

**ZHONG YANG TECHNOLOGY CO., LTD.
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
with Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017**

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

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Representation Letter

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

Company name: ZHONG YANG TECHNOLOGY CO., LTD.

Chairman: Cheng-Tien Cheng

Date: March 20, 2019



安侯建業聯合會計師事務所

KPMG

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Independent Auditors' Report

To the Board of Directors of Zhong Yang Technology Co., LTD.:

Opinion

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

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In our judgement, the key audit matters that should be communicated in the audit report are as follow:

1. Operating Revenues - Revenue recognition of external warehouse

Please refer to note 4(n) for accounting policy related of revenue

Description of key audit matter:

The Group is principally engaged in the manufacture, research and development and sales of mobile phone lens molds. The business involves a high degree of customization, and the molds need to sent to the customers' factories for testing and be modified with the customers' new product development. The sales revenue will be recognized after the development of mobile phone lens and the acceptance of the molds by customers. As it involves judging the timing of the transfer of products, and the sales revenue has a significant impact on the overall consolidated financial statements. Therefore, testing over the sales revenue from the external warehouses is one of the most significant assessments in our audit procedures this year.

Audit Procedures:

Our principal audit procedure included: assessing the appropriateness of the policy of recognition of sales revenue; evaluating and testing the related controls surrounding the aforementioned sales and collection cycle and the effectiveness of implementations; selecting and conducting external confirmations with warehouses or observing the inventory count directly; testing of details; as well as selecting transactions which happen during a period of time before and after the reporting date in order to test whether the sales revenue is recognized within the correct period and to evaluate the accuracy of the sales revenue recognition.

Other Matter

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

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

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

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

Those charged with governance (including the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are I-Wen Wang and Hsing-Fu Yen.

KPMG

Taipei, Taiwan (Republic of China)

March 20, 2019

Notes to Readers

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

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

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

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(expressed in thousands of New Taiwan dollars)

	December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Assets								
Current assets:								
1100 Cash and cash equivalents (note 6(n))	\$ 298,864	11	261,884	15	2100	\$ 250,572	10	-
1170 Notes and accounts receivable, net (notes 6(b) and (q))	414,634	16	324,915	18	2130	48,966	2	-
1180 Accounts receivable, due from related parties (notes 6(b) and (q) and 7)	16,701	1	8,178	-	2170	109,130	4	69,223
1200 Other receivables (note 6(c))	1,511	-	3,555	-	2200	210,081	8	146,857
1310 Inventories (note 6(d))	256,911	10	175,233	10	2230	15,996	1	46,594
1410 Prepayments and other current assets	57,794	2	23,507	1	2300	2,874	-	59,413
	<u>1,046,415</u>	<u>40</u>	<u>797,072</u>	<u>44</u>	<u>2320</u>	<u>7,560</u>	<u>-</u>	<u>-</u>
Non-current assets:								
1600 Property, plant and equipment (notes 6(f) and 8)	1,403,884	54	935,159	51		645,179	25	322,087
1780 Intangible assets (note 6(c))	15,130	1	8,204	-		142,440	5	200,000
1840 Deferred tax assets (note 6(m))	28,109	1	25,918	2	2540	26,083	1	21,132
1900 Other non-current assets (note 8)	101,365	4	56,339	3	2570	-	-	183
	<u>1,548,488</u>	<u>60</u>	<u>1,025,620</u>	<u>56</u>	<u>2600</u>	<u>168,523</u>	<u>6</u>	<u>221,315</u>
						<u>813,702</u>	<u>31</u>	<u>543,402</u>
Total assets	<u>\$ 2,594,903</u>	<u>100</u>	<u>1,822,692</u>	<u>100</u>		<u>\$ 2,594,903</u>	<u>100</u>	<u>1,822,692</u>
Liabilities and Equity								
Current liabilities:								
Short-term borrowings (note 6(g))								
Current contract liabilities (note 6(q))								
Notes and accounts payable								
Other payables (notes 6(f) and 7)								
Current tax liabilities								
Other current liabilities								
Long-term borrowings, current portion (note 6(h))								
Non-current liabilities:								
Long-term borrowings (note 6(h))								
Deferred tax liabilities (note 6(m))								
Other non-current liabilities								
Total liabilities								
Equity (note 6(n)):								
Ordinary shares					3110	684,365	27	600,415
Capital surplus					3200	808,259	31	387,434
Legal reserve					3310	39,565	2	15,286
Special reserve					3320	9,715	-	-
Unappropriated retained earnings					3350	271,872	10	285,870
Other equity interest					3490	(32,575)	(1)	(9,715)
						<u>1,781,201</u>	<u>69</u>	<u>1,279,290</u>
Total equity						<u>\$ 2,594,903</u>	<u>100</u>	<u>1,822,692</u>
Total liabilities and equity						<u>\$ 2,594,903</u>	<u>100</u>	<u>1,822,692</u>

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars , Except for Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
4100 Operating revenues (note 6 (q) and 7)	1,195,833	100	1,004,137	100
5000 Operating costs (notes 6(d), 7 and 12)	<u>712,578</u>	<u>60</u>	<u>469,902</u>	<u>47</u>
5900 Gross profit from operations	<u>483,255</u>	<u>40</u>	<u>534,235</u>	<u>53</u>
Operating expenses (notes 7 and 12)				
6100 Selling expenses	41,380	3	34,942	4
6200 Administrative expenses	130,695	11	113,872	11
6300 Research and development expenses	91,442	7	21,301	2
6450 Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	<u>21,753</u>	<u>2</u>	<u>-</u>	<u>-</u>
	<u>285,270</u>	<u>23</u>	<u>170,115</u>	<u>17</u>
6900 Net operating income	<u>197,985</u>	<u>17</u>	<u>364,120</u>	<u>36</u>
Non-operating income and expenses:				
7100 Interest income (note 7)	2,907	-	1,247	-
7230 Foreign exchange gains (losses), net (note 6 (s))	4,510	1	(6,071)	(1)
7050 Interest expense	(7,630)	(1)	(5,049)	-
7590 Other gains (losses), net (note 6 (c))	<u>2,007</u>	<u>-</u>	<u>(12,177)</u>	<u>(1)</u>
	<u>1,794</u>	<u>-</u>	<u>(22,050)</u>	<u>(2)</u>
7900 Profit before income tax	199,779	17	342,070	34
7950 Less: income tax expenses (note 6(m))	<u>59,700</u>	<u>5</u>	<u>99,279</u>	<u>10</u>
8200 Profit	<u>140,079</u>	<u>12</u>	<u>242,791</u>	<u>24</u>
8300 Other comprehensive income:				
8360 Items that may be reclassified subsequently to profit or loss:				
8361 Exchange differences on translation	(9,790)	(1)	114	-
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(m))	<u>2,309</u>	<u>-</u>	<u>(19)</u>	<u>-</u>
	<u>(7,481)</u>	<u>(1)</u>	<u>95</u>	<u>-</u>
8300 Other comprehensive income	<u>(7,481)</u>	<u>(1)</u>	<u>95</u>	<u>-</u>
8500 Comprehensive income	<u>\$ 132,598</u>	<u>11</u>	<u>242,886</u>	<u>24</u>
Earnings per common share (note 6 (p))				
9750 Basic earnings per share (NT dollars)	<u>\$</u>	<u>2.30</u>	<u>\$</u>	<u>4.58</u>
9850 Diluted earnings per share (NT dollars)	<u>\$</u>	<u>2.30</u>	<u>\$</u>	<u>4.49</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

	Equity attributable to owners of parent							Total equity	
	Share capital			Retained earnings			Other equity interest		
	Ordinary shares	Capital collected in advance	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unearned employee compensation	
Balance at January 1, 2017	\$ 426,601	11,459	-	5,084	-	102,316	(9,810)	-	535,650
Appropriation and distribution of retained earnings:	-	-	-	-	-	(10,202)	-	-	-
Legal reserve	-	-	-	10,202	-	(49,035)	-	-	(49,035)
Cash dividends of ordinary share	-	-	-	10,202	-	(59,237)	-	-	(49,035)
Profit for the year ended December 31, 2017	-	-	-	-	-	242,791	-	-	242,791
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	-	95	-	95
Comprehensive income for the year ended December 31, 2017	-	-	-	-	-	242,791	95	-	242,886
Capital increased by cash	113,730	(11,459)	419,375	-	-	-	-	-	521,666
Stock dividends from capital surplus	40,000	-	(40,000)	-	-	-	-	-	-
Capital increased by exercising employee compensation	20,064	-	4,936	-	-	-	-	-	25,000
Share-based payment transaction	-	-	3,123	-	-	-	-	-	3,123
Balance at December 31, 2017	600,415	-	387,434	15,286	-	285,870	(9,715)	-	1,279,290
Appropriation and distribution of retained earnings:	-	-	-	-	-	(24,279)	-	-	-
Legal reserve	-	-	-	24,279	-	(9,715)	-	-	-
Special reserve	-	-	-	-	9,715	(120,083)	-	-	(120,083)
Cash dividends on ordinary share	-	-	-	24,279	-	(154,077)	-	-	(120,083)
Profit for the year ended December 31, 2018	-	-	-	-	-	140,079	-	-	140,079
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	-	-	(7,481)	-	(7,481)
Comprehensive income for the year ended December 31, 2018	-	-	-	-	-	140,079	(7,481)	-	132,598
Capital increased by cash	80,000	-	381,238	-	-	-	-	-	461,238
Changes in ownership interests in subsidiaries	-	-	694	-	-	-	-	-	694
Share-based payments transaction	-	-	38,893	-	-	-	-	-	38,893
Balance at December 31, 2018	\$ 684,365	-	808,259	39,565	9,715	271,872	(17,196)	(15,379)	1,781,201

