

**ATEN INTERNATIONAL CO., LTD.
AND SUBSIDIARIES**

Consolidated Financial Statements

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

**Address: 3rd Floor, No. 125, Sec. 2, Datong Rd., Xizhi Dist., New Taipei City,
Taiwan, R.O.C.**

Telephone: (02)8692-6789

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 ATEN INTERNATIONAL 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 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, ATEN INTERNATIONAL CO., LTD. and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: ATEN INTERNATIONAL CO., LTD.

Chairman: Sun-Chung Chen

Date: March 12, 2019

Independent Auditors' Report

To the Board of Directors of ATEN INTERNATIONAL CO., LTD.:

Opinion

We have audited the consolidated financial statements of ATEN INTERNATIONAL CO., LTD. and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of ATEN INTERNATIONAL CO., LTD. and its subsidiaries as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation 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 ATEN INTERNATIONAL CO., LTD. and its subsidiaries in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

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

1. Revenue recognition

Please refer to note 4(n), note 6(q) and (r) for disclosure related to revenue recognition.

Description of key audit matter:

Revenue is the key indicator used by investors and management while evaluating ATEN INTERNATIONAL CO., LTD. and its subsidiaries' financial or operating performance. ATEN INTERNATIONAL CO., LTD. and its subsidiaries initially adapted IFRS 15, and the accuracy of the timing and amount of revenue recognized have significant impact on the financial statements, for which the assumptions and judgments of revenue recognition rely on subjective judgment of the management. Hence, we consider it as the key audit matter.

How the matter was addressed in our audit:

The key audit procedures performed included testing the effectiveness of the design and implementing the internal control (both manual and system control) of sales and collecting cycle; reviewing significant sales contract to determine whether the key judgments and assumptions of revenue recognition are reasonable; analyzing the changes in top 10 customers from the most recent period and last year, and the changes in the price and quantity of each category of product line to determine whether if there are any significant misstatements; selecting sales transactions from a period of time before and after the balance sheet date, and verifying them with the vouchers to determine the accuracy of the timing and amounts of revenue recognized; understanding whether if there is a significant subsequent sales return or discount; and reviewing whether the disclosure of revenue made by the management is appropriate.

2. Inventory measurement

Please refer to note 4(h), note 5, and note 6(g) for disclosure related to inventory measurement.

Description of key audit matter:

The inventory is measured at the lower of cost and net realizable value. Due to the update of technology, the inventory might be out of date or no longer meets the requirement of the market, which may result in a decline on the price of the product resulting in the cost of the inventory to be higher than the net realizable value. The measurement of inventory depends on the evaluation of the management based on several evidences. Therefore, we consider it as a key audit matter.

How the matter was addressed in our audit:

The key audit procedures performed is to understand the management's accounting policy of inventory measurement and determine whether it is reasonable and is being implement. The procedures include inspecting the method of inventory valuation assumption is consistently and evaluating whether the assumption is needed to be adjusted due to the operating and economic condition change. Obtaining the inventory valuation table, understanding the net realizable values by management and the variation of the prices, in the period after the reporting date, to ensure the appropriateness of the valuation price. Reviewing the reason and verifying the accuracy on past three years and current year's allowance of inventory. Assessing whether the disclosure of provision for inventory valuation is appropriate.

Other Matter

ATEN INTERNATIONAL CO., LTD. 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 IFRSs, IASs, IFRIC, 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 ATEN INTERNATIONAL CO., LTD. and its subsidiaries' 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 ATEN INTERNATIONAL CO., LTD. and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including the supervisors) are responsible for overseeing ATEN INTERNATIONAL CO., LTD. and its subsidiaries' 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 ATEN INTERNATIONAL CO., LTD. and its subsidiaries' 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 ATEN INTERNATIONAL CO., LTD. and its subsidiaries' 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 ATEN INTERNATIONAL CO., LTD. and its subsidiaries 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 group 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement audit partners issuing this independent auditors' report are Lin Wu and Yung-Sheng Wang.

KPMG

Taipei, Taiwan (Republic of China)
March 12, 2019

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ATEN INTERNATIONAL 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 | |
|--------|---|---------------------|------------|-------------------|------------|------------------------|---|---------------------|------------|-------------------|------------|
| Assets | | Amount | % | Amount | % | Liabilities and Equity | | Amount | % | Amount | % |
| 11xx | Current assets: | | | | | 21xx | Current liabilities: | | | | |
| 1100 | Cash and cash equivalents (note 6(a)) | \$ 692,377 | 10 | 840,404 | 14 | 2100 | Short-term borrowings (notes 6(k) and 8) | \$ 756,907 | 11 | 734,695 | 12 |
| 1110 | Financial assets at fair value through profit or loss—current (note 6(b)) | 1,417,936 | 20 | 980,748 | 16 | 2322 | Current portion of long-term borrowings (notes 6(k) and 8) | 10,200 | - | 13,661 | - |
| 1120 | Financial assets at fair value through other comprehensive income—current (note 6(c)) | 4,642 | - | - | - | 2120 | Financial liabilities at fair value through profit or loss—current (note 6(b)) | 2,247 | - | 2,447 | - |
| 1125 | Available-for-sale financial assets—current (note 6(d)) | - | - | 8,661 | - | 2150 | Notes payable | 4,363 | - | 4,085 | - |
| 1150 | Notes receivable, net (note 6(e)) | 7,933 | - | 8,580 | - | 2170 | Accounts payable (note 7) | 470,081 | 7 | 465,073 | 8 |
| 1160 | Receivables from related parties, net (notes 6(e) and 7) | - | - | 7,586 | - | 2219 | Other payable (notes 6 (m) and (s)) | 603,288 | 9 | 488,104 | 8 |
| 1170 | Accounts receivable, net (notes 6(e) and 7) | 721,109 | 10 | 696,512 | 12 | 2230 | Current tax liabilities | 142,356 | 2 | 125,371 | 2 |
| 1200 | Other receivables (notes 6(f) and (i)) | 653,669 | 9 | 2,541 | - | 2250 | Provisions—current (note 6(l)) | 22,660 | - | 19,834 | - |
| 130x | Inventories(note 6(g)) | 1,058,080 | 15 | 816,614 | 14 | 2399 | Other current liabilities | 62,754 | 1 | 29,360 | 1 |
| 1410 | Prepayments | 52,399 | 1 | 53,568 | 1 | | Total current liabilities | <u>2,074,856</u> | <u>30</u> | <u>1,882,630</u> | <u>31</u> |
| 1470 | Other current assets | 30,077 | 1 | 29,856 | 1 | 25xx | Non-Current liabilities: | | | | |
| | Total current assets | <u>4,638,222</u> | <u>66</u> | <u>3,445,070</u> | <u>58</u> | 2540 | Long-term borrowings (notes 6(k) and 8) | 25,983 | - | 36,169 | 1 |
| 15xx | Non-current assets: | | | | | 2570 | Deferred income tax liabilities (note 6(n)) | 220,132 | 3 | 172,298 | 3 |
| 1517 | Financial assets at fair value through other comprehensive income—non-current (note 6(c)) | 21,780 | - | - | - | 2640 | Accrued pension liabilities (note 6(m)) | 98,977 | 1 | 107,131 | 2 |
| 1543 | Financial assets carried at cost—non-current (notes 6(c) and (h)) | - | - | 21,780 | - | 2645 | Deposits received | 1,595 | - | 1,695 | - |
| 1550 | Investments accounted for under equity method (note 6(i)) | 75,559 | 1 | 180,117 | 3 | 2670 | Other non-current liabilities | 37,102 | 1 | 33,326 | 1 |
| 1600 | Property, plant and equipment (notes 6(j) and 8) | 1,994,459 | 28 | 2,024,879 | 34 | 2xxx | Total non-current liabilities | <u>383,789</u> | <u>5</u> | <u>350,619</u> | <u>7</u> |
| 1805 | Goodwill | 2,756 | - | 2,756 | - | | Total liabilities | <u>2,458,645</u> | <u>35</u> | <u>2,233,249</u> | <u>38</u> |
| 1840 | Deferred income tax assets (note 6(n)) | 175,348 | 3 | 149,667 | 3 | 3110 | Equity attributable to shareholders of the company (note 6(o)): | | | | |
| 1915 | Prepayments for equipment | - | - | 8 | - | | Common stock | 1,194,711 | 17 | 1,194,711 | 20 |
| 1920 | Refundable deposits | 20,251 | - | 15,260 | - | 3210 | Capital surplus: | | | | |
| 1980 | Other financial assets—non-current (notes 8 and 9) | 116,689 | 2 | 112,707 | 2 | 3250 | Additional paid-in capital | 316,913 | 4 | 316,913 | 5 |
| 1990 | Other non-current assets | - | - | 3 | - | 3260 | Donated assets received | 50 | - | 50 | - |
| | Total non-current assets | <u>2,406,842</u> | <u>34</u> | <u>2,507,177</u> | <u>42</u> | | Changes in equity of associates accounted for using equity method | 26,186 | - | 70,194 | 1 |
| | | | | | | | | <u>343,149</u> | <u>4</u> | <u>387,157</u> | <u>6</u> |
| | | | | | | 3310 | Retained earnings: | | | | |
| | | | | | | 3320 | Legal reserve | 1,114,004 | 16 | 1,041,329 | 17 |
| | | | | | | 3350 | Special reserve | 94,045 | 1 | 65,332 | 1 |
| | | | | | | | Unappropriated retained earnings | 1,858,269 | 27 | 1,023,403 | 17 |
| | | | | | | | | <u>3,066,318</u> | <u>44</u> | <u>2,130,064</u> | <u>35</u> |
| | | | | | | 3410 | Other equity interest: | | | | |
| | | | | | | 3420 | Financial statements translation differences for foreign operations | (89,763) | (1) | (92,885) | (1) |
| | | | | | | 3425 | Unrealized gain (loss) on financial assets at fair value through other comprehensive income | (17,532) | - | - | - |
| | | | | | | | Unrealized gain (loss) on available-for-sale financial assets | - | - | (1,160) | - |
| | | | | | | | | <u>(107,295)</u> | <u>(1)</u> | <u>(94,045)</u> | <u>(1)</u> |
| | | | | | | | Total equity attributable to shareholders of the company | <u>4,496,883</u> | <u>64</u> | <u>3,617,887</u> | <u>60</u> |
| | | | | | | 36xx | Non-controlling interests | 89,536 | 1 | 101,111 | 2 |
| | | | | | | 3xxx | Total equity | <u>4,586,419</u> | <u>65</u> | <u>3,718,998</u> | <u>62</u> |
| 1xxx | Total assets | <u>\$ 7,045,064</u> | <u>100</u> | <u>5,952,247</u> | <u>100</u> | 2-3xxx | Total liabilities and equity | <u>\$ 7,045,064</u> | <u>100</u> | <u>5,952,247</u> | <u>100</u> |

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

| | 2018 | | 2017 | |
|---|---------------------|-----------|------------------|------------|
| | Amount | % | Amount | % |
| 4000 Operating revenue (notes 6(q), (r) and 7) | \$ 5,173,010 | 100 | 4,947,321 | 100 |
| 5000 Operating costs (notes 6(g), (j), (l), (m), (s) and 7) | <u>2,129,330</u> | <u>41</u> | <u>2,022,661</u> | <u>41</u> |
| 5900 Gross profit | <u>3,043,680</u> | <u>59</u> | <u>2,924,660</u> | <u>59</u> |
| 6000 Operating expenses (notes 6(e), (j), (m), (s), and 7): | | | | |
| 6100 Selling expenses | 1,171,119 | 23 | 1,079,970 | 21 |
| 6200 Administrative expenses | 548,523 | 10 | 532,573 | 11 |
| 6300 Research and development expenses | 491,571 | 10 | 425,934 | 9 |
| 6450 Expected credit loss for bad debt expense | <u>2,353</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total operating expenses | <u>2,213,566</u> | <u>43</u> | <u>2,038,477</u> | <u>41</u> |
| 6900 Operating profit | <u>830,114</u> | <u>16</u> | <u>886,183</u> | <u>18</u> |
| 7000 Non-operating income and expenses (notes 6(i), (j) and (t)): | | | | |
| 7010 Other income | 30,171 | - | 19,475 | - |
| 7020 Other gains and losses | 958,929 | 19 | 12,432 | - |
| 7050 Finance costs | (18,369) | - | (14,467) | - |
| 7060 Share of profit of associates accounted for under equity method | <u>56,125</u> | <u>1</u> | <u>43,358</u> | <u>1</u> |
| Total non-operating income and expenses | <u>1,026,856</u> | <u>20</u> | <u>60,798</u> | <u>1</u> |
| 7900 Net income before tax | 1,856,970 | 36 | 946,981 | 19 |
| 7950 Less: income tax expenses (note 6(n)) | <u>269,219</u> | <u>5</u> | <u>208,787</u> | <u>4</u> |
| Net income | <u>1,587,751</u> | <u>31</u> | <u>738,194</u> | <u>15</u> |
| 8300 Other comprehensive income (notes 6(n) and (o)): | | | | |
| 8310 Items that will not be reclassified subsequently to profit or loss | | | | |
| 8311 Remeasurements of the defined benefit plans | 681 | - | (5,263) | - |
| 8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income | 268 | - | - | - |
| 8320 Share of other comprehensive income of associates accounted for under equity method | (65) | - | - | - |
| 8349 Income tax benefit (expense) related to items that will not be reclassified subsequently | <u>(101)</u> | <u>-</u> | <u>859</u> | <u>-</u> |
| Total Items that will not be reclassified subsequently to profit or loss | <u>783</u> | <u>-</u> | <u>(4,404)</u> | <u>-</u> |
| 8360 Items that may be reclassified subsequently to profit or loss | | | | |
| 8361 Financial statements translation differences for foreign operations | 2,736 | - | (29,721) | (1) |
| 8362 Unrealized gain on valuation of available-for-sale financial assets | - | - | 1,523 | - |
| 8370 Share of other comprehensive income of associates accounted for under equity method | (48) | - | (215) | - |
| 8399 Income tax expense relating to components of other comprehensive income (loss) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Items that may be reclassified subsequently to profit or loss | <u>2,688</u> | <u>-</u> | <u>(28,413)</u> | <u>(1)</u> |
| 8300 Other comprehensive income (loss), net of tax | <u>3,471</u> | <u>-</u> | <u>(32,817)</u> | <u>(1)</u> |
| 8500 Total comprehensive income | <u>\$ 1,591,222</u> | <u>31</u> | <u>705,377</u> | <u>14</u> |
| Net income attributable to: | | | | |
| 8610 Shareholders of the parent | \$ 1,576,132 | 31 | 726,748 | 15 |
| 8620 Non-controlling interests | <u>11,619</u> | <u>-</u> | <u>11,446</u> | <u>-</u> |
| | <u>\$ 1,587,751</u> | <u>31</u> | <u>738,194</u> | <u>15</u> |
| Total comprehensive income attributable to: | | | | |
| 8710 Shareholders of the parent | \$ 1,580,030 | 31 | 693,747 | 14 |
| 8720 Non-controlling interests | <u>11,192</u> | <u>-</u> | <u>11,630</u> | <u>-</u> |
| | <u>\$ 1,591,222</u> | <u>31</u> | <u>705,377</u> | <u>14</u> |
| 9750 Basic earnings per share (in New Taiwan dollars) (note 6(p)) | <u>\$ 13.19</u> | | <u>6.08</u> | |
| 9850 Diluted earnings per share (in New Taiwan dollars) (note 6(p)) | <u>\$ 12.92</u> | | <u>5.99</u> | |

