

**MICROELECTRONICS TECHNOLOGY,
INC. AND SUBSIDIARIES**
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2018 AND 2017

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

MICROELECTRONICS TECHNOLOGY INC.

Declaration of Consolidated Financial Statements of Affiliated Enterprises

For the year ended December 31, 2018, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the Company that is required to be included in the consolidated financial statements of affiliates, is the same as the Company required to be included in the consolidated financial statements of parent and subsidiary companies under International Financial Reporting Standard No. 10. And if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies, it shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby declare,

Microelectronics Technology Inc.

Representative:

March 19, 2019

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Microelectronics Technology Inc.

Opinion

We have audited the accompanying consolidated balance sheets of Microelectronics Technology Inc. and subsidiaries (the “Group”) as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2018 are stated as follows:

Intangible assets - assessment of goodwill impairment

Description

As of December 31, 2018, goodwill amounted to NT\$ 276,930 thousand. For information on evaluation of goodwill impairment, please refer to Note 6(9), impairment of non-financial assets. The Group estimates recoverable amount utilizing the future cash flows of goodwill's cash generating unit and appropriate discount rates in order to determine whether goodwill is impaired. The estimation of future cash flows involves various assumptions, which may have significant effects on the estimation of recoverable amount. Thus, it has been identified as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Interviewed with management in order to obtain an understanding of the procedures in relation to identifying cash-generating units and estimating the future cash flows. Compared the financial forecast for the year ended December 31, 2019 with the budget approved by the Board of Directors to ensure they are consistent.
2. Interviewed with management in order to obtain an understanding of development plans and schedules of the projects.
3. Assessed the key assumption that management used to estimate future cash flows, including operating revenue growth rate and gross margin, and evaluated the parameters used in determining the discount rate, including the risk-free rate of return that was used to calculate cost of equity, industry's risk coefficient and long-term market return.

Allowance for inventory valuation losses

Description

Please refer to Note 6(6) for the details of inventories. As of December 31, 2018, the balances of inventories and allowance for inventory valuation losses amounted to NT\$1,476,679 thousand and NT\$151,811 thousand, respectively. Since inventory is material to the financial statements and the determination of net realisable value of the obsolete inventory usually involves management's subjective judgement, therefore, we determined valuation of inventories that are over a certain age and individually identified as obsolete or slow-moving as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Obtained an understanding of management policies on obsolete or slow-moving inventories, and verified the reasonableness of determining the obsolescence of inventory.
2. Tested the movements of inventories, and sampled individual inventory item numbers to check whether the classification of inventory aging is correct.
3. For obsolete or slow-moving inventories, sampled individual inventory item numbers to check progress of inventory clearance and evaluated the reasonableness of determining the allowance for inventory valuation losses

Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Microelectronics Technology Inc. as at and for the years ended December 31, 2018 and 2017.

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 the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting

Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's 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 auditor's 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 ROC GAAS 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 ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

Lin, Yu-Kuan

Li, Tien-Yi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 19, 2019

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

MICROELECTRONICS TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets		Notes	December 31, 2018		December 31, 2017			
			AMOUNT	%	AMOUNT	%		
Current assets								
1100	Cash and cash equivalents	6(1)	\$	1,086,499	18	\$	1,057,121	18
1110	Financial assets at fair value	6(2)						
	through profit or loss - current			383	-		1,690	-
1136	Current financial assets at	6(4)						
	amortised cost			48,913	1		-	-
1150	Notes receivable	6(5)		68,362	1		9,280	-
1170	Accounts receivable, net	6(5)		1,603,870	27		1,500,077	26
1180	Accounts receivable - related	6(5) and 7						
	parties			41,793	1		72,008	1
1200	Other receivables			132,576	2		238,856	4
1210	Other receivables - related parties	7		789	-		2,481	-
130X	Inventories	6(6)		1,324,868	23		1,308,318	23
1410	Prepayments			74,994	1		70,681	1
1470	Other current assets			-	-		22,486	1
11XX	Total current assets			4,383,047	74		4,282,998	74
Non-current assets								
1510	Financial assets at fair value	6(2)						
	through profit or loss-non-current			6,143	-		-	-
1517	Financial assets at fair value	6(3)						
	through other comprehensive							
	income-non-current			242,486	4		-	-
1523	Available-for-sale financial assets							
	- non-current			-	-		181,008	3
1600	Property, plant and equipment	6(7)		540,951	9		547,887	10
1780	Intangible assets	6(8)(9)		301,060	5		303,073	5
1840	Deferred income tax assets			405,836	7		396,778	7
1900	Other non-current assets	6(10)		38,665	1		38,478	1
15XX	Total non-current assets			1,535,141	26		1,467,224	26
1XXX	Total Assets		\$	5,918,188	100	\$	5,750,222	100

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MICROELECTRONICS TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity			December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current Liabilities						
2100	Short-term borrowings	6(11)	\$ 559,660	9	\$ 552,221	10
2120	Financial liabilities at fair value through profit or loss - current	6(12)	95	-	3,829	-
2130	Current contract liabilities	6(20)	7,519	-	-	-
2170	Accounts payable		1,811,502	31	1,617,035	28
2180	Accounts payable - related parties	7	229	-	-	-
2200	Other payables	6(13)	411,044	7	392,363	7
2230	Current income tax liabilities	6(26)	-	-	15,431	-
2250	Provisions for liabilities - current	6(16)	32,152	1	32,897	1
2300	Other current liabilities		11,397	-	59,380	1
21XX	Total current liabilities		<u>2,833,598</u>	<u>48</u>	<u>2,673,156</u>	<u>47</u>
Non-current liabilities						
2530	Corporate bonds payable	6(14)	-	-	-	-
2550	Provisions for liabilities - non-current	6(16)	5,732	-	12,859	-
2570	Deferred income tax liabilities	6(26)	106,562	2	78,500	1
2600	Other non-current liabilities		212,739	3	215,561	4
25XX	Total non-current liabilities		<u>325,033</u>	<u>5</u>	<u>306,920</u>	<u>5</u>
2XXX	Total Liabilities		<u>3,158,631</u>	<u>53</u>	<u>2,980,076</u>	<u>52</u>
Equity						
Equity attributable to owners of parent						
Share capital						
3110	Common stock	6(17)	2,280,283	39	2,280,283	40
Capital Reserves						
3200	Capital surplus	6(18)	402,937	7	402,937	7
Retained Earnings						
3310	Legal reserve	6(19)	19,761	-	5,372	-
3320	Special reserve		83,446	1	21,052	-
3350	Unappropriated retained earnings		166,556	3	143,892	2
Other Equity Interest						
3400	Other equity interest		(193,426)	(3)	(83,446)	(1)
31XX	Equity attributable to owners of the parent		<u>2,759,557</u>	<u>47</u>	<u>2,770,090</u>	<u>48</u>
36XX	Non-controlling interest		<u>-</u>	<u>-</u>	<u>56</u>	<u>-</u>
3XXX	Total equity		<u>2,759,557</u>	<u>47</u>	<u>2,770,146</u>	<u>48</u>
Significant contingent liabilities and unrecognised contract commitments						
Significant events after the balance sheet date						
3X2X	Total Liabilities and Equity		<u>\$ 5,918,188</u>	<u>100</u>	<u>\$ 5,750,222</u>	<u>100</u>

The accompanying notes are an integral part of these consolidated financial statements.

MICROELECTRONICS TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE DATA)

Items	Notes	Year ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
4000 Operating revenue	6(20) and 7	\$ 7,969,155	100	\$ 7,550,804	100
5000 Operating costs	6(6)	(6,902,794)	(86)	(6,393,068)	(84)
5900 Gross profit		<u>1,066,361</u>	<u>14</u>	<u>1,157,736</u>	<u>16</u>
Operating expenses	6(24)(25) and 7				
6100 Selling expenses		(272,904)	(3)	(216,538)	(3)
6200 General and administrative expenses		(122,788)	(2)	(120,785)	(2)
6300 Research and development expenses		(617,422)	(8)	(632,567)	(8)
6450 Gain on reversal of expected credit impairment		<u>1,945</u>	<u>-</u>	<u>-</u>	<u>-</u>
6000 Total operating expenses		(1,011,169)	(13)	(969,890)	(13)
6900 Operating profit		<u>55,192</u>	<u>1</u>	<u>187,846</u>	<u>3</u>
Non-operating income and expenses					
7010 Other income	6(21)	38,439	-	28,125	-
7020 Other gains and losses	6(22)	5,839	-	(4,011)	-
7050 Finance costs	6(23)	(17,800)	-	(12,220)	-
7000 Total non-operating income and expenses		<u>26,478</u>	<u>-</u>	<u>11,894</u>	<u>-</u>
7900 Profit before income tax		81,670	1	199,740	3
7950 Income tax expense	6(26)	(29,561)	(1)	(39,145)	(1)
8200 Profit for the year		<u>\$ 52,109</u>	<u>-</u>	<u>\$ 160,595</u>	<u>2</u>

(Continued)

MICROELECTRONICS TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE DATA)

Items	Notes	Year ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
Other comprehensive income (loss)					
Components of other comprehensive loss that will not be reclassified to profit or loss					
8311 Losses on remeasurements of defined benefit plans	6(15)	(\$ 13,957)	-	(\$ 18,401)	-
8316 Unrealised loss from financial assets measured at fair value through other comprehensive income	6(3)	(3,238)	-	-	-
Components of other comprehensive income that will be reclassified to profit or loss					
8361 Currency translation differences of foreign operations		139	-	(66,056)	(1)
8362 Unrealized loss on valuation of available-for-sale financial assets		-	-	(7,575)	-
8399 Income tax relating to the components of other comprehensive income that will be reclassified to profit or loss		(36)	-	11,236	-
8300 Total other comprehensive loss for the year		(\$ 17,092)	-	(\$ 80,796)	(1)
8500 Total comprehensive income for the year		\$ 35,017	-	\$ 79,799	1
Profit attributable to:					
8610 Owners of the parent		\$ 52,109	-	\$ 160,595	2
8620 Non-controlling interest		-	-	-	-
		\$ 52,109	-	\$ 160,595	2
Comprehensive income (loss) attributable to:					
8710 Owners of the parent		\$ 35,073	-	\$ 79,800	1
8720 Non-controlling interest		(56)	-	(1)	-
		\$ 35,017	-	\$ 79,799	1
Earnings per share (in dollars)					
9750 Basic		\$ 0.23		\$ 0.73	
9850 Diluted		\$ 0.23		\$ 0.70	

The accompanying notes are an integral part of these consolidated financial statements.