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	\$ 199,779	342,070
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	113,347	62,359
Amortization expense	3,491	2,140
Expected credit loss (gain) / Provision (reversal of provision) for bad debt expense	21,753	5,592
Interest expense	7,630	5,049
Interest income	(2,907)	(1,247)
Share-based payment transactions	14,333	3,123
Impairment loss on financial assets	-	10,000
Others	36	511
Total adjustments to reconcile profit (loss)	<u>157,683</u>	<u>87,527</u>
Changes in operating assets and liabilities:		
Decrease (increase) in notes and accounts receivable	(94,154)	(165,540)
Decrease (increase) in other receivables	2,415	20,313
Decrease (increase) in inventories	(77,324)	(14,917)
Decrease (increase) in prepayments and other current assets	(33,467)	30,624
Decrease (increase) in other non-current assets	(921)	48
Increase (decrease) in contract liabilities	(8,598)	-
Increase (decrease) in notes and accounts payable (including related parties)	13,544	(24,751)
Increase (decrease) in other payables	34,678	67,466
Increase (decrease) in other current liabilities	(959)	5,359
Total changes in operating assets and liabilities	<u>(164,786)</u>	<u>(81,398)</u>
Total adjustments	<u>(7,103)</u>	<u>6,129</u>
Cash flows from (used in) operations	192,676	348,199
Interest received	2,739	1,347
Interest paid	(7,652)	(4,982)
Income taxes paid	(85,345)	(68,489)
Net cash flows from (used in) operating activities	<u>102,418</u>	<u>276,075</u>
Cash flows from (used in) investing activities:		
Acquisition of investments accounted for using equity method (deducting the cash acquired)	(7,295)	-
Acquisition of property, plant and equipment	(548,847)	(758,309)
Proceeds from disposal of property, plant and equipment	11,681	1,791
Decrease in refundable deposits	(3,084)	(151)
Acquisition of intangible assets	(7,879)	(4,067)
Decrease in guaranteed financial instruments	-	16,159
Increase in prepayments of property, plant and equipment	(38,427)	(17,857)
Increase in restricted assets	(25,293)	(16,802)
Net cash flows from (used in) investing activities	<u>(619,144)</u>	<u>(779,236)</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	250,572	(46,125)
Increase (decrease) in long-term borrowings	(50,000)	200,000
Decrease in guarantee deposits	(183)	(2)
Cash dividends paid	(120,083)	(49,035)
Capital increased by cash	461,238	521,666
Issuance of restricted employee shares	13,825	-
Net cash flows from (used in) financing activities	<u>555,369</u>	<u>626,504</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(1,663)</u>	<u>2,119</u>
Net increase (decrease) in cash and cash equivalents	<u>36,980</u>	<u>125,462</u>
Cash and cash equivalents at beginning of period	<u>261,884</u>	<u>136,422</u>
Cash and cash equivalents at end of period	<u>\$ 298,864</u>	<u>261,884</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan Dollars unless otherwise specified)

(1) Company history

Zhong Yang Technology Co., Ltd. (the “Company”) was approved and established by Ministry of Economic Affairs (R.O.C.). The registered address is No.21, Gongyequ 22nd Rd., Nantun Dist., Taichung City 40850, Taiwan (R.O.C.). The major business activities of the Company and subsidiaries (together referred to as the “Group” and individually as “Group entities”) are manufacture, research development, sale of molds, and assemble digital lens and coat lens. The Company’s common shares were listed on the Taiwan Stock Exchange (TWSE) in December 12, 2018.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 20, 2019.

(3) New standards, amendments and interpretations adopted

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

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

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

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

1) Sales of goods

For the sale of products, revenue from molds is currently recognized after the acceptance by customers and revenue from lens is based on agreed transaction conditions, which is taken to be the point in time at which the customers accept the goods and the related risks and rewards of ownership have been transferred to customers. Revenue is recognized at this point provided that the revenues and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Group assesses that the timing of the significant risks and rewards of ownership of products transferred to customers is the same as the timing of control is obtained. Therefore, the recognition of accounting policies for the sales revenue will not result in a major adjustment to the consolidated financial statements.

2) Impacts on financial statements

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

Impacted line items on the consolidated balance sheet	December 31, 2018			January 1, 2018		
	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15
Notes and accounts receivable, net (Note 1)	\$ 431,335	-	431,335	333,093	1,458	334,551
Impact on assets		-			1,458	
Current contract liabilities (Note 2)	\$ -	48,966	48,966	-	55,851	55,851
Other current liabilities (Note 1 and 2)	51,840	(48,966)	2,874	59,413	(54,393)	5,020
Impact on liabilities		-			1,458	

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<u>Impacted line items on the consolidated statement of cash flows</u>	<u>For the year ended December 31, 2018</u>		
	<u>Balances without adoption of IFRS 15</u>	<u>Impact of changes in accounting policies</u>	<u>Balances with adoption of IFRS 15</u>
Cash flows from (used in) operating activities:			
Adjustments:			
Decrease (increase) in notes and accounts receivable	\$ (95,612)	1,458	(94,154)
Increase (decrease) in contract liabilities	-	(8,598)	(8,598)
Increase (decrease) other current liabilities	(8,099)	<u>7,140</u>	(959)
Impact on net cash flows from operating activities		<u>\$ -</u>	

Note 1: Prior to the application of IFRS 15, allowance for sales discounts and allowances was recognized as the deduction of notes and accounts receivable. Under IFRS 15, it is recognized as refund liability (recorded as other current liabilities).

Note 2: Prior to the application of IFRS 15, advance sales receipts was recognized as other current liabilities. Under IFRS 15, it is recognized as contract liabilities.

(ii) IFRS 9 “Financial Instruments”

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

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

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

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

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

2) Impairment of financial assets

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

3) Transition

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

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

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on its asset will not increase significantly since its initial recognition.

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

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

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and cash equivalents	Loans and receivables (Note)	261,884	Amortized cost	261,884
Notes and accounts receivables (include related parties)	Loans and receivables (Note)	333,093	Amortized cost	333,093
Other receivables	Loans and receivables (Note)	3,555	Amortized cost	3,555
Restricted assets (recorded as other non-current assets)	Loans and receivables (Note)	32,927	Amortized cost	32,927
Guarantee deposits	Loans and receivables (Note)	1,374	Amortized cost	1,374

Note: Cash and cash equivalents, notes and accounts receivables (include related parties), other receivables, restricted assets (recorded as other non-current assets) and guarantee deposits that are classified as loans and receivables under IAS 39. These financial assets are classified as amortized cost under IFRS 9.

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

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Amortized cost						
Beginning balance of cash and cash equivalents, held-to-maturity, accounts and other receivables, and other financial assets	\$ 632,833	-	-	632,833	-	-

There is no material impact on the consolidated financial statements.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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(iii) Amendments to IAS 7 “Disclosure Initiative”

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

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

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

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

There is no material impact on its consolidated financial statements.

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

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

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

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

(i) IFRS 16 “Leases”

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

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

1) Determining whether an arrangement contains a lease

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

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

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

2) Transition

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

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

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

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

- apply a single discount rate to a portfolio of leases with similar characteristics.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory both facilities. The Group estimated that both the right-of-use assets and the lease liabilities to increase by \$41,433 thousand. No significant impact is expected for the Group's financial lease. Besides, the Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

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

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

So far, the Group estimated that the adoption of the above changes would not have any material impact.

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

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

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

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

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Those which may be relevant to the Group are set out below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
October 31, 2018	Amendments to IAS 1 and IAS 8 "Definition of Material"	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

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

(4) Summary of significant accounting policies

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

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basic of measurement

The consolidated financial statements have been prepared on a historical cost basis.

(ii) Functional and presentation currency

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

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

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

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

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) List of subsidiaries in the consolidated financial statements

List of subsidiaries in the consolidated financial statements:

Name of investor	Name of subsidiary	Principal activity	Shareholding		Note
			December 31, 2018	December 31, 2017	
The Company	CHENG TIAN PHOTOELECTRIC TECHNOLOGY (CHENG TIAN)	General investing	100%	100%	
The Company	ETERGE OPTO-ELECTRONICS CO., LTD. (ETERGE)	Manufacture and sales of optical lens	100%	-	Note
CHENG TIAN	DONGGUAN JMO OPTICAL CO., LTD. (JMO)	Manufacture and sales of optical molds and products	100%	100%	
JMO	DONGGUAN CITY JMOL OPTICS CO. LTD. (JMOL)	Assemble digital lens and lens coating	100%	100%	

Note : The Company held 100% of ETERGE'S shares in February 2018.

(d) Business combination

The Group adopts the acquisition method to deal with business combinations. Goodwill is measured at the consideration transferred less the amounts of the identifiable assets acquired and liabilities assumed (generally at fair value) at the acquisition date. If the amount of net assets acquired and liabilities assumed exceeds the acquisition price, the Group reassesses whether it has correctly identified all of the assets acquired and liabilities assumed, and recognizes a gain for the excess.

All transaction costs relating to a business combination is recognized as expenses immediately when incurred, except for the issuance of debt or equity instruments.