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

| | Equity attributable to owners of parent | | | | | | Total other equity interest | | | | | Non-controlling interests | Total equity |
|---|---|-----------------|-------------------|-----------------|----------------------------------|-------------------------|---|--|--|-----------------------------|---|---------------------------|--------------|
| | Share capital | | Retained earnings | | | | Financial statements translation differences for foreign operations | Unrealized gain (loss) on financial assets measured at fair value through other comprehensive income | Unrealized gains (losses) on available-for-sale financial assets | Total other equity interest | Total equity attributable to owners of parent | | |
| | Ordinary shares | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Total retained earnings | | | | | | | |
| Balance at January 1, 2017 | \$ 1,194,711 | 383,026 | 962,497 | 876 | 1,137,164 | 2,100,537 | (62,784) | - | (2,548) | (65,332) | 3,612,942 | 97,423 | 3,710,365 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | 78,832 | - | (78,832) | - | - | - | - | - | - | - | - |
| Special reserve appropriated | - | - | - | 64,456 | (64,456) | - | - | - | - | - | - | - | - |
| Cash dividends of ordinary share | - | - | - | - | (692,933) | (692,933) | - | - | - | - | (692,933) | (7,942) | (700,875) |
| Changes in equity of associates and joint ventures accounted for using equity method | - | 4,131 | - | - | - | - | - | - | - | - | 4,131 | - | 4,131 |
| Net income | - | - | - | - | 726,748 | 726,748 | - | - | - | - | 726,748 | 11,446 | 738,194 |
| Other comprehensive income | - | - | - | - | (4,288) | (4,288) | (30,101) | - | 1,388 | (28,713) | (33,001) | 184 | (32,817) |
| Total comprehensive income | - | - | - | - | 722,460 | 722,460 | (30,101) | - | 1,388 | (28,713) | 693,747 | 11,630 | 705,377 |
| Balance at December 31, 2017 | 1,194,711 | 387,157 | 1,041,329 | 65,332 | 1,023,403 | 2,130,064 | (92,885) | - | (1,160) | (94,045) | 3,617,887 | 101,111 | 3,718,998 |
| Effects of retrospective application | - | - | - | - | 16,500 | 16,500 | - | (17,660) | 1,160 | (16,500) | - | - | - |
| Equity at beginning of period after adjustments | 1,194,711 | 387,157 | 1,041,329 | 65,332 | 1,039,903 | 2,146,564 | (92,885) | (17,660) | - | (110,545) | 3,617,887 | 101,111 | 3,718,998 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | 72,675 | - | (72,675) | - | - | - | - | - | - | - | - |
| Special reserve appropriated | - | - | - | 28,713 | (28,713) | - | - | - | - | - | - | - | - |
| Cash dividends of ordinary share | - | - | - | - | (657,091) | (657,091) | - | - | - | - | (657,091) | (7,193) | (664,284) |
| Other changes in capital surplus: | | | | | | | | | | | | | |
| Changes in equity of associates and joint ventures accounted for using equity method | - | (43,140) | - | - | 65 | 65 | - | - | - | - | (43,075) | - | (43,075) |
| Net income | - | - | - | - | 1,576,132 | 1,576,132 | - | - | - | - | 1,576,132 | 11,619 | 1,587,751 |
| Other comprehensive income | - | - | - | - | 573 | 573 | 3,122 | 203 | - | 3,325 | 3,898 | (427) | 3,471 |
| Total comprehensive income | - | - | - | - | 1,576,705 | 1,576,705 | 3,122 | 203 | - | 3,325 | 1,580,030 | 11,192 | 1,591,222 |
| Changes in non-controlling interests | - | (868) | - | - | - | - | - | - | - | - | (868) | (15,574) | (16,442) |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | - | - | - | - | 75 | 75 | - | (75) | - | (75) | - | - | - |
| Balance at December 31, 2018 | \$ 1,194,711 | 343,149 | 1,114,004 | 94,045 | 1,858,269 | 3,066,318 | (89,763) | (17,532) | - | (107,295) | 4,496,883 | 89,536 | 4,586,419 |

See accompanying notes to consolidated financial statements.

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

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

| | 2018 | 2017 |
|---|-------------------|----------------|
| Cash flows from operating activities: | | |
| Net income before tax | \$ 1,856,970 | 946,981 |
| Adjustments: | | |
| Adjustments to reconcile profit and loss | | |
| Depreciation expense | 88,719 | 89,811 |
| Expected credit loss / reversal of provision for bad debt expense | 2,353 | (1,766) |
| Interest expenses | 18,369 | 14,467 |
| Interest income | (2,910) | (4,119) |
| Dividend income | (201) | (407) |
| Share of profit of associates accounted for under equity method | (56,125) | (43,358) |
| Losses on disposal of property, plant and equipment | 203 | 360 |
| Property, plant and equipment transferred to expenses | 773 | 187 |
| Gain on disposal of investments accounted for using equity method | (945,838) | - |
| Total adjustments to reconcile profit and loss | (894,657) | 55,175 |
| Changes in assets / liabilities relating to operating activities: | | |
| Net changes in operating assets: | | |
| Financial assets held for trading | (437,188) | (29,988) |
| Notes receivable | 647 | 2,875 |
| Notes receivable—related parties | 7,586 | (759) |
| Accounts receivable | (21,930) | (102,348) |
| Other receivable | (90,150) | (310) |
| Inventories | (242,771) | (43,001) |
| Prepayments | 1,169 | (683) |
| Other current assets | (221) | (12,715) |
| Total changes in operating assets, net | (782,858) | (186,929) |
| Net changes in operating liabilities: | | |
| Financial liabilities held for trading | (200) | 867 |
| Notes payable | 278 | (967) |
| Accounts payable | 5,008 | 94,381 |
| Other payable | 115,184 | 18,975 |
| Provisions | 2,826 | 1,428 |
| Other current liabilities | 33,394 | 6,478 |
| Accrued pension liabilities | (7,574) | 2,035 |
| Other non-current liabilities | 3,776 | 3,856 |
| Total changes in operating liabilities, net | 152,692 | 127,053 |
| Total changes in operating assets / liabilities, net | (630,166) | (59,876) |
| Total adjustments | (1,524,823) | (4,701) |
| Cash provided by operating activities | 332,147 | 942,280 |
| Dividends received | 42,047 | 33,887 |
| Payment of income tax | (228,368) | (154,837) |
| Net cash provided by operating activities | 145,826 | 821,330 |
| Cash flows from investing activities: | | |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | 4,287 | - |
| Proceeds from disposal of investments accounted for under equity method | 460,509 | - |
| Acquisition of property, plant and equipment | (56,391) | (80,900) |
| Proceeds from disposal of property, plant and equipment | 828 | 1,143 |
| Increase in refundable deposits | (4,991) | (6,320) |
| Decrease (increase) in other financial assets—non-current | (3,982) | 15,064 |
| Decrease in other non-current assets | 3 | 1,086 |
| Decrease in prepayments for equipment | 8 | 101 |
| Interest received | 2,910 | 4,119 |
| Net cash provided by (used in) investing activities | 403,181 | (65,707) |
| Cash flows from financing activities: | | |
| Increase in short-term borrowings | 22,212 | 82,365 |
| Repayment of long-term borrowings | (13,790) | (17,268) |
| Decrease in deposits received | (100) | (71) |
| Cash dividends paid | (664,284) | (700,875) |
| Interest paid | (18,369) | (14,467) |
| Changes in non-controlling interests | (16,442) | - |
| Net cash used in financing activities | (690,773) | (650,316) |
| Effect of exchange rate changes on cash and cash equivalents | (6,261) | (59,407) |
| Increase (decrease) in cash and cash equivalents for the period | (148,027) | 45,900 |
| Cash and cash equivalents at beginning of period | 840,404 | 794,504 |
| Cash and cash equivalents at end of period | <u>\$ 692,377</u> | <u>840,404</u> |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ATEN INTERNATIONAL 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) Organization and Business Scope

ATEN INTERNATIONAL CO., LTD. (the “Company”) was incorporated on July 6, 1979, under the laws of the Republic of China (ROC). The Company and its subsidiaries (the Group) are mainly engaged in the manufacturing and trading of computer peripheral equipment, manufacturing of wired and wireless communication equipment, and manufacturing of electronic modules and parts.

(2) Financial Statements Authorization Date and Authorisation Process

These consolidated financial statements were approved by the Board of Directors and published on March 12, 2019.

(3) New Standards and Interpretations Not Yet 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, or after, January 1, 2018. The differences between the current version and the previous version are as follows:

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

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the 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 initial application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

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

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

1) Sales of goods

For the sale of products, revenue is currently recognized when the related risks of the goods and rewards of ownership have been transferred to the customer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable, and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

2) Impacts on financial statements

The Group estimates the adoption of IFRS 15 will not have any significant impact on its consolidated financial statements.

(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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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

1) Classification of financial assets and financial liabilities

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

The adoption of IFRS 9 did not have any significant impact on the Group's accounting policies on financial liabilities.

2) Impairment of financial assets

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

3) Transition

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

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as of 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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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

| | IAS 39 | | IFRS 9 | |
|--|---|-----------------|------------------------|-----------------|
| | Measurement categories | Carrying Amount | Measurement categories | Carrying Amount |
| Financial Assets | | | | |
| Cash and equivalents | Loans and receivables | 840,404 | Amortized cost | 840,404 |
| Derivative financial assets | FVTPL | 136 | Mandatorily at FVTPL | 136 |
| Hold-for-trading financial assets (non-derivative) | FVTPL | 980,612 | Mandatorily at FVTPL | 980,612 |
| Equity instruments | Available-for-sale (note) | 8,661 | FVOCI | 8,661 |
| | Financial assets carried at cost – non current (note) | 21,780 | FVOCI | 21,780 |
| Net account receivable | Loans and receivables | 715,219 | Amortized cost | 715,219 |
| Refundable deposits | Loans and receivables | 15,260 | Amortized cost | 15,260 |
| Other financial assets – non current | Loans and receivables | 112,707 | Amortized cost | 112,707 |

Note : The Group held equity instrument investment for long-term strategic purposes, as permitted by IFRS 9, at the date of initial application as measured at FVOCI. Therefore, accordingly, a decrease of \$16,500 thousand in other equity interest, and an increase of \$16,500 thousand in retained earnings were recognized on January 1, 2018.

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 January 1, 2018.

| | 2017.12.31 IAS 39 Carrying Amount | Reclassifications | Remeasurements | 2018.1.1 IFRS 9 Carrying Amount | 2018.1.1 Retained earnings effect | 2018.1.1 Other equity effect |
|--|--|-------------------|----------------|--|--|---------------------------------------|
| Fair value through profit or loss | | | | | | |
| Beginning balance of FVTPL (IAS 39) | \$ 980,748 | - | - | 980,748 | - | - |
| Fair value through other comprehensive income | | | | | | |
| Beginning balance of available-for-sale (IAS 39) | \$ 30,441 | - | - | - | - | - |
| Available-for-sale to FVOCI | - | - | - | - | 16,500 | (16,500) |
| Total | \$ 30,441 | - | - | 30,441 | 16,500 | (16,500) |
| Amortized cost | | | | | | |
| Beginning balance of trade and other receivables | \$ 1,683,590 | - | - | 1,683,590 | - | - |

(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 |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(i) IFRS 16 “Leases”

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

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify the 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 them as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

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

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

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 at the date of initial application, 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 chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
 - adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
 - apply the exemption not to recognize the right-of-use assets and liabilities to leases with a lease term that ends within 12 months at the date of initial application.
 - exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
 - use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Group estimated that the right-of-use assets and the lease liabilities to increase by \$152,214 thousand on January 1, 2019.

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 |

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(4) Significant Accounting Policies

The 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 financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the consolidated financial statements are summarized as follows. The following accounting policies have been applied consistently throughout the presented periods in the financial statement.

(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 by the FSC.

(b) Basis of preparation

(i) Basis of measurement

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

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 Group's consolidated financial statements are presented in New Taiwan dollars, which is Company's functional currency. The assets and liabilities of foreign operations are translated to the Group's functional currency using the exchange rates on reporting date. The income and expenses of foreign operations are translated to the Group's functional currency at the average rate. Foreign currency differences are recognized in other comprehensive income. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

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

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group 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 included in the consolidated financial statements

| <u>Name of investor</u> | <u>Name of subsidiary</u> | <u>Scope of business</u> | <u>Percentage of ownership</u> | | <u>Description</u> |
|-------------------------|--|---|--------------------------------|--------------------------|--------------------|
| | | | <u>December 31, 2018</u> | <u>December 31, 2017</u> | |
| The Company | TOPMOST INTERNATIONAL CO., LTD. (TOPMOST) | Investing | 100 % | 100 % | |
| The Company | ATEN JAPAN CO., LTD. (ATEN JAPAN) | Trading of computer peripheral products | 100 % | 100 % | Note 2 |
| The Company | ATEN US HOLDINGS INC. (ATEN US) | Investing | 100 % | 100 % | |
| The Company | FOREMOST INTERNATIONAL CO., LTD. (FOREMOST) | Investing | 100 % | 100 % | Note 2 |
| The Company | ATEN INFOTECH N.V. (ATEN INFOTECH) | Trading of computer peripheral products | 100 % | 100 % | Note 2 |
| The Company | ATECH PERIPHERALS INC. (ATECH PERIPHERALS) | Trading of computer peripheral products | 100 % | 100 % | Note 2 |
| The Company | ATEN RESEARCH INC. (ATEN RESEARCH) | Trading of computer peripheral products | 95 % | 95 % | Note 2 |
| The Company | ATEN COMPUTER PRODUCTS CO., LTD. (ATEN COMPUTER) | Trading of computer peripheral products | 100 % | 90 % | Note 2 |
| The Company | VISIONTOP CO., LTD. (VISIONTOP) | Specialized printing | 60 % | 60 % | Note 2 |
| The Company | HONG JHENG TECHNOLOGY CO., LTD. | Investing | 100 % | 100 % | Note 2 |
| The Company | HONG YUAN CO., LTD. (HONG YUAN) | Investing | 100 % | 100 % | Note 2 |
| The Company | ATEN ANZ PTY LTD. (ATEN ANZ) | Trading of computer peripheral products | 100 % | 100 % | Note 2 |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| <u>Name of investor</u> | <u>Name of subsidiary</u> | <u>Scope of business</u> | <u>Percentage of ownership</u> | | <u>Description</u> |
|---------------------------|---|---|--------------------------------|--------------------------|--------------------|
| | | | <u>December 31, 2018</u> | <u>December 31, 2017</u> | |
| The Company | RCM FULLY AUTOMATION CO., LTD. (RCM FULLY) | Trading of computer peripheral products | 26 % | 26 % | Note 2 |
| The Company | ATEN INFO COMMUNICAION LIMITED LIABILITY COMPANY (ATEN) | Trading of computer peripheral products | 100 % | 100 % | Note 2 |
| The Company | ATEN POLAND SP Z.O. O. (ATEN POLAND) | Trading of computer peripheral products | 100 % | 100 % | Note 1 |
| TOPMOST | EXPAND INTERNATIONAL CO., LTD. (EXPAND) | Investing | 100 % | 100 % | |
| TOPMOST | ATEN EUROPE LIMITED (ATEN EUROPE) | Investing | 100 % | 100 % | Note 2 |
| TOPMOST | I/O MASTER INC. (I/O MASTER) | Investing | 100 % | 100 % | Note 2 |
| FOREMOST | ATEN CHINA CO., LTD. (ATEN CHINA) | Trading of computer peripheral products | 70 % | 70 % | Note 2 |
| FOREMOST | ATEN FOREMOST INTERNATIONAL CO., LTD. (ATEN FOREMOST) | Manufacturing and trading of computer peripheral products | 100 % | 100 % | Note 2 |
| EXPAND | EXPAND ELECTRONIC CO., LTD. (EXPAND ELECTRONIC) | Manufacturing of computer peripheral products | 100 % | 100 % | |
| ATEN EUROPE | ATEN UK LIMITED (ATEN UK) | Trading of computer peripheral products | 100 % | 100 % | Note 2 |
| ATEN EUROPE | ATEN KOREA CO., LTD. (ATEN KOREA) | Trading of computer peripheral products | 85 % | 85 % | Note 2 |
| ATEN US | ATEN TECHNOLOGY INC. (ATEN TECHNOLOGY) | Trading of computer peripheral products | 97 % | 97 % | |
| ATEN US & ATEN TECHNOLOGY | ATEN NEW JERSEY INC. (ATEN NEW JERSEY) | Trading of computer peripheral products | 98 % | 98 % | Note 2 |
| I/O MASTER | ATEN CANADA TECHNOLOGIES INC. (ATEN CANADA) | Research and development | 100 % | 100 % | Note 2 |
| I/O MASTER | IOGEAR, INC.(IOGEAR) | Trading of computer peripheral products | 100 % | 100 % | Note 2 |
| A TECH PERIPHERALS | RCM FULLY AUTOMATION CO., LTD. (RCM FULLY) | | 74 % | 25 % | Note 2 |

Note 1: The subsidiary was established in Poland on October 4, 2017.

