<u>\$ 269,082</u>
Lease liabilities - current	\$ -	\$ 55,521	\$ 55,521
Lease liabilities - non-current	<u>-</u>	<u>213,561</u>	<u>213,561</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 269,082</u>	<u>\$ 269,082</u>
Retained earnings	\$ -	\$ -	\$ -
Total effect on equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Except for the above impact, as of the date the financial statements were authorized for issue, the Company assessed that the application of other standards and interpretations will not have significantly effect on the Company's financial position and financial performance.

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

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

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

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

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

As of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

- b. Basis of preparation

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

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

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

When preparing these parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries and associates, the share of other comprehensive income of subsidiaries, associates and the related equity items, as appropriate, in these parent company only financial statements.

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

Current assets include:

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

Current liabilities include:

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

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

d. Foreign currencies

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

For the purpose of presenting the parent company only financial statements, the functional currencies of the Company and the group entities (including subsidiaries and associates in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

Inventories consist of raw materials, supplies, work-in-process, finished goods and merchandise and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Investment in associates

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

The Company uses the equity method to account for its investments in associates.

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

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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

When the Company's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that form part of carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities.

When the Company transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's parent company only financial statements only to the extent of interests in the associate that are not related to the Company.

h. Property, plant, and equipment

Property, plant and equipment are measured at cost, less recognized accumulated depreciation.

Properties, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation of property, plant and equipment (including assets held under finance leases) is recognized using the straight-line method. Each significant part is depreciated separately. If a lease term is shorter than the assets' are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

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

i. Intangible assets

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

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

j. Impairment of tangible and intangible assets

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

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

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount (less amortization and depreciation) that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and equity instruments at FVTOCI.

i. Financial asset at FVTPL

Financial asset is classified as at FVTPL when such financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 26.

ii. Financial assets at amortized cost

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

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

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

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

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

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

iii. Investments in equity instruments at FVTOCI

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

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

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

2017

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

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are held for trading.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss earned on such a financial asset. The fair value is determined in the manner described in Note 26.

ii. Held-to-maturity investments

Domestic bonds, which the Company has a positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

iii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive

income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

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

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

iv. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, note receivable, trade receivable, and refundable deposits) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets

2018

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

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

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

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

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

Financial assets at amortized cost, such as notes receivables, trade receivables and held-to-maturity investments, are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience with collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

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

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

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

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to impairment is recognized in other comprehensive income.

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

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

c) Derecognition of financial assets

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

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

2) Financial liabilities

a) Subsequent measurement

Except the following situations, all the financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The fair value is determined in the manner described in Note 26.

b) Derecognition of financial liabilities

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

3) Derivative financial instruments

The Company enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instrument is negative, the derivative is recognized as a financial liability.

1. Provision

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provisions for the expected cost of warranty obligations to assure that products comply with agree-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Company of the expenditure required to settle the Company's obligation.

m. Revenue recognition

2018

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

For contract where the period between the date on which the Company transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Company does not adjust the promised amount of consideration for the effects of a significant financing component.

Sales of goods are recognized as revenue when the goods are delivered to the customer's specific location/the goods are shipped/the goods are picked up because it is the time when the customer acquisition of control. Trade receivable is recognized concurrently. The transaction price received is recognized as a contract liability until the customer acquisition control of the good.

The Company does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

2) Dividend and interest income

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

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

n. Leasing

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case, they are capitalized.

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

o. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

q. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered service entitling them to the contributions.

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

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

r. Share-based payment arrangements

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately. The grant date of issued ordinary shares for cash which are reserved for employees is the date on which the number of shares that the employees purchase is confirmed.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

s. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

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

2) Deferred tax

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

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables and investments in debt instruments is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 10. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss of receivables, the Company takes into consideration the estimation of the future cash flows of such assets. The amount of impairment loss is measured as the difference between such an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand	\$ 1,658	\$ 1,434
Checking accounts and demand deposits	1,431,567	698,656
Cash equivalents		
Time deposits	-	371,037
	<u>\$ 1,433,225</u>	<u>\$ 1,071,127</u>
 <u>Rate of interest per annum (%)</u>		
Cash in bank	0.00-0.48	0.00-2.50

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets and liabilities at fair value through profit or loss were derivative financial instruments of foreign exchange forward contracts under IAS 39. They have been classified as mandatorily measured at FVTPL under IFRS 9. At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount
<u>December 31, 2018</u>			
Sell	EUR/NTD	2019.2.1-2019.3.22	EUR2,100/NTD73,964
Sell	CNY/NTD	2019.1.28-2019.4.16	CNY165,000/NTD728,028
 <u>December 31, 2017</u>			
Sell	EUR/NTD	2018.1.9-2018.2.21	EUR2,600/NTD92,486
Sell	CNY/NTD	2018.1.26-2018.2.26	CNY120,000/NTD540,734

The Company entered into foreign exchange forward contracts to manage exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT - 2018

	December 31, 2018
Investments in equity instruments at FVTOCI	
<u>Domestic listed at emerging market common shares</u>	
Hiwin Mikrosystem Corp. (Hiwin Mikrosystem)	\$ 719,894
<u>Domestic unlisted common shares</u>	
Taichung International Country Club	2,620
Sunengine Corporation Ltd. (Sunengine)	-
King Kong Iron Work Ltd.	-
<u>Overseas unlisted common shares</u>	
Kaland Holdings Corp. (Kaland)	<u>208,326</u>
	<u>\$ 930,840</u>

The Investment Commission of Ministry of Economic Affairs (MOEA) approved the Company's investment in Suzhou YIFU Finance Leasing Co., Ltd. (YIFU Finance). The investment in the amount of USD8,168 thousand was made through investing Kaland and Cheer Tone Group Limited in British Virgin Islands (BVI). YIFU Finance mainly engages in finance leasing services.

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as financial assets measured at cost under IAS 39. Refer to Note 3 and Note 9 for information relating to their reclassification and comparative information for 2017.

In October 2018, the Company sold its shares in Hiwin Mikrosystem, with a fair value of \$14,750 thousand and, the Company transferred the unrealized gain of \$8,396 thousand from other equity to retained earnings.

9. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT - 2017

Investee	December 31, 2017
<u>Domestic unlisted common shares</u>	
Hiwin Mikrosystem	\$ 63,440
Sunengine	15,338
Taichung International Country Club	2,100
King Kong Iron Work Ltd.	<u>-</u>
	80,878
	(Continued)

Investee	December 31, 2017
<u>Overseas unlisted common shares</u>	
Kaland Holdings Corp. (Kaland)	\$ <u>236,266</u>
	\$ <u>317,144</u> (Concluded)

Management believed that the fair value of the above unlisted equity investments held by the Company cannot be reliably measured due to the very significant range of reasonable fair value estimates; therefore, they were measured at cost less impairment at the end of reporting period.

10. NOTES RECEIVABLE AND TRADE RECEIVABLES

	<u>December 31</u>	
	2018	2017
<u>Notes receivable from unrelated parties</u>		
At amortized cost		
Gross carrying amount	\$ 191,562	\$ 293,350
Less: Allowance for impairment loss	<u>(1,915)</u>	<u>(2,933)</u>
	<u>\$ 189,647</u>	<u>\$ 290,417</u>
<u>Trade receivables from unrelated parties</u>		
At amortized cost		
Gross carrying amount	\$ 3,703,713	\$ 2,755,570
Less: Allowance for impairment loss	<u>(3,991)</u>	<u>(409)</u>
	<u>\$ 3,699,722</u>	<u>\$ 2,755,161</u>

a. Notes receivable

The aging of notes receivable for the Company was as follows:

	<u>December 31</u>	
	2018	2017
Not past due	\$ 191,562	\$ 293,350
Past due	<u>-</u>	<u>-</u>
	<u>\$ 191,562</u>	<u>\$ 293,350</u>

The above aging schedule was based on the past due days.

b. Trade receivables

For the year ended December 31, 2018

The Company determines the credit period of sales of goods based on the counterparty's credit rating, location and transaction terms.

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

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Company's different customer base.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables.

December 31, 2018

	Not Past Due	1 to 120 Days	121 to 360 Days	Over 360 Days	Total
Expected credit loss rate	0.001%	0.1%-1%	2%-4%	10%-100%	
Gross carrying amount	\$ 3,356,937	\$ 338,510	\$ 606	\$ 7,660	\$ 3,703,713
Loss allowance (Lifetime ECL)	<u>(34)</u>	<u>(339)</u>	<u>(12)</u>	<u>(3,606)</u>	<u>(3,991)</u>
Amortized cost	<u>\$ 3,356,903</u>	<u>\$ 338,171</u>	<u>\$ 594</u>	<u>\$ 4,054</u>	<u>\$ 3,699,722</u>

The movements of loss allowance were as follows:

	For the Year Ended December 31, 2018	
	Notes Receivable	Trade Receivables
Balance at January 1, 2018 per IAS 39	\$ 2,933	\$ 409
Adjustment on initial application of IFRS 9	<u>-</u>	<u>-</u>
Balance at January 1, 2018 per IFRS 9	2,933	409
Add: Net remeasurement of loss allowance	(1,018)	3,825
Less: Amounts written off	<u>-</u>	<u>(243)</u>
Balance at December 31, 2018	<u>\$ 1,915</u>	<u>\$ 3,991</u>

For the year ended December 31, 2017

The Company determines the credit period of sales of goods based on the counterparty's credit rating, location and transaction terms. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss was recognized based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The aging of receivables from unrelated parties was as follows:

	December 31, 2017
Not past due	\$ 2,695,959
1-30 days	49,518
31- 60 days	2,535
61-120 days	-
121-180 days	-
More than 180 days	<u>7,558</u>
	<u>\$ 2,755,570</u>

The above aging schedule was based on the past due days.