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(e) Foreign currencies

(i) Foreign currency transactions

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

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

(ii) Foreign operations

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

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

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

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

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

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash in bank, and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

(h) Financial instruments

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

Financial assets are classified into the measured at amortized cost.

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

1) Financial assets measured at amortized cost

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

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

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

2) Impairment of financial assets

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

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

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

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

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

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

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

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

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

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

The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization;
or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

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

3) Derecognition of financial assets

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

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

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

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

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

1) Financial assets at fair value through profit or loss

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

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

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

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2) Loans and receivables

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

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

3) Impairment of financial assets

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

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

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

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

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

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

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

Impairment losses and recoveries of accounts receivable are recognized in profit or loss; impairment losses and recoveries of other financial assets are recognized in non-operating income and expense.

4) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable in profit or loss is included in non-operating income and expense.

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

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

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

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

2) Financial liabilities at fair value through profit or loss

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

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

3) Other financial liabilities

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

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired.

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

5) Offsetting of financial assets and liabilities

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

(i) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(j) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

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

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

1) Buildings	5~35 years
2) Machinery and equipment	1~10years
3) Office equipment and other facilities	1~10 years

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

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(k) Lease

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognized in the Group's balance sheets.

Payments made under operating leases (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. The incentives provided by the lessor for the purpose of the lease arrangement are recognized as a reduction in rental expenses over the lease term using the straight-line method.

Contingent rent is recognized as expense in the period in which it is incurred.

(l) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill arising from the acquisition of subsidiaries is included in intangible assets.

2) Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Impairment loss on equity investment in investees accounted for under the equity method is not allocated to any asset, including goodwill that forms part of the carrying amount of such investment.

(ii) Research & development

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

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

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- 1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- 2) The intention to complete the intangible asset and use or sell it.
- 3) The ability to use or sell the intangible asset.
- 4) How the intangible asset will generate probable future economic benefits.
- 5) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.
- 6) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortization

The amortizable amount is the cost of an asset less its residual value.

Except for goodwill with indefinite useful lives, amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives of software is 2~5 years.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year end. Any changes shall be accounted for as changes in accounting estimates.

(m) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from construction contracts, deferred tax assets, and assets arising from employee benefits, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If it is not possible to determine the recoverable amount (the higher of its fair value less costs of disposal and its value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash generating unit (CGU).

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

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

(n) Recognition of revenue

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

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

1) Sale of goods

The Group manufactures optical molds and products and sell them to manufacturers. The Group recognizes revenue when the control of the products has been transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and the loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have been lapsed, or the Group has objectively evidence that all criteria for acceptance have been satisfied.

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

2) Financing components

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

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

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

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

(o) Employee benefits

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

(p) Share-based payment

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

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

(q) Income taxes

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

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

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

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

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

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

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

- (i) the entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfills one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

The 10% surtax on unappropriated earnings is recorded as current tax expense in the following year after the resolution to appropriate retain earnings is approved in the stockholder's meeting

- (r) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares. Dilutive potential ordinary shares comprise employee compensation not yet approved by the Board of Directors.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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(s) Operating segments

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

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

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

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

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements: None.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year: None.

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand and petty cash	\$ 271	188
Checking accounts and demand deposits	237,163	201,937
Time deposits	61,430	59,759
	<u>\$ 298,864</u>	<u>261,884</u>

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

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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(b) Notes and accounts receivable(include related parties)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable	\$ 52,675	72,408
Accounts receivable	414,167	276,291
Less: allowance for doubtful accounts	(35,507)	(14,148)
allowance for sales discounts	-	(1,458)
	<u>\$ 431,335</u>	<u>333,093</u>
Notes and accounts receivable, net	<u>\$ 414,634</u>	<u>324,915</u>
accounts receivable-related parties, net	<u>\$ 16,701</u>	<u>8,178</u>

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

	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 314,720	0%	-
1 to 30 days past due	39,604	8.7%	3,448
31 to 90 days past due	66,780	14.8%	9,856
91 to 180 days past due	35,411	33.9%	12,021
181 to 270 days past due	2,907	100%	2,907
271 to 360 days past due	7,420	98%	7,275
	<u>\$ 466,842</u>		<u>35,507</u>

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

	<u>December 31, 2017</u>
1 to 30 days past due	\$ 22,510
31 to 90 days past due	8,534
91 to 180 days past due	10,484
181 to 270 days past due	5,511
271 to 360 days past due	14
	<u>\$ 47,053</u>

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

	<u>2018</u>	<u>2017</u> <u>Collectively assessed impairment</u>
Balance on January 1, 2018 and 2017 per IAS 39	\$ 14,148	8,494
Adjustment on initial application of IFRS 9	-	
Balance on January 1, 2018 per IFRS 9	14,148	
Impairment losses recognized (reversed)	21,753	5,592
Foreign exchange gains (losses)	(394)	62
Balance on December 31, 2018 and 2017	<u>\$ 35,507</u>	<u>14,148</u>

As of December 31, 2018 and 2017, the Group did not provide any notes and accounts receivable as collateral.

(c) Other receivables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other receivables	\$ 11,511	13,555
Less: Loss allowance	<u>(10,000)</u>	<u>(10,000)</u>
	<u>\$ 1,511</u>	<u>3,555</u>

As of December 31, 2017, the Group did not have any other receivables that were past due but not impaired.

The movement in the allowance for other receivables was as follows:

	<u>Individually assessed impairment</u>
Balance at January 1, 2017	\$ -
Impairment losses recognized	<u>10,000</u>
Balance at December 31, 2017 (equal to December 31, 2018)	<u>\$ 10,000</u>

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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On August 10, 2016, the Group signed the contract with Taiwan Development Institute (TDI) to establish the industry-university research and development center, and paid the guarantee of the contract \$10,000 thousand on August 16, 2016. However, the Group was unable to obtain a factory license due to the insufficient weight bearing of the building and the inability to improve the problem significantly. The Group officially issued a letter to suspend the contract on March 6, 2017, and issued a payment order to the TDI in June 2017. However, TDI objected to pay the order during the statutory period. Therefore, the case entered into the litigation stage. The case was pronounced on November 7, 2018 and the company lost the lawsuit. The Group refused to accept the result and to raise the appeal. The Group assessed the possibility of recovery based on conservative principles and decided to propose impairment losses for all unreceived amount in 2017, which was recorded as other gains and losses.

As of December 31, 2018 and 2017, the Group did not provide any other receivables as collateral.

(d) Inventories

	December 31, 2018	December 31, 2017
Finished goods	\$ 68,498	77,185
Work in progress (including external warehouse)	150,925	77,745
Raw materials	<u>37,488</u>	<u>20,303</u>
	<u>\$ 256,911</u>	<u>175,233</u>

In 2018, the cost of good sold and expense of inventories amounted to \$712,578 thousand(2017: \$469,902 thousand). In 2018, the write-down of inventories amounted to \$34,112 thousand(2017: \$57,642 thousand).

As of December 31, 2018 and 2017, the Group did not provide any inventories as collateral.

(e) Acquisition of subsidiary

A resolution of obtaining 100% equity of ETERGE was approved by the Board of Directors on November 22, 2017. ETERGE is a company whose business activities are designing and manufacturing optical lens. The Group signed a share sale and purchase agreement with its original shareholders of ETERGE on February 23, 2018, acquiring 100% of equity at \$11.5 per share and in total of 1,800 thousand shares. The total price was \$20,700 thousand. In May 2018, the Group participated in the capital increase of ETERGE by cash of \$12,000 thousand.

Since February 28, 2018 the Group obtained 100% equity of ETERGE. The sales revenue and net profit contributed by ETERGE were \$95,367 thousand and \$119 thousand, respectively. If the transaction occurred on January 1, 2018, the management estimated that the income and the net profit of the Group in 2018 may reach to \$117,254 thousand and \$759 thousand, respectively. In determining the amounts, the management assumed that the transaction occurred on January 1, 2018, and the provisional fair value adjustments arising from the acquisition date were the same.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The major categories of transfer considerations, the assets acquired and the liabilities assumed on the acquisition date and the amounts of recognized goodwill were as follows:

(i) Consideration transferred

Cash	\$ <u><u>20,700</u></u>
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(ii) Assets acquired and liabilities assumed

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date.

Cash and cash equivalents	\$ 13,405
Notes and accounts receivable, net	23,989
Other receivables	203
Inventories	4,354
Prepayments and other current assets	1,020
Property, plant and equipment	5,025
Other non-current assets	1,628
Accounts payable	(26,363)
Current contract liabilities	(1,713)
Other payables	(3,219)
Current tax liabilities	(160)
Other current liabilities	(107)
Deferred tax liabilities	(3)
	<u><u>\$ 18,059</u></u>

(iii) Goodwill arising from the acquisition has been recognized as follows.

Consideration transferred	\$ 20,700
Less: Fair value of identifiable net assets	<u>(18,059)</u>
	<u><u>\$ 2,641</u></u>

The goodwill is mainly derived from the operating value of the ETERGE in the optical lens market, which is expected to be synergistic by the integration of the ETERGE and the Group.