Note 2: This is an immaterial subsidiary for which the financial statements are not reviewed by the Company's independent auditors.

(d) Foreign currency

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Foreign currency differences arising on translation are recognized in profit or loss, except for the available-for-sale financial assets which are recognized in other comprehensive income.

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

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

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

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent 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.

(f) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalent refers to short term investments with high liquidity that are subject to insignificant risk of changes in their fair value and can be cashed into fixed amount of money. 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 purpose should be recognized as cash equivalent.

The definition of time deposits is similar to that of cash equivalent; however, the purpose of holding time deposit is for short term cash commitment rather than investment.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Financial instruments

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

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

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

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI)

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

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

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

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

3) Fair value through profit or loss (FVTPL)

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

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivable, guarantee deposit paid 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 are always measured at an amount equal to lifetime ECL.

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

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

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

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The Group 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'.

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 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 and debt securities at FVOCI 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. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

5) Derecognition of financial assets

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

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

The Group classifies financial assets into the following categories:

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is acquired principally for the purpose of selling or repurchasing in the short term. This type of financial asset is measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expense.

2) Available-for sale financial assets

Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expense.

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.

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established. However, in the case of quoted securities, the ex-dividend date is normally recognized. Such dividend income is included in non-operating income and expense.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Loans and Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables comprise trade receivables, other receivables, and other financial assets-noncurrent. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables.

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

4) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

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

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

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

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

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

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

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

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables is included in operating expense, others are included in non-operating income and expense.

5) Derecognition of financial assets

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

(iii) Financial liabilities and equity instruments

1) Other financial liabilities

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

2) Derecognition of financial liabilities

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

3) Offsetting of financial assets and liabilities

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Derivative financial instruments (applicable from January 1, 2018)

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

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories consists of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Subsequent to initial recognition, inventories are measured at the lower of cost or net realizable value and the cost of inventories is based on the standard cost principle. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. The differences between standard and actual costing are fully classified as operating costs. When the cost of inventories is higher than the net realizable value, the inventories are written down to net realizable value, and the write down amount is charged to current year's cost of goods sold.

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for under equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that in significant influence ceases. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of its associates and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes the changes in ownership interests of its associates in 'capital surplus' in proportion to its ownership interests.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

(j) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset, and any borrowing cost that is eligible for capitalization.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

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

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

| | |
|---------------------|------------|
| Land improvements | 3 years |
| Buildings | 2~60 years |
| Machinery equipment | 3~10 years |
| Other equipment | 2~12 years |

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

(k) Intangible assets — Goodwill

(i) Recognition

Upon conversion to the IFRSs endorsed by the Financial Supervisory Commission, R.O.C., the Group can choose to restate all business combinations that occurred after January 1 2012 (inclusive). For those acquisitions that occurred prior to January 1 2012, any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets recognized at the date of acquisition is recognized as goodwill.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Measurement

Goodwill is measured at cost, less, accumulated impairment losses.

Goodwill is not amortized. Instead, it is tested for impairment annually, or more frequently, when there is an indication that the cash generating unit may be impaired.

(l) Impairment—Non-derivative financial assets

Non-derivative financial assets except for inventories and deferred income tax assets are assessed at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group shall estimate the recoverable amount of the asset. If, and only if, the recoverable amount of an individual asset or a cash-generating unit is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be 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. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

(m) Provisions

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

(n) 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.

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group often offers volume discounts to its customers based on aggregate sales of electronic components in the contractual period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate the discounts using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

The Group's obligation to provide a refund for faulty electronic components under the standard warranty terms is recognized as a provision for warranty; please refer to note 6(1).

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

(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 discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

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

(o) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
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The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

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

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

(iii) Short-term employee benefits

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

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

(p) Income tax

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

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

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

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

(q) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

(r) Operating segments

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

(5) Significant Accounting Judgments and Sources of Estimation and Uncertainty

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 is as follows: :

(a) Judgment regarding significant influence of associates

The Group has less than 20% of the voting or potential voting rights in Aspeed Technology Inc. However, the Group has determined that it has significant influence over it because the Group has the authority to assign one of the eight directors on the board of Aspeed Technology Inc., and make decision regarding its financial and operating policies.

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

(a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value.

(6) Description of Significant Accounts

(a) Cash and cash equivalents

| | December 31, 2018 | December 31, 2017 |
|---|------------------------------|------------------------------|
| Cash and cash equivalents | \$ 4,369 | 4,633 |
| Saving deposits and foreign currency deposits | 519,132 | 641,359 |
| Checking deposits | 15,027 | 31,426 |
| Time deposits | 153,849 | 162,986 |
| Cash and cash equivalents in the consolidated statement of cash flows | <u>\$ 692,377</u> | <u>840,404</u> |

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

| | December 31, 2018 | December 31, 2017 |
|--|------------------------------|------------------------------|
| Mandatorily measured at fair value through profit or loss: | | |
| Derivative instruments not used for hedging | \$ 572 | |
| Non-derivative financial assets | 1,417,364 | |
| Financial assets held for trading | | |
| Derivative instruments not used for hedging | | 136 |
| Non-derivative financial assets | | 980,612 |
| Total | <u>\$ 1,417,936</u> | <u>980,748</u> |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---|------------------------------|------------------------------|
| Financial liabilities held for trading: | | |
| Derivative instruments not used for hedging | \$ <u>2,247</u> | <u>2,447</u> |

For the amount on disposal of financial assets and liabilities remeasured at fair value through profit or loss, please refer to note 6(t).

If the equity price changes, and if it is on the same basis for both years and assumes that all other variables remain the same, the impact on other comprehensive income will be as follows:

| <u>Equity price at reporting date</u> | <u>2017</u> | |
|---------------------------------------|---|------------------------------------|
| | <u>After-tax other comprehensive income</u> | <u>After-tax profit (loss)</u> |
| Increase 1% | \$ <u>-</u> | <u>8,139</u> |
| Decrease 1% | \$ <u>-</u> | <u>(8,139)</u> |

As of December 31, 2018 and 2017, the Group has not provided any aforementioned financial assets as collateral.

The Group uses derivative financial instruments to manage the exposures due to fluctuations of foreign exchange risk from its operating activities. The Group reported the following derivatives financial instruments as financial assets and liabilities at fair value through profit or loss without the application of hedge accounting were classified as mandatorily measured at fair value through profit or loss on December 31, 2018 and held-for-trading financial instruments on December 31, 2017 .

Mandatorily measured at fair value through profit or loss financial assets – Forward contract:

| | <u>Fair value</u> | <u>Currency</u> | <u>Contract amount</u> |
|--------------------------|-------------------|-----------------|----------------------------|
| December 31, 2018 | | | |
| Forward Contracts | \$ 72 | GBP/TWD | 45 |
| Forward Contracts | \$ 500 | EUR/TWD | 1,400 |

Held-for-trading financial assets – Forward contracts:

| | <u>Fair value</u> | <u>Currency</u> | <u>Contract amount</u> |
|--------------------------|-------------------|-----------------|----------------------------|
| December 31, 2017 | | | |
| Forward Contracts | \$ 104 | JPY/TWD | 48,000 |
| Forward Contracts | \$ 8 | GBP/TWD | 60 |
| Forward Contracts | \$ 24 | EUR/TWD | 200 |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
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Mandatorily measured at fair value through profit or loss financial liabilities – Forward contract:

| | <u>Fair value</u> | <u>Currency</u> | <u>Contract amount</u> |
|--------------------------|-------------------|-----------------|------------------------|
| December 31, 2018 | | | |
| Forward Contracts | \$ 1,063 | JPY/TWD | 213,200 |
| Forward Contracts | \$ 688 | EUR/TWD | 2,741 |
| Forward Contracts | \$ 8 | AUD/TWD | 150 |
| Forward Contracts | \$ 117 | CNY/TWD | 6,500 |
| Forward Contracts | \$ 13 | USD/TWD | 500 |
| Forward Contracts | \$ 358 | USD/KRW | 1,700 |

Held-for-trading financial liabilities – Forward contracts:

| | <u>Fair value</u> | <u>Currency</u> | <u>Contract amount</u> |
|--------------------------|-------------------|-----------------|------------------------|
| December 31, 2017 | | | |
| Forward Contracts | \$ 112 | GBP/TWD | 275 |
| Forward Contracts | \$ 112 | JPY/TWD | 109,000 |
| Forward Contracts | \$ 828 | EUR/TWD | 2,700 |
| Forward Contracts | \$ 521 | CNY/TWD | 9,400 |
| Forward Contracts | \$ 70 | AUD/TWD | 180 |
| Forward Contracts | \$ 804 | USD/KRW | 1,700 |

As of December 31, 2018 and 2017, these financial instruments had maturity periods from January 4, 2019 to March 22, 2019 and January 3, 2018 to March 28, 2018, respectively.

For credit risk and market risk please refer to note 6(u).

(c) Financial assets at fair value through other comprehensive income

| | <u>December 31, 2018</u> |
|--|------------------------------|
| Equity investments at fair value through other comprehensive income: | |
| Listed stocks (domestic) – current | \$ <u>4,642</u> |
| Unlisted stocks (domestic) – non-current | \$ <u>21,780</u> |

(i) Equity investments at fair value through other comprehensive income

The Group held equity instrument investment for long-term strategic purposes, not held for trading purposes, which have been designated as measured at fair value through other comprehensive income. These investments were classified as available-for-sale financial assets – non-current on December 31, 2017.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
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In August 2018, the Group disposed all of its shares in First Financial Holding Co., Ltd. due to operational considerations. The shares disposed had a fair value of \$4,287 thousand, and the Group realized a gain of \$75 thousand, recognized in other comprehensive income. The gain had been transferred to retained earnings.

- (ii) For credit risk and market risk, please refer to note 6(u).
 (iii) The Group did not hold any collateral for the collectible amounts.

(d) Available-for-sale financial assets – current

| | |
|-----------------------------------|------------------------|
| | December 31, |
| | 2017 |
| Stocks listed on domestic markets | <u><u>\$ 8,661</u></u> |

If the equity price changes, and if it is on the same basis for both years and assumes that all other variables remain the same, the impact on other comprehensive income will be as follows:

| | | |
|---------------------------------------|------------------------|-------------------------|
| | 2017 | |
| | After-tax other | After-tax profit |
| <u>Equity price at reporting date</u> | comprehensive | (loss) |
| | income | (loss) |
| Increase 1% | <u><u>\$ 87</u></u> | <u><u>-</u></u> |
| Decrease 1% | <u><u>\$ (87)</u></u> | <u><u>-</u></u> |

For credit risk and market risk please refer to note 6(u).

As of December 31, 2018 and 2017, the Group has not provided any aforementioned financial assets as collateral.

(e) Notes and accounts receivable and other receivables

| | | |
|---------------------------------------|--------------------------|-----------------------|
| | December 31, | December 31, |
| | 2018 | 2017 |
| Notes receivable | \$ 7,933 | 8,580 |
| Notes receivable – related parties | - | 7,586 |
| Accounts receivable, net | 723,419 | 693,310 |
| Accounts receivable – related parties | - | 8,179 |
| Less: allowance for impairment | <u>2,310</u> | <u>4,977</u> |
| | <u><u>\$ 729,042</u></u> | <u><u>712,678</u></u> |

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

| | Gross carrying amount | Weighted- average expected credit loss rate | Loss allowance provision |
|-------------------------|----------------------------------|--|-------------------------------------|
| Current | \$ 646,763 | 0% | - |
| 0 to 30 days past due | 66,246 | 0% | - |
| 31 to 60 days past due | 2,232 | 0% | - |
| 61 to 90 days past due | 3,092 | 0% | - |
| 91 to 120 days past due | 330 | 0% | - |
| Past due over 121 days | <u>12,689</u> | 20%~30% | <u>2,310</u> |
| | <u>\$ 731,352</u> | | <u>2,310</u> |

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

| | December 31, 2017 |
|------------------------|------------------------------|
| 1 to 30 days past due | \$ 72,605 |
| 31 to 60 days past due | 96 |
| 61 to 90 days past due | 7 |
| Past due over 90 days | <u>27</u> |
| | <u>\$ 72,735</u> |

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

| | 2018 | 2017 | |
|--|------------------------|---|---|
| | | Individually assessed impairment | Collectively assessed impairment |
| Balance at January 1, 2018 and 2017 per IAS 39 | \$ 4,977 | 7,231 | - |
| Adjustment on initial application of IFRS 9 | - | | |
| Balance at January 1, 2018 per IFRS 9 | <u>4,977</u> | | |
| Impairment loss recognized | 2,353 | - | - |
| Impairment loss reversed | - | (1,766) | - |
| Effect of changes in exchange rates and other | (5,020) | (488) | - |
| Balance at December 31, 2018 and 2017 | <u>\$ 2,310</u> | <u>4,977</u> | <u>-</u> |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

As of December 31, 2018 and 2017, the bank has priority claim over the Group's accounts receivable amounting to \$191,640 thousand and \$224,121 thousand, respectively.

(f) Other receivables

| | December 31, 2018 | December 31, 2017 |
|------------------------------------|------------------------------|------------------------------|
| Other receivables | \$ 654,669 | 3,541 |
| Less: allowance for doubtful debts | <u>1,000</u> | <u>1,000</u> |
| | <u>\$ 653,669</u> | <u>2,541</u> |

As of December 31, 2017, the Group had no other receivables that were past due but not impaired.