The movements of loss allowance were as follows:

	For the Year Ended December 31, 2017	
	Notes Receivable	Trade Receivables
Balance at January 1, 2017	\$ 1,130	\$ 63,471
Impairment loss recognized (reversed) on receivables	<u>1,803</u>	<u>(63,062)</u>
Balance at December 31, 2017	<u>\$ 2,933</u>	<u>\$ 409</u>

Trade receivables include amounts that are past due but for which the Company has not recognized a specific allowance for doubtful receivables after the assessment since there has not been a significant change in the credit quality of its customers and the amounts are still considered recoverable.

There were no receivables that were past due but not impaired on December 31, 2017.

The aging of trade receivables that were impaired was as follows:

	December 31, 2017
0-60 days	\$ 2,748,012
61- 120 days	-
121-180 days	-
More than 180 days	<u>7,558</u>
	<u>\$ 2,755,570</u>

The above aging of trade receivables before deducting the allowance for impairment loss was based on the past due days.

11. INVENTORIES

	December 31	
	2018	2017
Merchandise	\$ 3,346	\$ 2,774
Finished goods	809,397	357,496
Work in process	1,633,173	1,302,814
Raw materials and supplies	3,195,287	1,456,944
Inventory in transit	<u>336,073</u>	<u>302,083</u>
	<u>\$ 5,977,276</u>	<u>\$ 3,422,111</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was \$15,172,408 thousand and \$10,932,061 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 included reversal of inventory write-downs of \$1,000 thousand and \$2,000 thousand, and unallocated fixed overhead of \$107,606 thousand and \$94,147 thousand, respectively. Previous write-downs were reversed as a result of increased selling prices in markets and consumption of inventory.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2018	2017
Investments in subsidiaries	\$ 4,224,497	\$ 3,799,910
Investments in associates	<u>121,444</u>	<u>107,604</u>
	<u>\$ 4,345,941</u>	<u>\$ 3,907,514</u>

a. Investments in subsidiaries

	December 31	
	2018	2017
Hiwin GmbH (“Hiwin Germany”)	\$ 1,289,175	\$ 1,181,668
Hiwin Corporation, U.S.A. (“Hiwin USA”)	423,670	376,012
Hiwin Corporation, Japan (“Hiwin Japan”)	126,122	(11,851)
Eterbright Solar Corporation (“Eterbright”)	177,607	394,413
Hiwin Singapore Pte. Ltd. (“Hiwin Singapore”)	(42,366)	(19,053)
Hiwin Corporation (“Hiwin Korea”)	(45,214)	29,377
Hiwin Technologies (China) Corporation (“Hiwin China”)	1,722,470	1,554,905
Luren Precision Co., LTD (“Luren”)	261,205	260,631
Hiwin Healthcare Corp.	2,974	2,904

(Continued)

	December 31	
	2018	2017
Hiwin S.R.L. (“Hiwin Italy”)	\$ (63,471)	\$ (30,630)
Matrix Machine Tool (Coventry) Limited (“Matrix”)	<u>221,274</u>	<u>-</u>
	4,073,446	3,738,376
Add: Credit balance of investments accounted for using the equity method transferred to non-current liability	<u>151,051</u>	<u>61,534</u>
	<u>\$ 4,224,497</u>	<u>\$ 3,799,910</u> (Concluded)

	Proportion of Ownership and Voting Rights	
	2018	2017
<u>Name of subsidiary</u>		
Hiwin Germany	100%	100%
Hiwin USA	100%	100%
Hiwin Japan	100%	100%
Eterbright	74%	65%
Hiwin Singapore	100%	100%
Hiwin Korea	100%	100%
Hiwin China	100%	100%
Luren	58%	48%
Hiwin Healthcare Corp.	100%	100%
Hiwin Italy	100%	94%
Matrix	52%	-

Refer to Note 24 to the Company’ consolidated financial statements for the year ended December 31, 2018, for the disclosures of the Company’s acquisitions of Matrix.

The directors of the Company concluded that the Company has the practical ability to direct Luren, unilaterally, and hence, the Company has control over Luren.

The Company proceeds 6% of Hiwin Italy’s shares which owned by Hiwin Germany within the amount of 228,540 thousand by return of capital from Hiwin Germany.

The investments in subsidiaries accounted for using the equity method and the share of profit of loss and other comprehensive income of those investments for the year ended December 31, 2018 and 2017 was based on the subsidiaries’ financial statements which have been audited for the same year.

b. Investments in associates

	December 31	
	2018	2017
Associates that are not individually materials	\$ <u>121,444</u>	\$ <u>107,604</u>
	For the Year Ended December 31	
	2018	2017
The Company's share of:		
Profit for the year	\$ 17,457	\$ 10,990
Other comprehensive income (loss) for the year	<u>-</u>	<u>-</u>
Total comprehensive income for the year	\$ <u>17,457</u>	\$ <u>10,990</u>

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

13. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2018				
	Beginning Balance	Additions	Disposals	Reclassified Amount	Ending Balance
<u>Cost</u>					
Land	\$ 3,774,107	\$ -	\$ -	\$ -	\$ 3,774,107
Buildings and improvements	6,422,532	5,623	(1,174)	928,931	7,355,912
Machinery and equipment	9,188,619	987,536	(585,823)	1,911,103	11,501,435
Transportation equipment	36,343	32,482	(2,900)	-	65,925
Miscellaneous equipment	1,151,134	212,192	(50,685)	169,841	1,482,482
Construction in progress	<u>2,349,644</u>	<u>2,127,541</u>	<u>-</u>	<u>(928,931)</u>	<u>3,548,254</u>
	<u>22,922,379</u>	<u>\$ 3,365,374</u>	<u>\$ (640,582)</u>	<u>\$ 2,080,944</u>	<u>27,728,115</u>
<u>Accumulated depreciation</u>					
Buildings and improvements	1,094,138	\$ 153,148	\$ (1,175)	\$ -	1,246,111
Machinery and equipment	4,375,670	1,138,455	(576,878)	-	4,937,247
Transportation equipment	15,696	6,520	(2,899)	-	19,317
Miscellaneous equipment	<u>603,142</u>	<u>160,041</u>	<u>(42,079)</u>	<u>-</u>	<u>721,104</u>
	<u>6,088,646</u>	<u>\$ 1,458,164</u>	<u>\$ (623,031)</u>	<u>\$ -</u>	<u>6,923,779</u>
	<u>\$ 16,833,733</u>				<u>\$ 20,804,336</u>

	For the Year Ended December 31, 2017				
	Beginning Balance	Additions	Disposals	Reclassified Amount	Ending Balance
<u>Cost</u>					
Land	\$ 3,709,611	\$ 638	\$ -	\$ 63,858	\$ 3,774,107
Buildings and improvements	5,954,165	5,487	(158)	463,038	6,422,532
Machinery and equipment	8,615,971	297,683	(1,054,214)	1,329,179	9,188,619
Transportation equipment	43,699	2,429	(12,959)	3,174	36,343
Miscellaneous equipment	1,018,285	99,924	(76,138)	109,063	1,151,134
Construction in progress	832,384	1,980,297	-	(463,037)	2,349,644
Prepayments for land	63,858	-	-	(63,858)	-
	<u>20,237,973</u>	<u>\$ 2,386,458</u>	<u>\$ (1,143,469)</u>	<u>\$ 1,441,417</u>	<u>22,922,379</u>
<u>Accumulated depreciation</u>					
Buildings and improvements	955,633	\$ 138,663	\$ (158)	\$ -	1,094,138
Machinery and equipment	4,431,017	995,173	(1,050,520)	-	4,375,670
Transportation equipment	22,774	5,848	(12,926)	-	15,696
Miscellaneous equipment	538,558	140,716	(76,132)	-	603,142
	<u>5,947,982</u>	<u>\$ 1,280,400</u>	<u>\$ (1,139,736)</u>	<u>\$ -</u>	<u>6,088,646</u>
	<u>\$ 14,289,991</u>				<u>\$ 16,833,733</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

Buildings and improvements	
Main buildings	25-55 years
Electrical power equipment	35 years
Engineering system	8-55 years
Machinery and equipment	
Machinery equipment	3-12 years
Inspection equipment	3-10 years
Transportation equipment	5-10 years
Miscellaneous equipment	3-15 years

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 28.

14. PREPAYMENTS FOR MACHINERY AND EQUIPMENT

The aging of prepayments for machinery and equipment was as follows:

The date of initial cost contribution	December 31	
	2018	2017
Within 1 year	\$ 1,751,432	\$ 1,109,144
1-2 years	824,244	338,180
2-5 years	273,966	263,184
More than 5 years	<u>14,997</u>	<u>40,025</u>
	<u>\$ 2,864,639</u>	<u>\$ 1,750,533</u>

In order to achieve expertise and mastery in the key manufacturing technology, reduce product costs and improve the autonomy of equipment, the Company designs, develops, and assembles equipment by itself. The prepayments for machinery and equipment include both internally-developed and outsourced equipment.

15. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Secured borrowings</u> (Note 28)		
Loans for export sales	\$ 800,000	\$ 1,009,000
Usance letters of credit	<u>-</u>	<u>2,036</u>
	800,000	1,011,036
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>3,750,000</u>	<u>2,370,000</u>
	<u>\$ 4,550,000</u>	<u>\$ 3,381,036</u>
<u>Rate of interest per annum (%)</u>		
Loans for export sales	0.80	0.80-0.93
Usance letters of credit	-	0.90
Line of credit borrowings	0.82-0.98	0.92-1.00

b. Long-term borrowings

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Secured borrowings</u> (Note 28)		
Secured loans	\$ 6,397,130	\$ 6,918,602
<u>Unsecured borrowings</u>		
Unsecured loans	<u>-</u>	<u>500,000</u>
	6,397,130	7,418,602
Less: Current portion	<u>(1,604,194)</u>	<u>(1,600,492)</u>
Long-term borrowings	<u>\$ 4,792,936</u>	<u>\$ 5,818,110</u>
<u>Rate of interest per annum (%)</u>		
Secured loans	1.03-1.76	1.02-1.76
Unsecured loans	-	1.14-1.23

16. OTHER PAYABLES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Payables for salaries and bonuses	\$ 1,052,563	\$ 620,156
Payables for compensation to employees	492,363	231,072
Payables for remuneration to directors	246,182	115,536
Payables for annual leave	115,818	101,497
Payables for purchases of building and equipment	23,827	4,975
Others	<u>311,153</u>	<u>206,835</u>
	<u>\$ 2,241,906</u>	<u>\$ 1,280,071</u>

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

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

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Present value of defined benefit obligation	\$ 370,039	\$ 367,662
Fair value of plan assets	<u>(82,810)</u>	<u>(87,482)</u>
Net defined benefit liabilities	<u>\$ 287,229</u>	<u>\$ 280,180</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2017	\$ 319,923	\$ (84,308)	\$ 235,615
Service cost			
Current service cost	3,371	-	3,371
Net interest expense (income)	4,729	(1,233)	3,496
Recognized in profit or loss	<u>8,100</u>	<u>(1,233)</u>	<u>6,867</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	395	395
Actuarial loss - changes in demographic assumptions	37	-	37
Actuarial loss - changes in financial assumptions	10,547	-	10,547
Actuarial loss - experience adjustments	<u>38,181</u>	<u>-</u>	<u>38,181</u>
Recognized in other comprehensive income	<u>48,765</u>	<u>395</u>	<u>49,160</u>
Contributions from the employer	-	(11,322)	(11,322)
Benefits paid	<u>(9,126)</u>	<u>8,986</u>	<u>(140)</u>
Balance at December 31, 2017	<u>367,662</u>	<u>(87,482)</u>	<u>280,180</u>
Service cost			
Current service cost	3,229	-	3,229
Net interest expense (income)	4,557	(1,092)	3,465
Recognized in profit or loss	<u>7,786</u>	<u>(1,092)</u>	<u>6,694</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(2,396)	(2,396)
Actuarial loss - changes in demographic assumptions	529	-	529
Actuarial loss - changes in financial assumptions	10,215	-	10,215
Actuarial loss - experience adjustments	<u>7,906</u>	<u>-</u>	<u>7,906</u>
Recognized in other comprehensive income	<u>18,650</u>	<u>(2,396)</u>	<u>16,254</u>
Contributions from the employer	-	(15,899)	(15,899)
Benefits paid	<u>(24,059)</u>	<u>24,059</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 370,039</u>	<u>\$ (82,810)</u>	<u>\$ 287,229</u>

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

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2018	2017
Discount rates	1.00%	1.25%
Expected rates of salary increase	2.00%	2.00%
Turnover rate	1.14%	1.22%

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

	December 31	
	2018	2017
Discount rate		
0.25% increase	<u>\$ (10,234)</u>	<u>\$ (10,549)</u>
0.25% decrease	<u>\$ 10,651</u>	<u>\$ 10,987</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 10,518</u>	<u>\$ 10,877</u>
0.25% decrease	<u>\$ (10,160)</u>	<u>\$ (10,499)</u>
Turnover rate		
10% increase	<u>\$ (556)</u>	<u>\$ (752)</u>
10% decrease	<u>\$ 559</u>	<u>\$ 757</u>

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

	December 31	
	2018	2017
The expected contributions to the plan for the next year	<u>\$ 5,925</u>	<u>\$ 5,979</u>
The average duration of the defined benefit obligation	11 years	11.1 years

18. EQUITY

a. Common stock

	December 31	
	2018	2017
Number of shares authorized (in thousands)	<u>500,000</u>	<u>300,000</u>
Shares authorized	<u>\$ 5,000,000</u>	<u>\$ 3,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>300,562</u>	<u>280,157</u>
Shares issued	<u>\$ 3,005,620</u>	<u>\$ 2,801,573</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

On May 10, 2018, the Company's board of directors resolved to issue 12,000 thousand ordinary shares, with a par value of NT\$10, for a consideration of NT\$250 per share. On June 28, 2018, the above transaction was approved by the FSC, and the subscription base date was determined as at September 5, 2018 by the board of directors.

b. Capital surplus

The capital surplus arising from shares issued in excess of par may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

Capital surplus arising from employee share option expires of issuance of ordinary share for cash is used to offset a deficit only.

c. Retained earnings and dividend policy

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside special reserve in accordance with the laws and regulations, setting at most 6% as dividends, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors before and after amendment, please refer to c. Employees' compensation and remuneration of directors in Note 19-c.

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

The appropriations of earnings for 2017 and 2016 which have been approved in the shareholders' meetings on June 27, 2018, and June 28, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2017	2016	2017	2016
Legal reserve	\$ 273,802	\$ 132,682		
Appropriation (reversal) special reserve	(14,593)	173,909		
Cash dividends	980,551	439,462	\$ 3.5	\$ 1.6
Share dividends	84,047	54,933	0.3	0.2

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

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 539,226	
Reversal special reserve	(250,940)	
Cash dividends	2,103,934	\$ 7
Share dividends	90,169	0.3

The appropriation of earnings for 2018 are subject to the resolution in the shareholders' meeting to be held on June 28, 2019.

19. NET PROFIT FROM CONTINUING OPERATIONS

a. Information about capitalized interest

	For the Year Ended December 31	
	2018	2017
Capitalized interest	\$ 46,125	\$ 35,622
Capitalization rates	1.38%-1.46%	1.34%-1.47%

b. Employee benefits expense, depreciation and amortization expenses

	Operating Costs	Operating Expenses	Total
For the Year Ended December 31, 2018			
Short-term employee benefits			
Salary	\$ 3,595,463	\$ 1,053,752	\$ 4,649,215
Labor and health insurance	253,839	70,612	324,451
Post-employment benefits			
Defined contribution plans	111,379	32,363	143,742
Defined benefit plans	6,158	536	6,694
Remuneration to directors	-	261,286	261,286
Other employee benefits	204,722	59,046	263,768
Depreciation expenses	1,168,791	162,021	1,330,812
Amortization expenses	12,281	5,569	17,850

	Operating Costs	Operating Expenses	Total
<u>For the Year Ended December 31, 2017</u>			
Short-term employee benefits			
Salary	\$ 2,512,956	\$ 757,098	\$ 3,270,054
Labor and health insurance	201,431	58,764	260,195
Post-employment benefits			
Defined contribution plans	81,492	25,442	106,934
Defined benefit plans	6,120	747	6,867
Remuneration to directors	-	130,603	130,603
Other employee benefits	118,761	32,952	151,713
Depreciation expenses	1,032,625	143,400	1,176,025
Amortization expenses	5,488	3,072	8,560

As of December 31, 2018 and 2017, the Company had are 5,390 and 4,856 employees, respectively. There were 6 non-employee directors for both year. The head counts were the same as those used as basis in the calculation of employee benefit expense.

c. Employees' compensation and remuneration of directors

The Company accrued employees' compensation and remuneration of directors at rates of no less than 1% and no higher than 4%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2018 and 2017 which have been approved by the Company's board of directors on March 26, 2019 and March 22, 2018, respectively, were as follows:

Cash	For the Year Ended December 31			
	2018		2017	
	Accrual rate	Amount	Accrual rate	Amount
Employees' compensation	7.0%	\$ 492,363	6.6%	\$ 231,072
Remuneration of directors	3.5%	246,182	3.3%	115,536

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

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

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

20. TAXES

a. Major components of income tax expense recognized in profit or loss

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ 623,318	\$ 340,032
Income tax of unappropriated earnings	137,142	52,549
Adjustments for prior years	69,297	7,858
Deferred tax		
In respect of the current year	61,604	42,589
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>6,980</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 898,341</u>	<u>\$ 443,028</u>

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

	For the Year Ended December 31	
	2018	2017
Income tax expense calculated at the statutory rate	\$ 1,258,120	\$ 540,778
Nondeductible expenses in determining taxable income	1,490	258
Tax-exempt income	(262,407)	(141,894)
Others	(1,003)	1,623
Income tax on unappropriated earnings	137,142	52,549
Investment tax credits used	<u>(370,877)</u>	<u>(74,316)</u>
Current tax	762,465	378,998
Unrecognized deductible temporary differences	59,599	56,172
Adjustments to deferred tax attributable to changes in tax rates and laws	6,980	-
Adjustments for prior years' tax	<u>69,297</u>	<u>7,858</u>
Income tax expense recognized in profit or loss	<u>\$ 898,341</u>	<u>\$ 443,028</u>