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(f) Property, plant and equipment

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

	<u>Land</u>	<u>Buildings and structures</u>	<u>Machinery and equipment</u>	<u>Office equipment and other facilities</u>	<u>Construction in progress and testing equip</u>	<u>Total</u>
Cost or deemed cost:						
Balance on January 1, 2018	\$ 268,000	123,369	466,722	53,699	129,745	1,041,535
Acquirement from share	-	-	5,356	952	-	6,308
Additions	-	84,618	273,765	39,999	174,519	572,901
Disposals	-	-	(13,833)	(6,468)	-	(20,301)
Transformations	-	31,145	96,420	7,749	(112,692)	22,622
Effect of movement in exchange rates	-	-	(8,366)	(1,402)	(1,184)	(10,952)
Balance on December 31, 2018	<u>\$ 268,000</u>	<u>239,132</u>	<u>820,064</u>	<u>94,529</u>	<u>190,388</u>	<u>1,612,113</u>
Balance on January 1, 2017	\$ -	-	304,860	56,863	29,939	391,662
Additions	268,000	92,973	98,001	29,616	129,309	617,899
Disposals	-	-	(2,719)	(6,777)	-	(9,496)
Reclassifications	-	-	27,238	(27,238)	-	-
Transformations	-	30,396	40,705	1,785	(29,891)	42,995
Effect of movement in exchange rates	-	-	(1,363)	(550)	388	(1,525)
Balance on December 31, 2017	<u>\$ 268,000</u>	<u>123,369</u>	<u>466,722</u>	<u>53,699</u>	<u>129,745</u>	<u>1,041,535</u>
Depreciation and impairments loss:						
Balance on January 1, 2018	\$ -	3,279	84,764	18,333	-	106,376
Acquirement from shares	-	-	1,038	245	-	1,283
Depreciation	-	16,143	81,192	16,012	-	113,347
Disposals	-	-	(4,337)	(5,863)	-	(10,200)
Transformations	-	-	-	(91)	-	(91)
Effect of movement in exchange rates	-	-	(2,013)	(473)	-	(2,486)
Balance on December 31, 2018	<u>\$ -</u>	<u>19,422</u>	<u>160,644</u>	<u>28,163</u>	<u>-</u>	<u>208,229</u>
Balance on January 1, 2017	\$ -	-	37,074	13,953	-	51,027
Depreciation	-	3,279	43,639	15,441	-	62,359
Disposals	-	-	(835)	(6,389)	-	(7,224)
Reclassifications	-	-	4,611	(4,611)	-	-
Effect of movement in exchange rates	-	-	275	(61)	-	214
Balance on December 31, 2017	<u>\$ -</u>	<u>3,279</u>	<u>84,764</u>	<u>18,333</u>	<u>-</u>	<u>106,376</u>
Carrying amounts:						
Balance on December 31, 2018	<u>\$ 268,000</u>	<u>219,710</u>	<u>659,420</u>	<u>66,366</u>	<u>190,388</u>	<u>1,403,884</u>
Balance on December 31, 2017	<u>\$ 268,000</u>	<u>120,090</u>	<u>381,958</u>	<u>35,366</u>	<u>129,745</u>	<u>935,159</u>

The Group leased other equipment under financial lease. Please refer to note 6(j).

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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As of December 31, 2018 and 2017, the aforementioned property, plant and equipment of the Group had been pledged as collateral for long-term borrowings; please refer to note 8.

(g) Short-term borrowings

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

	December 31, 2018	December 31, 2017
Unsecured bank loans	\$ 221,572	-
Secured bank loans	29,000	-
Total	<u>\$ 250,572</u>	<u>-</u>
Unused short-term credit lines	<u>\$ 750,293</u>	<u>245,000</u>
Range of interest rates	<u>1.19%~5.5%</u>	<u>1.40%~2.08%</u>

(i) For the collateral for short-term borrowings; please refer to note 8.

(ii) The main management of the Group was the joint guarantor of short-term borrowings; please refer to note 7.

(h) Long-term borrowings

The conditions of long-term borrowings of the Group were as follows:

	December 31, 2018	December 31, 2017
Secured bank loans	\$ 150,000	200,000
Less: current portion	(7,560)	-
Total	<u>\$ 142,440</u>	<u>200,000</u>
Unused credit lines	<u>\$ -</u>	<u>-</u>
Range of interest rates	<u>1.55%~1.65%</u>	<u>1.6%</u>
Expiration date	<u>108.1~121.1</u>	<u>108.1~121.1</u>

(i) In order to setup the operation headquarter and to purchase equipment for production, the Group signed a medium-term and long-term loans contract with Mega Bank in 2017, with a total credit amount of \$250,000 thousand (including long-term credit amount \$200,000 thousand and medium-term credit amount \$50,000 thousand and both were not allowed to be used cyclically). The credit period for long-term loans was 15 years from the date of being used (including the 2-year grace period), and the credit period for medium-term loan was 7 years from the date of being used. The Group had used the full credit amount. The Group considered the condition of working capitals and paid off \$100,000 thousand and \$50,000 thousand in 2018 and 2017 in advance respectively. The long-term loans will be started to repay in installments since January 2019.

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- (ii) In order to expand the Group's operation and to purchase equipment for production, the Group signed a medium-term and long-term loans contract with JihSun Bank in 2018, with a total credit amount of \$100,000 thousand (not allowed to be used cyclically). The Group had used the full credit amount of \$100,000 thousand. The Group considered the condition of working capitals and paid off \$50,000 thousand in advance in 2018.
- (iii) The main management of the Group was the joint guarantor of long-term borrowings; please refer to note 7.
- (iv) For the collateral for long-term borrowings; please refer to note 8.
- (i) Other payables

	December 31, 2018	December 31, 2017
Equipments payable	\$ 46,671	21,322
Employee and directors compensation payable	7,300	16,474
Salaries and bonus payable	61,107	44,915
Accrued expenses and other payables	<u>95,003</u>	<u>64,146</u>
	<u>\$ 210,081</u>	<u>146,857</u>

- (j) Finance lease liabilities

The Group's finance lease liabilities were as follows:

	December 31, 2018			December 31, 2017		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>1,315</u>	<u>21</u>	<u>1,294</u>

The Group leased other equipment from non-related parties for a period of 3 years. Although the ownership of the equipment had not been transferred, the Group regarded it as a finance lease since that the Group had assumed almost all the risks and rewards of the equipment.

The Group found it impracticable to estimate the relative fair values of the lease element and other elements of the agreement. Therefore, at inception of the lease, the Group recognized an asset and a liability at an amount equal to the estimated fair value of the equipment. Please refer to note 6(f). The inputted financial costs implied on the liability were decided based on long-term borrowings rate.

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(k) Operating lease

Non-cancellable operating lease rentals payable were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Less than one year	\$ 16,139	7,523
Between one and five years	22,219	8,854
More than five years	<u>930</u>	<u>-</u>
	<u>\$ 39,288</u>	<u>16,377</u>

The Group leases a number of cars, warehouse and factory facilities under operating leases. The leases typically run for a period of 1 to 6 years.

During the year, an amount of \$16,600 thousand was recognized as an expense in profit or loss in respect of operating leases (2017: \$8,994 thousand).

The lease of offices and factory facilities was signed together with the lease of land and buildings. Since the ownership of the land has not been transferred, the rent paid to the landlord of buildings is increased to market rent at regular intervals, and the Group does not assume the residual value of buildings. As a result, it was determined that almost all the risks and rewards of the building are with the landlord. Accordingly, the Group determined that the lease was a operating lease.

(l) Employee benefits

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

The pension costs of the Company incurred from the contributions to the Bureau of the Labor Insurance amounted to \$7,100 thousand and \$3,191 thousand for the years ended December 31, 2018 and 2017, respectively.

The pension costs recognized by the other subsidiaries included in consolidated financial statements for the years ended December 31, 2018 and 2017, were \$7,975 thousand and \$5,673 thousand, respectively.

(m) Income taxes

According to the amendment to "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY2018.

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(i) Income tax expense

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

	<u>2018</u>	<u>2017</u>
Current tax expense		
Current period	\$ 54,423	90,134
Adjustment for prior periods	<u>220</u>	<u>(183)</u>
	54,643	89,951
Adjustment in tax rate	816	-
Change in unrecognized deductible temporary differences	<u>4,241</u>	<u>9,328</u>
	<u>5,057</u>	<u>9,328</u>
Income tax expense	<u>\$ 59,700</u>	<u>99,279</u>

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

	<u>2018</u>	<u>2017</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation	\$ <u>(2,309)</u>	<u>19</u>

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

	<u>2018</u>	<u>2017</u>
Profit excluding income tax	\$ <u>199,779</u>	<u>342,070</u>
Income tax using the Company's domestic tax rate	45,731	84,838
Adjustment in tax rate	816	-
Current-year losses for which no deferred tax asset was recognized	3,596	5,114
Change in unrecognized temporary differences	(6,412)	8,087
Change in provision in prior periods	220	(183)
10% surtax on unappropriated earnings	8,871	4,278
Others	<u>6,878</u>	<u>(2,855)</u>
	<u>\$ 59,700</u>	<u>99,279</u>

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2018	December 31, 2017
The carry forward of unused tax losses-JMOL	\$ <u>11,322</u>	<u>7,726</u>

The Income Tax Law of the People's Republic of China allows net losses, as assessed by the tax authorities, to offset taxable income over a period of five years for local tax reporting purposes.