MICROELECTRONICS TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	Equity attributable to owners of the parent									Total	Non-controlling interest	Total equity
		Capital reserves			Retained earnings			Other equity interest					
		Common stock	Additional paid-in capital	Share options	Legal reserve	Special reserve	Unappropriated retained earnings	Currency translation differences of foreign operations	Unrealised gain or loss on financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets			
<u>2017</u>													
Balance at January 1, 2017		\$ 2,133,226	\$ 149,190	\$ 12,182	\$ -	\$ -	\$ 53,721	(\$ 4,274)	\$ -	(\$ 16,778)	\$ 2,327,267	\$ 57	\$ 2,327,324
Profit for the year		-	-	-	-	-	160,595	-	-	-	160,595	-	160,595
Other comprehensive loss for the year		-	-	-	-	-	(18,401)	(54,819)	-	(7,575)	(80,795)	(1)	(80,796)
Total comprehensive income		-	-	-	-	-	142,194	(54,819)	-	(7,575)	79,800	(1)	79,799
Conversion of convertible bonds	6(14)	147,057	253,747	(12,182)	-	-	-	-	-	-	388,622	-	388,622
Appropriation of 2016 earnings													
Legal reserve	6(16)	-	-	-	5,372	-	(5,372)	-	-	-	-	-	-
Special reserve		-	-	-	-	21,052	(21,052)	-	-	-	-	-	-
Cash dividends	6(19)	-	-	-	-	-	(25,599)	-	-	-	(25,599)	-	(25,599)
Balance at December 31, 2017		<u>\$ 2,280,283</u>	<u>\$ 402,937</u>	<u>\$ -</u>	<u>\$ 5,372</u>	<u>\$ 21,052</u>	<u>\$ 143,892</u>	<u>(\$ 59,093)</u>	<u>\$ -</u>	<u>(\$ 24,353)</u>	<u>\$ 2,770,090</u>	<u>\$ 56</u>	<u>\$ 2,770,146</u>
<u>2018</u>													
Balance at January 1, 2018		\$ 2,280,283	\$ 402,937	\$ -	\$ 5,372	\$ 21,052	\$ 143,892	(\$ 59,093)	\$ -	(\$ 24,353)	\$ 2,770,090	\$ 56	\$ 2,770,146
Effects of retrospective application	3(1)	-	-	-	-	-	106,011	-	(130,364)	24,353	-	-	-
Balance at January 1, 2018 after adjustments		<u>2,280,283</u>	<u>402,937</u>	<u>-</u>	<u>5,372</u>	<u>21,052</u>	<u>249,903</u>	<u>(59,093)</u>	<u>(130,364)</u>	<u>-</u>	<u>2,770,090</u>	<u>56</u>	<u>2,770,146</u>
Profit for the year		-	-	-	-	-	52,109	-	-	-	52,109	-	52,109
Other comprehensive income (loss) for the year	6(3)	-	-	-	-	-	(13,957)	159	(3,238)	-	(17,036)	(56)	(17,092)
Total comprehensive income		-	-	-	-	-	38,152	159	(3,238)	-	35,073	(56)	35,017
Appropriation of 2017 earnings													
Legal reserve		-	-	-	14,389	-	(14,389)	-	-	-	-	-	-
Special reserve		-	-	-	-	62,394	(62,394)	-	-	-	-	-	-
Cash dividends	6(19)	-	-	-	-	-	(45,606)	-	-	-	(45,606)	-	(45,606)
Disposal of financial assets at fair value through other comprehensive income (loss)	6(3)	-	-	-	-	-	890	-	(890)	-	-	-	-
Balance at December 31, 2018		<u>\$ 2,280,283</u>	<u>\$ 402,937</u>	<u>\$ -</u>	<u>\$ 19,761</u>	<u>\$ 83,446</u>	<u>\$ 166,556</u>	<u>(\$ 58,934)</u>	<u>(\$ 134,492)</u>	<u>\$ -</u>	<u>\$ 2,759,557</u>	<u>\$ -</u>	<u>\$ 2,759,557</u>

The accompanying notes are an integral part of these consolidated financial statements.

MICROELECTRONICS TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 81,670	\$ 199,740
Adjustments			
Adjustments to reconcile profit (loss)			
Gain on reversal of expected credit impairment		(1,945)	-
Provision for bad debts		-	2,202
Depreciation	6(7)(24)	66,484	85,415
Amortization (including recognized from land use right)	6(8)(24)	29,130	28,887
Net loss (gain) on financial assets at fair value through profit or loss	6(2)(22)	1,307	(2,535)
Net gain on financial liabilities at fair value through profit or loss	6(12)(22)	(3,734)	(1,566)
Interest income	6(21)	(8,168)	(11,588)
Dividend income	6(21)	(556)	(649)
Interest expense	6(23)	17,800	12,220
Gain on disposal of property, plant and equipment	6(22)	(5,147)	(4,704)
Gain on disposal of available-for-sale financial assets		-	(5,604)
Expenses recognized from prepayment for equipment		6,124	3,231
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(59,082)	6,827
Accounts receivable		(84,470)	(220,783)
Other receivables		110,176	(150,906)
Inventories		(33,491)	(309,726)
Prepayments		(9,566)	(5,709)
Changes in operating liabilities			
Accounts payable		223,203	203,077
Other payables		37,474	15,761
Provisions for liabilities		(7,521)	15,592
Contract liabilities-current		4,012	-
Other current liabilities		(50,371)	45,678
Accrued pension liabilities		(16,779)	(1,904)
Cash inflow (outflow) generated from operations		296,550	(97,044)
Interest received		8,180	11,815
Dividend received		556	649
Interest paid		(17,794)	(8,986)
Income taxes paid		(31,472)	(12,685)
Net cash flows from (used in) operating activities		<u>256,020</u>	<u>(106,251)</u>

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MICROELECTRONICS TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets at fair value through profit or loss		(\$ 6,143)	\$ -
Acquisition of financial assets at fair value through other comprehensive income		(60,360)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(3)	1,934	5,977
Acquisition of property, plant and equipment		(106,414)	(86,088)
Proceeds from disposal of property, plant and equipment		16,823	19,017
Acquisition of intangible assets	6(8)	(22,027)	(35,217)
Increase in guarantee deposits paid		(2,109)	(974)
Decrease in guarantee deposits paid		648	6
Increase in restricted financial assets		-	(21,916)
Decrease in restricted financial assets		21,916	57,401
Acquisition of financial assets at amortized cost		(47,814)	-
Net cash flows used in investing activities		(203,546)	(61,794)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings		3,308,979	3,025,822
Decrease in short-term borrowings		(3,299,438)	(2,931,253)
Cash dividends paid		(45,606)	(25,599)
Net cash flows (used in) from financing activities		(36,065)	68,970
Effects due to changes in exchange rate		12,969	(31,534)
Net increase (decrease) in cash and cash equivalents		29,378	(130,609)
Cash and cash equivalents at beginning of year		1,057,121	1,187,730
Cash and cash equivalents at end of year		<u>\$ 1,086,499</u>	<u>\$ 1,057,121</u>

The accompanying notes are an integral part of these consolidated financial statements.

MICROELECTRONICS TECHNOLOGY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

Microelectronics Technology Inc. (the “Company”) was incorporated as company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in design, manufacture and sales of terrestrial microwave, satellite and photoelectric communication system products, and related customised products.

On January 1, 2011, the Company merged with the subsidiary, Global PCS Inc.. Under the merger, the Company is the surviving company while Global PCS Inc. was the dissolved company.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on March 19, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised losses’	January 1, 2017
Amendments to IAS 40, ‘Transfers of investment property’	January 1, 2018

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

A. IFRS 9, 'Financial instruments'

- (a) Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.
- (b) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 12(4) B.

B. IFRS 15, 'Revenue from contracts with customers' and amendments

- (a) IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity

to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

- (b) The Group has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

Affected items	Book value under previous revenue standard	Adjustment for initial Application of IFRS 15	Adjusted amount after IFRS 15 adoption	Description
January 1, 2018				
Contract liabilities	\$ -	\$ 3,507	\$ 3,507	A
Other current liabilities	59,380	(3,507)	55,873	A
Total liabilities	\$ 59,380	\$ -	\$ 59,380	

A. Presentation of liabilities in relation to contracts with customers

Under IFRS 15, the Group revised some presentations on the balance sheets, and liabilities in relation to sales contracts are recognised as contract liabilities, but were previously presented as advance sales receipts in the balance sheet. As of January 1, 2018, the balance would amount to \$3,507.

- B. Please refer to Note 12 (5) for other disclosures in relation to the first application of IFRS 15.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	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
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with

terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the “modified retrospective approach”). On January 1, 2019, it is expected that ‘right-of-use asset’ and lease liability will be increased by \$436,144 and \$406,934, respectively, and land use right (shown as other non-current assets) will be decreased by \$29,210.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendment to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’	January 1, 2020
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020
Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined by International Accounting Standards Board
IFRS 17, ‘Insurance contracts’	January 1, 2021

The above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

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

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Financial assets and liabilities at fair value through other comprehensive income/Available-

for- sale financial assets measured at fair value.

- (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

- A. Basis for preparation of consolidated financial statements:
 - (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
 - (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
 - (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)	
			December 31, 2018	December 31, 2017
Microelectronics Technology, Inc.	Sasson International Holding, Inc.	Note 1	100.00	100.00
Sasson International Holding, Inc.	Welltop Technology Co., Ltd.	Note 1	100.00	100.00
Sasson International Holding, Inc.	Jupiter Network Corp. (Jupiter)	Note 1	100.00	100.00
Welltop Technology Co., Ltd.	MTI Laboratory, Inc.	Note 2	100.00	100.00
Welltop Technology Co., Ltd.	RadioComp ApS	Note 2	100.00	100.00
Jupiter Network Corp. (Jupiter)	Jupiter Technology (Wuxi) Inc.	Note 3	100.00	100.00
Sasson International Holding, Inc.	Nanjing Dongda Kuandai Communication Technology Limited Company	Note 4	-	48.42
Jupiter Technology (Wuxi) Inc.	Nanjing Dongda Kuandai Communication Technology Limited Company	Note 4	-	33.52

Note 1: Main operating activity is investments in the manufacture and trade business.

Note 2: Research, development, design, manufacture and sales of personal wireless communication device, components of subsystem and system and wireless microwave communication system and equipment of electronic system.

Note 3: Main operating activities are design of satellite and microwave communication system equipment and its components, sales of self-made products and providing related technical services.

Note 4: Main operating activities are research, development, design, manufacture and sales of WCDMA technology and base station and radio frequency subsystem. The company has been liquidated in the fourth quarter of 2018.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are

recognised in profit or loss in the period in which they arise.

- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities presented in each balance sheet are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.
- D. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value, the changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(9) Financial assets at amortised cost

- A. Financial assets at amortised cost are those that meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.
- D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(11) Impairment of financial assets

For financial assets at amortised cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(12) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(13) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.

- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	3 ~ 40 years
Machinery and equipment	3 ~ 10 years
Office equipment	3 ~ 6 years
Transportation equipment	5 years
Leasehold improvements	3 years

(15) Operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(16) Intangible assets

- A. Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 years.
- B. Goodwill arises in a business combination accounted for by applying the acquisition method.
- C. Acquired special technologies are amortised on a straight-line basis over their estimated useful lives of 5 years.

(17) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the

impairment had not been recognised.

- B. The recoverable amount of goodwill will be assessed periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(18) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(19) Accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services.
- B. The short-term notes without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(20) Financial liabilities at fair value through profit or loss

- A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.
- B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(21) Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is either discharged or cancelled or expires.

(22) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(23) Convertible bonds payable

Convertible corporate bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares by exchanging a

fixed amount of cash for a fixed number of common shares), call options and put options. The Group classifies the bonds payable and derivative features embedded in convertible corporate bonds on initial recognition as a financial asset, a financial liability or an equity instrument ('capital surplus-share options') in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument. Convertible corporate bonds are accounted for as follows:

- A. Call options and put options embedded in convertible corporate bonds are recognised initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.
- B. Bonds payable of convertible corporate bonds is initially recognised at fair value and subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.
- C. Conversion options embedded in convertible corporate bonds issued by the Company, which meet the definition of an equity instrument, are initially recognised in 'capital surplus-share options' at the residual amount of total issue price less amounts of 'financial assets or liabilities at fair value through profit or loss' and 'bonds payable-net' as stated above. Conversion options are not subsequently remeasured.
- D. Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.
- E. When bondholders exercise conversion options, the liability component of the bonds (including 'bonds payable' and 'financial assets or financial liabilities at fair value through profit or loss') is remeasured on the conversion date. The book value of common shares issued due to the conversion is based on the adjusted book value of the abovementioned liability component plus the book value of capital surplus-share options.