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

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

b. Income tax expense (gain) recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
<u>Deferred tax</u>		
Effect of change in tax rate	\$ (11,232)	\$ -
In respect of the current year:		
Translation of foreign operations	(8,437)	2,978
Remeasurement of defined benefit plans	<u>(3,251)</u>	<u>(8,357)</u>
	<u>\$ (22,920)</u>	<u>\$ (5,379)</u>

c. Deferred tax assets and liabilities

	For the Year Ended December 31, 2018			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized intercompany profit	\$ 101,499	\$ 134,080	\$ -	\$ 235,579
Doubtful debts	25	(25)	-	-
Defined benefit obligations	21,609	(180)	5,403	26,832
Allowance for inventory devaluation	27,370	4,630	-	32,000
Impairment loss on financial assets	8,226	(1,204)	-	7,022
Payable for annual leave	17,255	5,909	-	23,164
FVTPL financial liabilities	423	676	-	1,099
Provisions	2,791	2,188	-	4,979
Exchange difference on foreign operations	51,457	-	17,517	68,974
Others	<u>47</u>	<u>(14)</u>	<u>-</u>	<u>33</u>
	<u>\$ 230,702</u>	<u>\$ 146,060</u>	<u>\$ 22,920</u>	<u>\$ 399,682</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unappropriated earnings of subsidiaries	\$ 201,265	\$ 211,222	\$ -	\$ 412,487
Unrealized foreign currency exchange gain	<u>5,344</u>	<u>3,422</u>	<u>-</u>	<u>8,766</u>
	<u>\$ 206,609</u>	<u>\$ 214,644</u>	<u>\$ -</u>	<u>\$ 421,253</u>

For the Year Ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized intercompany profit	\$ 69,241	\$ 32,258	\$ -	\$ 101,499
Doubtful debts	3,007	(2,982)	-	25
Defined benefit obligations	14,010	(758)	8,357	21,609
Allowance for inventory devaluation	27,710	(340)	-	27,370
Impairment loss on financial assets	2,158	6,068	-	8,226
Payable for annual leave	10,900	6,355	-	17,255
FVTPL financial liabilities	-	423	-	423
Provisions	2,076	715	-	2,791
Exchange difference on foreign operations	54,435	-	(2,978)	51,457
Unrealized foreign currency exchange loss	13,426	(13,426)	-	-
Others	<u>10,899</u>	<u>(10,852)</u>	<u>-</u>	<u>47</u>
	<u>\$ 207,862</u>	<u>\$ 17,461</u>	<u>\$ 5,379</u>	<u>\$ 230,702</u>

Deferred tax liabilities

Temporary differences				
Unappropriated earnings of subsidiaries	\$ 145,834	\$ 55,431	\$ -	\$ 201,265
Unrealized foreign currency exchange gain	-	5,344	-	5,344
FVTPL financial assets	<u>725</u>	<u>(725)</u>	<u>-</u>	<u>-</u>
	<u>\$ 146,559</u>	<u>\$ 60,050</u>	<u>\$ -</u>	<u>\$ 206,609</u>

- d. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the parent company only balance sheets

	December 31	
	2018	2017
Investment loss	<u>\$ 1,497,120</u>	<u>\$ 773,260</u>

- e. Information about tax-exemption

As of December 31, 2018, profits attributable to the following expansion projects were exempted from income tax for a 5-year period:

<u>Expansion of Construction Project</u>	<u>Tax-exemption Period</u>
Cash injection in 2009	January 2016 to December 2020

- f. Income tax assessments

The tax returns of the Company through 2016 have been assessed by the tax authorities.

21. EARNINGS PER SHARE

	Net profit	Number of Shares (In Thousands)	Earnings Per Share (NT\$)
<u>For the Year Ended December 31, 2018</u>			
Basic earnings per share			
Profit for the year	\$ 5,392,257	292,441	<u>\$18.44</u>
Effect of potentially dilutive ordinary shares:			
Employees' compensation	<u>-</u>	<u>2,358</u>	
Diluted earnings per share			
Profit for the year plus effect of potentially dilutive common stock	<u>\$ 5,392,257</u>	<u>294,799</u>	<u>\$18.29</u>
<u>For the Year Ended December 31, 2017</u>			
Basic earnings per share			
Profit for the year	\$ 2,738,019	288,562	<u>\$ 9.49</u>
Effect of potentially dilutive ordinary shares:			
Employees' compensation	<u>-</u>	<u>808</u>	
Diluted earnings per share			
Profit for the year plus effect of potentially dilutive common stock	<u>\$ 2,738,019</u>	<u>289,370</u>	<u>\$ 9.46</u>

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on July 29, 2018. The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2017 were as follows:

	Unit: NT\$ Per Share	
	Before Retrospective Adjustment	After Retrospective Adjustment
Basic earnings per share	<u>\$ 9.77</u>	<u>\$ 9.49</u>
Diluted earnings per share	<u>\$ 9.75</u>	<u>\$ 9.46</u>

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

22. ACQUISITION OF SUBSIDIARY WILL OBTAINED CONTROL

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred (Cash)
Matrix	Design, integrated application, research, development, manufacture and sale of thread forming machinery	June 29, 2018	52	<u>\$240,480</u>

Matrix was acquired in order to obtain the key technologies of the manufacturing equipment. For the details about the acquisition of Matrix, refer to Note 24 to the consolidated financial statements for the year ended December 31, 2018.

23. PARTIAL ACQUISITION OF SUBSIDIARIES - WITHOUT LOSS OF CONTROL

On December 31, 2018, the Company subscribed for additional new shares of Eterbright at a percentage different from its existing ownership percentage, increasing its continuing interest from 65% to 74%.

On November 30, 2018, the Company subscribed for additional new shares of Luren at a percentage different from its existing ownership percentage, increasing its continuing interest from 48% to 58%.

On March 2, 2017, the Company subscribed for additional new shares of Eterbright at a percentage different from its existing ownership percentage, increasing its continuing interest from 58% to 65%.

On June 30, September 29 and October 31, 2017, the Company acquired additional shares of Luren, increasing its continuing interest from 47% to 48%.

The above transactions were accounted for as equity transactions, since the Company did not cease to have control over the subsidiaries.

24. OPERATING LEASE ARRANGEMENTS

The Company's future minimum lease payments on land, factory building, inventory warehouse and employee dormitory based on operating lease agreements are as follows:

Year	Amount
2019	\$ 56,000
2020	35,538
2021	26,199
2022	21,033
2023	<u>19,903</u>
	<u>\$ 158,673</u>

25. CAPITAL MANAGEMENT

To support the need to expand and enhance the plant and equipment, the Company has to maintain appropriate amount of capital. Therefore, the capital management of the Company focuses on ensuring that it has the necessary financial resources and operation plans to support operating funds, capital expenditure, research and development, repayment of debt and dividend payment in the future 12 months.

Key management personnel of the Company review the capital structure periodically. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company may adjust the amount of dividends paid to shareholders and the amount of new debt issued or existing debt redeemed.

26. FINANCIAL INSTRUMENTS

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

1) Fair value hierarchy

December 31, 2018

The Company's financial assets and liabilities at fair value through profit or loss are measured at fair value using Level 2 inputs, and the financial assets at fair value through other comprehensive income are measured at fair value using Level 1 inputs and Level 3 inputs.

December 31, 2017

The Company's financial assets and liabilities at fair value through profit or loss are measured at fair value using Level 2 inputs.

There were no transfers between Level 1 and 2 in the year ended December 31, 2017.

2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives - foreign currency forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

b. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
FVTPL		
Mandatorily classified as at FVTPL	\$ 282	\$ -
Held for trading	-	548
Loans and receivables	-	6,304,690
Financial assets at amortized cost	8,480,801	-
Held-to-maturity financial assets	-	2,919
Financial assets measured at cost	-	317,144
Financial assets at FVTOCI		
Equity instruments	930,840	-
<u>Financial liabilities</u>		
FVTPL		
Mandatorily classified as at FVTPL	5,775	-
Held for trading	-	3,038
Financial liabilities at amortized cost	18,415,158	15,877,851

The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables (including from related parties) and refundable deposits.

The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables (including from related parties), financial assets at amortized cost non-current and refundable deposits.

The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable, trade payables (including from related parties), other payables, long-term borrowings and guarantee deposits.

c. Financial risk management objectives and policies

The Company's major financial instruments include equity and debt investments, trade receivables, trade payables and borrowings. The Company's Corporate Treasury function provides services to the business, monitors and manages the financial risks relating to the operations of the Company. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The plans for material treasury activities are reviewed by the audit committee and the board of directors in accordance with procedures required by relevant regulations and internal controls.

1) Market risk

The Company entered into some derivative financial instruments, mainly forward foreign exchange contracts, to manage its exposure to foreign currency risk on translation of sales and receivables that arise from export of precision component to USA, Germany, Japan and China.

There had been no change to the Company's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Company's operating activities and net investment in foreign operations are denominated in foreign currencies. Consequently, the Company is exposed to foreign currency risk. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Company utilizes foreign exchange forward contracts to hedge its currency exposure. These instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements.

Net investment in foreign operations is a strategic investment. Therefore, the Company does not hedge its investment in foreign operations.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities and derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 30.

Sensitivity analysis

The Company was mainly exposed to the USD, EUR, JPY and CNY.

The sensitivity analysis of foreign currency risk used in reporting foreign currency risk internally to key management personnel mainly focuses on the foreign currency monetary items at the end of the reporting period. Assuming a 1% increase movement in the levels of the NTD against the relevant foreign currency, the post-tax losses for the years ended December 31, 2018 and 2017 would have decreased by \$52,097 thousand and \$40,220 thousand, respectively.

b) Interest rate risk

The Company is exposed to interest rate risk because entities in the Company borrowed funds at floating interest rates.

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2018	2017
Fair value interest rate risk		
Deposits in bank	\$ -	\$ 371,037
Cash flow interest rate risk		
Deposits in bank	1,289,174	624,165
Short-term borrowings	4,550,000	3,381,036
Long-term borrowings	6,397,130	7,418,602

Sensitivity analysis

For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. 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 been 1% higher and all other variables were held constant, the Company's post-tax profit for the years ended December 31, 2018 and 2017 would decrease by \$77,264 thousand and \$84,456 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of the reporting period, the counterparties are reputable organizations; thus, the Company is not expected to have a significant credit risk.