There is no change in this period, the movement in the allowance for other receivables was as follows:

| | Individually assessed impairment |
|---|---|
| Balance at December 31, 2017 (Balance at January 1, 2017) | <u>\$ 1,000</u> |

(g) Inventories

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

| | December 31, 2018 | December 31, 2017 |
|-----------------|------------------------------|------------------------------|
| Finished goods | \$ 644,467 | 506,161 |
| Work in process | 131,133 | 103,499 |
| Raw material | <u>282,480</u> | <u>206,954</u> |
| | <u>\$ 1,058,080</u> | <u>816,614</u> |

Due to the decrease in the net realizable value of inventories, the Group recognized the inventory pricing loss as cost of goods sold. The amounts are as follows:

| | 2018 | 2017 |
|---|------------------------|---------------------|
| Losses on market value | \$ (377) | 3,419 |
| Losses (gains) on physical inventory, net | (241) | 263 |
| Losses on scrapping of inventory | <u>10,134</u> | <u>5,692</u> |
| Total | <u>\$ 9,516</u> | <u>9,374</u> |

As of December 31, 2018 and 2017, the bank has priority claim over the Group's inventories amounting to \$369,286 thousand and \$220,523 thousand, respectively.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (h) Financial assets carried at cost—non current

| | December 31, 2017 |
|------------------------------|------------------------------|
| ACROX TECHNOLOGY CO., LTD. | \$ 14,280 |
| OptoMedia Technology Inc. | 7,500 |
| VISIONARY DYNAMICS CO., LTD. | - |
| Total | \$ 21,780 |

- (i) Investments accounted for under equity method

The Group's investments in associate entities accounted for under equity method, which are not individually significant, were as follows. Such financial information is included in the consolidated financial statements of the Group.

| | December 31, 2018 | December 31, 2017 |
|--|------------------------------|------------------------------|
| Book value of investments in not individually significant associate entities accounted for under equity method | \$ 75,559 | 180,117 |

The Group disposed 5.14% of Aspeed Technology Inc.'s equity ownership in September 2018 without losing its significant influence. The price, less, associated costs amounted to \$1,021,487 thousand, and a gain of \$945,838 thousand was recognized under other comprehensive income and presented in other gains and losses. The gain from disposal includes the loss previously recognized in other comprehensive income related to the associate and the amount which is reclassified to profit or loss from paid-in-capital. As of December 31, 2018, the uncollected proceeds related to the above transaction was \$560,978 thousand, recorded under other receivables.

| | 2018 | 2017 |
|---------------------------------|------------------|---------------|
| Attributable to the Group: | | |
| Income from continued operation | \$ 56,125 | 43,358 |
| Other comprehensive income | (113) | (215) |
| Total comprehensive income | \$ 56,012 | 43,143 |

As of December 31, 2018 and 2017, the fair value of the investment in associate entity amounted to \$613,737 thousand and \$2,002,977 thousand, respectively.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Property, plant and equipment

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

| | Land | Land improvements | Buildings | Machinery | Other equipment | Prepayments for equipment and construction in progress | Total |
|-------------------------------------|---------------------|----------------------|----------------|----------------|--------------------|--|------------------|
| Cost or deemed cost: | | | | | | | |
| Balance at January 1, 2018 | \$ 1,323,166 | 7,300 | 787,994 | 184,677 | 319,495 | 2,808 | 2,625,440 |
| Additions | - | - | 5,047 | 1,664 | 47,758 | 1,922 | 56,391 |
| Disposals | - | - | (662) | (15,627) | (39,405) | - | (55,694) |
| Reclassification | - | - | 177 | - | 3,018 | (3,238) | (43) |
| Effect of changes in exchange rates | 3,010 | 118 | 782 | (1,589) | (549) | - | 1,772 |
| Balance at December 31, 2018 | <u>\$ 1,326,176</u> | <u>7,418</u> | <u>793,338</u> | <u>169,125</u> | <u>330,317</u> | <u>1,492</u> | <u>2,627,866</u> |
| Balance at January 1, 2017 | \$ 1,323,549 | 7,395 | 771,135 | 140,226 | 302,400 | 926 | 2,545,631 |
| Additions | - | - | 15,002 | 21,347 | 41,743 | 2,808 | 80,900 |
| Disposals | - | - | (3,711) | (4,613) | (20,891) | - | (29,215) |
| Reclassification | - | - | - | 26,966 | 473 | (924) | 26,515 |
| Effect of changes in exchange rates | (383) | (95) | 5,568 | 751 | (4,230) | (2) | 1,609 |
| Balance at December 31, 2017 | <u>\$ 1,323,166</u> | <u>7,300</u> | <u>787,994</u> | <u>184,677</u> | <u>319,495</u> | <u>2,808</u> | <u>2,625,440</u> |
| Depreciation and impairment loss: | | | | | | | |
| Balance at January 1, 2018 | \$ - | 5,697 | 265,420 | 125,841 | 203,603 | - | 600,561 |
| Depreciation | - | 154 | 24,634 | 20,145 | 43,786 | - | 88,719 |
| Disposal | - | - | (662) | (15,605) | (38,396) | - | (54,663) |
| Effect of changes in exchange rates | - | 39 | 80 | (1,185) | (144) | - | (1,210) |
| Balance at December 31, 2018 | <u>\$ -</u> | <u>5,890</u> | <u>289,472</u> | <u>129,196</u> | <u>208,849</u> | <u>-</u> | <u>633,407</u> |
| Balance at January 1, 2017 | \$ - | 5,571 | 243,142 | 80,922 | 189,076 | - | 518,711 |
| Depreciation | - | 153 | 24,411 | 28,625 | 36,622 | - | 89,811 |
| Disposal | - | - | (3,711) | (3,697) | (20,304) | - | (27,712) |
| Reclassification | - | - | - | 20,892 | - | - | 20,892 |
| Effect of changes in exchange rates | - | (27) | 1,578 | (901) | (1,791) | - | (1,141) |
| Balance at December 31, 2017 | <u>\$ -</u> | <u>5,697</u> | <u>265,420</u> | <u>125,841</u> | <u>203,603</u> | <u>-</u> | <u>600,561</u> |
| Carrying value: | | | | | | | |
| December 31, 2018 | <u>\$ 1,326,176</u> | <u>1,528</u> | <u>503,866</u> | <u>39,929</u> | <u>121,468</u> | <u>1,492</u> | <u>1,994,459</u> |
| December 31, 2017 | <u>\$ 1,323,166</u> | <u>1,603</u> | <u>522,574</u> | <u>58,836</u> | <u>115,892</u> | <u>2,808</u> | <u>2,024,879</u> |
| January 1, 2017 | <u>\$ 1,323,549</u> | <u>1,824</u> | <u>527,993</u> | <u>59,304</u> | <u>113,324</u> | <u>926</u> | <u>2,026,920</u> |

Please refer to note 8 for the information of the pledged property, plant and equipment, as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, the bank has priority claim over the Group's property, plant and equipment amounting to \$12,284 thousand and \$14,003 thousand, respectively.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(k) Short-term and long-term borrowings

The details, terms and clauses of the Group's short-term and long-term borrowings were as follows:

(i) Short-term borrowings

| December 31, 2018 | | | | |
|--------------------------|-----------------|--------------------------|----------------------|--------------------------|
| | Currency | Interest rate (%) | Maturity year | Amount |
| Secured loans | TWD | 1.45 | 2019 | \$ 1,000 |
| Secured loans | USD | 4.2~4.32 | 2019 | 190,545 |
| Secured loans | KRW | 2.86 | 2019 | 38,441 |
| Unsecured loans | USD | 2.62~4.1653 | 2019 | 332,979 |
| Unsecured loans | EUR | 0.9 | 2019 | 54,591 |
| Unsecured loans | JPY | 1.7123 | 2019 | 43,137 |
| Unsecured loans | GBP | 1.40~1.93 | 2019 | 36,372 |
| Unsecured loans | CNY | 3.90~5.22 | 2019 | 55,940 |
| Unsecured loans | AUD | 2.61~2.98 | 2019 | 3,902 |
| Total | | | | <u>\$ 756,907</u> |

| December 31, 2017 | | | | |
|--------------------------|-----------------|--------------------------|----------------------|--------------------------|
| | Currency | Interest rate (%) | Maturity year | Amount |
| Secured loans | TWD | 1.45 | 2018 | \$ 20,000 |
| Secured loans | USD | 3.81~4.05 | 2018 | 138,793 |
| Unsecured loans | USD | 1.88~3.56 | 2018 | 364,001 |
| Unsecured loans | EUR | 0.90 | 2018 | 76,881 |
| Unsecured loans | JPY | 1.70 | 2018 | 64,901 |
| Unsecured loans | GBP | 1.79 | 2018 | 16,084 |
| Unsecured loans | CNY | 4.65~4.785 | 2018 | 54,035 |
| Total | | | | <u>\$ 734,695</u> |

As of December 31, 2018, and 2017, the unused credit facilities of the Group's short-term borrowings amounted to \$1,427,152 thousand and \$1,336,784 thousand, respectively.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Long-term borrowings

| | December 31, 2018 | | | Amount |
|---------------|--------------------------|--------------------------|----------------------|-------------------------|
| | Currency | Interest rate (%) | Maturity year | |
| | Secured loans | EUR | 1.976 | |
| Secured loans | JPY | 2.13 | 2020 | <u>8,006</u> |
| Total | | | | <u><u>\$ 36,183</u></u> |
| Current | | | | \$ 10,200 |
| Non-current | | | | <u>25,983</u> |
| Total | | | | <u><u>\$ 36,183</u></u> |

| | December 31, 2017 | | | Amount |
|---------------|--------------------------|--------------------------|----------------------|-------------------------|
| | Currency | Interest rate (%) | Maturity year | |
| | Secured loans | EUR | 2.95 | |
| Secured loans | KRW | 2.46 | 2018 | 3,607 |
| Secured loans | JPY | 2.13 | 2020 | <u>11,966</u> |
| Total | | | | <u><u>\$ 49,830</u></u> |
| Current | | | | \$ 13,661 |
| Non-current | | | | <u>36,169</u> |
| Total | | | | <u><u>\$ 49,830</u></u> |

(iii) Collateral of loans

The Group has mortgaged their assets as collateral of loans. Please refer to note 8.

(l) Provisions

| | Warranties |
|---------------------------------|-------------------------|
| Balance as of January 1, 2018 | \$ 19,834 |
| Provisions made during the year | 28,096 |
| Provisions used during the year | <u>(25,270)</u> |
| Balance as of December 31, 2018 | <u><u>\$ 22,660</u></u> |
| Balance as of January 1, 2017 | \$ 18,406 |
| Provisions made during the year | 22,726 |
| Provisions used during the year | <u>(21,298)</u> |
| Balance as of December 31, 2017 | <u><u>\$ 19,834</u></u> |

In 2018 and 2017, provisions are mainly associated with the Group's business products, and are estimated based on the historical data and weighted average of all possibility of similar merchandises and services. Most of the warranty claims are expected to arise in the following year of the sale

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Employee benefits

(i) Defined benefit plans

The Group determined the movement in the present value of the defined benefit obligations and fair value of plan assets as follows:

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|------------------------------|------------------------------|
| Present value of the defined benefit obligations | \$ 208,059 | 209,051 |
| Fair value of plan assets | <u>(109,082)</u> | <u>(101,920)</u> |
| The net defined benefit liability | <u><u>\$ 98,977</u></u> | <u><u>107,131</u></u> |

The Group established the pension fund account for the defined benefit plan in Bank of Taiwan. The plan, under the Labor Standards Law, provides benefits based on the employee's length of service and average monthly salary for the six-month period prior to retirement.

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$109,082 thousand (including pension payables in transit of \$3,535 thousand) at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Movements in present value of the defined benefit obligations

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

| | <u>2018</u> | <u>2017</u> |
|--|--------------------------|-----------------------|
| Defined benefit obligation at 1 January | \$ 209,051 | 236,129 |
| Current service costs and interest | 4,584 | 5,809 |
| Remeasurements of the net defined benefit liability (asset) | | |
| – Return on plan assets (excluding amounts included in net interest expense) | 2,566 | 4,336 |
| – Due to changes in financial assumption of actuarial (losses) gains | 74 | 115 |
| Benefits paid by the plan | <u>(8,216)</u> | <u>(37,338)</u> |
| Defined benefit obligation at 31 December | <u><u>\$ 208,059</u></u> | <u><u>209,051</u></u> |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Movement of defined benefit plan assets

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

| | <u>2018</u> | <u>2017</u> |
|--|--------------------------|-----------------------|
| Fair value of plan assets, January 1 | \$ 101,920 | 135,437 |
| Interest revenue | 1,406 | 2,014 |
| Remeasurements of the net defined benefit liability (asset) | | |
| — Return on plan assets (excluding amounts included in net interest expense) | 3,322 | (812) |
| Contributions made | 10,650 | 2,619 |
| Benefits paid by the plan | <u>(8,216)</u> | <u>(37,338)</u> |
| Fair value of plan assets, December 31 | <u><u>\$ 109,082</u></u> | <u><u>101,920</u></u> |

4) Expenses recognized in profit or loss

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

| | <u>2018</u> | <u>2017</u> |
|---|------------------------|---------------------|
| Current service cost | \$ 1,672 | 2,368 |
| Net interest on the defined benefit liability | <u>1,506</u> | <u>1,426</u> |
| | <u><u>\$ 3,178</u></u> | <u><u>3,794</u></u> |
| | <u>2018</u> | <u>2017</u> |
| Operating costs | \$ 1,102 | 1,456 |
| Selling expenses | 723 | 807 |
| Administration expenses | 1,006 | 1,123 |
| Research and development expenses | <u>347</u> | <u>408</u> |
| | <u><u>\$ 3,178</u></u> | <u><u>3,794</u></u> |

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

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

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|---------------------------|------------------------|
| Cumulative amount, January 1 | \$ (45,299) | (40,037) |
| Recognized during the period | <u>681</u> | <u>(5,263)</u> |
| Cumulative amount, December 31 | <u><u>\$ (44,618)</u></u> | <u><u>(45,300)</u></u> |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) Actuarial assumptions

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

| | <u>2018.12.31</u> | <u>2017.12.31</u> |
|------------------------------|-------------------|-------------------|
| Discount rate | 1.00%~1.20% | 1.00%~1.40% |
| Future salary increases rate | 2.50%~3.00% | 2.50%~3.00% |

The Group expects to make contributions of \$2,226 thousand to the defined benefit plans in the next year starting from the reporting date of 2018.

The weighted average duration of the defined benefit obligation is 13.5~13.9 years.

7) Sensitivity analysis

When calculating the present value of the defined benefit obligation, the Company uses judgments and estimations to determine the actuarial assumptions, including employee turnover rates and future salary changes, as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligation.

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

| | The impact of defined benefit obligation | |
|-------------------------------------|---|-----------------|
| | <u>Increase</u> | <u>Decrease</u> |
| December 31, 2018 | | |
| Discount rate (0.25%) | \$ (3,746) | 3,914 |
| Future salary increase rate (1.00%) | 16,357 | (14,032) |
| December 31, 2017 | | |
| Discount rate (0.25%) | (4,039) | 4,224 |
| Future salary increase rate (1.00%) | 17,703 | (15,139) |

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

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

(ii) Defined contribution plans

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group's pension costs under the defined contribution method were \$47,001 thousand and \$44,944 thousand for 2018 and 2017, respectively. Payment was made to the Bureau of the Labour Insurance and the local authorities of the consolidated overseas subsidiaries.