(24) Provisions

Provision-warranties are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(25) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For the defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.
- ii. Remeasurements arising on the defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as other equity.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(26) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(27) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(28) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(29) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are

approved by the Company's shareholders. Cash dividends are recorded as liabilities.

(30) Revenue recognition

A. Sales of goods

- (a) The Group manufactures and sells terrestrial microwave, satellite, and related customized products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- (b) Revenue from these sales is recognised based on the price specified in the contract. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. The sales usually are made with a credit term of 30 to 90 days, which is consistent with market practice. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.
- (c) The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.
- (d) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Technical services on product development

- (a) The Group provides technical services on product development. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual costs spent relative to the total expected cost. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.
- (b) The Group's estimate about revenue, costs and progress towards complete satisfaction of a performance obligation is subject to a revision whenever there is a change in circumstances. Any increase or decrease in revenue or costs due to an estimate revision is reflected in profit or loss during the period when the management become aware of the changes in circumstances.

C. Incremental costs of obtaining a contract

Given that the contractual period lasts less than one year, the Group recognises the incremental costs of obtaining a contract as an expense (mainly arisen from sales commissions) when incurred although the Group expects to recover those costs.

(31) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

A. Impairment assessment of tangible and intangible assets (including goodwill)

The Group assesses impairment based on its subjective judgement and determines the separate cash flows of a specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilised and industrial characteristics. Any changes of economic circumstances or estimates due to the change of Group strategy might cause material impairment on assets in the future.

The impairment assessment of goodwill relies on the Group's subjective judgement, including identifying cash-generating units, allocating assets and liabilities as well as goodwill to related cash-generating units, and determining the recoverable amounts of related cash-generating units. Please refer to Note 6(8) (9) for the information on goodwill impairment.

As of December 31, 2018, the Group's property, plant and equipment and intangible assets (including goodwill) amounted to \$540,951 and \$301,060, respectively.

B. Realisability of deferred tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Assessment of the realisability of deferred tax assets involves critical accounting judgements and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred tax

assets.

As of December 31, 2018, the Group recognised deferred tax assets amounting to \$405,836.

C. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value.

As of December 31, 2018, the carrying amount of inventories was \$1,324,868.

D. Calculation of net defined benefit liabilities

When calculating the present value of defined pension obligations, the Group must apply judgements and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and future salary growth rate. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations.

As of December 31, 2018, the carrying amount of net defined benefit liabilities was \$212,739.

E. Financial assets-fair value measurement of unlisted stocks without active market

The fair value of unlisted stocks held by the Group that are not traded in an active market is determined considering those companies' recent funding raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(3) for the financial instruments fair value information.

As of December 31, 2018, the carrying amount of unlisted stocks without active market was \$237,134.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and revolving funds	\$ 245	\$ 568
Deposits in transit	36,816	1,411
Checking accounts and demand deposits	653,284	487,558
Time deposits	396,154	567,584
	<u>\$ 1,086,499</u>	<u>\$ 1,057,121</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. Information on restricted cash is reclassified as 'Financial assets at amortised cost' and other financial assets (shown as 'Other current financial assets') is provided in Note 8.

(2) Financial assets at fair value through profit or loss

<u>Items</u>	<u>December 31, 2018</u>
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Derivative instruments	\$ 383
Unlisted stocks	113,795
Valuation adjustments	(113,795)
	<u>\$ 383</u>
Non-current items :	
Financial assets mandatorily measured at fair value through profit or loss	
Convertible bonds	\$ 6,143
Valuation adjustments	-
	<u>\$ 6,143</u>

A. Amounts recognised in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

	<u>Year ended December 31, 2018</u>
Financial assets mandatorily measured at fair value through profit or loss	
Derivative instruments	(\$ 1,307)

B. The Group entered into contracts relating to derivative financial assets which were not accounted for under hedge accounting. The information is listed below:

	<u>Unit: In thousands</u>		
	<u>December 31, 2018</u>		
<u>Derivative instruments</u>	<u>Contract amount</u>		<u>Contract period</u>
	<u>(Notional principal)</u>		
Current items:			
Foreign exchange swap transactions	USD 5,000		107.12.12~ 108.02.15

The Group entered into foreign exchange swap contracts to sell forward contracts to hedge exchange rate risk of export proceeds. However, these forward contracts are not accounted for under hedge accounting.

C. Information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

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

<u>Items</u>	<u>December 31, 2018</u>
Non-current items :	
Equity instruments	
Emerging stocks	\$ 3,060
Unlisted stocks	365,198
Valuation adjustments	(134,491)
Net exchange differences	8,719
	<u>\$ 242,486</u>

A. The Group has elected to classify equity instrument investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$242,486 as at December 31, 2018.

B. For the year ended December 31, 2018, the Group sold emerging stocks at the fair value of \$1,934, and the accumulated gain on disposal of investments amounted to \$890.

C. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	<u>Year ended December 31, 2018</u>
<u>Equity instruments at fair value through other comprehensive income</u>	
Fair value change recognised in other comprehensive (loss) income	(\$ 3,238)
Cumulative gains (losses) reclassified to retained earnings due to derecognition	<u>\$ 890</u>

D. Information on available-for-sale financial assets and financial assets at cost as of December 31, 2017 is provided in Note 12(4).

(4) Financial assets at amortised cost

<u>Items</u>	<u>December 31, 2018</u>
Current items:	
Time deposits	<u>\$ 48,913</u>

A. Amounts recognised in profit or loss in relation to financial assets at amortised cost are listed below:

	<u>Year ended December 31, 2018</u>
Interest income	<u>\$ 814</u>

B. As at December 31, 2018, without taking into account other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at amortised cost held by the Group was \$48,913.

C. Details of the Group's financial assets at amortised cost pledged to others as collateral are provided in Note 8.

D. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2).

E. On December 31, 2017, details of financial assets at amortised cost reclassified as other financial assets (shown as 'Other current assets') in accordance with IAS 39 are provided in Note 12(4).

(5) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	\$ 68,362	\$ 9,280
Less: Allowance for uncollectible accounts	-	-
	<u>\$ 68,362</u>	<u>\$ 9,280</u>
Accounts receivable	\$ 1,646,905	\$ 1,580,744
Less: Allowance for uncollectible accounts	(1,242)	(8,659)
	<u>\$ 1,645,663</u>	<u>\$ 1,572,085</u>

A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

	December 31, 2018		December 31, 2017	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	\$ 1,490,908	\$ 68,362	\$ 1,116,502	\$ 9,280
Up to 90 days	151,387	-	304,380	-
91 to 180 days	125	-	145,076	-
Over 180 days	4,485	-	14,786	-
	<u>\$ 1,646,905</u>	<u>\$ 68,362</u>	<u>\$ 1,580,744</u>	<u>\$ 9,280</u>

The above ageing analysis was based on past due date.

B. The Group recognised \$0 in profit or loss for the interest income for both the years ended December 31, 2018 and 2017.

C. As at December 31, 2018 and 2017, without taking into account other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes receivable were \$68,362 and \$9,280, respectively. As of December 31, 2018 and 2017, the maximum exposure to credit risk in respect of the amount that best represents the Group's accounts receivable were \$1,645,663 and \$1,572,085, respectively.

D. Information relating to credit risk of accounts and notes receivable is provided in Note 12(2).

(6) Inventories

	December 31, 2018		
	Cost	Allowance for inventory valuation losses and loss for obsolete and slow-moving inventories	Book value
Raw materials	\$ 742,104	(\$ 55,734)	\$ 686,370
Work in progress	319,870	(42,915)	276,955
Finished goods	414,407	(53,162)	361,245
Inventory in transit	298	-	298
	<u>\$ 1,476,679</u>	<u>(\$ 151,811)</u>	<u>\$ 1,324,868</u>

	December 31, 2017		
		Allowance for inventory valuation losses and loss for obsolete and slow- moving inventories	
	Cost		Book value
Raw materials	\$ 741,204	(\$ 58,611)	\$ 682,593
Work in progress	296,919	(17,375)	279,544
Finished goods	389,030	(42,849)	346,181
	<u>\$ 1,427,153</u>	<u>(\$ 118,835)</u>	<u>\$ 1,308,318</u>

The cost of inventories recognized as expense for the year:

	Years ended December 31,	
	2018	2017
Cost of goods sold	\$ 6,844,622	\$ 6,351,659
Loss on decline in market value	58,172	41,409
Recognised as selling and R&D expenses	17,818	9,516
	<u>\$ 6,920,612</u>	<u>\$ 6,402,584</u>

(7) Property, plant and equipment

	Buildings and structures	Machinery and equipment	Office equipment	Transportation equipment	Leasehold improvements	Unfinished construction and equipment under acceptance	Total
At January 1, 2018							
Cost	\$ 519,876	\$ 1,459,426	\$ 123,322	\$ 2,235	\$ 6,641	\$ 15,633	\$ 2,127,133
Accumulated depreciation and impairment	(152,326)	(1,328,962)	(90,791)	(2,235)	(4,932)	-	(1,579,246)
	<u>\$ 367,550</u>	<u>\$ 130,464</u>	<u>\$ 32,531</u>	<u>\$ -</u>	<u>\$ 1,709</u>	<u>\$ 15,633</u>	<u>\$ 547,887</u>
<u>2018</u>							
Opening net book amount as at January 1	\$ 367,550	\$ 130,464	\$ 32,531	\$ -	\$ 1,709	\$ 15,633	\$ 547,887
Additions	16,705	51,797	14,327	-	1,571	8,808	93,208
Reclassifications	6,148	4,081	-	-	-	(16,353)	(6,124)
Disposals	-	(15,971)	(5)	-	-	-	(15,976)
Depreciation expense	(17,907)	(30,949)	(16,823)	-	(805)	-	(66,484)
Net exchange differences	(6,477)	(4,824)	(263)	-	20	(16)	(11,560)
At December 31	<u>\$ 366,019</u>	<u>\$ 134,598</u>	<u>\$ 29,767</u>	<u>\$ -</u>	<u>\$ 2,495</u>	<u>\$ 8,072</u>	<u>\$ 540,951</u>
At December 31, 2018							
Cost	\$ 433,064	\$ 1,250,017	\$ 130,193	\$ 2,299	\$ 8,382	\$ 8,072	\$ 1,832,027
Accumulated depreciation and impairment	(67,045)	(1,115,419)	(100,426)	(2,299)	(5,887)	-	(1,291,076)
	<u>\$ 366,019</u>	<u>\$ 134,598</u>	<u>\$ 29,767</u>	<u>\$ -</u>	<u>\$ 2,495</u>	<u>\$ 8,072</u>	<u>\$ 540,951</u>

	Buildings and structures	Machinery and equipment	Office equipment	Transportation equipment	Leasehold improvements	Unfinished construction and equipment under acceptance	Total
At January 1, 2017							
Cost	\$ 527,095	\$ 1,681,687	\$ 113,973	\$ 2,522	\$ 5,198	\$ 5,304	\$ 2,335,779
Accumulated depreciation and impairment	(140,212)	(1,530,162)	(87,475)	(2,522)	(4,797)	-	(1,765,168)
	<u>\$ 386,883</u>	<u>\$ 151,525</u>	<u>\$ 26,498</u>	<u>\$ -</u>	<u>\$ 401</u>	<u>\$ 5,304</u>	<u>\$ 570,611</u>
<u>2017</u>							
Opening net book amount as at January 1	\$ 386,883	\$ 151,525	\$ 26,498	\$ -	\$ 401	\$ 5,304	\$ 570,611
Additions	4,564	39,872	21,620	-	1,858	18,603	86,517
Reclassifications	-	4,612	438	-	-	(8,281)	(3,231)
Disposals	-	(13,974)	(339)	-	-	-	(14,313)
Depreciation expense	(15,908)	(53,821)	(15,177)	-	(509)	-	(85,415)
Net exchange differences	(7,989)	2,250	(509)	-	(41)	7	(6,282)
At December 31	<u>\$ 367,550</u>	<u>\$ 130,464</u>	<u>\$ 32,531</u>	<u>\$ -</u>	<u>\$ 1,709</u>	<u>\$ 15,633</u>	<u>\$ 547,887</u>
At December 31, 2017							
Cost	\$ 519,876	\$ 1,459,426	\$ 123,322	\$ 2,235	\$ 6,641	\$ 15,633	\$ 2,127,133
Accumulated depreciation and impairment	(152,326)	(1,328,962)	(90,791)	(2,235)	(4,932)	-	(1,579,246)
	<u>\$ 367,550</u>	<u>\$ 130,464</u>	<u>\$ 32,531</u>	<u>\$ -</u>	<u>\$ 1,709</u>	<u>\$ 15,633</u>	<u>\$ 547,887</u>