Trade receivables consisted of a large number of customers, spread across diverse industries. On-going credit evaluation is performed on the financial condition of trade receivables.

The Company's concentration of credit risk by geographical locations was mainly in Asia, which accounted for 82% and 87% of the total trade receivables as of December 31, 2018 and 2017, respectively.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the Company had available unutilized bank loan facilities of \$5,902,201 thousand and \$6,764,432 thousand, respectively.

The following table details the Company's remaining contractual obligations for its financial liabilities with agreed repayment periods. The tables below had been drawn up based on the undiscounted contractual maturities of the financial liabilities.

	Less Than 1 Year	1-5 Years	5+ Years
<u>December 31, 2018</u>			
Non-derivative financial liabilities			
Non-interest bearing	\$ 7,455,153	\$ -	\$ -
Variable interest rate liabilities	<u>6,154,194</u>	<u>3,069,057</u>	<u>1,723,879</u>
	<u>\$13,609,347</u>	<u>\$ 3,069,057</u>	<u>\$ 1,723,879</u>
Derivative financial liabilities			
Foreign exchange forward contracts	<u>\$ 5,775</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2017</u>			
Non-derivative financial liabilities			
Non-interest bearing	\$ 5,077,913	\$ -	\$ -
Variable interest rate liabilities	<u>4,981,528</u>	<u>3,826,839</u>	<u>1,991,271</u>
	<u>\$10,059,441</u>	<u>\$ 3,826,839</u>	<u>\$ 1,991,271</u>
Derivative financial liabilities			
Foreign exchange forward contracts	<u>\$ 3,038</u>	<u>\$ -</u>	<u>\$ -</u>

27. TRANSACTIONS WITH RELATED PARTIES

The significant transactions between the Company and its related parties, other than those disclosed in other note, are summarized as follow:

a. Related party name and categories

<u>Related Party Name</u>	<u>Related Party Categories</u>
Hiwin Germany	Subsidiaries
Hiwin USA	Subsidiaries
Hiwin Japan	Subsidiaries
Eterbright	Subsidiaries
Hiwin Singapore	Subsidiaries
Hiwin Korea	Subsidiaries
Hiwin China	Subsidiaries
Luren	Subsidiaries
Hiwin Healthcare Corp.	Subsidiaries
Hiwin Italy	Subsidiaries
Matrix	Subsidiaries
Mega-Fabs Motion Systems Ltd. (Mega-Fabs)	Associates
Hiwin Mikrosystem	Others
Hiwin Investment and Holding Corporation	Others
Hiwin Technologies Foundation in Education (Hiwin Foundation)	Others
Taiwan Automation Intelligence and Robotics Association	Others (non-related party from August 9, 2017)

b. Operating transactions

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
1) Sales of goods		
Hiwin China	\$ 2,423,599	\$ 1,296,660
Subsidiaries	5,255,732	2,916,251
Others	<u>89,527</u>	<u>89,383</u>
	<u>\$ 7,768,858</u>	<u>\$ 4,302,294</u>

Due to the specific differences of the products, the selling prices for related parties and those for third parties are not comparable. The selling price is primarily quoted at cost plus a reasonable margin according to the market price.

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
2) Purchases of goods		
Others	\$ 420,193	\$ 137,956
Subsidiaries	<u>48,820</u>	<u>9,185</u>
	<u>\$ 469,013</u>	<u>\$ 147,141</u>

The products purchased from related parties and those from third parties are not the same, therefore, their prices are not comparable.

3) Other operating transactions

	For the Year Ended December 31	
	2018	2017
Non-operating income - dividend income (classified as other income)		
Others	\$ <u>1,213</u>	\$ <u>344</u>
Non-operating income - other income		
Subsidiaries	\$ 16,482	\$ 6,363
Others	<u>240</u>	<u>270</u>
	<u>\$ 16,722</u>	<u>\$ 6,633</u>
Manufacturing and operating expenses		
Subsidiaries	\$ 13,841	\$ 5,711
Others	6,381	11,410
Associates	<u>4,226</u>	<u>-</u>
	<u>\$ 24,448</u>	<u>\$ 17,121</u>
Operating expenses - donations		
Hiwin Foundation	<u>\$ 34,480</u>	<u>\$ 17,500</u>
	December 31	
	2018	2017
4) Trade receivables		
Hiwin China	\$ 783,464	\$ 643,522
Hiwin Japan	757,241	458,354
Subsidiaries	<u>1,597,703</u>	<u>1,070,184</u>
	<u>\$ 3,138,408</u>	<u>\$ 2,172,060</u>
5) Other receivables (classified as other current assets)		
Subsidiaries	<u>\$ 5,207</u>	<u>\$ 3,930</u>
6) Trade payables		
Others	\$ 16,057	\$ 31,820
Subsidiaries	<u>18,885</u>	<u>10,025</u>
	<u>\$ 34,942</u>	<u>\$ 41,845</u>
7) Other payables		
Subsidiaries	\$ 2,475	\$ 2,365
Others	<u>1,698</u>	<u>438</u>
	<u>\$ 4,173</u>	<u>\$ 2,803</u>

	<u>December 31</u>	
	2018	2017
8) Prepayments for machinery and equipment		
Subsidiaries	\$ <u>101,562</u>	\$ <u>74,719</u>

c. Loans to related parties

	<u>December 31</u>	
	2018	2017
<u>Other receivables (classified as other current assets)</u>		
Hiwin Italy	\$ <u>55,582</u>	\$ <u>72,178</u>
	<u>For the Year Ended December 31</u>	
	2018	2017

Interest income

Subsidiaries	\$ <u>1,338</u>	\$ <u>3,988</u>
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The Company provided Hiwin Italy with short-term loans at rates comparable to market interest rates.

d. Acquisition of property, plant and equipment

	<u>Purchase Price</u>	
	<u>For the Year Ended December 31</u>	
	2018	2017
Subsidiaries	\$ 44,206	\$ 31,067
Others	<u>-</u>	<u>2,050</u>
	<u>\$ 44,206</u>	<u>\$ 33,117</u>

e. Disposals of property, plant and equipment

	<u>Proceeds</u>		<u>Gain on Disposal</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	December 31		December 31	
	2018	2017	2018	2017
Subsidiaries	\$ 5,075	\$ -	\$ 564	\$ -
Others	<u>300</u>	<u>-</u>	<u>20</u>	<u>-</u>
	<u>\$ 5,375</u>	<u>\$ -</u>	<u>\$ 584</u>	<u>\$ -</u>

f. Endorsements and guarantees

For the information about the endorsements and guarantees for subsidiaries as of December 31, 2018, refer to Table 2.

g. Acquisition of additional interest in related parties

	For the Year Ended December 31	
	2018	2017
Eterbright	\$ 673,205	\$ 473,668
Hiwin Japan	-	109,560
Matrix	240,480	-
Hiwin Italy	228,540	-
Luren	<u>154,874</u>	<u>8,158</u>
	<u>\$ 1,297,099</u>	<u>\$ 591,386</u>

h. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 421,983	\$ 246,494
Post-employment benefits	814	3,744
Share-based payments	<u>2,281</u>	<u>-</u>
	<u>\$ 425,078</u>	<u>\$ 250,238</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets had been pledged or mortgaged as collateral for short-term and long-term bank loans:

	December 31	
	2018	2017
Property, plant and equipment	<u>\$ 12,340,522</u>	<u>\$ 11,171,913</u>

29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

- a. As of December 31, 2018 and 2017, unused letters of credit for purchases of raw materials and machinery and equipment amounted to \$271,350 thousand and \$209,991 thousand, respectively.
- b. As of December 31, 2018 and 2017, the Company had a commitment to buy property, plant and equipment for \$1,731,391 thousand and \$2,238,905 thousand, respectively.

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	December 31, 2018			December 31, 2017		
	Foreign Currencies	Exchange Rate	Carrying Amount	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>						
Monetary items						
USD	\$ 35,681	30.715	\$ 1,095,945	\$ 24,510	29.76	\$ 729,404
EUR	45,941	35.20	1,617,117	35,003	35.57	1,245,042
JPY	3,244,356	0.2782	902,580	1,839,028	0.2642	485,871
CNY	796,802	4.472	3,563,299	595,961	4.565	2,720,562
Non-monetary items						
USD	24,252	30.715	744,899	23,191	29.76	690,152
EUR	51,540	35.20	1,814,220	41,069	35.57	1,460,832
ILS	10,870	8.152	88,615	8,729	8.566	74,775
KRW	339,891	0.0278	9,432	1,948,573	0.0281	54,794
CNY	422,880	4.472	1,891,120	360,676	4.565	1,646,486
JPY	1,102,151	0.2782	306,618	298,024	0.2642	78,738
GBP	4,065	38.88	158,046	-	39.96	-
<u>Financial liabilities</u>						
Monetary items						
USD	10,011	30.715	307,501	4,786	29.76	142,427
EUR	4,180	35.20	147,127	2,077	35.57	73,893
JPY	695,135	0.2782	193,387	390,001	0.2642	103,038
CNY	4,209	4.472	18,823	3,457	4.565	15,779
Non-monetary items						
SGD	1,046	22.48	23,505	426	22.26	9,487