(iii) Short-term employee benefit liabilities

| | December 31, 2018 | December 31, 2017 |
|---------------------------------|------------------------------|------------------------------|
| Compensated absence liabilities | <u>\$ 43,083</u> | <u>38,646</u> |

(n) Income tax

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

(i) Income tax expenses

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

| | 2018 | 2017 |
|---|-------------------|----------------|
| Current tax expense | | |
| Current period | \$ 249,736 | 210,767 |
| Adjustment for prior periods | <u>(2,569)</u> | <u>4,457</u> |
| | <u>247,167</u> | <u>215,224</u> |
| Deferred income tax expense | | |
| Origination and reversal of temporary differences | 4,550 | (6,437) |
| Effect of tax rate changes | <u>17,502</u> | <u>-</u> |
| | <u>22,052</u> | <u>(6,437)</u> |
| Income tax expense from continuing operations | <u>\$ 269,219</u> | <u>208,787</u> |

The amounts of income tax recognized in other comprehensive income for 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|-----------------|-------------|
| Items that will not be reclassified subsequently to profit or loss: | | |
| Remeasurements of the defined benefit plans | <u>\$ (101)</u> | <u>859</u> |

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|----------------|
| Net income before tax | \$ <u>1,856,970</u> | <u>946,981</u> |
| Income tax using the Company's domestic tax rate | \$ 371,394 | 160,986 |
| Effect of tax rates differences in foreign jurisdiction | 27,667 | 19,200 |
| Effect of tax rate changes | 17,502 | - |
| Adjustments according to tax law | (201,355) | 2,176 |
| Tax treaty rewards | (10,500) | (10,500) |
| Previous unrecognized tax losses | (327) | (292) |
| Current-year losses for which no deferred income tax asset was recognized | - | 13 |
| Underestimated (overestimated) of prior year's income tax | (2,569) | 4,457 |
| Overestimated (underestimated) of prior year's deferred income tax assets | (54) | 17,520 |
| 10% surtax on undistributed earnings | - | 3 |
| Income basic tax | 59,372 | - |
| Others | <u>8,089</u> | <u>15,224</u> |
| Total | \$ <u>269,219</u> | <u>208,787</u> |

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

The Deferred income tax assets that have not been recognized by the Group are as follows:

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|------------|------------------------------|------------------------------|
| Tax losses | \$ <u>2,079</u> | <u>2,046</u> |

Under the income tax rate, tax losses can be carried forward for ten years to offset taxable income after permitted by domestic tax authority. Deferred income tax assets have not been recognized in respect of these items because it is not probable that the future taxable profit will be available, against which, the Group can utilize the benefits therefrom.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
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As of December 31, 2018, the amount of tax losses not yet recognized as deferred tax assets and their credit for the previous year is as follows:

| <u>Year</u> | <u>Amount</u> | <u>Year of expiration</u> |
|-------------|------------------|---------------------------|
| 2013 | \$ 5,465 | 2023 |
| 2014 | 1,445 | 2024 |
| 2016 | 3,407 | 2026 |
| 2017 | 80 | 2027 |
| | <u>\$ 10,397</u> | |

2) Recognized deferred income tax assets and liabilities

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

Deferred income tax assets:

| | <u>Defined benefit plans</u> | <u>Unrealized profit from sales</u> | <u>Others</u> | <u>Total</u> |
|--|------------------------------|-------------------------------------|---------------|----------------|
| Balance at January 1, 2018 | \$ 16,482 | 72,322 | 60,863 | 149,667 |
| Recognized in profit or loss | 176 | 14,280 | 11,326 | 25,782 |
| Recognized in other comprehensive income | (101) | - | - | (101) |
| Balance at December 31, 2018 | <u>\$ 16,557</u> | <u>86,602</u> | <u>72,189</u> | <u>175,348</u> |
| Balance at January 1, 2017 | \$ 15,469 | 77,756 | 89,277 | 182,502 |
| Recognized in profit or loss | 154 | (5,434) | (28,414) | (33,694) |
| Recognized in other comprehensive income | 859 | - | - | 859 |
| Balance at December 31, 2017 | <u>\$ 16,482</u> | <u>72,322</u> | <u>60,863</u> | <u>149,667</u> |

Deferred income tax liabilities

| | <u>Foreign investment income accounted for using equity method</u> | <u>Others</u> | <u>Total</u> |
|-------------------------------------|--|---------------|----------------|
| Balance at January 1, 2018 | \$ 133,367 | 38,931 | 172,298 |
| Recognized in profit or loss | 33,691 | 14,143 | 47,834 |
| Balance at December 31, 2018 | <u>\$ 167,058</u> | <u>53,074</u> | <u>220,132</u> |
| Balance at January 1, 2017 | \$ 164,562 | 47,867 | 212,429 |
| Recognized in profit or loss | (31,195) | (8,936) | (40,131) |
| Balance at December 31, 2017 | <u>\$ 133,367</u> | <u>38,931</u> | <u>172,298</u> |

(iii) Examination and Approval

The ROC income tax authorities have examined the Company's, Atech peripherals' and Visiontop's income tax returns for years 2015.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(o) Capital and other equity

(i) Common stock

As of December 31, 2018 and 2017, the total value of nominal ordinary shares amounted to \$1,500,000, face value of each share is \$10, of which 150,000 thousand shares, 119,471 thousand shares were issued. All issued shares were paid up upon issuance.

(ii) Additional paid-in capital

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

(iii) Retained earnings

The Company's articles of incorporation require that the Company's net earnings from the current year shall be used to offset prior years' deficits, pay income tax, provide 10% as legal reserve, provide or reverse a special reserve in accordance with Section 41 of the Securities. After the abovementioned appropriations, the distribution of the remaining earnings, if any, should be proposed by the board of directors and is subject to the stockholders' approval.

The Company's business cycle is in the constant growth stage. In consideration of the Company's future capital requirements, its long term financial plan and shareholders' satisfaction as to cash inflow, the Company's articles of incorporation stipulate that the board of directors may propose 30% or more of the distributable earnings as dividends, of which at least 10% should be distributed as cash dividends. However, such distribution depends on the current earnings and the capital condition, and is subject to the approval of stockholders.

1) Legal reserve

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

2) Special reserve

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Earnings distribution

Earnings distribution for 2017 and 2016 was decided via the general meeting of shareholders held on June 14, 2018 and June 15, 2017, respectively. The relevant dividend distributions to shareholders were as follows:

| | 2017 | | 2016 | |
|--|--|-----------------------|--|-----------------------|
| | Amount per share (NT dollars) | Total Amount | Amount per share (NT dollars) | Total Amount |
| Dividends distributed to common stockholders: | | | | |
| Cash | \$ 5.50 | <u><u>657,091</u></u> | 5.80 | <u><u>692,933</u></u> |

(iv) Other equities (net of tax)

| | Foreign exchange differences arising from foreign operations | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | Available-for- sale financial assets | Non-controlling interests | Total |
|--|--|---|--|------------------------------|-------------------------|
| Balance as of January 1, 2018 | \$ (92,885) | - | (1,160) | (1,344) | (95,389) |
| Effects of retrospective application | - | (17,660) | 1,160 | - | (16,500) |
| Balance at January 1, 2018 after adjustments | (92,885) | (17,660) | - | (1,344) | (111,889) |
| Foreign exchange differences arising from foreign operations | 3,170 | - | - | (434) | 2,736 |
| Exchange differences on translation financial statements of foreign subsidiaries accounted for using equity method | (48) | - | - | - | (48) |
| Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income | - | 268 | - | - | 268 |
| Disposal of investments in equity instruments designed at fair value through other comprehensive income | - | (75) | - | - | (75) |
| Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income, associates accounted for using equity method | - | (65) | - | - | (65) |
| Balance as of December 31, 2018 | <u><u>\$ (89,763)</u></u> | <u><u>(17,532)</u></u> | <u><u>-</u></u> | <u><u>(1,778)</u></u> | <u><u>(109,073)</u></u> |
| Balance as of January 1, 2017 | \$ (62,784) | - | (2,548) | (1,644) | (66,976) |
| Foreign exchange differences arising from foreign operations | (30,021) | - | - | 300 | (29,721) |
| Exchange differences on translation financial statements of foreign subsidiaries accounted for using equity method | (80) | - | - | - | (80) |
| Unrealized gains (losses) from available-for- sale financial assets | - | - | 1,523 | - | 1,523 |
| Unrealized gains (losses) on available-for-sale financial assets, subsidiaries accounted for using equity method | - | - | (135) | - | (135) |
| Balance as of December 31, 2017 | <u><u>\$ (92,885)</u></u> | <u><u>-</u></u> | <u><u>(1,160)</u></u> | <u><u>(1,344)</u></u> | <u><u>(95,389)</u></u> |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Earnings per share

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

(i) Basic earnings per share

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|----------------|
| Net income attributable to ordinary shareholders of the Company | \$ <u>1,576,132</u> | <u>726,748</u> |
| Weighted-average number of ordinary shares | <u>119,471</u> | <u>119,471</u> |
| Basic earnings per share (in NT dollars) | \$ <u>13.19</u> | <u>6.08</u> |

(ii) Diluted earnings per share

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|----------------|
| Net income attributable to ordinary shareholders of the Company | \$ <u>1,576,132</u> | <u>726,748</u> |
| Weighted-average number of ordinary shares (basic) | 119,471 | 119,471 |
| Impact of potential common shares | | |
| Effect of employee stock bonus | <u>2,540</u> | <u>1,933</u> |
| Weighted-average number of ordinary shares (diluted) | <u>122,011</u> | <u>121,404</u> |
| Diluted earnings per share (in NT dollars) | \$ <u>12.92</u> | <u>5.99</u> |

(q) Revenue from contracts with customers – disaggregation of revenue

| | <u>2018</u> | | |
|--|---|----------------|------------------|
| | <u>Computer peripheral products</u> | <u>Other</u> | <u>Total</u> |
| Primary geographical markets: | | | |
| United States | \$ 1,213,235 | - | 1,213,235 |
| China | 533,087 | - | 533,087 |
| Japan | 568,931 | - | 568,931 |
| Others | <u>2,724,215</u> | <u>133,542</u> | <u>2,857,757</u> |
| | <u>\$ 5,039,468</u> | <u>133,542</u> | <u>5,173,010</u> |
| Major product lines: | | | |
| IT infrastructure management solutions | \$ 3,146,094 | - | 3,146,094 |
| Video products | 1,004,650 | - | 1,004,650 |
| Others | <u>888,724</u> | <u>133,542</u> | <u>1,022,266</u> |
| | <u>\$ 5,039,468</u> | <u>133,542</u> | <u>5,173,010</u> |

For details on revenue for the years ended December 31, 2017, please refer to note 6(r).

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Revenue

| | |
|---------------|---------------------|
| | 2017 |
| Sale of goods | \$ 4,947,321 |

(s) Remuneration to employees, directors and supervisors

In accordance with the Company's articles, the net income before tax, after deducting the remuneration to employees, directors and supervisors, shall first be offset against any deficit, then 10%~16% will be distributed as employee remuneration and less than 2% will be allocated as directors' and supervisors' remuneration. The amounts of employee, directors' and supervisors' remuneration, to be distributed in cash or stock, should be decided in the board meeting, with two thirds of the board members attending the meeting, and over half of the attendees approving the amounts for distribution that are to be reported at the shareholders meeting. Employees who are entitled to receive the above mentioned employee remuneration, in share or cash, include the employees of the subsidiaries of the Group who meet certain specific requirement.

For the year ended December 31, 2018 and 2017, the Company estimated its employee remuneration amounting to \$194,940 thousand and \$133,461 thousand, and directors' and supervisors' remuneration amounting to \$23,393 thousands and \$11,293 thousands, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2018 and 2017. Related information would be available at the Market Observation Post System website. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2018 and 2017.

(t) Non-operating income and expenses

(i) Other income

| | 2018 | 2017 |
|----------------------|------------------|---------------|
| Interest income | \$ 2,910 | 4,119 |
| Dividend income | 201 | 407 |
| Other income – Other | 27,060 | 14,949 |
| Total other income | \$ 30,171 | 19,475 |

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Other gains and losses

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|---------------|
| Losses on disposal of property, plant and equipment | \$ (203) | (360) |
| Gains on disposals of investment | 945,838 | - |
| Gains on foreign exchange | 14,575 | 33,386 |
| Losses on financial assets (liabilities) at fair value through profit or loss | (849) | (20,156) |
| Others | (432) | (438) |
| Net other gains and losses | <u>\$ 958,929</u> | <u>12,432</u> |

(iii) Finance costs

The details of the Group's finance costs for the years ended December 31, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|------------------|------------------|---------------|
| Interest expense | <u>\$ 18,369</u> | <u>14,467</u> |

(u) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2018 and 2017, the maximum amount exposed to credit risk amounted to \$3,656,386 thousand and \$2,694,779 thousand, respectively.

2) Concentration of credit risk

The Group did not have significant transaction with any individual customer in 2018 and 2017.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Liquidity risk

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

| | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>Within a year</u> | <u>1-2 years</u> | <u>2-3 years</u> | <u>3-5 years</u> | <u>Over 5 years</u> |
|---|----------------------------|-----------------------------------|--------------------------|------------------|------------------|------------------|---------------------|
| December 31, 2018 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Secured loans | \$ 266,169 | 234,452 | 207,080 | 9,695 | 6,058 | 11,619 | - |
| Unsecured loans | 526,921 | 536,043 | 536,043 | - | - | - | - |
| Notes and accounts payable (including related parties) | 474,444 | 474,444 | 474,444 | - | - | - | - |
| Other payables | 120,087 | 120,087 | 120,087 | - | - | - | - |
| Deposits received | 1,595 | 1,595 | 1,595 | - | - | - | - |
| Derivative financial liabilities | | | | | | | |
| Other forward contracts: | | | | | | | |
| Outflow | 2,247 | 2,247 | 2,247 | - | - | - | - |
| | <u>\$ 1,391,463</u> | <u>1,368,868</u> | <u>1,341,496</u> | <u>9,695</u> | <u>6,058</u> | <u>11,619</u> | <u>-</u> |
| December 31, 2017 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Secured loans | \$ 208,623 | 214,671 | 176,213 | 10,939 | 9,610 | 12,106 | 5,803 |
| Unsecured loans | 575,902 | 582,522 | 582,522 | - | - | - | - |
| Notes and accounts payable (including related parties) | 469,158 | 469,158 | 469,158 | - | - | - | - |
| Other payables | 128,289 | 128,289 | 128,289 | - | - | - | - |
| Deposits received | 1,695 | 1,695 | 1,695 | - | - | - | - |
| Derivative financial liabilities | | | | | | | |
| Other forward contracts: | | | | | | | |
| Outflow | 2,447 | 2,447 | 2,447 | - | - | - | - |
| | <u>\$ 1,386,114</u> | <u>1,398,782</u> | <u>1,360,324</u> | <u>10,939</u> | <u>9,610</u> | <u>12,106</u> | <u>5,803</u> |

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Exchange rate risk

1) Exposure to exchange rate risk

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

| | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>NTD</u> |
|--------------------------|-----------------------------|--------------------------|------------|
| December 31, 2018 | | | |
| Financial assets: | | | |
| Monetary items: | | | |
| USD | \$ 21,229 | 30.7330 | 652,431 |
| JPY | \$ 234,538 | 0.2783 | 65,272 |
| CNY | \$ 17,571 | 4.4752 | 78,634 |
| EUR | \$ 4,852 | 35.2200 | 170,887 |
| TWD | \$ 190,203 | 1.0000 | 190,203 |
| GBP | \$ 621 | 38.9000 | 24,157 |
| Financial liabilities: | | | |
| Monetary items: | | | |
| USD | \$ 16,341 | 30.7330 | 502,208 |
| CNY | \$ 9,017 | 4.4752 | 40,353 |
| GBP | \$ 535 | 38.9000 | 20,812 |
| December 31, 2017 | | | |
| Financial assets: | | | |
| Monetary items: | | | |
| USD | \$ 21,579 | 29.8480 | 644,090 |
| JPY | \$ 163,995 | 0.2649 | 43,442 |
| CNY | \$ 20,594 | 4.5792 | 94,304 |
| EUR | \$ 3,772 | 35.6830 | 134,596 |
| TWD | \$ 190,203 | 1.0000 | 190,203 |
| GBP | \$ 1,092 | 40.2100 | 43,909 |
| Financial liabilities: | | | |
| Monetary items: | | | |
| USD | \$ 18,911 | 29.8480 | 564,456 |
| CNY | \$ 5,707 | 4.5792 | 26,133 |

Note: Since the effect of foreign exchange risk derived from the transactions within the Group cannot be fully extinguished, analysis is based on the amounts prior to the write-off adjustments.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, loans and borrowings, and trade and other payables that are denominated in foreign currency. A 1% appreciation or depreciation of the TWD against the USD, JPY, CNY, EUR, GBP and TWD as of December 31, 2018 and 2017 would have increased or decreased the net profit by \$4,946 thousand and \$4,648 thousand, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary item

Since the Group books its transaction in different functional currencies, the information on foreign exchange gains (loss) on monetary items is disclosed based on the total amount. For the years 2018 and 2017, foreign exchange gains (including realized and unrealized portion) amounted to \$14,575 thousand and \$33,386 thousand.