As of December 31, 2018, the information of JMOL's unused tax losses for which no deferred tax assets were recognized are as follows:

<u>Year of loss</u>	<u>Unused tax loss</u>	<u>Expiry date</u>
2016 (assessed)	\$ 2,421	2021
2017 (assessed)	4,790	2022
2018 (estimated)	<u>3,156</u>	2023
	<u>\$ 10,367</u>	

2) Unrecognized deferred tax liabilities

The consolidated entity is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2018 and 2017. Also, management considers it probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities. Details are as follows:

	December 31, 2018	December 31, 2017
Aggregate amount of temporary differences related to investments in subsidiaries	\$ <u>32,062</u>	<u>-</u>
Unrecognized deferred tax liabilities	\$ <u>6,412</u>	<u>-</u>

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

3) Recognized deferred tax assets and liabilities

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

	<u>Unrealized exchange gains</u>	<u>Investment income recognized under the equity method</u>	<u>Total</u>		
Deferred Tax Liabilities:					
Balance at January 1, 2018	\$ -	21,132	21,132		
Recognized in profit or loss	<u>1,222</u>	<u>3,729</u>	<u>4,951</u>		
Balance at December 31, 2018	<u>\$ 1,222</u>	<u>24,861</u>	<u>26,083</u>		
Balance at January 1, 2017	\$ 185	3,604	3,789		
Recognized in profit or loss	<u>(185)</u>	<u>17,528</u>	<u>17,343</u>		
Balance at December 31, 2017	<u>\$ -</u>	<u>21,132</u>	<u>21,132</u>		
	<u>Unearned gross profits</u>	<u>Exchange differences on translation</u>	<u>Allowance for inventory valuation and obsolescence losses</u>	<u>Others</u>	<u>Total</u>
Deferred Tax Assets:					
Balance at January 1, 2018	\$ 11,906	1,990	3,480	8,542	25,918
Recognized in profit or loss	(5,448)	-	8,887	(3,545)	(106)
Recognized in other comprehensive income	-	2,309	-	-	2,309
Effect of movement in exchange rates	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12)</u>	<u>(12)</u>
Balance at December 31, 2018	<u>\$ 6,458</u>	<u>4,299</u>	<u>12,367</u>	<u>4,985</u>	<u>28,109</u>
Balance at January 1, 2017	\$ 8,122	2,009	956	6,899	17,986
Recognized in profit or loss	3,784	-	2,524	1,707	8,015
Recognized in other comprehensive income	-	(19)	-	-	(19)
Effect of movement in exchange rates	<u>-</u>	<u>-</u>	<u>-</u>	<u>(64)</u>	<u>(64)</u>
Balance at December 31, 2017	<u>\$ 11,906</u>	<u>1,990</u>	<u>3,480</u>	<u>8,542</u>	<u>25,918</u>

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) Assessment of tax

The Company's tax returns for the years through 2016 were assessed by the National Tax Administration

(n) Capital and other equity

As of December 31, 2018, the number of authorized ordinary shares were 80,000 thousand shares (2017: 80,000 thousand shares) with par value of \$10 per share. The total value of authorized ordinary shares was amounted to \$800,000 thousand (2017: \$800,000 thousand). As of that date, 68,437 thousand shares (2017: 60,042 thousand shares) of ordinary shares were issued. All issued shares were paid up upon issuance.

Reconciliation of shares outstanding for 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Balance on January 1	\$ 60,042	42,660
Issued for cash	8,000	11,375
Stock dividends from capital surplus	-	4,000
Capital increased by exercising employee compensation	-	2,007
Restricted employee shares	<u>395</u>	<u>-</u>
Balance on December 31	<u>\$ 68,437</u>	<u>60,042</u>

(i) Ordinary shares

In order to meet the operational needs, a resolution was approved by the board of directors on 8 March 2017, that transferring the capital surplus of \$40,000 thousand to share capital, and issuing total of 4,000 thousand ordinary shares at a face value of \$10 per share. The statutory registration procedures had been completed.

A resolution was approved by the board of directors on May 12, 2017, that the employee compensation of 2016 was \$30,000 thousand, of which \$25,000 thousand would be issued by ordinary shares. The number of shares was based on the net value of the financial statements of the Company in 2016, issuing a total of 2,007 thousand new shares, with \$10 of face value per share and a price of \$12.4606 per share. The statutory registration procedures had been completed.

A resolution was approved by the board of directors on June 21, 2017, that the capital was increased by issuance of 9,000 thousand ordinary shares at \$50 per share with a face value of \$10 per share. In addition, according to the related regulations, 10% of the total number of shares issued this time was retained, and providing them for employees to subscribe. The total amount received from funds raised was \$450,000 thousand. The statutory registration procedures had been completed, and all amounts of the issued shares had been charged. Please refer to Note 6(o) for information about capital increase by cash and the retention for employee subscription.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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A resolution of the issuance of the new restricted employee shares was approved by the board of directors on March 21, 2018, issuing 400 thousand ordinary shares at \$35 per share with a face value of \$10 per share. The statutory registration procedures had been completed. Due to the resignation of employees, the Company cancelled and unvested 5 thousand shares of new restricted employee shares in 2018. Please refer to Note 6(o) for information about new restricted employee shares.

A resolution was approved by the board of directors on October 24, 2018, that the capital was increased by issuance of 8,000 thousand ordinary shares at \$58 per share with a face value of \$10 per share. In addition, according to the related regulations, 15% of the total number of shares issued this time was retained, and providing them for employees to subscribe. The total amount received from funds raising which was deducted the relevant fees was \$461,238 thousand. The statutory registration procedures had been completed, and all amounts of the issued shares had been charged. Please refer to Note 6(o) for information about capital increase by cash and the retention for employee subscription.

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2018	December 31, 2017
Share capital	\$ 765,549	384,311
Cash issuance of share reserved for employee subscription	11,877	3,123
Recognition of changes in ownership interests in subsidiaries	694	-
Employee share options	2,082	-
Restricted employee shares	28,057	-
	<u>\$ 808,259</u>	<u>387,434</u>

(iii) Retained earnings

Based on the Company's articles of incorporation amended on December 19, 2017, if there is any profit after closing of books in a given year, the Company shall first defray tax due, cover accumulated losses and set aside ten percent of it as legal reserve and then set aside or reverse a special reserve in accordance with laws and regulations. The balance of earnings available for distribution is composed of the remainder of the said profit and the unappropriated retained earnings of previous years. The earnings appropriation proposal to distribute dividend and bonus shall be proposed by the Board of Directors and approved by the shareholders' meeting.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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The company is in the growth stage. Based on capital expenditures, business expansion needs and sound financial planning for sustainable development, the dividend policy of the Company is in line with the Company's profitability, capital structure and future operational needs. Dividends distributed to shareholders will not less than 20% of the distributable surplus each year. However, if the accumulated distributable surplus is less than 40% of share capital, it will not be distributed; the principle of distributing dividends to shareholders is that stock dividends is combined with cash dividends, and the distribution of cash dividends will not less than 30% of the total dividends to be distributed.

1) Legal reserve

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

(iv) Earnings distribution

Earnings distribution for 2017 and 2016 was decided by the resolution adopted, at the general meeting of shareholders held on June 21, 2018 and June 21, 2017, respectively. The relevant dividend distributions to shareholders were as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Distribution rate</u>	<u>Amount</u>	<u>Distribution rate</u>	<u>Amount</u>
Dividends distributed to ordinary shareholders				
Cash	\$ <u>2.00</u>	<u>120,083</u>	<u>1.00</u>	<u>49,035</u>

(o) Share-based payment

(i) Employee stock options

Based on a resolution at the board of directors on May 9, 2018, the Company decided to issue 1000 thousand shares of employee stock options on the grant date to those full-time employees of the Company or its domestic and foreign subsidiaries (the Group directly or indirectly holds more than 50% of its equity). The employee stock options have been registered and approved by the Securities and Futures Bureau of the FSC.

The employees who receive the stock options can exercise 100% of stock options after holding for two years. The exercisable duration of the option is five years. The outstanding options are deemed to be waiver of the right to exercise after the expiration date. The employees who hold the options are not able to claim the right to exercise. No transference, pledge or donation is allowed to except for inheritance. If the employees violate the labor contract, working rules and other significant negligence, the Company has the right to recall and cancel the options for which without the exercise right.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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Resolutions of the issuance of the employee stock options and subscription method were approved by the board of directors on June 15, 2018, with total 1,000 thousand shares, and the grant date was July 2, 2018.

The details of the employee stock options were as follow:

(in thousand shares)	2018	
	Weighted average of performance price	Number of share option
Outstanding shares on January 1		-
Shares granted in the current period	106	1,000
Shares forfeited in the current period	106	(63)
Shares exercised in the current period		-
Shares expired in the current period		-
Outstanding shares on 31 December	100.01	937
Exercisable shares on December 31		-

The Company adopted the Black-Scholes model to compute the fair value of share-based payment on the grant date, and the input parameters of this model are as follows:

	2018
	Employee stock options
Fair value on grant date	\$ 13.88
Market price on grant date	\$ 81.03
Exercise price	\$ 106
Expected volatility	34.82%
Expected life of the option	3.5 years
Expected dividend	-
Risk-free interest rate	0.65%

Expected volatility is based on the historical volatility of the same industry; the expected life of the options is based on the Company's issuance methods; the expected dividends and risk-free interest rate are based on government bonds.

The expense recognized by the Company and ETERGE in 2018 was \$2,776 thousand due to the employee stock options.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) New restricted employee shares

Based on a resolution at the annual shareholders' meeting on June 21, 2018, the Company decided to issue 400 thousand new restricted employee shares to those full-time employees of the Group on the grant date. The restricted shares have been registered and approved by the Securities and Futures Bureau of the FSC. The grant date of the new restricted employee shares was September 1, 2018.