The significant (realized and unrealized) foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2018		2017	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
USD	30.149	\$ 23,850	30.432	\$ (45,615)
JPY	0.2730	41,471	0.2713	(8,561)
EUR	35.61	22,004	34.35	69,635
CNY	4.560	<u>(31,504)</u>	4.507	<u>(7,526)</u>
		<u>\$ 55,821</u>		<u>\$ 7,933</u>

31. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (Table 2)

- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint controlled entities). (Table 3)
 - 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital. (Table 4)
 - 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (Table 5)
 - 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 6)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 7)
 - 9) Trading in derivative instruments. (Notes 7 and 26)
 - 10) Information on investees. (Table 8)
- b. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 9)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (None)
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 6)
 - c) The amount of property transactions and the amount of the resultant gains or losses. (None)
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and the purposes. (None)
 - e) The highest balance, the end of year balance, the interest rate range, and total current period interest with respect to financing of funds. (None)
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services. (None)

TABLE 1**HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES****FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Year (Note 4)	Ending Balance (Note 4)	Actual Borrowing Amount	Interest Rate	Nature of Financing (Note 2)	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment loss	Collateral		Financing Limit for Each Borrower (Note 1)	Aggregate Financing Limits (Note 3)
													Item	Value		
0	The Company	Hiwin Italy	Other receivables from related parties	Yes	\$ 114,723	\$ 55,582	\$ 55,582	1.76%	1	Sales \$771,056	-	\$ -	-	\$ -	\$ 299,200	\$ 7,254,138
0	The Company	Eterbright	Other receivables from related parties	Yes	510,000	-	-	1.76%	2	-	Operating capital	-	Promissory note and equipment	630,000	2,311,515	7,254,138
1	Luren	Luren Japan	Other receivables from related parties	Yes	3,074	-	-	1.895%	1	Sales 23,726	-	-	-	-	6,955	31,275
1	Luren	Luren Shanghai	Other receivables from related parties	Yes	13,234	11,208	11,208	1.895%	1	Sales 66,982	-	-	-	-	13,461	31,275

Note 1: The total amount for lending to a company for funding shall not exceed 10% of the net assets of the Company in the latest financial report. In addition, the total amount of lending to any one borrower shall not be more than the borrower's paid-in capital. The total amount for lending to a company for funding shall not exceed 10% of the net assets of Luren in the latest financial report. In addition, the total amount of lending to any one borrower shall not be more than the borrower's paid-in capital. When the lending is for business relationship by the Company and Luren, the lending shall be subject to not only the restriction set forth in the above instructions but also the principle that the business has occurred. The amount for lending to a company for funding shall not exceed the maximum amount of sales or purchases in the latest year or the latest twelve months when the lending occurs.

Note 2: Nature of the loan funds:
1. Business relationship.
2. Necessary for short-term financing.

Note 3: For the financing provided by each subsidiary, the maximum amount should not exceed 30% of the Company's net assets as shown in its latest financial statements. For the financing provided by each subsidiary, the maximum amount should not exceed 20% of Luren's net assets as shown in its latest financial statements.

Note 4: The ending balance amount has been approved by the board of directors.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currency)

No.	Endorser/Guarantor	Endorsee/Guaranteed Party		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/ Guaranteed During the Year	Outstanding Endorsement/ Guarantee at the End of the Year	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given On behalf of Companies in Mainland China
		Name	Relationship										
0	The Company	Eterbright	Subsidiary	\$ 2,311,515	\$ 1,600,000	\$ 1,600,000	\$ 954,000	\$ -	6.6	\$ 8,463,161	Yes	-	-
0	The Company	Hiwin Singapore	Subsidiary	112,400	92,145 (USD 3,000)	92,145 (USD 3,000)	57,191 (USD 1,862)	-	0.4	8,463,161	Yes	-	-
0	The Company	Hiwin Korea	Subsidiary	199,800	138,218 (USD 4,500)	138,218 (USD 4,500)	99,824 (USD 3,250)	-	0.6	8,463,161	Yes	-	-
0	The Company	Hiwin Japan	Subsidiary	600,077	600,077 (JPY 2,157,000)	600,077 (JPY 2,157,000)	-	-	2.5	8,463,161	Yes	-	-
0	The Company	Luren	Subsidiary	400,000	400,000	400,000	90,000	-	1.7	8,463,161	Yes	-	-

Note 1: The maximum is 10% of the net assets of the Company as shown in the latest financial statements. In addition, the amount shall not exceed the endorsee's paid-in capital. However, the amount of guarantee to subsidiaries are not subject to the above restrictions after the approval of the board of director and the amount shall not exceed 50% of the Company's net assets in the latest financial statements.

Note 2: The maximum amount of the total guarantee is 35% of the Company's net assets as shown in its latest financial statements.

Note 3: The amounts denominated in foreign currency were translated into New Taiwan dollars at prevailing exchange rate on December 31, 2018.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars and Foreign Currency)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Shares	Carrying Amount	Percentage of Ownership	Fair Value	
The Company	<u>Government bonds</u>							
	Central Government Bonds 1999-3	-	Financial assets at amortized cost - non-current	-	\$ 2,803	-	\$ 2,803	
	<u>Capital stock</u>							
	Kaland	-	Financial assets at fair value through other comprehensive income - non-current	323,289	208,326	19	208,326	
	Sunengine	-	Financial assets at fair value through other comprehensive income - non-current	2,063,681	-	10	-	
	Hiwin Mikrosystem	-	Financial assets at fair value through other comprehensive income - non-current	9,516,113	719,894	9	719,894	
	Taichung International Country Club	-	Financial assets at fair value through other comprehensive income - non-current	1	2,620	-	2,620	
Hiwin Germany	King Kong Iron Work Ltd.	-	Financial assets at fair value through other comprehensive income - non-current	76,300	-	-	-	
	<u>Share capital</u>							
	Hiwin (Schweiz) GmbH	-	Financial assets at fair value through other comprehensive income - non-current	-	3,320 (EUR 72)	19	3,320 (EUR 72)	

Note : Information about the investment in subsidiary and associates; please see Tables 8 and 9.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICE AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance		
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Others	Shares	Amount
The Company	Capital stock	Investments accounted for using equity method	Eterbright	Subsidiary	138,838,559	\$ 394,413	67,320,508	\$ 673,205	-	\$ -	\$ -	\$ -	\$ (890,011) (Note 1)	171,449,427 (Note 2)	\$ 177,607

Note 1: Including investment loss accounted for using equity method of \$692,017 thousand and decrease in net assets of \$197,994 thousand from subscribing for additional new shares at a percentage different from its existing ownership percentage.

Note 2: Due to the capital reduction for offsetting the deficit, the shares held decreased by 34,709,640 shares.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty is a Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Company	Yunlin Technology Industrial Park, the factory in shiliuban	2018.3.22	\$ 358,000	\$ 336,516	Reiju Construction Co., Ltd.	None	-	-	-	\$ -	Contractors bid	Factory	-

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

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

Company Name	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount (Note)	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Company	Hiwin China	Subsidiary	Sale	\$ (2,423,559)	(10)	O/A 120 days	\$ -	-	\$ 783,464	11	
	Hiwin Germany	Subsidiary	Sale	(1,897,709)	(8)	O/A 90-120 days	-	-	395,954	6	
	Hiwin Japan	Subsidiary	Sale	(1,449,817)	(6)	O/A 150 days	-	-	757,241	11	
	Hiwin Italy	Subsidiary	Sale	(771,056)	(3)	O/A 180 days	-	-	625,989	9	
	Hiwin USA	Subsidiary	Sale	(563,025)	(2)	O/A 120 days	-	-	244,421	3	
	Hiwin Korea	Subsidiary	Sale	(367,991)	(1)	O/A 180 days	-	-	215,765	3	
	Hiwin Mikrosystem	Others	Purchase	420,193	3	Net 120 days after monthly closing	-	-	(16,056)	-	
Hiwin China	The Company	Parent Company	Purchase	2,423,559	91	O/A 120 days	-	-	(783,464)	(99)	
Hiwin Germany	The Company	Parent Company	Purchase	1,897,709	65	O/A 90-120 days	-	-	(395,954)	(76)	
	Hiwin Mikrosystem	Others	Purchase	256,099	9	O/A 90 days	-	-	(46,243)	(9)	
	Hiwin S.R.O	Associate	Sale	(224,099)	(6)	O/A 45 days	-	-	20,463	11	
Hiwin Japan	The Company	Parent Company	Purchase	1,449,817	93	O/A 150 days	-	-	(757,241)	(95)	
Hiwin Italy	The Company	Parent Company	Purchase	771,056	80	O/A 180 days	-	-	(625,989)	(88)	
Hiwin USA	The Company	Parent Company	Purchase	563,025	59	O/A 120 days	-	-	(244,421)	(78)	
	Hiwin Mikrosystem	Others	Purchase	283,620	30	O/A 90 days	-	-	(60,968)	(19)	
Hiwin Korea	The Company	Parent Company	Purchase	367,991	78	O/A 180 days	-	-	(215,765)	(98)	

Note: Unrealized gains with Hiwin China are \$168,650 thousand.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Year	Allowance for Impairment Loss
					Amount	Actions Taken		
The Company	Hiwin China	Subsidiary	Trade receivables from related parties \$ 783,464	3.40	\$ -	-	\$ 624,438	\$ -
	Hiwin Japan	Subsidiary	Trade receivables from related parties 757,241	2.39	-	-	234,239	-
	Hiwin Germany	Subsidiary	Trade receivables from related parties 395,954	4.56	-	-	182,414	-
	Hiwin USA	Subsidiary	Trade receivables from related parties 244,421	3.07	-	-	107,753	-
	Hiwin Korea	Subsidiary	Trade receivables from related parties 215,765	2.51	-	-	83,944	-
	Hiwin Italy	Subsidiary	Trade receivables from related parties 625,989	1.52	-	-	110,732	-
	Hiwin Italy	Subsidiary	Other receivables from related parties 55,663	-	-	-	-	-