(iv) Interest rate analysis

Please refer to the note for liquidity risk management and the interest rate exposure to the Group's financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure of the interest rate on derivative and non-derivative financial instruments on the reporting date. Regarding assets with variable interest rates, the analysis is on the basis of 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% when reporting to management internally, which also represents the management of the Group's assessment on the reasonably possible interval of interest rate change.

With all other variable factors remain constant. If the interest rate increases or decreases by 1%, the Group's net income will increase or decrease by \$6,345 thousand and \$6,512 thousand, respectively, for the years ended December 31, 2018, and 2017. This is mainly due from the Group's borrowing on variable rates.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
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(v) Fair value and carrying amount

1) Categories and fair value of financial instruments

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

| | December 31, 2018 | | | | |
|---|-----------------------|------------------|----------------|---------------|------------------|
| | Carrying amount | Fair value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets at fair value through profit or loss | | | | | |
| Derivative financial assets for hedging | \$ 572 | - | 572 | - | 572 |
| Non derivative financial assets mandatorily measured at fair value through profit or loss | 1,417,364 | 1,417,364 | - | - | 1,417,364 |
| Subtotal | <u>1,417,936</u> | <u>1,417,364</u> | <u>572</u> | <u>-</u> | <u>1,417,936</u> |
| Financial assets at fair value through other comprehensive income | | | | | |
| Listed stocks (domestic) | 4,642 | 4,642 | - | - | 4,642 |
| Unlisted stocks (domestic and overseas) | 21,780 | - | - | 21,780 | 21,780 |
| Subtotal | <u>26,422</u> | <u>4,642</u> | <u>-</u> | <u>21,780</u> | <u>26,422</u> |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | 692,377 | - | - | - | - |
| Accounts and notes receivables | 729,042 | - | - | - | - |
| Other receivables | 653,669 | - | - | - | - |
| Refundable deposits | 20,251 | - | - | - | - |
| Other financial assets non-current | 116,689 | - | - | - | - |
| Subtotal | <u>2,212,028</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 3,656,386</u> | <u>1,422,006</u> | <u>572</u> | <u>21,780</u> | <u>1,444,358</u> |
| Financial liabilities at fair value through profit or loss | | | | | |
| Derivative financial liabilities for hedging | \$ (2,247) | - | (2,247) | - | (2,247) |
| Financial liabilities measured at amortized cost | | | | | |
| Short-term borrowings | (756,907) | - | - | - | - |
| Notes and accounts payable | (474,444) | - | - | - | - |
| Other payables | (120,087) | - | - | - | - |
| Long-term borrowings (including current portion) | (36,183) | - | - | - | - |
| Deposits received | (1,595) | - | - | - | - |
| Subtotal | <u>(1,389,216)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ (1,391,463)</u> | <u>-</u> | <u>(2,247)</u> | <u>-</u> | <u>(2,247)</u> |

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | December 31, 2017 | | | | |
|--|-----------------------|----------------|----------------|----------|----------------|
| | Carrying amount | Fair value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets at fair value through profit or loss | | | | | |
| Derivative financial assets | \$ 136 | - | 136 | - | 136 |
| Held-for-trading non-derivative financial assets | 980,612 | 980,612 | - | - | 980,612 |
| Subtotal | <u>980,748</u> | <u>980,612</u> | <u>136</u> | <u>-</u> | <u>980,748</u> |
| Available-for-sale financial assets | | | | | |
| Domestic listed stock | \$ 8,661 | 8,661 | - | - | 8,661 |
| Financial assets measured at cost | 21,780 | - | - | - | - |
| Subtotal | <u>30,441</u> | <u>8,661</u> | <u>-</u> | <u>-</u> | <u>8,661</u> |
| Receivables | | | | | |
| Cash and cash equivalents | 840,404 | - | - | - | - |
| Notes and accounts receivable and other receivables | 715,219 | - | - | - | - |
| Refundable deposits | 15,260 | - | - | - | - |
| Other financial assets—non-current | 112,707 | - | - | - | - |
| Subtotal | <u>1,683,590</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 2,694,779</u> | <u>989,273</u> | <u>136</u> | <u>-</u> | <u>989,409</u> |
| Financial liabilities at fair value through profit or loss | | | | | |
| Derivative financial liabilities | \$ (2,447) | - | (2,447) | - | (2,447) |
| Financial liabilities measured at amortized cost | | | | | |
| Short-term borrowings | (734,695) | - | - | - | - |
| Notes and accounts payable | (469,158) | - | - | - | - |
| Other payables (including related parties) | (128,289) | - | - | - | - |
| Long-term borrowings (including due within one year) | (49,830) | - | - | - | - |
| Deposits received | (1,695) | - | - | - | - |
| Subtotal | <u>(1,383,667)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ (1,386,114)</u> | <u>-</u> | <u>(2,447)</u> | <u>-</u> | <u>(2,447)</u> |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Valuation techniques in financial instruments measured at fair value

a) Non – derivative financial instruments

If there are quoted prices in the active markets for financial instruments, the fair value of those prices may be based on the quoted market prices. The market prices announced by Securities Exchange and Over the Counter are the benchmarks of the fair value of equity instruments and Liability instruments trading in active markets.

The fair value of financial assets and liabilities traded in the active markets will be based on the quoted market prices when the quoted prices can be obtained from the exchanges, brokers, underwriters, industrial unions, pricing service agencies or authorities, as well as if they can represent as the one usually traded in fair market transaction in practice. If the requirements above mentioned don't actually accomplish, the market ought to be seen inactive condition. Generally speaking, the index of inactive market are based on the large difference of the price between buying and selling transaction, the difference of the price between buying and selling transaction distinctively increasing or little quantity of trading volume.

The fair values of the Group's financial instruments trading in active markets are categorized by types and nature as follows:

Stocks of listed Companies and open ended funds are financial assets possessing standard provision and trading in active markets. Their fair values are determined based on the market quotes and net assets value, respectively.

In addition to the aforementioned financial instruments trading in active markets, the fair values of other financial instruments are obtained through valuation or by referencing the quotes from counterparties. Such valuation technique involves referencing the fair value of financial instruments that are virtually alike in terms and characteristic, and using discounted cash flow model or other pricing models. Other pricing models may utilize the available market information on the balance sheet date such as yield curve from Over the Counter and the average quotes on the interest rates of Reuters Commercial Paper.

b) Derivative financial instrument

Derivatives are priced based on the pricing models widely accepted by markets. Forward Exchange Contracts are normally priced based on the current forward exchange rates or the forward interest rate estimated using interest rate parity theory.

3) Fair value hierarchy

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

a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

There was no such situation that the Company reclassified the financial instruments from one level to another as of the reporting date.

- 4) Transfer from level 1 financial instrument to level 2 financial instrument.

There was no significant transfer from level 2 financial instrument to level 1 financial instrument.

- 5) Reconciliation of Level 3 fair values

| | Fair value through other comprehensive income | |
|------------------------------|--|-------------------------|
| | Unquoted equity instruments | Bond investments |
| Balance at December 31, 2018 | \$ 21,780 | - |

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

Quantified information of significant unobservable inputs was as follows:

| Item | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|----------------------------|---|--|
| Financial assets at fair value through other comprehensive income equity investments without an active market | Comparative listed company | <ul style="list-style-type: none"> · Multipliers of price-Book ratios as of December 31, 2018 were 1.52~2.05 · Market illiquidity discount rate as of December 31, 2018 was 20% | <p>The estimated fair value would increase (decrease) if</p> <ul style="list-style-type: none"> · the multiplier were higher (lower) · the market illiquidity discount were lower (higher) |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

| December 31, 2018 | Input | Assumptions | Other comprehensive income | |
|--|---------------------------|-------------|----------------------------|--------------|
| | | | Favourable | Unfavourable |
| Financial assets fair value through other comprehensive income | | | | |
| Equity investments without an active market | Liquidity discount at 20% | 5% | \$ 1,248 | (1,248) |

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

(v) Financial risk management

(i) Overview

The Group is exposed to the following risks arising from financial instruments:

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

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

(ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer, financial institution, or counterparty fails to meet its contractual obligations and arises principally from the Group's receivables from its customers, financial instruments, or non-public trading securities.

1) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly during deteriorating economic circumstances. The counterparties of the Consolidated Companies' notes and accounts receivable are predominantly concentrated in Asia, which accounted for 51%, of the total amount of notes and accounts receivable as of December 31, 2018 and 2017.

The Group has established a credit policy, under which, each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Board of Directors; these limits are reviewed regularly.

The Group has established an allowance for bad debt account to reflect the estimated losses for trade, other receivables, and investment. 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 based on the historical collection record of similar financial assets.

2) Investments

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transactions are with the counterparties, and the contractually obligated counterparties are the banks, financial institutions, corporate organizations and government agencies with good credits, there are no compliance issues, and therefore, there is no significant credit risk.

(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 have 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.

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group uses activity-based costing to estimate the cost of its products and services, which assists it in monitoring cash flow requirements and optimizing its cash return on investments. The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of the expected cash flows on financial liabilities (other than trade payables) over the succeeding 60 days. The Group also monitors the level of expected cash outflows on trade and other payables. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Group has unused short term bank facilities of \$1,427,152 thousand and \$1,336,784 thousand, respectively, as of December 31, 2018 and 2017.

(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 optimising the return.

1) Currency risk

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

The Group holds accounts receivable denominated on the currency other than functional currency. Gains or losses on change of exchange rate and that on long-term and short-term borrowings denominated in foreign currency can offset each other, reducing the currency risk of the Group.

The interest is denominated in the currency used in the borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily the NTD, EUR, USD, JPY, and CNY.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

2) Interest rate risk

The Group's short-term borrowings are liabilities which are affected by the fluctuation of interest rates. Accordingly, changes in market rate would affect the effective interest rate and the future cash flow to alter.

3) Other market price risk

Financial assets at fair value through profit or loss—current and available-for-sale financial assets—current are listed stocks and mutual funds, which may fluctuate with changes in equity price. In order to manage market risk, the Group carefully selects trust companies with good reputations to engage in financial instrument transactions.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group's bank balances and financial liability— short-term and long-term borrowings are exposed to the cash flow risk arising from changes in interest rates. However, the impact of the cash flow risk arising from changes in interest rate is not expected to be significant.

(w) Capital management

The Group's objectives for managing capital are to safeguard the capacity to continue to operate, to provide a return to shareholders and benefits to other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, or issue new shares to settle long-term liabilities.

The Group uses the debt ratio to manage capital. This ratio divides debt by total assets. The debt from the balance sheet is accounted for as total liabilities. Total assets include share capital, capital surplus, retained earnings, other equity and non-controlling interest, plus, debt; the Group may also use its equity ratio, computed as one, less, its debt ratio, as a basis in managing its capital.

The Group's debt and equity ratio at the end of the reporting date were as follow:

| | <u>December 31,</u> <u>2018</u> | <u>December 31,</u> <u>2017</u> |
|-------------------|------------------------------------|------------------------------------|
| Total liabilities | \$ <u>2,458,645</u> | <u>2,233,249</u> |
| Total assets | \$ <u>7,045,064</u> | <u>5,952,247</u> |
| Debt ratio | <u>35 %</u> | <u>38 %</u> |
| Equity ratio | <u>65 %</u> | <u>62 %</u> |

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

(7) Related-party Transactions

(a) Parent Company and ultimate controlling party

The related parties that have transactions with the consolidated company in the reporting period are shown below:

| <u>Name of related party</u> | <u>Relationship with the Group</u> |
|--|------------------------------------|
| Aspeed Technology Inc | Associate |
| GradeUpon Technology Corp. (Note) | Other Related Party |
| Grade Up Technology Corporation (Note) | Other Related Party |

Note: The Company was no longer a related party of the Group from May 2018.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Significant related party transactions

(i) Operating revenue

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

| | | |
|-----------------------|------------------|---------------|
| | <u>2018</u> | <u>2017</u> |
| Other related parties | <u>\$ 19,488</u> | <u>42,272</u> |

There were no significant differences in the collection periods between related parties and other customers.

(ii) Purchases

The amount of purchase transactions between the Group and related parties were as follows:

| | | |
|------------|-----------------|--------------|
| | <u>2018</u> | <u>2017</u> |
| Associates | <u>\$ 9,682</u> | <u>6,291</u> |

The purchasing price, other terms and conditions with related parties were not significantly different from those with third parties.

(iii) Receivables from related parties

The receivables due from related parties were as follows:

| <u>Accounts</u> | <u>Type of related parties</u> | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---------------------|--------------------------------|------------------------------|------------------------------|
| Notes receivable | Other related parties | \$ - | 7,586 |
| Accounts receivable | Other related parties | - | 8,179 |
| | | <u>\$ -</u> | <u>15,765</u> |

(iv) Payables to related parties

The receivables due from related parties were as follows:

| <u>Accounts</u> | <u>Type of related parties</u> | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|------------------|--------------------------------|------------------------------|------------------------------|
| Accounts payable | Associates | <u>\$ 2,250</u> | <u>2,527</u> |

(c) Key management personnel compensations

Key management personnel compensation comprised:

| | | |
|------------------------------|------------------|---------------|
| | <u>2018</u> | <u>2017</u> |
| Short-term employee benefits | <u>\$ 75,748</u> | <u>59,932</u> |

For the years ended December 31, 2018 and 2017, the Group provided three vehicles at a cost of \$12,214 thousand for key management personnel.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) Pledged Assets

The carrying values of pledged assets were as follows:

| <u>Pledged assets</u> | <u>Object</u> | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---|---|------------------------------|------------------------------|
| Cash (recorded under other financial assets – non-current) | Litigation deposits | \$ 1,220 | - |
| Cash and negotiable certificate of deposits (recorded under other financial assets – non-current) | Guarantee for provisional attachment | 78,785 | 78,750 |
| Time deposits (recorded under other financial assets – non-current) | Guarantee for customs | 3,999 | 3,957 |
| Negotiable certificate of deposits (recorded under other financial assets – non-current) | Guarantee for provisional seizure | 30,000 | 30,000 |
| Time deposits (recorded under other financial assets – non-current) | Guarantee for financial transaction | 2,685 | - |
| Property, plant and equipment | Guarantee for long-term and short-term borrowings | 257,256 | 289,578 |
| | | <u>\$ 373,945</u> | <u>402,285</u> |

(9) Significant Commitments and Contingencies

- (a) As of December 31, 2017, the Group had an unused line of credit for purchasing raw materials amounting to \$4,561 thousand (USD152,813).
- (b) As of December 31, 2018 and 2017, the outstanding bank drafts to secure credit facilities and financial instruments amounted to \$1,946,172 thousand and \$1,814,836 thousand, respectively.
- (c) The Company had filed patent infringement suits against YiFeng Technology Co., Ltd. (Yi-Feng), and Heoya Technology Corp., Ltd. (Heoya). As of December 31, 2018 and 2017, the Company had pledged cash and time deposits of \$22,400 thousand and \$108,750 thousand, respectively. However, the Company lost both appeals.
- (d) During 2014, the Company filed patent infringement suits against Uniclass Technology Co., Ltd, Electronic Technology Co., Ltd. Of Dongguan Uniclass, Airlink 101, Pheobe Micro Inc, Broadtech International Co., Ltd, d/b/a Linkskey and Black Box Corporation to the Eastern District Court of Texas. Though losing the first appeal, the Company will proceed to appeal to the federal circuit court to secure its patent rights.
- (e) During July 2018, ATEN Technology, Inc., a subsidiary of the Company, filed trademark infringement and unfair competition suits against Arris Group, Inc. and its associate, Ruckus Wireless, Inc., to the Western Division of Central District Court of California for permanent injunction, as well as punitive and statutory damages. As of December 31, 2018, the above case was still in progress.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(10) Losses due to major disasters: None.