These employees with the restricted share awards are entitled to purchase the Company's stocks at the price of \$35 per share. When these employees continue to provide service to the Company for at least 1 year, 2 years, 3 years, 4 years and 5 years from the grant date, their most recent performance grades reach to 85 and above and the sales revenue of the Group reach that year's target, 20% of the issued restricted shares will be vested in each year. The restricted shares are kept by the trust immediately after issuance. Stock dividends and cash dividends obtained for holding restricted shares are also required to be kept by the trust before the vested conditions. If these employees do not meet the vesting conditions, the Company will repurchase all the unvested shares at the issue price. These employees are entitled to acquire stock and cash dividends during the vesting period even if these employees will not meet the vesting conditions.

The details of the new restricted employee shares were as follows:

(in thousand shares)	December 31, 2018
Outstanding shares on 1 January	-
Shares granted in the current period	400
Shares forfeited in the current period	(5)
Outstanding shares on 31 December	<u><u>395</u></u>

The fair value of restricted employee shares was \$81.03 on the grant date, which was deemed as the fair value of aforementioned new restricted employee shares. The expenses recognized by the Company in 2018 was \$2,803 thousand due to the new restricted employee shares.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) Cash capital increase reserved for employee subscription

As of December 31, 2018 and 2017, the share-based payment of the company was as follow:

	<u>Equity-settled</u>	
	<u>Cash capital increase reserved for employee subscription</u>	<u>Cash capital increase reserved for employee subscription</u>
Grant date	107.11.28	106.6.21
Number of shares granted	872 thousand shares	900 thousand shares
Contract period	7 days	44 days
Grant object	Employees of the company	Employees of the company
Vesting conditions	Immediately vested	Immediately vested

The Company adopted the Black-Scholes model to compute the fair value of share-based payment on the grant date, and the inputs were as follows:

	<u>2018</u>	<u>2017</u>
	<u>Cash capital increase reserved for employee subscription</u>	<u>Cash capital increase reserved for employee subscription</u>
Fair value on grant date	\$ 10.04	\$ 3.47
Share price on grant date	\$ 68.03	\$ 51.72
Exercise price	\$ 58	\$ 50
Expected volatility	41.60 %	35.54 %
Expected life	7 days	44 days
Expected dividend	-	-
Risk-free interest rate	0.44 %	0.40 %

Expected volatility is based on the historical volatility of the same industry; the expected life of the options is based on the Company's issuance methods; the expected dividends and risk-free interest rate are based on government bonds.

The expense recognized by the Company in 2018 and 2017 due to the cash capital increase reserved for employee subscription were \$8,754 thousand and \$3,123 thousand, respectively.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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(p) Earnings per share

The Company's basic and diluted earnings per share were calculated as follows:

	2018	2017
Basic earnings per share:		
Profit attributable to ordinary shareholders of the Company	\$ <u>140,079</u>	<u>242,791</u>
Weighted-average number of ordinary shares(thousand shares)	<u>60,842</u>	<u>52,990</u>
Basic earnings per share	\$ <u>2.30</u>	<u>4.58</u>
Diluted earnings per share:		
Profit attributable to ordinary shareholders of the Company (diluted)	\$ <u>140,079</u>	<u>242,791</u>
Weighted average number of ordinary shares (basic)	60,842	52,990
Effect of dilution		
Nonvested employee restricted stock	37	-
Effect of employee stock compensation	<u>79</u>	<u>1,093</u>
Weighted average number of ordinary shares (diluted) (thousand shares)	<u>60,958</u>	<u>54,083</u>
Diluted earnings per share	\$ <u>2.30</u>	<u>4.49</u>

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

	2018
Primary geographical markets	
China	\$ 666,354
Korea	351,253
Taiwan	154,746
Other countries	<u>23,480</u>
	\$ <u>1,195,833</u>
Primary products:	
Mold (including mold base and core)	\$ 866,567
Other	<u>329,266</u>
	\$ <u>1,195,833</u>

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) Contract balances

	December 31, 2018	January 1, 2018
Notes and accounts receivable (including related parties)	\$ 466,842	348,699
Less: allowance for impairment	<u>(35,507)</u>	<u>(14,148)</u>
Total	<u>\$ 431,335</u>	<u>334,551</u>
Contract liabilities (unearned revenue)	<u>\$ 48,966</u>	<u>55,851</u>

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

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at the beginning of the period was \$54,846 thousand.

The major change in the balance of contract assets and contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

(r) Employee compensation and directors' and supervisors' remuneration

In accordance with the articles of incorporation, the Company should contribute no less than 2% of the profit as employee compensation and less than 2% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

For the years ended December 31, 2018 and 2017, the remunerations to employees amounted to \$5,000 thousand and \$12,574 thousand, and the remunerations to directors and supervisors amounted to \$2,300 thousand and \$3,900 thousand. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholder' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year. Shares distributed to employees as employees' remuneration are calculated based on the closing price of the Company's shares on the day before the approval by the Board of Directors. The above-mentioned amount of remuneration to employees, directors and supervisors are no different from the estimated amount of the 2018 and 2017 consolidated financial statement. Related information would be available at the Market Observation Post System website.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(s) Financial instruments

(i) Credit risk

1) Credit risk exposure

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

2) Concentration of credit risk

To minimize credit risk, the Group periodically evaluates financial status of the customers and the possibility of collecting receivables. Besides, the Group monitors and reviews the recoverable amount of the receivables to ensure the uncollectible amount are recognized appropriately as loss allowance. As of December 31, 2018 and 2017, 70% and 78%, respectively, of notes and accounts receivable were eleven and seven major customers. Thus, credit risk is significantly centralized.

3) Receivables and debt securities

For credit risk exposure of notes and accounts receivable, please refer to note 6(b). Other receivables at amortized cost, for the details of the loss allowance for impairment at 2018 and 2017, please refer to Note 6(c).

Other financial assets at amortized cost includes cash and cash equivalents, other receivables, restricted assets (recorded as other non-current assets) and guarantee deposits. All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(h).

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within one year	1~2 years	2~5 years	Over 5 years
December 31, 2018						
Non-derivative financial liabilities:						
Short-term borrowings	\$ 250,572	(250,572)	(250,572)	-	-	-
Notes and accounts payable (including related parties)	109,130	(109,130)	(109,130)	-	-	-
Other payables (including related parties)	129,266	(129,266)	(129,266)	-	-	-
Long-term borrowing (including current portion)	<u>150,000</u>	<u>(150,000)</u>	<u>(7,560)</u>	<u>(57,560)</u>	<u>(22,680)</u>	<u>(62,200)</u>
	<u>\$ 638,968</u>	<u>(638,968)</u>	<u>(496,528)</u>	<u>(57,560)</u>	<u>(22,680)</u>	<u>(62,200)</u>

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

	Carrying amount	Contractual cash flows	Within one year	1~2 years	2~5 years	Over 5 years
December 31, 2017						
Non-derivative financial liabilities						
Notes and accounts payable (including related parties)	\$ 69,223	(69,223)	(69,223)	-	-	-
Other payables	69,897	(69,897)	(69,897)	-	-	-
Finance lease liabilities (including current portion)	1,294	(1,294)	(1,294)	-	-	-
Long-term borrowing (including current portion)	200,000	(200,000)	-	(15,270)	(45,240)	(139,490)
Guarantee deposits	183	(183)	(183)	-	-	-
	<u>\$ 340,597</u>	<u>(340,597)</u>	<u>(140,597)</u>	<u>(15,270)</u>	<u>(45,240)</u>	<u>(139,490)</u>

Except for some long-term borrowings repaid in advance, the Group does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to foreign currency risk

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

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD	\$ 20,824	USD/TWD = 30.715	639,609	19,526	USD/TWD = 29.76	581,094
USD	\$ 2,898	USD/CNY = 6.8683	89,012	1,492	USD/CNY = 6.5177	44,402
Financial liabilities						
USD	\$ 3,541	USD/TWD = 30.715	108,762	1,043	USD/TWD = 29.76	31,040
USD	\$ 9,743	USD/CNY = 6.8683	299,256	11,039	USD/CNY = 6.5177	328,521

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes and accounts receivable, other receivables, borrowings, accounts payable, and other payables that are denominated in foreign currency. A strengthening (weakening) of 5% of the TWD against the USD as at December 31, 2018 and 2017, would have increased (decreased) the profit before income tax, were as follow:

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
USD (against the TWD)		
Strengthening of 5%	\$ 26,542	27,503
Weakening of 5%	(26,542)	(27,503)
USD (against the CNY)		
Strengthening of 5%	(10,512)	(14,206)
Weakening of 5%	10,512	14,206

3) Foreign exchange gain and loss on monetary items

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years 2018 and 2017, foreign exchange gain (loss) (including realized and unrealized portions) amounted to \$4,510 thousand and (\$6,071 thousand), respectively.

(iv) Interest rate analysis

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

Interest rate exposure of the Group's financial assets and liabilities were as follows:

	<u>Book value</u>	
	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Instruments with fixed interest rate:		
Financial assets	\$ 61,430	59,759
	<u>\$ 61,430</u>	<u>59,759</u>
Instruments with variable interest rate:		
Financial assets	\$ 236,892	201,764
Financial liabilities	(400,572)	(200,000)
	<u>\$ (163,680)</u>	<u>1,764</u>

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

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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If the interest rate had increased or decreased by 1 basis point, the Group's profit before income tax would have decreased or increased by \$409 thousand for the December 31, 2018, and increased or decreased by \$4 thousand for the December 31, 2017 with all other variable factors remaining constant. This is mainly due to the Group's demand deposits and borrowings with variable interest rate.