(8) Intangible assets

	Goodwill	Acquired special technology	Computer software	Total
At January 1, 2018				
Cost	\$ 383,503	\$ 404,895	\$ 437,661	\$ 1,226,059
Accumulated depreciation and impairment	(110,717)	(404,895)	(407,374)	(922,986)
	<u>\$ 272,786</u>	<u>\$ -</u>	<u>\$ 30,287</u>	<u>\$ 303,073</u>

2018

Opening net book amount as at January 1	\$ 272,786	\$ -	\$ 30,287	\$ 303,073
Additions	-	-	22,027	22,027
Amortisation charge	-	-	(28,383)	(28,383)
Net exchange differences	4,144	-	199	4,343
At December 31	<u>\$ 276,930</u>	<u>\$ -</u>	<u>\$ 24,130</u>	<u>\$ 301,060</u>

At December 31, 2018

Cost	\$ 383,503	\$ 404,895	\$ 461,291	\$ 1,249,689
Accumulated amortisation and impairment	(106,573)	(404,895)	(437,161)	(948,629)
	<u>\$ 276,930</u>	<u>\$ -</u>	<u>\$ 24,130</u>	<u>\$ 301,060</u>

	Goodwill	Acquired special technology	Computer software	Total
At January 1, 2017				
Cost	\$ 383,503	\$ 404,895	\$ 407,729	\$ 1,196,127
Accumulated depreciation and impairment	(99,911)	(404,895)	(384,135)	(888,941)
	<u>\$ 283,592</u>	<u>\$ -</u>	<u>\$ 23,594</u>	<u>\$ 307,186</u>

2017

Opening net book amount as at January 1	\$ 283,592	\$ -	\$ 23,594	\$ 307,186
Additions	-	-	35,217	35,217
Amortisation charge	-	-	(28,149)	(28,149)
Net exchange differences	(10,806)	-	(375)	(11,181)
At December 31	<u>\$ 272,786</u>	<u>\$ -</u>	<u>\$ 30,287</u>	<u>\$ 303,073</u>

At December 31, 2017

Cost	\$ 383,503	\$ 404,895	\$ 437,661	\$ 1,226,059
Accumulated amortisation and impairment	(110,717)	(404,895)	(407,374)	(922,986)
	<u>\$ 272,786</u>	<u>\$ -</u>	<u>\$ 30,287</u>	<u>\$ 303,073</u>

A. Details of amortisation on intangible assets are as follows:

	Years ended December 31,	
	2018	2017
Operating costs	\$ 4,464	\$ 4,355
Selling expenses	-	1
General and administrative expenses	701	1,016
Research and development expenses	23,218	22,777
	<u>\$ 28,383</u>	<u>\$ 28,149</u>

B. Impairment information about the intangible assets is provided in Note 6(9).

(9) Impairment of non-financial assets

Goodwill is allocated to the Group's cash-generating units identified according to operating segment. The recoverable amount of all cash-generating units has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The recoverable amount of all cash-generating units calculated using the value-in-use exceeded their carrying amount, so goodwill was not impaired. The key assumptions used for value-in-use calculations are as follows:

	Years ended December 31,					
	2018			2017		
	Up to 1 year	2 ~ 5 years	Over 6 years	Up to 1 year	2 ~ 5 years	Over 6 years
Operating revenue growth rate	9%	9%	0%	5.70%	13%	0%
Gross margin	14%	14%	14%	15%	17%~20%	20%
Discount rate	15.71%	15.71%	15.71%	11.41%	11.41%	11.41%

A. Operating revenue growth rate: taking into consideration the estimated operation and sales plans.

B. Gross margin: calculated based on the historical data and taking into consideration the estimated operation and sales plans.

C. Discount rate: the discount rates used were pre-tax and reflected specific risks relating to the relevant operating segments.

(10) Other non-current assets

	December 31, 2018	December 31, 2017
Guarantee deposits paid	\$ 9,455	\$ 8,006
Land use right	29,210	30,472
	<u>\$ 38,665</u>	<u>\$ 38,478</u>

The Group signed a land use right contract for the use of the land in Wuxi City, People's Republic of China with a term of 50 years. The lease period is starting from September 30, 2008 to September 28, 2058. All rentals had been paid on the contract date. The Group recognised amortisation charges

of \$747 and \$738 for the years ended December 31, 2018 and 2017, respectively.

(11) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Borrowings for material purchase	\$ <u>559,660</u>	3.22%~3.60%	None

<u>Type of borrowings</u>	<u>December 31, 2017</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Borrowings for material purchase	\$ <u>552,221</u>	1.84%~2.46%	None

For the years ended December 31, 2018 and 2017, the Company recognised interest expense in profit or loss amounting to \$17,800 and \$9,469, respectively.

(12) Financial liabilities at fair value through profit or loss

<u>Items</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current items:		
Financial liabilities held for trading		
Non-hedging derivatives	\$ 95	\$ 3,829
Valuation adjustments	-	-
	<u>\$ 95</u>	<u>\$ 3,829</u>

A. For the years ended December 31, 2018 and 2017, the Group recognised net gain on financial liabilities held for trading amounting to \$3,734 and \$1,566, respectively.

B. Explanations of the transactions and contract information in respect of derivative financial liabilities that the Group does not adopt hedge accounting are as follows:

<u>Non-derivative financial liabilities for hedging</u>	<u>December 31, 2018</u>			<u>December 31, 2017</u>		
	<u>Contract amount (Notional principal)</u>	<u>Contract period</u>		<u>Contract amount (Notional principal)</u>	<u>Contract period</u>	
Current items:						
Foreign exchange swap transactions	USD 2,500	107.12.13~108.01.17		USD 5,300	106.11.13~107.01.16	

C. The Group entered into foreign exchange swap contracts to sell forward contracts to hedge exchange rate risk of export proceeds. However, these forward contracts are not accounted for under hedge accounting.

(13) Other payables

	December 31, 2018	December 31, 2017
Employee bonus payable	\$ 167,101	\$ 190,442
Accrued export expenses	78,861	34,747
Payables for machinery and equipment	28,881	41,860
Payables for miscellaneous purchases	17,087	5,163
Accrued repairs and maintenance expense	14,476	15,025
Accrued commission	14,413	13,997
Salaries payable to agency workers	11,755	13,279
Others	78,470	77,850
	<u>\$ 411,044</u>	<u>\$ 392,363</u>

(14) Bonds payable

	December 31, 2018	December 31, 2017
Bonds payable	\$ -	\$ -
Less: Discount on bonds payable	-	-
	<u>\$ -</u>	<u>\$ -</u>

A. On October 31, 2016, the terms and conditions of the Company's second domestic secured convertible bonds are as follows:

- (a) Total issuance amount and face value: The total issuance amount of those convertible bonds was NT\$401,200, at a par value of NT\$100, and bonds were issued at the price of 100.3% of the bonds' face value.
- (b) Issuance period: 3 years, which is starting from October 31, 2016 to October 31, 2019.
- (c) Coupon rate: 0%.
- (d) Repayment and terms: Bonds are repaid at maturity. Except if the Company redeems ahead of time, repurchase from Taiwan Stock Exchange or OTC for retirement or covert to common stocks under the terms of bonds.
- (e) Conversion period: The conversion right can be exercised after one month from issue date (December 1, 2016) to maturity date (October 31, 2019) subject to conversion, or any lock-up period in accordance with laws and regulations. No right and obligation are different with other common stocks issued by the Company.
- (f) The conversion price of the bonds is set up based on the pricing model specified in the terms of the bonds, and is subject to adjustments if the condition of the anti-dilution provisions occurs subsequently. The conversion price was NTD 27.5 per share upon issuance.
- (g) The Company's redemption: The bonds may be redeemed, in whole or in part, at the option of the Company at any time on or after one month from issue date (December 1, 2016) through 40 days prior to maturity date (September 20, 2019) at 10% of their principal amount, provided the closing price of the Company's common shares on the Taiwan Stock Exchange exceed 30% (inclusive) of the conversion price over 30 consecutive trading days, or the

outstanding balance of the bonds is lower than 10% of the total initial issuance amount.

- (h) In accordance with the conversion's rule, all the convertible bonds which had been repurchased from secondary market, repaid or converted to common stocks would be retired and no longer to resell or reissue.
- B. Regarding the issuance of convertible bonds, the equity conversion options amounting to \$12,182 were separated from the liability component and were recognised in 'capital surplus-share options' in accordance with IAS 32. The redemption embedded in bonds payable were separated from their host contracts and were recognised \$800 in 'financial assets at fair value through profit or loss' in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective annual interest rate of the bonds after separation was 1.14%.
- C. On November 17, 2016, the Company issued common stocks amounting to 13 million shares. The conversion price of the convertible bonds had been reset from NT\$27.5 to NT\$27.2 per share based on the pricing model specified in the conversion rules.
- D. On October 2, 2017, the Company exercised redemption under the terms of bonds, No. 18, and was terminated trading on Taipei Exchange. These convertible bonds all were converted to common stocks amounting to 14,706 thousand shares, and the registration for the conversion was completed.

(15) Pensions

- A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method; to the employees expected to qualify for retirement in the following year, the Company will make contributions for the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	\$ 304,736	\$ 305,349
Fair value of plan assets	(91,997)	(89,788)
Net defined benefit liability	<u>\$ 212,739</u>	<u>\$ 215,561</u>

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2018			
At January 1	(\$ 305,349)	\$ 89,788	(\$ 215,561)
Current service cost	(1,530)	-	(1,530)
Interest (expense) income	(3,359)	988	(2,371)
	(310,238)	90,776	(219,462)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	2,580	2,580
Change in financial assumptions	(5,931)	-	(5,931)
Experience adjustments	(10,606)	-	(10,606)
	(16,537)	2,580	(13,957)
Pension fund contribution	-	3,677	3,677
Paid pension	22,039	(5,036)	17,003
At December 31	<u>(\$ 304,736)</u>	<u>\$ 91,997</u>	<u>(\$ 212,739)</u>
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2017			
At January 1	(\$ 284,455)	\$ 85,391	(\$ 199,064)
Current service cost	(1,658)	-	(1,658)
Interest (expense) income	(3,982)	1,195	(2,787)
	(290,095)	86,586	(203,509)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(297)	(297)
Change in financial assumptions	(9,260)	-	(9,260)
Experience adjustments	(8,844)	-	(8,844)
	(18,104)	(297)	(18,401)
Pension fund contribution	-	3,499	3,499
Paid pension	2,850	-	2,850
At December 31	<u>(\$ 305,349)</u>	<u>\$ 89,788</u>	<u>(\$ 215,561)</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its 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 the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorised by the Regulator. The Company and domestic subsidiaries have no right to participate in managing and operating that fund and hence the Company and domestic subsidiaries are unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	Years ended December 31,	
	2018	2017
Discount rate	0.90%	1.10%
Future salary increases	2.00%	2.00%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Sensitivity analysis of the effect on present value of defined benefit obligation due from the changes of main actuarial assumptions was as follows:

	Discount rate		Future salary increases	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 29,548)	\$ 30,616	\$ 27,380	(\$ 26,612)
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 30,979)	\$ 32,146	\$ 28,968	(\$ 28,114)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis were consistent with previous period.