(11) Subsequent events: None.

(12) Others

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

| By nature | Years ended December 31 2018 | | | Years ended December 31 2017 | | |
|----------------------------|------------------------------|--------------------|-----------|------------------------------|--------------------|-----------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefits | | | | | | |
| Salary | 296,907 | 1,292,831 | 1,589,738 | 280,876 | 1,139,671 | 1,420,547 |
| Labor and health insurance | 28,690 | 103,070 | 131,760 | 28,415 | 102,899 | 131,314 |
| Pension | 6,574 | 43,605 | 50,179 | 8,839 | 39,899 | 48,738 |
| Directors' remuneration | - | 22,065 | 22,065 | - | 12,086 | 12,086 |
| Others | 16,934 | 66,026 | 82,960 | 15,634 | 65,732 | 81,366 |
| Depreciation | 33,233 | 55,486 | 88,719 | 38,868 | 50,943 | 89,811 |
| Amortization | - | - | - | - | - | - |

- (b) The Company filed criminal charges against its former employees for not following its policy, wherein they illegally gained profit for themselves during their service in 2015 to 2016. The suspects have already resigned from the Company at the end of 2016. After the Company filed the lawsuit, the suspects have been investigated since October 2017 and indicted by the prosecutor in March 2018. The case is still in progress. As of December 31, 2018, the Company was able to operate normally and its sales and financial position were not significantly affected by the incident

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other Disclosures

(a) Information on significant transactions:

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

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

Unit: thousand dollars

| Name of holder | Nature and name of security | Relationship with the security issuer | Account name | 2018 | | | | Maximum investment in 2018 | Remarks |
|---------------------------------------|--|---------------------------------------|---|------------------|------------|--------------------|--------------|----------------------------|---------|
| | | | | Number of shares | Book value | Holding percentage | Market value | | |
| The Company | Mutual fund: JIHSUN Money Market Fund | — | Financial assets at fair value through profit or loss – current | 9,803 | 145,014 | - | 145,014 | 289,095 | |
| The Company | Nomura Taiwan Money Market Fund | — | Financial assets at fair value through profit or loss – current | 4,072 | 66,351 | - | 66,351 | 132,445 | |
| The Company | Eastspring Inv Well Pool Money Market Fund | — | Financial assets at fair value through profit or loss – current | 1,308 | 17,762 | - | 17,762 | 444,463 | |
| The Company | Capital Money Market Fund | — | Financial assets at fair value through profit or loss – current | 9,441 | 152,096 | - | 152,096 | 393,693 | |
| The Company | Yuanta De-Li Money Market Fund | — | Financial assets at fair value through profit or loss – current | 15,258 | 248,413 | - | 248,413 | 510,909 | |
| The Company | Prudential Financial Money Market Fund | — | Financial assets at fair value through profit or loss – current | 4,361 | 68,884 | - | 68,884 | 256,844 | |
| The Company | First Bank Taiwan Money Market Fund | — | Financial assets at fair value through profit or loss – current | 12,250 | 187,134 | - | 187,134 | 532,262 | |
| The Company | Stock: SHIN KONG FINANCIAL HOLDING CO., LTD. | — | Financial assets at fair value through other comprehensive income – current | 165 | 1,482 | - | 1,482 | 1,974 | |
| The Company | TAIWAN COOPERATIVE BANK | — | Financial assets at fair value through other comprehensive income – current | 135 | 2,389 | - | 2,389 | 2,518 | |
| The Company | CHINA DEVELOPMENT FINANCIAL HOLDINGS CO., LTD. | — | Financial assets at fair value through other comprehensive income – current | 79 | 771 | - | 771 | 904 | |
| The Company | ACROX CO., LTD. | — | Financial assets at fair value through other comprehensive income – current | 1,428 | 14,280 | 14 | 14,280 | 14,280 | - |
| The Company | OptoMedia Technology Inc. | — | Financial assets at fair value through other comprehensive income – current | 500 | 7,500 | 2 | 7,500 | 7,500 | |
| HONG JHENG TECHNOLOGY CO., LTD | JIHSUN Money Market Fund | — | Financial assets at fair value through other comprehensive income – current | 33,532 | 496,059 | - | 496,059 | 496,059 | |
| HONG JHENG TECHNOLOGY CO., LTD | Common Stock of Visionary Dynamics Co., Ltd. | — | Financial assets at fair value through other comprehensive income – current | 20 | - | 1 | - | - | Note 1 |
| HONG YUAN CO., LTD | JIHSUN Money Market Funds | — | Financial assets at fair value through profit or loss – current | 996 | 14,729 | - | 14,729 | 14,729 | |
| ATEN FOREMOST INTERNATIONAL CO., LTD. | SHANG TOU Money Market Fund | — | Financial assets at fair value through profit or loss – current | 4,675 | 20,922 | - | 20,922 | 36,162 | - |

Note 1: The impairment loss was fully recognized.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
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- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:

Unit: thousand dollars

| Name of company | Name of security | Account name | Counterparty | Relationship with the Company | Beginning balance | | Purchases | | Sales | | | Ending balance | | |
|--------------------------------|--|---|--------------|-------------------------------|-------------------|---------|-----------|---------|--------|---------|---------|----------------|--------|---------|
| | | | | | Shares | Amount | Shares | Amount | Shares | Price | Cost | Disposal gain | Shares | Amount |
| The Company | JHHSUN Money Market Fund | Financial assets at fair value through profit or loss – current | - | - | 10,853 | 159,832 | 24,335 | 359,512 | 25,385 | 375,012 | 374,084 | 928 | 9,803 | 145,014 |
| The Company | Eastspring Inv well Pool Money Market Fund | Financial assets at fair value through profit or loss – current | - | - | 15,651 | 211,668 | 35,669 | 483,259 | 50,012 | 677,757 | 676,961 | 796 | 1,308 | 17,762 |
| The Company | Capital Money Market Fund | Financial assets at fair value through profit or loss – current | | | 6,797 | 109,018 | 30,121 | 484,693 | 27,477 | 442,093 | 441,600 | 493 | 9,441 | 152,096 |
| The Company | Yuanta De-Li Money Market Fund | Financial assets at fair value through profit or loss – current | | | - | - | 40,946 | 665,909 | 25,688 | 417,909 | 417,500 | 409 | 15,258 | 248,413 |
| The Company | First Bank Taiwan Money Market Fund | Financial assets at fair value through profit or loss – current | | | 17,064 | 259,496 | 46,484 | 708,632 | 51,298 | 782,132 | 780,762 | 1,370 | 12,250 | 187,134 |
| HONG JHENG TECHNOLOGY CO., LTD | JHHSUN Money Market Fund | Financial assets at fair value through profit or loss – current | | | 522 | 7,702 | 33,010 | 487,810 | - | - | - | - | 33,532 | 496,059 |
| HONG JHENG TECHNOLOGY CO., LTD | ASPEED TECHNOLOGY INC | Investment accounted for under equity method | Note | Note | 768 | 30,272 | - | - | 768 | 472,733 | 32,068 | 440,665 | - | - |
| HONG YUAN CO., LTD. | ASPEED TECHNOLOGY INC | Investment accounted for under equity method | Note | Note | 978 | 38,629 | - | - | 978 | 548,754 | 43,581 | 505,173 | - | - |

Note: The transaction that selling marketable securities to non-related party on the open market.

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

Unit: thousand dollars

| Name of Company | Counter-party | Relationship | Transaction details | | | | The status and reason for deviation from arm's-length transaction | | Account / note receivable (payable) | | Remarks |
|---------------------------------------|---------------------------------------|----------------------------|---------------------|-----------|---------------------------------------|---------------|---|----------------------------|-------------------------------------|---|---------|
| | | | Purchase / Sale | Amount | Percentage of total purchases / sales | Credit period | Unit price | Credit period | Balance | Percentage of total accounts / notes receivable (payable) | |
| The Company | EXPAND ELECTRONIC CO., LTD. | Invested by sub-subsidiary | Purchase | 831,396 | 54 | 30 | No significant differences | Note 1 | (58,668) | (21) | Note 2 |
| EXPAND ELECTRONIC CO., LTD. | The Company | Invested by sub-subsidiary | (Sales) | (831,396) | (100) | 30 | No significant differences | Note 1 | 58,668 | 100 | Note 2 |
| The Company | ATEN FOREMOST INTERNATIONAL CO., LTD. | Sub-subsidiary | Purchase | 185,408 | 12 | 30 | No significant differences | Note 1 | (13,704) | (5) | Note 2 |
| ATEN FOREMOST INTERNATIONAL CO., LTD. | The Company | Sub-subsidiary | (Sales) | (185,408) | (68) | 30 | No significant differences | Note 1 | 13,704 | 47 | Note 2 |
| The Company | ATEN INFOTECH N.V. | Subsidiary | (Sales) | (549,286) | (15) | 90 | No significant differences | No significant differences | 133,371 | 19 | Note 2 |
| ATEN INFOTECH N.V. | The Company | Subsidiary | Purchase | 549,286 | 100 | 90 | No significant differences | No significant differences | (133,371) | (100) | Note 2 |
| The Company | ATECH PERIPHERALS. | Sub-subsidiary | (Sales) | (175,845) | (5) | 30 | No significant differences | No significant differences | 7,502 | 1 | Note 2 |
| ATECH PERIPHERALS. | The Company | Sub-subsidiary | Purchase | 175,845 | 96 | 30 | No significant differences | No significant differences | (7,502) | (96) | Note 2 |
| The Company | ATEN KOREA CO., LTD. | Sub-subsidiary | (Sales) | (262,322) | (7) | 60 | No significant differences | No significant differences | 55,923 | 8 | Note 2 |

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| Name of Company | Counter-party | Relationship | Transaction details | | | | The status and reason for deviation from arm's-length transaction | | Account / note receivable (payable) | | Remarks |
|----------------------|----------------------|----------------------------|---------------------|-----------|---------------------------------------|---------------|---|----------------------------|-------------------------------------|---|---------|
| | | | Purchase / Sale | Amount | Percentage of total purchases / sales | Credit period | Unit price | Credit period | Balance | Percentage of total accounts / notes receivable (payable) | |
| ATEN KOREA CO., LTD. | The Company | Sub-subsidiary | Purchase | 262,322 | 100 | 60 | No significant differences | No significant differences | (55,923) | (100) | Note 2 |
| The Company | ATEN CHINA CO., LTD. | Sub-subsidiary | (Sales) | (357,002) | (10) | 45 | No significant differences | No significant differences | 59,141 | 8 | Note 2 |
| ATEN CHINA CO., LTD. | The Company | Sub-subsidiary | Purchase | 357,002 | 91 | 45 | No significant differences | No significant differences | (59,141) | (86) | Note 2 |
| The Company | ATEN TECHNOLOGY INC. | Invested by sub-subsidiary | (Sales) | (520,937) | (15) | 95 | No significant differences | No significant differences | 173,055 | 25 | Note 2 |
| ATEN TECHNOLOGY INC. | The Company | Invested by sub-subsidiary | Purchase | 520,937 | 49 | 95 | No significant differences | No significant differences | (173,055) | (64) | Note 2 |
| The Company | ATEN JAPAN CO., LTD. | Sub-subsidiary | (Sales) | (266,649) | (7) | 45 | No significant differences | No significant differences | 51,661 | 7 | Note 2 |
| ATEN JAPAN CO., LTD. | The Company | Sub-subsidiary | Purchase | 266,649 | 100 | 45 | No significant differences | No significant differences | (51,661) | (100) | Note 2 |

Note 1: Payments are netted with the account receivable resulting from the Company purchasing on behalf of related parties.

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

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

Unit: thousand dollars

| Name of related party | Counter-party | Relationship | Balance of receivables from related party | Turnover rate | Overdue amount | | Amounts received in subsequent period | Allowances for bad debts |
|--------------------------------|----------------------|-----------------------------|---|---------------|----------------|-----------------------------|---------------------------------------|--------------------------|
| | | | | | Amount | Action taken | | |
| The Company | ATEN INFOTECH N.V. | Subsidiary | 133,371 | 5.34 | - | | 126,606 (As of March 12, 2019) | - |
| The Company | ATEN TECHNOLOGY INC. | Sub-subsidiary | 173,055 | 3.80 | - | | 101,789 (As of March 12, 2019) | - |
| EXPAND INTERNATIONAL CO., LTD. | The Company | The ultimate parent company | 191,833 | - | 191,833 | Depend on capital budgeting | - (As of March 12, 2019) | - |

(ix) Trading in derivative instruments:

Please refer to 6(b) for further information.

(x) Business relationships and significant intercompany transactions:

Unit: thousand dollars

| No. | Name of company | Name of counter-party | Existing relationship with the counter-party | Transaction details | | | Percentage of the total consolidated revenue or total assets |
|-----|-----------------|-----------------------|--|---------------------|---------|----------------------------|--|
| | | | | Account name | Amount | Trading terms | |
| 0 | The Company | ATEN TECHNOLOGY INC. | 1 | Sales revenue | 520,937 | No significant differences | 10 % |
| 0 | The Company | ATEN INFOTECH N.V. | 1 | Sales revenue | 549,286 | No significant differences | 11 % |
| 0 | The Company | ATEN NEW JERSEY INC. | 1 | Sales revenue | 55,889 | No significant differences | 1 % |
| 0 | The Company | ATEN CHINA CO., LTD. | 1 | Sales revenue | 357,002 | No significant differences | 7 % |
| 0 | The Company | ATEN JAPAN CO., LTD. | 1 | Sales revenue | 266,649 | No significant differences | 5 % |
| 0 | The Company | ATEN KOREA CO., LTD. | 1 | Sales revenue | 262,322 | No significant differences | 5 % |
| 0 | The Company | ATEN UK LTD. | 1 | Sales revenue | 78,805 | No significant differences | 2 % |
| 0 | The Company | ATECH PERIPHERALS. | 1 | Sales revenue | 175,845 | No significant differences | 3 % |
| 0 | The Company | ATEN TECHNOLOGY INC. | 1 | Accounts receivable | 173,055 | 95 | 2 % |
| 0 | The Company | ATEN INFOTECH N.V. | 1 | Accounts receivable | 133,371 | 90~120 | 2 % |

(Continued)

ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| No. | Name of company | Name of counter-party | Existing relationship with the counter-party | Transaction details | | | |
|-----|---------------------------------------|-----------------------|--|---------------------|---------|--|--|
| | | | | Account name | Amount | Trading terms | Percentage of the total consolidated revenue or total assets |
| 0 | The Company | ATEN CHINA CO., LTD. | 1 | Accounts receivable | 59,141 | 45 | 1 % |
| 0 | The Company | ATEN JAPAN CO., LTD. | 1 | Accounts receivable | 51,661 | 45 | 1 % |
| 0 | The Company | ATEN KOREA CO., LTD. | 1 | Accounts receivable | 55,923 | 60 | 1 % |
| 0 | The Company | ATEN UK LTD. | 1 | Accounts receivable | 23,689 | 75 | - % |
| 0 | The Company | A TECH PERIPHERALS. | 1 | Accounts receivable | 7,502 | 30 | - % |
| 1 | EXPAND INTERNATIONAL CO., LTD. | The Company | 2 | Accounts receivable | 191,833 | Payments are netted with the accounts receivable resulting from the Company purchasing on behalf of related parties. | 3 % |
| 2 | ATEN FOREMOST INTERNATIONAL CO., LTD. | The Company | 2 | Sales revenue | 185,408 | Payments are netted with the accounts receivable resulting from the Company purchasing on behalf of related parties. | 4 % |
| 2 | ATEN FOREMOST INTERNATIONAL CO., LTD. | The Company | 2 | Accounts receivable | 13,704 | Payments are netted with the accounts receivable resulting from the Company purchasing on behalf of related parties. | - % |
| 3 | EXPAND ELECTRONIC CO., LTD. | The Company | 2 | Sales revenue | 831,396 | The Company is its only customer | 16 % |
| 3 | EXPAND ELECTRONIC CO., LTD. | The Company | 2 | Accounts receivable | 58,668 | Payments are netted with the accounts receivable resulting from the Company purchasing on behalf of related parties. | 1 % |
| 4 | ATEN CANADA TECHNOLOGIES INC. | The Company | 2 | Sales revenue | 94,547 | The Company is its only customer | 2 % |
| 5 | ATEN ANZ PTY LTD. | The Company | 2 | Sales revenue | 24,096 | The Company is its only customer | - % |

Note 1: Company numbering is as follows:

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

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

- (1) 1 represents downstream transactions.
- (2) 2 represents upstream transactions.
- (3) 3 represents sidestream transactions.