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currency)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2018	December 31, 2017	Shares	%	Carrying Amount			
The Company	Hiwin Germany	Germany	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	\$ 224,257	\$ 452,797	-	100	\$ 1,289,175	\$ 323,618	\$ 323,618	Subsidiary
	Hiwin USA	United States of America	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	353,844	353,844	2,148,000	100	423,670	127,001	127,001	Subsidiary
	Hiwin Japan	Japan	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	817,642	817,642	54,200	100	126,122	219,527	219,527	Subsidiary
	Mega-Fabs	Israel	Research, manufacture and sale of drivers and controllers	42,444	42,444	240,000	40	121,444	43,642	17,457	Investments accounted for using equity method
	Eterbright	Taiwan	Research, development, design, manufacture and sale of solar cell, electronic components, electric power supply, electric transmission and power distribution machinery products	2,983,554	2,310,349	171,449,427	74	177,607	(1,070,898)	(692,017)	Subsidiary
	Hiwin Singapore	Singapore	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	117,550	117,550	5,000,000	100	(42,366)	(13,844)	(13,844)	Subsidiary
	Hiwin Korea	Korea	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	202,945	202,945	1,440,000	100	(45,214)	(44,416)	(44,416)	Subsidiary
	Luren	Taiwan	Research, development, produce, manufacture and sale of gear cutting tools and machinery	521,983	367,109	17,647,761	58	261,205	(230,617)	(122,859)	Subsidiary
	Hiwin Healthcare Corp.	Samoa	Sale of medical robots	3,108	3,108	100,000	100	2,974	(23)	(23)	Subsidiary
	Hiwin Italy	Italy	Sale of aerospace parts, ballscrews, linear guideways, and industrial robots	296,580	68,040	-	100	(63,471)	51,947	49,258	Subsidiary
	Matrix	United Kingdom	Design, integrated application, research, development, manufacture and sale of thread forming machinery	240,480	-	2,400,000	52	221,274	396	(14,860)	Subsidiary
Hiwin Germany	Hiwin S.R.O.	Czech Republic	Sale of aerospace parts, ballscrews, linear guideways, and industrial robots	104 (CZK 70)	104 (CZK 70)	-	32	58,088 (EUR 1,650)	(Note 1)	(Note 1)	Investments accounted for using equity method
	Hiwin Italy	Italy	Sale of aerospace parts, ballscrews, linear guideways, and industrial robots	-	241,214 (EUR 6,500)	-	-	-	(Note 1)	(Note 1)	Subsidiary
Luren	Luren Precision (Japan) Inc.	Japan	Sale of gear cutting tools and machinery	7,956	7,956	-	-	(Note 2)	(Note 1)	(Note 1)	Indirectly owned subsidiary
	Luren Precision Chicago Co., Ltd.	United States of America	Sale of gear cutting tools and machinery	14,721	14,721	460,000	100	-	(Note 1)	(Note 1)	Indirectly owned subsidiary

Note 1: Not applicable.

Note 2: Luren Precision (Japan) Inc. completed its liquidation procedures in June, 2018.

Note 3: Information on investment in Mainland China, please see Table 9.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currency)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
YIFU Finance	Finance lease	\$ 258,405 (USD 8,413)	(Note 1)	\$ 236,266 (USD 8,168)	\$ -	\$ 96,533 (USD 3,151)	\$ 139,733 (USD 5,017)	\$ 201,456	19	(Note 3)	\$ 208,326	\$ 20,062 (USD 655)
Hiwin China	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	1,498,040 (CNY 300,000)	(Note 2)	1,498,040 (CNY 300,000)	-	-	1,498,040 (CNY 300,000)	283,651	100	\$ 283,651 (Note 4)	1,722,470	-
Luren Shanghai	Sale of gear cutting tools and machinery	14,047 (USD 439)	(Note 2)	14,047 (USD 439)	-	-	14,047 (USD 439)	(3,540)	58	(1,737) (Note 4)	(7,514)	-

Investor Company	Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
The Company	\$ 1,637,773 (USD 5,017 and CNY 300,000)	\$ 1,633,393 (USD 9,500 and CNY 300,000)	(Note 5)
Luren	\$ 14,047 (USD 439)	\$ 14,047 (USD 439)	\$ 93,825 (Note 5)

Note 1: The investment was made through a corporation established in a third country, which, in turn, invested in companies located in Mainland China.

Note 2: The investment in Mainland China was made directly.

Note 3: The investment in Kaland is financial asset measured at fair value through other comprehensive income; thus, no investment gain or loss is recognized.

Note 4: The investment gain (loss) is recognized according to the financial statements audited by the Company's independent auditors.

Note 5: According to "Regulation for Screening of Application to Engage in Technical Cooperation in Mainland China" issued by the Investment Commission of Ministry of Economic Affairs, the investment in Mainland China has no maximum limitation since the Company had acquired the IDB approval of the Company's establishment of an operating headquarter in Taiwan. The upper limit investment amount of Luren is 60% of the net assets of Luren in the latest financial report.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

ITEM	STATEMENT INDEX
MAJOR ACCOUNTING ITEMS IN ASSETS, LIABILITIES AND EQUITY	
STATEMENT OF CASH AND CASH EQUIVALENTS	1
STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	Note 7
STATEMENT OF NOTES RECEIVABLE,	2
STATEMENT OF TRADE RECEIVABLES FROM UNRELATED PARTIES	3
STATEMENT OF INVENTORIES	4
STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – NON-CURRENT	5
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD	6
STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT	Note 13
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT	Note 13
STATEMENT OF DEFERRED INCOME TAX ASSETS	Note 20
STATEMENT OF SHORT-TERM BANK BORROWINGS	7
STATEMENT OF TRADE PAYABLES TO UNRELATED PARTIES	8
STATEMENT OF OTHER PAYABLES	Note 16
STATEMENT OF LONG-TERM BANK BORROWINGS	9
STATEMENT OF DEFERRED INCOME TAX LIABILITIES	Note 20
MAJOR ACCOUNTING ITEMS IN PROFIT OR LOSS	
STATEMENT OF NET REVENUE	10
STATEMENT OF OPERATING COSTS	11
STATEMENT OF OPERATING EXPENSES	12
STATEMENT OF NON-OPERATING INCOME AND EXPENSES	STATEMENT OF COMPREHENSIVE INCOME
STATEMENT OF LABOR, DEPRECIATION AND AMORTIZATION BY FUNCTION	Note 19

HIWIN TECHNOLOGIES CORPORATION**STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars and Foreign Currency)**

Item	Foreign Currency	Exchange Rate	Amount
Cash on hand			
NTD			\$ 390
Foreign currency			<u>1,268</u>
			<u>1,658</u>
Cash in banks			
Checking accounts			142,393
Demand deposits			453,066
Foreign deposits			
USD	6,472	30.715	198,774
EUR	5,802	35.20	204,241
CNY	63,771	4.472	285,186
JPY	522,426	0.2782	145,339
GBP	66	38.88	<u>2,568</u>
			<u>1,431,567</u>
			<u>\$ 1,433,225</u>

HIWIN TECHNOLOGIES CORPORATION

STATEMENT OF NOTES RECEIVABLE

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Client Name	Amount
Non-related parties	
Company 26	\$ 20,245
Company 19	13,240
Others (Note)	<u>158,077</u>
	191,562
 Less: Allowance for impairment loss	 <u>(1,915)</u>
	 <u>\$ 189,647</u>

Note: The amount of individual client included in others does not exceed 5% of the account balance.

HIWIN TECHNOLOGIES CORPORATION

STATEMENT OF TRADE RECEIVABLES FROM UNRELATED PARTIES

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Client Name	Amount
Unrelated parties	
Company 28	\$ 681,171
Company 9	324,593
Company 14	294,755
Company 25	288,188
Company 22	254,785
Others (Note)	<u>1,860,221</u>
	3,703,713
Less: Allowance for impairment loss	<u>(3,991)</u>
	<u>\$ 3,699,722</u>

Note: The amount of individual client included in others does not exceed 5% of the account balance.

HIWIN TECHNOLOGIES CORPORATION**STATEMENT OF INVENTORIES****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Item	Amount	
	Cost	Market Price (Note 1)
Merchandise	\$ 3,346	\$ 3,346
Finished goods	809,397	1,617,153
Work in process	1,633,173	1,633,173
Raw materials	3,195,287	3,195,287
Inventories in transit	<u>336,073</u>	<u>336,073</u>
	<u>\$ 5,977,276</u>	<u>\$ 6,785,032</u>

Note 1: Inventories are stated at the lower of cost or net realizable.

Note 2: Inventories are not provided as a collateral.

HIWIN TECHNOLOGIES CORPORATION

STATEMENT OF FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)

Investees	Balance, January 1, 2018 as Restated		Additions		Decrease		Balance, December 31, 2018		Collateral
	Shares	Fair Value	Shares	Amount	Shares	Amount	Shares	Fair Value	
Hiwin Mikrosystem	8,662,082	\$ 179,023	1,149,031	\$ 555,621	295,000	\$ 14,750	9,516,113	\$ 719,894	None
Sunengine (Note 1)	4,925,255	15,338	-	-	2,861,574	15,338	2,063,681	-	None
Taichung International Country Club	1	2,100	-	520	-	-	1	2,620	None
King Kong Iron Work Ltd.	76,300	-	-	-	-	-	76,300	-	None
Kaland (Note 2)	323,289	<u>294,045</u>	-	<u>10,814</u>	-	<u>96,533</u>	323,289	<u>208,326</u>	None
		<u>\$ 490,506</u>		<u>\$ 566,955</u>		<u>\$ 126,621</u>		<u>\$ 930,840</u>	

Note 1: The number of shares reduced due to capital reduction for offsetting the deficit.