- (f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amount to \$3,629.
- (g) As of December 31, 2018, the weighted average duration of the retirement plan is 10 years.
- B. (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The Company’s mainland China subsidiary, Jupiter Technology (Wuxi) Inc, has a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees’ monthly salaries and wages. The contribution percentage was 19%. Other than the monthly contributions, the Company has no further obligations.
- (c) The Subsidiary, RadioComp ApS, accrued pension costs based on 0.8% of total salaries.
- (d) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017, were \$57,084 and \$56,105, respectively.

(16) Provisions

	2018	2017
Balance at January 1	\$ 45,756	\$ 29,931
Additional provisions	20,456	27,591
Used during the year	(27,916)	(11,513)
Exchange difference	(412)	(253)
Balance at December 31	<u>\$ 37,884</u>	<u>\$ 45,756</u>

Analysis of total provisions:

	December 31, 2018	December 31, 2017
Current	<u>\$ 32,152</u>	<u>\$ 32,897</u>
Non-current	<u>\$ 5,732</u>	<u>\$ 12,859</u>

The Group gives warranties on sales-related products. Provision for warranty is estimated based on historical warranty data of uninterruptible power supply and solar energy products.

(17) Share capital

- A. As of December 31, 2018, the Company’s authorised capital was \$7,000,000, consisting of 0.7 billion shares of ordinary stock (including 50 million shares reserved for employee stock options and convertible bonds issued by the Company), and the paid-in capital was \$2,280,283 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

(Unit: In thousand shares)

	2018	2017
At January 1	228,028	213,322
Convertible bonds payable exercisable	-	14,706
At December 31	228,028	228,028

Note: As of December 31, 2017, the registration for 3,316 thousand shares have not been completed.

B. In 2012, the Company issued convertible bonds amounting to \$1,800,000, which were converted to common stocks amounting to 130,719 thousand shares in private placement. In 2016, the Company decreased the capital, and the common stocks remained 65,359 thousand shares after decreasing the capital. On March 22, 2018 and June 21, 2018, the Board of Directors and shareholders approved to implement belatedly procedures in relation to the public issuance and applying for trading on the market, respectively. The common stocks issued under private placement amounted to 65,359 thousand shares, which was approved by the Competent Authority on August 6, 2018.

(18) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. However, capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(19) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses, then 10% of the remaining amount shall be set aside as legal reserve until the legal reserve equals the total capital stock balance. After setting aside or reversal of a special reserve in accordance with related laws, the Company shall appropriate dividends to preferred stock. The Board of Directors should present the distribution of the remaining earnings along with accumulated unappropriated earnings for the approval of the shareholders to distribute dividends to shareholders.

B. As the Company is in the growth stage, the Company took into consideration the economic environment and nature of industry as well as its future capital needs and long-term financial plans in order to ensure subsequent operation and stable development. Based on the Company's future budget of capital expenditure and demand of capital, the Company appropriated no less than 30% of distributable earnings to shareholders' dividends, but if the distributable earnings is lower than 5% of paid-in capital, no dividends will be distributed. Cash dividend has a first

priority when distributing shareholders' dividends, and the ratio is 30~100% of current total dividends. Remaining dividend can be distributed in the form of stocks. The appropriation of retained earnings will be proposed by the Board of Directors every year, and will be approved by the shareholders.

- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- E. The Company recognised cash dividends distributed to owners amounting to \$45,606 (\$0.2 (in dollars) per share) and \$25,599 (\$0.12 (in dollars) per share) for the years ended December 31, 2018 and 2017, respectively. On March 19, 2019, the Board of Directors during their meeting proposed for the distribution of dividends from 2018 earnings in the amount of \$45,606 at \$0.2 (in dollars) per share, which has not been approved by the shareholders.
- F. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(25).

(20) Operating revenue

	<u>Year ended December 31, 2018</u>
Revenue from contracts with customers	<u>\$ 7,969,155</u>

A. Disaggregation of revenue from contracts with customers

The Group derives revenue in the following major product lines and geographical regions:

Year ended December 31, 2018 :

	<u>Terrestrial microwave communication products</u>			<u>Satellite communication products</u>		
	<u>USA</u>	<u>Mainland China</u>	<u>Other</u>	<u>USA</u>	<u>Other</u>	<u>Total</u>
Total segment revenue	\$ 98,638	\$ 1,494,182	\$ 637,107	\$ 5,127,333	\$ 5,226,895	\$ 12,584,155
Inter-segment revenue	(1,290)	-	(409,927)	-	(4,203,783)	(4,615,000)
Revenue from external customer contracts	<u>\$ 97,348</u>	<u>\$ 1,494,182</u>	<u>\$ 227,180</u>	<u>\$ 5,127,333</u>	<u>\$ 1,023,112</u>	<u>\$ 7,969,155</u>

B. Contract liabilities from customers

(a) The Group has recognised the following revenue-related contract liabilities:

	<u>December 31, 2018</u>
Contract liabilities:	
Contract liabilities- sales contracts	\$ <u>7,519</u>

(b) Revenue recognised that was included in the contract liability balance at the beginning of the year

	<u>Year ended December 31, 2018</u>
Revenue recognised that was included in the contract liability balance at the beginning of the sales contracts	\$ <u>1,839</u>

C. Related disclosures for 2017 operating revenue are provided in Note 12(5) B.

(21) Other income

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Interest income:		
Interest income from bank deposits	\$ 8,168	\$ 11,588
Dividend income	556	649
Other income, others	29,715	15,888
	<u>\$ 38,439</u>	<u>\$ 28,125</u>

(22) Other gains and losses

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Gains on disposals of property, plant and equipment	\$ 5,147	\$ 4,704
Currency exchange gains (losses)	171	(8,956)
Gains on financial assets (liabilities) at fair value through profit or loss	2,427	4,101
Gains on disposals of investments	-	5,604
Miscellaneous disbursements	(1,906)	(9,464)
	<u>\$ 5,839</u>	<u>(\$ 4,011)</u>

(23) Finance costs

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Interest expense	\$ 17,800	\$ 12,220

(24) Expenses by nature

	Years ended December 31,	
	2018	2017
Employee benefit expense	\$ 961,046	\$ 964,337
Depreciation charges on property, plant and equipment	66,484	85,415
Amortisation (including amortisation on the land use right)	29,130	28,887
	<u>\$ 1,056,660</u>	<u>\$ 1,078,639</u>

(25) Employee benefit expense

	Years ended December 31,	
	2018	2017
Salary expenses	\$ 800,587	\$ 805,720
Labour and health insurance fees	55,598	57,583
Pension costs	60,985	60,550
Other personnel expenses	43,876	40,484
	<u>\$ 961,046</u>	<u>\$ 964,337</u>

- A. According to the Articles of Incorporation of the Company, the ratio of distributable profit of the current year shall not be lower than 7% for employees' compensation in the form of stocks/cash, and employees must be working for the Company. The current year's earnings, if any, shall not be higher than 1% for directors' remuneration. Appropriation of employees' compensation and directors' remuneration shall be submitted to the shareholders' meeting. If the Company has accumulated deficit, earnings should be reserved to cover losses and then be appropriated to employees' compensation and directors' remuneration based on the abovementioned ratios.
- B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at \$4,619 and \$12,885, respectively; while directors' remuneration was accrued at \$660 and \$1,841, respectively. The aforementioned amounts were recognised in salary expenses.
- The employees' compensation and directors' remuneration were estimated and accrued based on 7% and 1%, respectively, of distributable profit for the year ended December 31, 2018. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$4,619 and \$658, respectively, and the employees' compensation will be distributed in the form of cash.
- For 2017, the employees' compensation and directors' remuneration resolved by the Board of Directors amounted to \$12,885 and \$1,818, respectively. The difference of \$23 between the amounts resolved by the Board of Directors and the amounts recognised in the 2017 financial statements, mainly resulting from estimation, had been adjusted in the profit or loss of 2018.
- C. Information about employees' compensation and directors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post

System” at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31,	
	2018	2017
Current tax:		
Current tax on profits for the year	\$ 6,604	\$ 26,655
Tax of foreign source income withheld at source	6,040	6,481
Prior year income tax overestimation	(1,220)	-
Total current tax	11,424	33,136
Deferred tax:		
Origination and reversal of temporary differences	37,336	189
Impact of tax losses	26,646	5,820
Impact of change in tax rate	(45,845)	-
Total deferred tax	18,137	6,009
Income tax expense (Note)	\$ 29,561	\$ 39,145

(b) The income tax (charge)/credit relating to components of other comprehensive income (loss) is as follows:

	Years ended December 31,	
	2018	2017
Currency translation differences	\$ 36	(\$ 11,236)

(c) The income tax charged/ (credited) to equity during the year: None.

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate (note)	\$ 16,334	\$ 33,956
Effects from items disallowed by tax	304 (	310)
Prior year income tax overestimation	(1,220)	-
Change in assessment of realization of deferred tax assets	42,160 (	19,756)
Impact of change in tax rate	(45,845)	-
Tax of foreign source income withheld at source	6,040	6,481
Different tax rates in countries in which the group operates	11,788	18,774
Income tax expense	\$ 29,561	\$ 39,145

Note: For the years ended December 31, 2018 and 2017, the applicable tax rate was based on the parent company's applicable tax rate of 20% and 17%, respectively.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences and tax losses are as follows:

	2018				
	At January 1	Recognised in profit or loss	Recognised in other comprehensive income	Net exchange differences	At December 31
Deferred tax assets:					
-Temporary differences:					
Allowance for inventory valuation losses	\$ 26,963	\$ 4,605	\$ -	(\$ 89)	\$ 31,479
Unrealised warranty cost of after-sale service	9,672	(1,002)	-	(87)	8,583
Unrealised pension	36,645	5,903	-	-	42,548
Unrealised impairment loss on long-term investments	18,166	(18,202)	-	36	-
Others	24,067	(4,404)	-	(334)	19,329
-Tax losses	281,265	22,989	-	(357)	303,897
Subtotal	\$ 396,778	\$ 9,889	\$ -	(\$ 831)	\$ 405,836
Deferred income tax liabilities:					
Unrealised gain on long-term investments	(\$ 66,154)	(\$ 21,428)	\$ -	\$ -	(\$ 87,582)
Unrealised exchange gain	(6,518)	(5,531)	-	-	(12,049)
Exchange differences on foreign financial statements	(5,828)	-	(36)	-	(5,864)
Others	-	(1,067)	-	-	(1,067)
Subtotal	(\$ 78,500)	(\$ 28,026)	(\$ 36)	\$ -	(\$ 106,562)
Total	\$ 318,278	(\$ 18,137)	(\$ 36)	(\$ 831)	\$ 299,274