(v) Fair value of financial instruments - fair value hierarchy

The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

	December 31, 2018				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost:					
Cash and cash equivalents	\$ 298,864	-	-	-	-
Notes and accounts receivable (including related parties)	431,335	-	-	-	-
Other receivables	1,511	-	-	-	-
Restricted assets (recorded as other non-current assets)	58,220	-	-	-	-
Guarantee deposits	4,618	-	-	-	-
Total	<u>\$ 794,548</u>				
Financial liabilities measured at amortized cost:					
Short-term borrowings	\$ 250,572	-	-	-	-
Notes and accounts payable (including related parties)	109,130	-	-	-	-
Other payables (including related parties)	129,266	-	-	-	-
Long-term borrowing (including current portion)	150,000	-	-	-	-
Total	<u>\$ 638,968</u>				

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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	December 31, 2017				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Loans and receivables:					
Cash and cash equivalents	\$ 261,884	-	-	-	-
Notes and accounts receivable (including related parties)	333,093	-	-	-	-
Other receivables	3,555	-	-	-	-
Restricted assets (recorded as other non-current assets)	32,927	-	-	-	-
Guarantee deposits	1,374	-	-	-	-
Total	\$ 632,833				
Financial liabilities measured at amortized cost:					
Notes and accounts payable (including related parties)	\$ 69,223	-	-	-	-
Other payables	69,897	-	-	-	-
Finance lease liabilities (including current portion)	1,294	-	-	-	-
Long-term borrowings (including current portion)	200,000	-	-	-	-
Refundable deposits	183	-	-	-	-
Total	340,597				

(t) Financial risk management

(i) Overview

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

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

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

(ii) Structure of risk management

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

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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The Group minimizes the risk exposure through derivative financial instruments. The Board of Directors regulated the use of derivative financial instruments in accordance with the Group's policy about risks arising from financial instruments such as currency risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and the investments of excess liquidity. The internal auditors of the Group continue with the review of the amount of the risk exposure in accordance with the Group's policies and the risk management policies and procedures. The Group has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation.

(iii) Credit risk

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

1) Accounts receivable and other receivables

The sales target of the Group is significantly concentrated on a small number of customers. In order to reduce the credit risk, the Group continuously evaluates the financial status of the main customers and the actual collection situations, and the Group regularly assesses the possibility of accounts receivable recovery.

The Group does not hold any collateral or other credit enhancement instrument to avoid the credit risk of financial assets.

The Group sets the allowance for bad debt account to reflect the estimated losses for accounts receivables, other receivables, and investments. The allowance for bad debt account consists of specific losses relating to individually significant exposure and the unrecognized losses arising from similar assets groups. The allowance for bad debt account is recognized based on historical collection records of similar financial assets.

2) Investments

The exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Group's finance department. The Group only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Group does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

3) Guarantees

The Group's policy is to provide financial guarantees only to wholly owned subsidiaries. At December 31, 2018, no other guarantees were outstanding. Please refer to Note 13 (a).

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(iv) Liquidity risk

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

(v) Market risk

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

1) Currency risk

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

As for other monetary assets and liabilities denominated in other foreign currencies, when short-term imbalance takes place, the Group buys or sells foreign currencies at spot rate to ensure that the net exposure is kept on an acceptable level.

2) Interest rate risk

The Group borrows funds with variable interest rates, which has a risk exposure to changes in interest rates.

3) Other market price risk

The Group is not exposed to equity price risk because it does not hold equity securities.

(u) Capital management

The Group has to maintain sufficient capital to establish and expand production capacity and equipment. As the optical lens and related mold industry are highly affected by the cyclical fluctuations of the business environment, the capital management of the Group is to ensure that the Group has sufficient and necessary financial resources to support the working capital needs, capital expenditures, expenditures on research and development, dividend payments, and other businesses within the next 12 months.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

The Group does not have investing activities which did not affect the current cash flow in the years ended December 31, 2018 and 2017.

Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2018	Cash flows	Non-cash changes Foreign exchange movement	December 31, 2018
Long-term borrowings	\$ 200,000	(50,000)	-	150,000
Short-term borrowings	-	250,572	-	250,572
Guarantee deposit	183	(183)	-	-
Total liabilities from financing activities	<u>\$ 200,183</u>	<u>200,389</u>	<u>-</u>	<u>400,572</u>

(7) Related-party transactions

(a) Names and relationship with related parties

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

Name of Related Party	Relationship with the Group
Genie Precision Machining Co., Ltd. (GENIE)	Other related party
Dongguan City QunYou Optical Co., Ltd. (QUNYOU) (Note1)	//
Yijia Trading Co., Ltd. (former name: Taiju Technology Co. Ltd.) (Note6)	//
EVA DREAMER LIMITED (EVA DREAMER) (Note 2)	//
Hon Hai Precision Industry Co., Ltd. (HON HAI) (Note3)	An associate
WWW (Jin Cheng) Co., Ltd. (WWW) (Note4)	//
Fujin Precision Industrial (Jin Cheng) Co., Ltd. (Note4)	//
Mr. Cheng Cheng Tien	Key management personnel
Mr. Lee Jung Chou	//
Mr. Lee Wen Chieh (Note5)	//
Mr. Yang Chen Kuo (Note5)	//
Mr. Liu Wen Hung (Note5)	//

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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Note 1: Since November 20, 2017, the spouse of the general manager of the Group had lost influence on that company, and that company was no longer a related-party of the Group.

Note 2: Since December 19, 2017, the person in charge of that company had resigned as a director of the Company, and was no longer a related-party of the Group.

Note 3: Since June 21, 2017, Hon Hai's subsidiary, Hong Yang Venture Capital Co., Ltd. (Hong Yang Venture Capital), was the corporate legal director of the Group, and became the related-party of the Group.

Note 4: Since June 21, 2017, Hong Yang Venture Capital had been a corporate legal director of the Group, and that company was an associate of Hong Yang Venture Capital, therefore, it became the related-party of the Group.

Note 5: Since December 19, 2017, Mr. Lee Wen Chieh, Mr. Yang Chen Kuo and Mr. Liu Wen Hung had resigned as directors of the Company, and were no longer related-parties of the Group.

Note 6: Since December 19, 2017, the spouse of that company had resigned as a director of the Company, and was no longer a related-party of the Group.

(b) Significant transactions with related parties

(i) Sales

The amounts of significant sales by the Group to related parties were as follows:

	<u>2018</u>	<u>2017</u>
Other related-parties	\$ -	2,004
Associates	<u>46,667</u>	<u>41,530</u>
	<u><u>46,667</u></u>	<u><u>43,534</u></u>

The credit conditions and sales prices of the above-mentioned related party transactions of the Group are determined by the agreement of both parties.

(ii) Purchases

The amounts of significant purchases by the Group from related parties were as follows:

	<u>2018</u>	<u>2017</u>
Other related parties-GENIE	\$ -	19,464
Associates	<u>4,214</u>	<u>-</u>
	<u><u>4,214</u></u>	<u><u>19,464</u></u>

The payment terms and purchase prices of the above-mentioned related party transactions of the Group are determined by the agreement of both parties. The partial purchases from related parties of the Group were recognized manufacturing expenses and operating expenses.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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(iii) Receivables from related parties

The receivables from related parties were as follows:

<u>Account</u>	<u>Relationship</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	Other related parties	\$ 16,701	10,844
Less: loss allowance	Other related parties	-	2,666
		<u>\$ 16,701</u>	<u>8,178</u>

(iv) Payables to related parties

The payables to related parties were as follows:

<u>Account</u>	<u>Relationship</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other payables	Other related parties	\$ 3,977	-

The other payables listed above were the payables of processing costs to the associates.

(v) Loans to related parties

The Group lent US\$500 thousand to other related parties - EVA DREAMER in 2016, and calculated interest at 3% which was based on the contract. The loan was unsecured loan. As of December 31, 2017, other related parties had fully repaid its loan. The interest income was \$153 thousand in 2017.

(vi) Leases

The Group signed one-to-two-year equipment lease contracts with associates, HON HAI and WWW in 2018. The rent expenses were as follows:

	<u>2018</u>
Associates:	
HON HAI	\$ 5,300
WWW	<u>3,348</u>
	<u>\$ 8,648</u>

The Group signed a three-year lease contract with other related parties for renting the factory in 2017. The rent expenses for the period from January 1 to December 31, 2017 was \$615 thousand.

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ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
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(vii) Others

The loans to key management personnel as follows:

	2017
Key management personnel:	
Mr. Yang Chen Kuo	\$ 4,609
Mr. Lee Wen Chieh	3,035
Mr. Liu Wen Hung	2,024
Others	576
	\$ 10,244

As of December 31, 2017, the related receivables had been collected.

(c) Key management personnel compensation

(i) Key management personnel compensation comprised:

	2018	2017
Short-term employee benefits	\$ 17,808	33,577
Post-employment benefits	289	655
Share-based payments	2,878	2,585
	\$ 20,975	36,817

In years 2018 and 2017, the Group provides company car with carrying amount of \$1,253 thousand and \$1,947 thousand, respectively, for key management personnel use.

(ii) Guarantee

As of December 31, 2018 and 2017, the main management is the joint guarantors of the long-term and short-term borrowings of the Group.