Note 2: The amount of decrease due to return of capital.

HIWIN TECHNOLOGIES CORPORATION

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Balance, January 1, 2018		Additions		Decrease (Note 2)		Change of Subsidiaries' Ownership Equity	Share of Profit (Loss) and other comprehensive Income (loss) of Subsidiaries and Associates in Using the Equity Method	Exchange Differences on Translating of Foreign Operations	Unrealized Gain	Balance, December 31, 2018			Net Equity Value	Original Investment Cost December 31, 2018	Collateral
	Shares	Amount	Shares	Amount	Shares	Amount					Shares	Ownership (%)	Amount			
Investments in subsidiaries																
Hiwin Germany	-	\$ 1,181,668	-	\$ -	-	\$ (228,540)	\$ 221,964	\$ 323,618	\$ (18,236)	\$ (191,299)	-	100	\$ 1,289,175	\$ 1,693,033	\$ 224,257	Nil
Hiwin USA	2,148,000	376,012	-	-	-	-	-	127,001	16,638	(95,981)	2,148,000	100	423,670	587,808	353,844	Nil
Hiwin Japan	54,200	(11,851)	-	-	-	-	-	219,527	8,354	(89,908)	54,200	100	126,122	306,618	817,642	Nil
Eterbright	138,838,559	394,413	67,320,508	673,205	(34,709,640)	-	(197,994)	(692,017)	-	-	171,449,427	74	177,607	177,607	2,983,554	Nil
Hiwin Singapore (Note 1)	5,000,000	(19,053)	-	-	-	-	-	(13,844)	(174)	(9,295)	5,000,000	100	(42,366)	(23,505)	117,550	Nil
Hiwin Korea (Note 1)	1,440,000	29,377	-	-	-	-	-	(44,416)	(946)	(29,229)	1,440,000	100	(45,214)	9,432	202,945	Nil
Hiwin China	-	1,554,905	-	-	-	-	-	283,651	(39,017)	(77,069)	-	100	1,722,470	1,891,120	1,498,040	Nil
Luren	11,651,778	260,631	7,743,750	154,874	(1,747,767)	-	(33,640)	(120,338)	-	(322)	17,647,761	58	261,205	85,563	521,983	Nil
Hiwin Healthcare Corp.	100,000	2,904	-	-	-	-	-	(23)	93	-	100,000	100	2,974	2,974	3,108	Nil
Hiwin Italy (Note 1)	-	(30,630)	-	228,540	-	-	(221,964)	49,258	(1,253)	(87,422)	-	100	(63,471)	121,187	296,580	Nil
Matrix	-	-	2,400,000	240,480	-	-	-	(14,860)	(4,027)	(319)	2,400,000	52	221,274	143,345	240,480	Nil
		<u>\$ 3,738,376</u>		<u>\$ 1,297,099</u>		<u>\$ (228,540)</u>	<u>\$ (231,634)</u>	<u>\$ 117,557</u>	<u>\$ (38,568)</u>	<u>\$ (580,844)</u>			<u>\$ 4,073,446</u>	<u>\$ 4,995,182</u>	<u>\$ 7,259,983</u>	
Investments in associates																
Mega-Fabs	240,000	<u>\$ 107,604</u>	-	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,457</u>	<u>\$ (3,617)</u>	<u>\$ -</u>	240,000	40	<u>\$ 121,444</u>	<u>\$ 88,615</u>	<u>\$ 42,444</u>	Nil

Note 1: The balance, December 31, 2018 classified as credit balance of investments accounted for using the equity method.

Note 2: The number of shares decrease due to capital reduction for offsetting deficit and the amount decrease due to return of capital.

HIWIN TECHNOLOGIES CORPORATION**STATEMENT OF SHORT-TERM BANK BORROWINGS****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Type	Maturity Date (Note)	Interest Rates (%)	Amount
Loans for export sales			
The Export-Impure Bank of the Republic of China, Taichung Branch	108.12.17	0.80	\$ <u>800,000</u>
Line of credit borrowing			
Bank of Taiwan, Taichung Industrial Park Branch	108.3.25	0.95	700,000
Bank SinoPac, Xitun Branch	108.1.25	0.89	330,000
Land Bank of Taiwan, Taichung Branch	108.1.25	0.98	100,000
Bank of China, Taipei Branch	108.6.17	0.85	400,000
Bangkok Bank Public Company Ltd., Taichung Branch	108.1.25	0.93	350,000
HSBC Bank (Taiwan) Limited, Nankang Branch	108.3.21	0.85	300,000
China Construction Bank Corporation Limited, Taipei Branch	108.6.17	0.92	700,000
Mizuho Bank Ltd., Taichung Branch	108.3.27	0.82	<u>870,000</u>
			<u>3,750,000</u>
			<u>\$ 4,550,000</u>

Note: The date of maturity date is the last date of multiple loans.

HIWIN TECHNOLOGIES CORPORATION

STATEMENT OF TRADE PAYABLES TO UNREALTED PARTIES

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Vendor Name	Amount
Unrelated parties	
Others (Note)	<u>\$ 5,165,874</u>

Note: The amount of individual vendor in others does not exceed 5% of the account balance.

HIWIN TECHNOLOGIES CORPORATION

STATEMENT OF LONG-TERM BANK BORROWING
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Type	Borrowing Period (Note 2)	Repayment	Interest Rate (%)	Current Portion	Non-Current Portion	Total
Secured loan						
Bank of Taiwan, Taichung Industrial Park Branch	2011.5.23-2031.11.21	Repayable monthly or semiannually form June 23, 2004, in 6, 36, 48, 60, 144 and 180 installments	1.30-1.76	\$ 1,418,495	\$ 4,284,086	\$ 5,702,581
The Export-Impure Bank of the Republic of China, Taichung Branch	2016.2.1-2023.12.28	Repayable semiannually from August 1, 2017, in 10 installments	1.03-1.05	178,000	505,000	683,000
Land Bank of Taiwan, Taichung Branch	2007.6.4-2020.6.4	Repayable monthly from July 4, 2007, in 156 installments	1.47	<u>7,699</u>	<u>3,850</u>	<u>11,549</u>
				<u>\$ 1,604,194</u>	<u>\$ 4,792,936</u>	<u>\$ 6,397,130</u>

Note 1: Property, plant and equipment pledged as collateral in amount of 12,340,522 thousand for bank borrowings.

Note 2: The period are the earliest loan date and the last due date of the multiple borrowings.

HIWIN TECHNOLOGIES CORPORATION**STATEMENT OF NET REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Item	Shipments (In thousands of units)	Amount
Linear guideways	About 18,265	\$ 15,256,462
Ballscrews	About 1,803	6,504,003
Other		<u>2,848,766</u>
		24,609,231
Less: Sales return		(5,177)
Sales discount		<u>(3,836)</u>
Sales		<u>\$ 24,600,218</u>

HIWIN TECHNOLOGIES CORPORATION

STATEMENT OF OPERATING COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)

Item	Amount	
Raw materials, beginning of year	\$ 1,390,070	
Raw materials purchased	8,436,645	
Sale of raw materials	(69,812)	
Raw materials scrapped	(18,103)	
Raw materials, end of year	<u>(2,851,865)</u>	
Raw materials used		\$ 6,886,935
Supplies, beginning of year	450,687	
Supplies purchased	3,889,723	
Sale of supplies	(53,000)	
Transferred to manufacturing expense and prepayments for machinery and equipment	(3,527,374)	
Supplies, end of year	<u>(760,036)</u>	
Supplies used		-
Direct labor		3,468,509
Manufacturing expenses		<u>5,702,014</u>
Manufacturing cost		16,057,458
Work in process, beginning of year		1,318,183
Work in process, end of year		<u>(1,644,716)</u>
Cost of finished goods		15,730,925
Finished goods, beginning of year		421,398
Finished goods, end of year		(877,314)
Transferred to research and development and selling expense		(233,320)
Other adjustment		<u>(64,639)</u>
Cost of goods sold		14,977,050
Merchandise, beginning of year	2,774	
Merchandise purchased	7,470	
Transferred to manufacturing expense	(1,476)	
Transferred from prepayment for machinery and equipments	29,779	
Merchandise, end of year	<u>(3,346)</u>	
Cost of merchandise sold		35,201
Cost of raw materials and supplies sold		122,812
Reversal of inventory write-downs		(1,000)
Loss from inventories scraps		18,103
Maintenance and warranty expense		23,729
Unallocated fixed overhead		107,606
Revenue from sale of scraps		<u>(111,093)</u>
Operating Costs		<u>\$ 15,172,408</u>

HIWIN TECHNOLOGIES CORPORATION

STATEMENT OF OPERATING EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)

Item	Selling and Marking Expenses	General and Administrative Expenses	Research and Development Expenses	Total
Salary	\$ 134,928	\$ 664,350	\$ 657,478	\$ 1,456,756
Depreciation expense	7,278	77,951	76,792	162,021
Donation	-	67,691	-	67,691
Shipping expense	74,964	843	2,053	77,860
Others	<u>261,196</u>	<u>295,255</u>	<u>448,315</u>	<u>1,004,766</u>
Total	<u>\$ 478,366</u>	<u>\$ 1,106,090</u>	<u>\$ 1,184,638</u>	<u>\$ 2,769,094</u>