	2017				
	At January 1	Recognised in profit or loss	Recognised in other comprehensive income	Net exchange differences	At December 31
Deferred tax assets:					
-Temporary differences:					
Allowance for inventory valuation losses	\$ 20,365	\$ 6,665	\$ -	(\$ 67)	\$ 26,963
Unrealised warranty cost of after-sale service	6,081	3,622	-	(31)	9,672
Unrealised pension	33,841	2,804	-	-	36,645
Unrealised impairment loss on long-term investments	18,542	-	-	(376)	18,166
Others	30,571	(5,841)	-	(663)	24,067
-Tax losses	287,085	(5,820)	-	-	281,265
Subtotal	\$ 396,485	\$ 1,430	\$ -	(\$ 1,137)	\$ 396,778
Deferred income tax liabilities:					
Unrealised gain on long-term investments	(\$ 57,697)	(\$ 8,457)	\$ -	\$ -	(\$ 66,154)
Unrealised exchange gain	(7,536)	1,018	-	-	(6,518)
Exchange differences on foreign financial statements	(17,064)	-	11,236	-	(5,828)
Others	-	-	-	-	-
Subtotal	(\$ 82,297)	(\$ 7,439)	\$ 11,236	\$ -	(\$ 78,500)
Total	\$ 314,188	(\$ 6,009)	\$ 11,236	(\$ 1,137)	\$ 318,278

D. Expiration dates of unused tax losses and amounts of unrecognised deferred tax assets are as follows:

December 31, 2018					
Year incurred	Amount filed/ Assessed	Unused amount	Unrecognised deferred tax assets	Expiry year	
2011 (Microelectronics)	\$ 1,121,209	\$ 838,246	\$ -	2021	
2012 (Microelectronics)	1,356,066	1,356,066	765,030	2022	
2013 (Microelectronics)	1,086,632	1,086,632	1,086,632	2023	
2014 (Microelectronics)	407,616	407,616	407,616	2024	
2015 (Microelectronics)	240,322	240,322	240,322	2025	
2018 (Jupiter (Wuxi))	72,164	72,164	-	2023	
		<u>\$ 4,001,046</u>	<u>\$ 2,499,600</u>		

December 31, 2017					
Year incurred	Amount filed/ Assessed	Unused amount	Unrecognised deferred tax assets	Expiry year	
2011 (Microelectronics)	\$ 1,121,209	\$ 838,246	\$ -	2021	
2012 (Microelectronics)	1,356,066	1,356,066	539,810	2022	
2013 (Microelectronics)	1,086,632	1,086,632	1,086,632	2023	
2014 (Microelectronics)	407,616	407,616	407,616	2024	
2015 (Microelectronics)	240,322	240,322	240,322	2025	
		<u>\$ 3,928,882</u>	<u>\$ 2,274,380</u>		

E. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(27) Earnings per share

Year ended December 31, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 52,109	228,028	\$ 0.23
<u>Diluted earnings per share</u>			
Profit attributable to the parent	52,109	228,028	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	226	
	\$ 52,109	228,254	\$ 0.23

Year ended December 31, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 160,595	219,052	\$ 0.73
<u>Diluted earnings per share</u>			
Profit attributable to the parent	160,595	219,052	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	428	
Convertible bonds	-	8,976	
	\$ 160,595	\$ 228,456	\$ 0.70

(28) Operating leases

The Group leases plant and production line located in Innovation Road II, Hsinchu Science Park, Hsinchu from Cybertan Technology Inc. with a term of 5 years under operating lease agreements in July 2015. These leases have terms expiring between 2018 and 2021, and all these lease agreements are renewable at the end of the lease period based on the market price. The Company recognised rental expenses of \$53,982 and \$39,622 for these leases in profit or loss for the years ended December 31, 2018 and 2017, respectively.

The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	\$ 46,306	\$ 40,547
Later than one year but not later than five years	47,689	85,642
	<u>\$ 93,995</u>	<u>\$ 126,189</u>

(29) Supplemental cash flow information

A. Investing activities with partial cash payments:

	Years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	\$ 93,208	\$ 86,517
Add: Opening balance of payable on equipment	41,860	41,431
Ending balance of prepayment for equipment	227	-
Less: Ending balance of payable on equipment	(28,881)	(41,860)
Cash paid during the year	<u>\$ 106,414</u>	<u>\$ 86,088</u>

B. Financing activities with no cash flow effects:

	Years ended December 31,	
	2018	2017
Convertible bonds converted to capital stocks	\$ -	\$ 388,622

(30) Changes in liabilities from financing activities

	Short-term borrowings
January 1, 2018	\$ 552,221
Changes in cash flow from financing activities	9,541
Impact of changes in foreign exchange rate	(2,102)
December 31, 2018	<u>\$ 559,660</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Company
Cybertan Technology Inc.	Entities with significant influence to the Group
IQE Taiwan Corporation	Substantial related party

(2) Significant related party transactions and balances

A. Operating revenue

	Years ended December 31,	
	2018	2017
Sales of goods:		
Cybertan Technology Inc.	<u>\$ 402,076</u>	<u>\$ 492,365</u>

Goods are sold based on the price lists in force and terms that would be available to third parties.

The credit term for the related party is 30 days after invoice date, and the credit term for the

general customers is 30 to 90 days after invoice date or monthly billings.

B. Purchases

	Years ended December 31,	
	2018	2017
Purchases of goods:		
Entities with significant influence to the Group	\$ 263	\$ -

C. Receivables from related parties

	December 31,	
	2018	2017
Accounts payable:		
Entities with significant influence to the Group	\$ 41,793	\$ 72,008
Other receivables:		
Entities with significant influence to the Group	789	2,481
	\$ 42,582	\$ 74,489

D. Payables to related parties

	December 31,	
	2018	2017
Accounts payable:		
Entities with significant influence to the Group	\$ 229	\$ -

E. Operating lease transactions

- (a) For the years ended December 31, 2018 and 2017, rent expense to entities with significant influence to the Group amounted to \$25,856 and \$25,965, respectively.
- (b) As of December 31, 2018 and 2017, prepaid rents to entities with significant influence to the Group amounted to \$1,904 and \$1,585, respectively.
- (c) As of December 31, 2018 and 2017, guarantee deposits paid (shown as 'Other non-current assets') to entities with significant influence to the Group both amounted to \$1,972.
- (d) For the years ended December 31, 2018 and 2017, other income to entities with significant influence to the Group amounted to \$26 and \$45, respectively.

(3) Key management compensation

	Years ended December 31,	
	2018	2017
Salaries and other short-term employee benefits	\$ 50,111	\$ 72,095
Post-employment benefits	2,201	2,447
	\$ 52,312	\$ 74,542

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	Book value		Purpose
	December 31, 2018	December 31, 2017	
Time deposits (Note)	\$ -	\$ 21,916	Guarantee for tax refund
Time deposits (Note)	559	570	Guarantee for Business card
	<u>\$ 559</u>	<u>\$ 22,486</u>	

Note: Shown as 'financial assets at amortized cost' and 'other non-current asset' as of December 31, 2018 and 2017, respectively.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

None.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Information on the appropriation of 2018 earnings approved by the Board of Directors is provided in Note 6(19).

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders 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 amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. Financial instruments by category

	December 31, 2018	December 31, 2017
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 6,526	\$ -
Financial assets held for trading	-	1,690
Designation of equity instrument	242,486	-
Available-for-sale financial assets	-	181,008
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	1,086,499	1,057,121
Financial assets at amortised cost	48,913	-
Notes receivable	68,362	9,280
Accounts receivable	1,645,663	1,572,085
Other receivables	133,365	241,337
Guarantee deposits paid	9,455	8,006
Other financial assets	-	22,486
	<u>\$ 3,241,269</u>	<u>\$ 3,093,013</u>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	\$ 95	\$ 3,829
Financial liabilities at amortised cost		
Short-term borrowings	559,660	552,221
Accounts payable	1,811,731	1,617,035
Other payables	411,044	392,363
	<u>\$ 2,782,530</u>	<u>\$ 2,565,448</u>

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and financial performance. The Company uses derivative financial instruments to hedge certain risk exposures (see Notes 6(2) and 6(21)).
- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD, EUR and RMB. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Company treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward foreign exchange contracts, transacted with Company treasury.
- iii. The Group hedges foreign exchange rate by using forward exchange and cross currency swap contracts. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2) and (12).

iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018				
	Foreign currency		Exchange	Book value
	amount			
	(In thousands)		rate	(NTD)
(Foreign currency : functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ 56,936		30.72	\$ 1,749,074
RMB:NTD	14,235		4.48	63,773
EUR:NTD	1,025		35.20	36,080
USD:RMB	22,786		6.86	699,986
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	\$ 48,217		30.72	\$ 1,481,226
RMB:NTD	18,921		4.48	84,766
EUR:NTD	1,183		35.20	41,642
USD:RMB	29,544		6.86	907,592

December 31, 2017				
	Foreign currency		Exchange	Book value
	amount			
	(In thousands)		rate	(NTD)
(Foreign currency : functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ 59,877		29.76	\$ 1,781,940
RMB:NTD	28,201		4.55	128,315
EUR:NTD	975		35.57	34,681
USD:RMB	10,707		6.53	318,640
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	\$ 39,073		29.76	\$ 1,162,812
RMB:NTD	70,053		4.55	318,741
EUR:NTD	1,005		35.57	35,748
USD:RMB	30,860		6.53	918,394

- v. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017, amounted to \$171 and (\$8,956), respectively.
- vi. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Year ended December 31, 2018				
Sensitivity analysis				
	Degree of variation		Effect on profit or loss	Effect on other comprehensive income
(Foreign currency : functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	17,491	\$ -
RMB:NTD	1%		638	
EUR:NTD	1%		361	-
USD:RMB	1%		7,000	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	(\$	14,812)	\$ -
RMB:NTD	1%	(	848)	
EUR:NTD	1%	(	416)	-
USD:RMB	1%	(	9,076)	-

Year ended December 31, 2017

Sensitivity analysis

	<u>Degree of variation</u>	<u>Effect on profit or loss</u>	<u>Effect on other comprehensive income</u>
(Foreign currency : functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 17,819	\$ -
RMB:NTD	1%	1,283	\$ -
EUR:NTD	1%	347	-
USD:RMB	1%	3,186	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	(\$ 11,628)	\$ -
RMB:NTD	1%	(3,187)	\$ -
EUR:NTD	1%	(357)	-
USD:RMB	1%	(9,184)	-

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- ii. The Group's investments in equity securities comprise shares issued by the overseas and domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have increased/decreased by \$910 and \$0, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$3,683 and \$3,756, respectively, as a result of other comprehensive income classified as available-for-sale equity investment and equity investment at fair value through other comprehensive income.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the

- agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a optimised credit rating are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored.
- iii. Impairment assessment of credit risk on financial assets at amortised cost is as follows:
- The Group adopts following assumptions under IFRS 9, if the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
 - The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
 - The Group used the forecastability to adjust historical and timely information and considered credit rating of issue banks to assess the default possibility of accounts and notes receivable.
 - The Group's financial assets at amortised cost are including time deposits deposited in banks and restricted time deposits. Such banks all have optimised credit rating, no past due has occurred, and no significant changes in the entire economic environment, therefore no credit loss is expected and the impact to the financial statement is remote.
- iv. Impairment assessment of credit risk on accounts and notes receivable is as follows:
- The Group classifies customers' accounts and notes receivable in accordance with credit rating of customer. The Group applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.
 - The Group used the forecastability to adjust historical and timely information to assess the default possibility of accounts and notes receivable. On December 31, 2018, the provision matrix is as follows:

	<u>Not past due</u>	<u>90 days past due</u>	<u>90-180 days past due</u>	<u>Over 180 days past due</u>	<u>Total</u>
<u>December 31, 2018</u>					
Expected loss rate	0%-1%	0%-1%	0%-1%	0%-1%	
Total book value	\$ 1,559,270	\$ 151,387	\$ 125	\$ 4,485	\$ 1,715,267
Loss allowance	\$ 3	\$ 3	\$ -	\$ 1,236	\$ 1,242

(c). Movements in relation to the Group applying the simplified approach to provide loss allowance for accounts and notes receivable are as follows:

	2018
At January 1_IAS 39	\$ 8,659
Adjustments under new standards	-
At January 1_IFRS 9	8,659
Reversal of impairment loss	(1,945)
Write-offs	(5,437)
Effect of exchange rate changes	(35)
At December 31	\$ 1,242

v. The Group used the forecastability to adjust historical and timely information to assess the default possibility of other receivables. On December 31, 2018, the provision matrix is as follows:

	Not past due	90 days past due	90-180 days past due	Over 180 days past due	Total
<u>December 31, 2018</u>					
Expected loss rate	0%	0%	0%	0%	
Total book value	\$ 133,365	\$ -	\$ -	\$ -	\$ 133,365
Loss allowance	\$ -	\$ -	\$ -	\$ -	-

vi. Credit risk information as of December 31, 2017 and for the year ended December 31, 2017 is provided in Note 12(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. Company treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.
- iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

December 31, 2018	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
<u>Non-derivative financial liabilities</u>					
Short-term borrowings	\$ 561,682	\$ -	\$ -	\$ -	\$ 561,682
Accounts payable (including related parties)	1,801,725	10,006	-	-	1,811,731
Other payables	411,044	-	-	-	411,044
<u>Derivative financial liabilities</u>					
Cross currency swap contracts	\$ 95	\$ -	\$ -	\$ -	\$ 95
December 31, 2017	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
<u>Non-derivative financial liabilities</u>					
Short-term borrowings	\$ 408,505	\$ 145,977	\$ -	\$ -	\$ 554,482
Accounts payable (including related parties)	1,613,075	3,960	-	-	1,617,035
Other payables	392,363	-	-	-	392,363
<u>Derivative financial liabilities</u>					
Cross currency swap contracts	\$ 3,829	\$ -	\$ -	\$ -	\$ 3,829

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's derivative instruments and emerging stocks are included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

B. Financial instruments not measured at fair value

The carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, financial assets at amortised cost, other financial assets, short-term borrowings, accounts payable and other payables are approximate to their fair values.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities are as follows:

(a) The related information of natures of the assets and liabilities is as follows:

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Foreign exchange swap contracts	\$ -	\$ 383	\$ -	\$ 383
Convertible bonds	-	6,143	-	6,143
Financial assets at fair value through other comprehensive income				
Equity securities	-	5,352	237,134	242,486
	<u>\$ -</u>	<u>\$ 11,878</u>	<u>\$ 237,134</u>	<u>\$ 249,012</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	<u>\$ -</u>	<u>\$ 95</u>	<u>\$ -</u>	<u>\$ 95</u>
 December 31, 2017	 Level 1	 Level 2	 Level 3	 Total
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	\$ -	\$ 7,188	\$ 173,820	\$ 181,008
Financial assets at fair value through profit or loss				
Foreign exchange swap contracts	-	1,690	-	1,690
	<u>\$ -</u>	<u>\$ 8,878</u>	<u>\$ 173,820</u>	<u>\$ 182,698</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	<u>\$ -</u>	<u>\$ 3,829</u>	<u>\$ -</u>	<u>\$ 3,829</u>

(b) The methods and assumptions the Group used to measure fair value are as follows:

- i. When assessing non-standard and low-complexity financial instruments, for example, interest rate swap contracts and foreign exchange swap contracts, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- ii. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used

during valuation are carefully assessed and adjusted based on current market conditions.

D. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

E. The following chart is the movement of Level 3 for the years ended December 31, 2018 and 2017:

	2018		
	Derivative		
	Equity securities	instruments	Total
At January 1	\$ 173,820	\$ -	\$ 173,820
Acquired in the year	60,360	-	60,360
Losses recognised in other comprehensive income	(3,336)	-	(3,336)
Net exchange differences	6,290	-	6,290
At December 31	<u>\$ 237,134</u>	<u>\$ -</u>	<u>\$ 237,134</u>

	2017		
	Derivative		
	Equity securities	instruments	Total
At January 1	\$ 190,661	\$ 640	\$ 191,301
Convertible bonds exercised	-	(1,485)	(1,485)
Gains recognised in profit or loss	-	845	845
Losses recognised in other comprehensive income	(2,951)	-	(2,951)
Net exchange differences	(13,890)	-	(13,890)
At December 31	<u>\$ 173,820</u>	<u>\$ -</u>	<u>\$ 173,820</u>

F. Professional appraisal institution and treasury department are in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

G. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	<u>Fair value at</u> <u>December 31, 2018</u>	<u>Valuation</u> <u>technique</u>	<u>Significant</u> <u>unobservable</u> <u>input</u>	<u>Range</u> <u>(weighted average)</u>	<u>Relationship of</u> <u>inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 8,401	Market comparable companies	Discount for lack of marketability P/B ratio	30% 100%	The higher the discount for lack of marketability, the lower the fair value
Unlisted shares	61,430	Discounted cash flow	Long-term pre-tax operating margin	Not applicable	The higher the long-term pre-tax operating margin, the higher the fair value
Venture capital shares	167,303	Net asset value	Not applicable	Not applicable	The higher the net assets value, the higher the fair value
	<u>Fair value at</u> <u>December 31, 2017</u>	<u>Valuation</u> <u>technique</u>	<u>Significant</u> <u>unobservable</u> <u>input</u>	<u>Range</u> <u>(weighted average)</u>	<u>Relationship of</u> <u>inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 10,184	Market comparable companies	Discount for lack of marketability P/B ratio	30% 100%	The higher the net asset value, the higher the fair value
Venture capital shares	163,636	Net asset value	Not applicable	Not applicable	The higher the net assets value, the higher the fair value

H. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets categorised within Level 3 if the inputs used to valuation models have changed:

			<u>December 31, 2018</u>			
			<u>Recognised in profit or loss</u>		<u>Recognised in other comprehensive income</u>	
	<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets						
Equity instruments	P/B ratio	±10%	\$ -	\$ -	\$ 840	\$ 840
			<u>December 31, 2017</u>			
			<u>Recognised in profit or loss</u>		<u>Recognised in other comprehensive income</u>	
	<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets						
Equity instruments	P/B ratio	±10%	\$ -	\$ -	\$ 1,018	(\$ 1,018)

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in 2017:

(a) Financial assets measured at fair value

- i. Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- iii. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(b) Available-for-sale financial assets

- i. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- iii. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. 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 presented in 'financial assets measured at cost'.

(c) Loans and accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(d) Impairment of financial assets

- i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired 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 or group of financial assets that can be reliably estimated.

ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

- (i) Significant financial difficulty of the issuer or debtor;
- (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) The disappearance of an active market for that financial asset because of financial difficulties;
- (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
- (vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an

impairment allowance account.

(ii) Financial assets at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset directly.

(iii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset directly.

(e) Financial liabilities at fair value through profit or loss

- i. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.
- ii. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

Consolidated balance sheet <u>Affected items</u>	Book value under previous IAS39	Adjustment for initial application of IFRS 9	Adjusted amount after IFRS 9 adoption	Description
<u>January 1, 2018</u>				
	\$ -	\$ -	\$ -	2
Available-for-sale financial assets	181,008	(181,008)	-	1、2
Financial assets at fair value through other comprehensive income	-	181,008	181,008	1
Financial assets at cost	-	-	-	2
Financial assets at amortised cost	-	22,486	22,486	3
Other current assets	22,486	(22,486)	-	3
Others	5,546,728	-	5,546,728	
Total assets	<u>\$ 5,750,222</u>	<u>\$ -</u>	<u>\$ 5,750,222</u>	
Total liabilities	<u>\$ 2,980,076</u>	<u>\$ -</u>	<u>\$ 2,980,076</u>	
Retained earnings	143,892	106,011	249,903	1
Other equity interest	(83,446)	(106,011)	(189,457)	1
Others	2,709,700	-	2,709,700	
Total equity	<u>\$ 2,770,146</u>	<u>\$ -</u>	<u>\$ 2,770,146</u>	
Total liabilities and equity	<u>\$ 5,750,222</u>	<u>\$ -</u>	<u>\$ 5,750,222</u>	

Explanation:

- In accordance with IFRS 9, the Group reclassified available-for-sale financial assets in the amount of \$181,008, and made an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, increasing retained earnings and decreasing other equity interest in the amounts of \$181,008, \$106,011 and \$106,011, respectively.
- In accordance with IFRS 9, the Group reclassified available-for-sale financial assets and financial assets at cost to financial assets at fair value through profit or loss because all those equity investments have been provided impairment loss, therefore, no impact to the Group's financial assets at fair value through profit or loss, net, retained earnings and other equity.
- In accordance with IFRS 9, the Group reclassified restricted cash by increasing financial assets at amortised cost in the amount of \$22,486, and no impact to the Group's retained earnings and other equity.

C. The significant accounts as of December 31, 2017 and for the year ended December 31, 2017 are as follows:

(a) Financial assets at fair value through profit or loss

<u>Items</u>	<u>December 31, 2017</u>
Current items:	
Financial assets held for trading	
Redeemable right of convertible bond	\$ -
Non-hedging derivatives	1,690
Valuation adjustments	-
	<u>\$ 1,690</u>

i. The Group recognised net gain of \$2,535 on financial assets held for trading for the year ended December 31, 2017.

ii. The non-hedging derivative instruments transaction and contract information are as follows:

	<u>December 31, 2017</u>	
	<u>Contract amount</u>	
<u>Derivative financial assets for hedging</u>	<u>(Notional principal)</u>	<u>Contract period</u>
Current items:		
Foreign exchange swap transactions	USD 5,000	106.11.13~107.01.16

The Group entered into foreign exchange swap contracts to sell to hedge exchange rate risk of export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

(b) Available-for-sale financial assets

<u>Items</u>	<u>December 31, 2017</u>
Non-current items :	
Taicom Capital Ltd.	\$ 270,101
Optical Scientific, Inc.	76,367
Taiwan Aerospace Corporation	25,000
Transcom, Inc.	4,104
Subtotal	375,572
Valuation adjustments	(24,353)
Accumulated impairment	(182,378)
Net exchange differences	12,167
	<u>\$ 181,008</u>

The Group recognised net loss of \$1,971 in other comprehensive income for fair value change and reclassified \$5,604 from equity to profit or loss for the year ended December 31, 2017.

(c) Financial assets at cost

Items	December 31, 2017
Non-current items :	
Firetide, Inc.	\$ 33,891
Accumulated impairment	(33,891)
	<u>\$ -</u>

According to the Group's intention, its investment in unlisted stocks should be classified as 'available-for-sale financial assets'. However, as unlisted stocks are not traded in active market, and no sufficient industry information of companies similar to unlisted stocks' financial information cannot be obtained, the fair value of the investment in unlisted stocks cannot be measured reliably. The Group classified those stocks as 'financial assets measured at cost'.

(d) Restricted cash and cash equivalent (shown as 'Other current assets')

Items	December 31, 2017
Current items :	
Time deposits	<u>\$ 22,486</u>

D. Credit risk information as of December 31, 2017 and for the year ended December 2017 are as follows:

- (a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. For credit risk arising from customers, according to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.
- (b) On December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The credit quality information of financial assets that are neither past due nor impaired is as follows:

Items	December 31, 2017
Group 1	\$ 52,688
Group 2	37,333
Group 3	<u>1,026,481</u>
	<u>\$ 1,116,502</u>

Group 1: Customers insured with credit insurance.

Group 2: Customers used L/C to transact.

Group 3: Others.

(d) The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2017</u>
Up to 90 days	\$ 304,380
91 to 180 days	145,076
Over 180 days	<u>6,127</u>
	<u>\$ 455,583</u>

The above ageing analysis was based on past due date.