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2018	December 31, 2017
Property, plant and equipment	Long-term loans	\$ 337,771	339,886
Other non-current asset-reserve account	Short-term and long-term loans	27,351	-
Other non-current assets-time deposits	Post-release duty payment and short-term loans	30,869	32,927
		\$ 395,991	372,813

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(9) Commitments and contingencies

Unrecognized contractual commitments:

	December 31, 2018	December 31, 2017
Acquisition of property, plant and equipment	\$ 90,872	81,219

(10) Losses Due to Major Disasters: None**(11) Subsequent Events: None****(12) Other**

- (a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

	For the year ended December 31					
	2018			2017		
	Cost of Sales	Operating Expense	Total	Cost of Sales	Operating Expense	Total
By item						
Employee benefits						
Salary	224,355	103,619	327,974	132,004	79,330	211,334
Labor and health insurance	11,406	6,585	17,991	5,650	3,145	8,795
Pension	10,652	4,423	15,075	6,632	2,232	8,864
Others	15,886	2,135	18,021	14,709	4,054	18,763
Depreciation	90,761	22,586	113,347	57,574	4,785	62,359
Amortization	192	3,299	3,491	418	1,722	2,140

(13) Other disclosures

- (a) Information on significant transactions:

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

- (i) Loans to other parties:

(Unit: Thousand dollars)

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Loss allowance	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
0	The Company	CHENG TIAN	Other receivables	Y	161,254 (USD5,250)	-	-	3%	Short-term financing	-	Short-term funding needs	-	-	-	712,480	712,480
0	The Company	JMO	Other receivables	Y	153,575 (USD5,000)	153,575 (USD5,000)	92,145 (USD3,000)	3.5%~4.75%	Business dealings	272,865		-	-	-	712,480	712,480
1	CHENG TIAN	JMO	Other receivables	Y	155,111 (USD5,050)	-	-	4.75%	Short-term financing	-	Short-term funding needs	-	-	-	420,418	420,418
2	JMO	JMOL	Other receivables	Y	178,880 (CNY40,000)	118,508 (CNY26,500)	118,508 (CNY26,500)	4.75%~5.5%	Short-term financing	-	Short-term funding needs	-	-	-	269,109	269,109

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Note 1: According to the Company's "procedures for providing loans to other parties", if foreign companies whose 100% of the voting shares directly or indirectly owned by the Company have needs for business transactions or short-term financing, the total and individual amount of lending cannot exceed 40% of the Company's net worth.

Note 2: According to the CHENG TIAN's "procedures for providing loans to other parties", if borrowers have needs for short-term financing the total and individual amount of lending cannot exceed 40% of CHENG TIAN's net worth. In addition, foreign companies whose 100% of the voting shares directly or indirectly owned by the CHENG TIAN are not affected by the limitation of 40%, but the total amount of lending cannot exceed the net worth of CHENG TIAN. The total and individual amount of lending to foreign companies whose 100% of the voting shares directly or indirectly owned by the parent company cannot exceed 100% of the net worth of that company.

Note 3: According to the JMO's "procedures for providing loans to other parties", if foreign companies whose 100% of the voting shares directly or indirectly owned by the Company has needs for business transactions or short-term financing, the total and individual amount of lending cannot exceed 60% of the Company's net worth.

Note 4: The amounts were translated into New Taiwan Dollars at the exchange rates at the ending date of the reporting period.

- (ii) Guarantees and endorsements for other parties: None
- (iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures): None
- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWD300 million or 20% of the capital stock: None
- (v) Acquisition of individual real estate with amount exceeding the lower of TWD300 million or 20% of the capital stock: None
- (vi) Disposal of individual real estate with amount exceeding the lower of TWD300 million or 20% of the capital stock: None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of TWD100 million or 20% of the capital stock:

(Unit: Thousand dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	JMO	Subsidiaries	Sales	(272,865)	(32) %	150 days	No general price can be compared	No significant difference from the normal customer	136,509	38%	
"	"	"	Purchases	156,205	41 %	60 days	"	"	(49,983)	(62)%	
"	JMOL	Second-tier Subsidiary	Purchases	188,349	49 %	60 days	"	"	(20,479)	(25)%	
JMO	The Company	Parent	Purchases	272,865	85 %	60 days	"	"	(136,509)	23%	
"	"	"	Sales	(156,205)	(22) %	60 days	"	"	49,983	19%	
JMOL	The Company	Parent	Sales	(188,349)	(74) %	60 days	"	"	20,479	43%	

Note : The above transactions had been eliminated in the consolidated financial statement.

- (viii) Receivables from related parties with amounts exceeding the lower of TWD100 million or 20% of the capital stock:

(Unit: Thousand dollars)

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue (Note)		Amounts received in subsequent period	Loss allowance	Note
					Amount	Action taken			
The Company	JMO	Subsidiaries	136,509	1.82	-		49,613	-	-

Note : As of the reporting date.

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(ix) Trading in derivative instruments: None

(x) Business relationships and significant intercompany transactions:

(Unit: Thousand dollars)

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	JMO	1	Operating revenues	272,865	No significant difference from the normal customer	22.82%
"	"	"	1	Accounts receivable	136,509	"	5.26%
1	JMO	The Company	2	Operating revenues	156,205	"	13.06%
"	"	"	2	Accounts receivable	49,983	"	1.93%
2	JMOL	The Company	2	Operating revenues	188,349	"	15.75%
"	"	"	2	Accounts receivable	20,479	"	0.79%

Note 1: The number is filled in as follows:

1. 0 represents the parent company
2. Subsidiaries are numbered sequentially according to Arabic numeral 1.

Note 2: The types of traders are marked as follows:

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

(b) Information on investees:

The following is the information on investees for the year 2018 (excluding information on investees in Mainland China):

(Unit: Thousand dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Highest balance during the year		Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value	Shares (thousands)	Percentage of ownership			
The Company	CHENG TIAN	Samoa	General investing	279,015 (USD9,084)	215,224 (USD7,232)	9,084	100.00 %	395,874	9,084	100 %	34,172	32,062	
"	ETERGE	Taiwan	Production and sales of optical components and electronic imaging products	32,700	-	3,000	100.00 %	33,513	3,000	100 %	759	119	

Note: The amounts shown in the table were translated into New Taiwan Dollars at the exchange rates at the end of the reporting period or the average rate of the year of 2018.

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(c) Information on investment in Mainland China:

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

(Unit: Thousand dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (losses) of the investee	Percentage of ownership	Highest percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow							
JMO	Manufacture and sales of optical molds and products	278,524 (USD9,068)	Note 1	215,224 (USD7,232)	56,393 (USD1,836)	-	278,524 (USD9,068)	36,120 (USD1,197)	100.00%	100.00%	33,404 (USD1,107)	418,215 (USD13,616)	-
JMOL	Assemble digital lens and lens coating	35,776 (CNY8,000)	Note 2	- (Note 2)	-	-	-	(16,163) (CNY3,547)	100.00%	100.00%	(16,163) (CNY3,547)	(12,611) (CNY2,820)	-

- (ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2018 (Note 4)	Investment Amounts Authorized by Investment Commission, MOEA (Note 4)	Upper Limit on Investment (Note 4)
268,320 (CNY 60,000)	268,320 (CNY 60,000)	1,068,721

Note 1: Indirect investment in Mainland China through companies registered in a third region.

Note 2: Indirect investment in Mainland China through an existing company in Mainland China.

Note 3: The gains and losses on investment of the companies were recognized according to the investees' financial statements which had been reasonably audited by the certified public accountants of the parent company.

Note 4: The amounts shown in the table were translated into New Taiwan Dollars at the exchange rates at the end of the reporting period or the average rate of the year of 2018.

- (iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".

(14) Segment information

- (a) The Group has only a single operating segment, which is mainly engaged in the mold manufacturing, research and development, and sales of optical lens. The information of segment profit and loss, segment assets and liabilities is consistently with the consolidated financial statements. Please refer to the consolidated balance sheet and the consolidated comprehensive income statement.

(Continued)

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(b) Product and service information

Revenue from the external customers of the Group was as follows:

<u>Product and services</u>	<u>2018</u>	<u>2017</u>
Mold (including mold base and core)	\$ 866,567	800,993
Others	329,266	203,144
	<u>\$ 1,195,833</u>	<u>1,004,137</u>

(c) Geographic information

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

(i) Revenue from external customers:

<u>Geographical information</u>	<u>2018</u>	<u>2017</u>
China	\$ 666,354	646,314
Korea	351,253	239,827
Taiwan	154,746	105,726
United States	15,800	11,562
Other countries	7,680	708
Total	<u>\$ 1,195,833</u>	<u>1,004,137</u>

(ii) Non-current assets:

<u>Geographical information</u>	<u>2018</u>	<u>2017</u>
Taiwan	\$ 1,086,859	644,125
China	433,520	355,577
Total	<u>\$ 1,520,379</u>	<u>999,702</u>

Non-current assets include property, plant and equipment, intangible assets, guarantee deposits, and other non-current assets, not including deferred tax assets.

(d) Major customers

The details of sales revenue from external customers more than 10% of the amount of consolidated statement of comprehensive income were as follows:

	<u>2018</u>	<u>2017</u>
J Company	\$ 177,605	194,795
E Company	-	177,906
A Company	140,093	145,262
G Company	114,038	-
	<u>\$ 431,736</u>	<u>517,963</u>