(b) Information on investees:

The following is the information on investees for the years period ended December 31, 2018:

| Name of investor | Name of investee | Location | Scope of business | Original cost | | Ending balance | | | Maximum investment in 2018 | Net income of investee | Investment income (losses) | Remarks |
|------------------|----------------------------------|-----------|--|-------------------|-------------------|----------------|-----------------|------------|----------------------------|------------------------|----------------------------|---------|
| | | | | December 31, 2018 | December 31, 2017 | Shares | Ratio of shares | Book value | | | | |
| The Company | TOPMOST INTERNATIONAL CO., LTD. | Cayman | Investing | 22,183 | 22,183 | 700 | 100 % | 460,720 | 22,183 | 37,074 | 37,074 | note 1 |
| The Company | ATEN JAPAN CO., LTD. | Japan | Trading of computer peripheral equipment | 25,105 | 25,105 | 2 | 100 % | 77,555 | 25,105 | 23,374 | 23,374 | note 1 |
| The Company | ATEN US HOLDING INC. | USA | Investing | 107,872 | 107,872 | 3,380 | 100 % | (21,511) | 107,872 | (15,325) | (15,325) | note 1 |
| The Company | FOREMOST INTERNATIONAL CO., LTD. | Mauritius | Investing | 69,730 | 69,730 | 2,181 | 100 % | 143,816 | 69,730 | 7,907 | 7,907 | note 1 |
| The Company | ATEN RESEARCH INC. | USA | Trading of computer peripheral equipment | 15,494 | 15,494 | 3 | 95 % | 265 | 15,494 | (62) | (59) | note 1 |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

| Name of investor | Name of investee | Location | Scope of business | Original cost | | Ending balance | | | Maximum investment in 2018 | Net income of investee | Investment income (losses) | Remarks |
|---------------------------------|--|-----------|--|-------------------|-------------------|----------------|-----------------|------------|----------------------------|------------------------|----------------------------|---------|
| | | | | December 31, 2018 | December 31, 2017 | Shares | Ratio of shares | Book value | | | | |
| The Company | ATECH PERIPHERALS INC. | Taiwan | Trading of computer peripheral equipment | 15,479 | 15,479 | 2,500 | 100 % | 57,538 | 15,479 | 21,317 | 21,317 | note 1 |
| The Company | ATEN INFOTECH N.V. | Belgium | Trading of computer peripheral equipment | 54,197 | 54,197 | 58 | 100 % | 28,888 | 54,197 | 8,634 | 8,634 | note 1 |
| The Company | ATEN COMPUTER PRODUCTS CO., LTD. | Thailand | Trading of computer peripheral equipment | 14,578 | 12,702 | 300 | 100 % | 10,081 | 14,578 | (330) | (297) | note 1 |
| The Company | VISIONTOP CO., LTD. | Taiwan | Specialized printing | 86,483 | 86,483 | 6,472 | 60 % | 59,186 | 86,483 | 3,883 | 2,313 | note 1 |
| The Company | HONG JHENG TECHNOLOGY CO., LTD | Taiwan | Investing | 31,778 | 31,778 | 1,600 | 100 % | 470,337 | 31,778 | 426,919 | 426,919 | note 1 |
| The Company | HONG YUAN CO., LTD. | Taiwan | Investing | 31,778 | 31,778 | 1,600 | 100 % | 535,961 | 31,778 | 492,995 | 492,995 | note 1 |
| The Company | ATEN ANZ PTY LTD. | Australia | Trading of computer peripheral equipment | 42,186 | 42,186 | 1,750 | 100 % | 20,228 | 42,186 | 2,619 | 2,619 | note 1 |
| The Company | RCM FULLY AUTOMATION CO., LTD. | Taiwan | Trading of computer peripheral equipment | 7,800 | 7,800 | 780 | 26 % | 6,640 | 7,800 | (4,188) | (1,089) | note 1 |
| The Company | ATEN INFO COMMUNICAION LIMITED LIABILITY COMPANY | Turkey | Trading of computer peripheral equipment | 17,683 | 17,683 | 2 | 100 % | 3,509 | 17,683 | (992) | (992) | note 1 |
| The Company | ATEN POLAND SP Z.O. O. | POLAND | Trading of computer peripheral equipment | 8,295 | 8,295 | 20 | 100 % | 6,133 | 8,295 | (1,457) | (1,457) | note 1 |
| The Company | ASPEED TECHNOLOGY INC. | Taiwan | Designing of Integrated Circuit | 7,757 | 7,757 | 1,044 | 3 % | 75,559 | 7,757 | 680,449 | 23,189 | |
| TOPMOST INTERNATIONAL CO., LTD. | ATEN EUROPE LTD. | UK | Investing | 67,279 | 67,279 | 1,069 | 100 % | 163,771 | 67,279 | 31,343 | 31,343 | note 1 |
| TOPMOST INTERNATIONAL CO., LTD. | I/O MASTER INC. | Samoa | Investing | 9,782 | 9,782 | 700 | 100 % | 25,089 | 9,782 | (5,621) | (5,621) | note 1 |
| ATEN US HOLDING INC. | ATEN NEW JERSEY INC. | USA | Trading of computer peripheral equipment | 22,815 | 22,815 | 160 | 20 % | 6,710 | 22,815 | (4,034) | (807) | note 1 |
| ATEN US HOLDING INC. | ATEN TECHNOLOGY INC. | USA | Trading of computer peripheral equipment | 87,993 | 87,993 | 2,672 | 97 % | 79,789 | 87,993 | (15,185) | (14,757) | note 1 |
| ATEN TECHNOLOGY INC. | ATEN NEW JERSEY INC. | USA | Trading of computer peripheral equipment | 3,303 | 3,303 | 640 | 80 % | 26,839 | 3,303 | (4,034) | (3,227) | note 1 |
| ATEN EUROPE LTD. | ATEN UK LTD. | UK | Trading of computer peripheral equipment | 37,922 | 37,922 | 650 | 100 % | 3,683 | 37,922 | (5,582) | (5,582) | note 1 |
| ATEN EUROPE LTD. | ATEN KOREA CO., LTD. | Korea | Trading of computer peripheral equipment | 34,811 | 34,811 | 102 | 85 % | 139,749 | 34,811 | 48,440 | 41,174 | note 1 |
| I/O MASTER INC. | ATEN CANADA TECHNOLOGIES INC. | Canada | Research and development | 3 | 3 | - | 100 % | 33,110 | 3 | 2,692 | 2,692 | note 1 |
| I/O MASTER INC. | IOGEAR, INC. | USA | Trading of computer peripheral equipment | 3 | 3 | - | 100 % | - | 3 | - | - | note 1 |
| ATECH PERIPHERALS INC. | RCM FULLY AUTOMATION CO., LTD. | Taiwan | Trading of computer peripheral equipment | 22,066 | 7,500 | 2,220 | 74 % | 18,898 | 22,066 | (4,188) | (3,099) | note 1 |
| HONG JHENG TECHNOLOGY CO., LTD | ASPEED TECHNOLOGY INC. | Taiwan | Designing of Integrated Circuit | - | 10,620 | - | - % | - | 10,620 | - | - | - |
| HONG YUAN CO., LTD. | ASPEED TECHNOLOGY INC. | Taiwan | Designing of Integrated Circuit | - | 13,896 | - | - % | - | 13,896 | - | - | - |

Note 1: Eliminated in the consolidated financial statements.

(c) Information on investment in mainland China:

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

| Name of investee in Mainland China | Scope of business | Issued capital | Method of investment (Note 1) | Cumulative investment (amount) from Taiwan as of January 1, 2018 | Investment flow during current period | | Cumulative investment (amount) from Taiwan as of December 31, 2018 | Net income on investee | Direct / indirect investment holding percentage | Maximum investment in 2018 | Investment income (loss) (Note 4) | Book value | Accumulated remittance of earnings in current period |
|---|--|----------------|-------------------------------|--|---------------------------------------|---------------------|--|------------------------|---|----------------------------|-----------------------------------|------------|--|
| | | | | | Remittance amount | Repatriation amount | | | | | | | |
| | | | | | Unit: thousand dollars | | | | | | | | |
| EXPAND INTERNATIONAL CO., LTD. (Note 2) | Investing | 21,383 | (3) | 21,383 | - | - | 21,383 | 15,099 | 100 % | 21,383 | 15,099 | 317,571 | 60,000 |
| ATEN CHINA CO., LTD. | Trading of computer peripheral equipment | 56,924 | (3) | 39,847 | - | - | 39,847 | 10,154 | 70 % | 39,847 | 7,108 | 55,905 | 42,871 |
| ATEN FOREMOST INTERNATIONAL CO., LTD. | Manufacturing and trading of computer peripheral equipment | 29,315 | (3) | 29,315 | - | - | 29,315 | 993 | 100 % | 29,315 | 993 | 51,771 | - |
| EXPAND ELECTRONIC CO., LTD. | Manufacturing of computer peripheral products | 67,184 | (3) | 34,706 | - | - | 34,706 | 14,376 | 100 % | 34,706 | 14,376 | 115,907 | - |

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

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

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 2: In response to the regulation toward processing plants in China and Chinese government's incentive rewards for processing plants turn funded enterprises, the Company's investment through third party companies to reinvest the mainland areas of existing processing plant in Shenzhen, mainland was converted to a wholly owned company (EXPAND ELECTRONIC CO., LTD.) on March 27, 2012.

Note 3: Aforementioned amounts have been eliminated upon consolidation.

Note 4: The financial statements of the investee are audited by the auditors of the parent company. Investment gains (losses) are accounted for by the equity method.

Note 5: The exchange rate is USD 1 to NTD30.7330.

(ii) Limitation on investment in Mainland China:

| Company name | Accumulated investment amount remitted from Taiwan to Mainland China at the end of the period | Investment (amount) approved by Investment Commission, Ministry of Economic Affairs | Maximum investment amount set by Investment Commission, Ministry of Economic Affairs |
|--------------|---|---|--|
| The Company | 125,251 | 169,032 | - (Note 1) |

Note 1: The Company was certified as an operations center by the Industrial Development Bureau, Ministry of Economic Affairs, in approval letter No.10720414460, and the certification is valid from May 18, 2018 to May 17, 2021. The Company has no limitation on investment in Mainland China during the abovementioned period.

Note 2: The exchange rate is USD1 to NTD30.7330.

(iii) Significant transactions:

Pease refer to 13(a) item No. 10 for further information.

(14) Segment information:

(a) General information

The Group has two reportable segments: computer peripheral equipment segment and specialized printing segment. The computer peripheral equipment segment is primarily involved in the production and sales of computer peripheral equipments. The specialized printing segment is primarily involved in the printing of advertisements.

The reportable segments are the Group's strategic divisions, offering different products and services. Because each strategic division requires different technology and marketing strategies, each division is managed separately.

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (b) Information on the reportable segment's profit or loss, assets, liabilities, and their measurement and reconciliations

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

The operating segment accounting policies are similar to the ones described in note 4 "Significant Accounting Policies".

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

The Group's operating segment information and reconciliation are as follows:

| | 2018 | | | Total |
|--|--------------------------------------|-----------------------|-----------------------------------|-------------------------|
| | Computer peripheral equipment | Others | Adjustments or elimination | |
| Revenue: | | | | |
| Revenue from external customers | \$ 5,039,468 | 133,542 | - | 5,173,010 |
| Inter-segment revenues | <u>3,439,202</u> | <u>-</u> | <u>(3,439,202)</u> | <u>-</u> |
| Total revenue | <u>\$ 8,478,670</u> | <u>133,542</u> | <u>(3,439,202)</u> | <u>5,173,010</u> |
| Reportable segment profit or loss | <u>\$ 2,856,456</u> | <u>3,883</u> | <u>(1,003,369)</u> | <u>1,856,970</u> |
| Reportable segment assets (Note) | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | | | | |
| | 2017 | | | |
| | Computer peripheral equipment | Others | Adjustments or elimination | Total |
| Revenue: | | | | |
| Revenue from external customers | \$ 4,807,241 | 140,080 | - | 4,947,321 |
| Inter-segment revenues | <u>3,337,924</u> | <u>-</u> | <u>(3,337,924)</u> | <u>-</u> |
| Total revenue | <u>\$ 8,145,165</u> | <u>140,080</u> | <u>(3,337,924)</u> | <u>4,947,321</u> |
| Reportable segment profit or loss | <u>\$ 1,080,652</u> | <u>1,679</u> | <u>(135,350)</u> | <u>946,981</u> |
| Reportable segment assets (Note) | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> |

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ATEN INTERNATIONAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note: The Group's chief decision makers make decisions and measure the performances based on operating income (losses) before taxation. They did not acquire the total segment information, so the Group's total assets were not disclosed.

In 2018 and 2017, inter-segment revenues of \$3,439,202 thousand and \$3,337,924 thousand respectively, should be eliminated from total revenue. Share of associate profit under equity method amounting to \$1,003,369 thousand and \$135,350 thousand, respectively, should be eliminated.

(c) Information about the products and services

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

| <u>Products and services</u> | <u>2018</u> | <u>2017</u> |
|--|----------------------------|-------------------------|
| IT infrastructure management solutions | \$ 3,146,094 | 3,129,027 |
| Video products | 1,004,650 | 895,541 |
| Other | <u>1,022,266</u> | <u>922,753</u> |
| Total | <u><u>\$ 5,173,010</u></u> | <u><u>4,947,321</u></u> |

(d) 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.

| <u>Geographic information</u> | <u>2018</u> | <u>2017</u> |
|----------------------------------|----------------------------|-------------------------|
| Revenue from external customers: | | |
| United States | \$ 1,213,235 | 1,187,765 |
| China | 533,087 | 614,929 |
| Japan | 568,931 | 480,455 |
| Other countries | <u>2,857,757</u> | <u>2,664,172</u> |
| Total | <u><u>\$ 5,173,010</u></u> | <u><u>4,947,321</u></u> |

| <u>Geographical information</u> | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---------------------------------|------------------------------|------------------------------|
| Non-current assets: | | |
| Taiwan | \$ 1,691,734 | 1,713,058 |
| Other countries | <u>305,481</u> | <u>314,588</u> |
| Total | <u><u>\$ 1,997,215</u></u> | <u><u>2,027,646</u></u> |

Non-current assets include property, plant and equipment, intangible assets, and other assets. They do not include financial instruments and deferred income tax assets.

(e) Information about major customers

For the years 2018 and 2017, the Group had no major customer who constituted 10% or more of the net sales.