(e) Movements in the provision for impairment of accounts receivable for the year ended December 31, 2017 are as follows:

	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 6,707	\$ -	\$ 6,707
Provision for	2,202	-	2,202
uncollectible accounts			
Effect of exchange rate (	(250)	-	(250)
changes			
At December 31	<u>\$ 8,659</u>	<u>\$ -</u>	<u>\$ 8,659</u>

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

(a) Sales of goods

The Group manufactures and sells satellite and terrestrial microwave communication system products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(b) Service revenue

The Group provides technology authorisation and research and development services. Revenue from delivering services is recognised under the percentage-of-completion method when the outcome of services provided can be estimated reliably. The stage of completion of a service contract is measured by the percentage of the actual services performed as of the financial reporting date to the total services to be performed.

If the outcome of a service contract cannot be estimated reliably, contract revenue should be recognised only to the extent that contract costs incurred are likely to be recoverable.

B. The revenue recognised by using above accounting policies for the year ended December 31, 2017 are as follows:

	Year ended December 31, 2017
Operating revenue	\$ 7,310,267
Service revenue	240,537
	<u>\$ 7,550,804</u>

C. The effects and description of current balance sheet items if the Group continues adopting above accounting policies for the year ended December 31, 2018 are as follows, and no impact to current comprehensive income. The differences are provided in Note 3(1).

		December 31, 2017		
Balance sheet items	Description	Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policy
Contract liabilities		\$ 7,519	\$ -	\$ 7,519
Sales revenue received in advance		-	7,519	(7,519)

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period: Please refer to table 1.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 2.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 3.

I. Trading in derivative financial instruments undertaken during the reporting periods: Please refer to Note 6(2) (12).

J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 5.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 6.

B. Significant transactions, either directly or indirectly through a third areas, with investee companies in the Mainland China: Please refer to table 7.

14. SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the chief operating decision-maker, the General Manager, that are used to make strategic decisions and the Group was identified as a single reportable segment.

(2) Measurement of segment information

The Group's general manager assesses the performance of the operating segments based on the pre-tax net income (loss).

(3) Information about segment profit or loss, assets and liabilities

	December 31, 2018	December 31, 2017
Revenue from external customers	\$ 7,969,155	\$ 7,550,804
Inter-segment revenue	\$ 4,615,000	\$ 4,019,597
Total segment revenue	\$ 12,584,155	\$ 11,570,401
Segment income	\$ 52,109	\$ 160,595
Segment assets	\$ 5,918,188	\$ 5,750,222
Segment liabilities	\$ 3,158,631	\$ 2,980,076

(4) Reconciliation for segment income (loss)

Total measurement of segment income is consistent with the operating income recorded in the Group's financial statements, therefore, no reconciliation was needed.

(5) Information on products and services

Please refer to Note 6 (20) for the related information.

(6) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	Years ended December 31,			
	2018		2017	
	Revenue	Non-current assets	Revenue	Non-current assets
USA	\$ 5,224,681	\$ 11,526	\$ 4,873,704	\$ 11,028
Mainland China	1,494,182	483,901	1,880,330	626,474
Others	1,250,292	98,864	796,770	72,753
	<u>\$ 7,969,155</u>	<u>\$ 594,291</u>	<u>\$ 7,550,804</u>	<u>\$ 710,255</u>

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018			Year ended December 31, 2017	
	Revenue	Segment		Revenue	Segment
F customer	\$ 2,427,167	Whole Group	F customer	\$ 2,213,047	Whole Group
E customer	1,699,991	Whole Group	E customer	1,229,512	Whole Group
H customer	1,036,494	Whole Group	B customer	1,199,768	Whole Group
B customer	967,097	Whole Group	H customer	891,950	Whole Group

Microelectronics Technology, Inc. and Subsidiaries
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
Year ended December 31, 2018

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018				Note
				Number of shares	Book value	Ownership (%)	Fair value	
Microelectronics Technology, Inc.	Stocks - TAIWAN AEROSPACE CORPORATION	None	Financial assets at fair value through other comprehensive income	648,576	\$ 8,401	0.48	\$ 8,401	
Microelectronics Technology, Inc.	Stocks - TRANSCOM, INC.	None	Financial assets at fair value through other comprehensive income	85,000	5,352	0.24	5,352	
SASSON INTERNATIONAL HOLDING, INC.	Stocks - Optical Scientific, Inc.	None	Financial assets at fair value through profit or loss	16,023	-	5.02	-	
SASSON INTERNATIONAL HOLDING, INC.	Stocks - Firetide, Inc.	None	Financial assets at fair value through profit or loss	1,333,360	-	2.24	-	
SASSON INTERNATIONAL HOLDING, INC.	Stocks - Taicom Capital Ltd.	None	Financial assets at fair value through other comprehensive income	20,000	167,303	Note	167,303	
SASSON INTERNATIONAL HOLDING, INC.	Stocks - New Edge Signal Solutions LCC	None	Financial assets at fair value through other comprehensive income	1,355,663	61,430	12.5	61,430	
SASSON INTERNATIONAL HOLDING, INC.	Conversion of convertible bonds - Kymeta Corporation	None	Financial assets at fair value through profit or loss	-	6,143	-	6,143	

Note: Holding of 10,000 ordinary shares and 10,000 preference shares for 11.43% and 16.67% ownership, respectively.

Microelectronics Technology, Inc. and Subsidiaries

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more

Year ended December 31, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

			Transaction			Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)		
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Note
Purchaser/seller	Counterparty	Relationship with the counterparty									
Microelectronics Technology, Inc.	JUPITER TECHNOLOGY (WUXI) INC	Indirect subsidiary of the Company	Purchases	\$ 4,333,797	67%	90 days	Not applicable	Not applicable	(\$ 641,658)	(60%)	
JUPITER TECHNOLOGY (WUXI) INC	Microelectronics Technology, Inc.	Indirect subsidiary of the Company	Sales	(4,333,797)	(75%)	90 days	Not applicable	Not applicable	641,658	96%	

Microelectronics Technology, Inc. and Subsidiaries
Receivables from related parties reaching \$100 million or 20% of paid-in capital or more
Year ended December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
JUPITER TECHNOLOGY (WUXI) INC	Microelectronics Technology, Inc.	Parent company	\$ 641,658	4.93	\$ -	-	\$ 599,609	\$ -

Microelectronics Technology, Inc. and Subsidiaries
Significant inter-company transactions during the reporting periods
Year ended December 31, 2018

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction		Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount		
0	Microelectronics Technology, Inc.	JUPITER TECHNOLOGY (WUXI) INC.	1	Purchases and processing overhead	\$ 4,333,797	Same as those to the third parties	54.38%
0	Microelectronics Technology, Inc.	JUPITER TECHNOLOGY (WUXI) INC.	1	Accounts payable	641,658	Payment term is 60 days from receipt of goods	10.84%
0	Microelectronics Technology, Inc.	JUPITER TECHNOLOGY (WUXI) INC.	1	Other receivables	9,748	Credit term is 90 days from delivery	0.16%
0	Microelectronics Technology, Inc.	JUPITER TECHNOLOGY (WUXI) INC.	1	Other current liabilities	97,714	Based on the mutual agreement	1.65%
0	Microelectronics Technology, Inc.	MTI Laboratory, INC.	1	Research and development expenses	196,583	Same as those to the third parties	2.47%
0	Microelectronics Technology, Inc.	MTI Laboratory, INC.	1	Other payables	78,297	Based on the mutual agreement	1.32%
0	Microelectronics Technology, Inc.	Radiocomp ApS	1	Research and development expenses	83,330	Same as those to the third parties	1.05%
0	Microelectronics Technology, Inc.	Radiocomp ApS	1	Other payables	40,419	Based on the mutual agreement	0.68%

Note 1: The information of transactions between the Company and the subsidiaries should be noted in “Number” column.

(1) Number 0 represents the Company.

(2) The consolidated subsidiaries are numbered in order from number 1.

Note 2: The transaction relationship with counterparties are as follows:

(1) The Company to the consolidated subsidiary.

(2) The consolidated subsidiaries to the Company.

(3) The consolidated subsidiaries to other consolidated subsidiaries.

Note 3: In calculating the ratio, the transaction amount is divided by consolidated total assets for balance sheet accounts and is divided by consolidated total revenues for income statement accounts.

Note 4: Only transaction amounts over \$10 million were disclosed and if transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it was not required to be disclosed separately.

Microelectronics Technology, Inc. and Subsidiaries
Information on investees
Year ended December 31, 2018

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Note
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
Microelectronics Technology, Inc.	SASSON INTERNATIONAL HOLDING, INC.	British Virgin IS.	Investment management	\$ 908,778	\$ 908,778	3,920	100	\$ 1,662,473	\$ 48,127	\$ 49,087	Note 1
SASSON INTERNATIONAL HOLDING, INC.	Welltop Technology Co.,Ltd.	British Virgin IS.	Investment management	240,621	233,140	7,834,000	100	316,015	17,239	17,239	Note 2
SASSON INTERNATIONAL HOLDING, INC.	Jupiter Network Corp.	British Virgin IS.	Investment management	954,370	924,697	31,071,800	100	1,020,017	28,946	28,946	Note 2
Welltop Technology Co.,Ltd.	MTI Laboratory, Inc.	U.S.A	Communications	46,073	44,640	1,500,000	100	118,905	13,963	13,963	Note 2
Welltop Technology Co.,Ltd.	Radiocomp ApS	DENMARK	Communications	144,422	139,932	1,527,944	100	176,082	3,208	3,208	Note 2

Note 1: Subsidiary of the Company.

Note 2: Indirect subsidiary of the Company.

Microelectronics Technology, Inc. and Subsidiaries

Information on investees in Mainland China

Year ended December 31, 2018

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China / Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 3)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of		Note
					Remitted to Mainland China	Remitted back to Taiwan						December 31, 2018	December 31, 2018	
JUPITER TECHNOLOGY (WUXI) INC (Note 1)	Manufactures and sales of satellite and microwave communication system and related technical and consultation services	\$ 952,165	Through investing in an existing company in the third area, which then invested in the investee in Mainland China.	\$ 952,165	\$ -	\$ -	\$ 952,165	\$ 29,028	100	\$ 29,028	\$ 1,019,975	\$ -	-	-
Nanjing Dongda Kuandai Communication Technology Limited Company (Note 2)	WCDMA technology and base station and radio frequency subsystem	-	Through investing in an existing company in the third area, which then invested in the investee in Mainland China.	121,939	-	-	121,939	-	-	-	-	-	-	-

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Microelectronics Technology, Inc.	\$ 1,074,104	\$ 1,198,131	\$ 1,655,734

Note 1: It was indirectly invested through Jupiter Network Corp.

Note 2: It was indirectly invested through SASSON INTERNATIONAL HOLDING, INC. and was liquidated during the year ended December 31, 2018.

Note 3: Investment profit or loss was recognised based on the financial statements that were audited by R.O.C. parent company's CPA.

Microelectronics Technology, Inc. and Subsidiaries

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

Year ended December 31, 2018

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

						Provision of endorsements/guarantees or collaterals		Financing									
Sale (purchase)		Property transaction		Accounts receivable (payable)													
								Balance at December 31, 2018		Maximum balance during the year ended December 31, 2018		Balance at December 31, 2018		Interest during the year ended December 31, 2018		Others (Note)	
Investee in Mainland China	Amount	%	Amount	%	Balance	%	Purpose					Interest rate					
JUPITER TECHNOLOGY (WUXI) INC	(\$ 4,333,797)	-	\$ 2,961	-	(\$ 641,658)	35	\$ -	-		\$ -		\$ -	-		\$ -		(\$ 87,966)

Note: It consisted of other receivables amounting to \$9,748 and other current liabilities amounting to \$97,714.