

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD.**  
**AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

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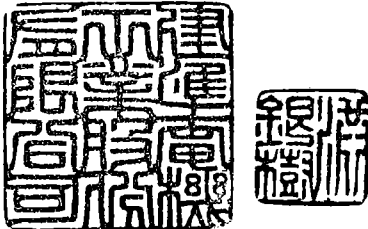
## REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Sunonwealth Electric Machine Industry Co., Ltd. as of and for the year ended December 31, 2018, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No.10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Sunonwealth Electric Machine Industry Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Sunonwealth Electric Machine Industry Co., Ltd.

By:



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Yin-Shu Hung  
Chairman

March 14, 2019

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Sunonwealth Electric Machine Industry Co., Ltd.

### Opinion

We have audited the accompanying consolidated balance sheets of Sunonwealth Electric Machine Industry Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In Our opinion, based on our audits and the report of the other independent accountants, as described in the other matters section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 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 (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

## **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 for the year ended December 31, 2018. 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 of the Group's consolidated financial statements for the year ended December 31, 2018 are stated as follows:

### Valuation of inventory

Please refer to Note 4(8) to the consolidated financial statements for the accounting policy of inventories, Note 5(2)F for critical accounting judgments and key sources of estimation and assumption uncertainty of inventories, and Note 6(5) for inventory valuation.

#### Description of key audit matter:

As of December 31, 2018, inventory was \$1,794,369 thousand and accounted for 20% of the total assets. Due to rapid changes in technology may lead to write-downs of slow moving inventories to their net realizable values. As uncertainty exists in management's judgment when the determining the loss on inventory, the valuation of inventory has been identified as a key audit matter.

#### How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included the understanding of the feature of the product and the inventory aging to confirm the appropriateness of the inventory evaluation method ; testing the book value of the inventory to assess the rationality of the change in the impairment loss of the inventory, obtaining the inventory status of the Group and compare the actual write-offs of the past to assess the appropriateness of the depreciation and damage to the goods.

### Revenue recognition

Please refer to Note 4(20) to the consolidated financial statements for the accounting policy of revenue recognition, Note 5(1)C and Note 5(2)A for critical accounting judgements and key sources of estimation and assumption uncertainty of revenue recognition, and Note 6 (24) for the description of revenue recognition.

#### Description of key audit matter:

The Group's sales revenue is easily influenced by various factors such as the industry boom and market environment, and has a significant impact on the utilization rate of the Group (the levy of idle capacity loss), inventory risk and cash flow. Consequently, this is one of the key areas our audit focused on.

#### How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included testing the Group's controls surrounding revenue recognition; inspecting customer orders and performing a test of revenue transactions which incurred within a certain period before or after the balance sheet date; analysis of the trend of product sales and comparing the number of relevant changes or differences with the budget to confirm whether there is a significant exception.

#### **Other Matters**

As described in Note 4(3) to the consolidated financial statements, we didn't audit the financial statements of certain subsidiaries. The financial statements of the subsidiaries were audited by the other auditors. Therefore, our opinion, insofar as it relates to the amounts and information disclosed, is solely based on the report of the other auditors. The figures as to these subsidiaries' total assets amounted to \$447,334 thousand and \$447,350 thousand, representing 4.99% and 5.08% of the consolidated assets, and their total liabilities amounted to \$304,169 thousand and \$322,978 thousand, representing 6.29% and 6.96% of the consolidated liabilities as of December 31, 2018 and 2017, respectively; their total revenues amounted \$1,054,511 thousand and \$1,065,868 thousand, representing 8.81% and 9.74% of the consolidated revenue, and their total comprehensive income amounted to \$18,793 thousand and \$30,967 thousand, representing 3.27% and 5.03% of the consolidated comprehensive income for the years ended December 31, 2018 and 2017, respectively.

We have also audited the parent company only financial statements of Sunonwealth Electric Machine Industry Co., Ltd. as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion.

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

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

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

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in Our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation .
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We 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 for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Ching Ling Lee and Shu Man Tsai.

Crowe (TW) CPAs  
Crowe (TW) CPAs  
Kaohsiung, Taiwan  
Republic of China  
March 14, 2019

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In Thousands of New Taiwan Dollars)

Assets	Note	December 31, 2018		December 31, 2017		Liabilities and Equity	Note	December 31, 2018		December 31, 2017	
		Amount	%	Amount	%			Amount	%	Amount	%
<b>CURRENT ASSETS</b>						<b>CURRENT LIABILITIES</b>					
Cash and cash equivalents	6(1)	\$1,144,973	12.8	\$1,386,750	15.7	Short-term loans	6(13)	\$843,257	9.4	\$636,262	7.2
Financial assets at fair value through profit or loss - current	6(2)	107,831	1.2	228,965	2.6	Contract liabilities - current	6(24)	72,085	0.8	-	-
Notes receivable, net	6(3)	31,737	0.4	27,775	0.3	Accounts payable		2,671,027	29.8	2,549,796	28.9
Accounts receivable, net	6(4)	3,059,211	34.1	2,696,286	30.6	Other payables	6(14)	799,255	8.9	802,233	9.1
Other receivables		45,695	0.5	83,634	0.9	Current tax liabilities		46,654	0.5	74,031	0.8
Current tax assets		3,563	-	4,709	0.1	Provisions - current	6(15)	42,570	0.5	40,045	0.5
Inventories	6(5)	1,794,369	20.0	1,744,494	19.8	Advance receipts		-	-	97,417	1.1
Prepayments		47,778	0.5	57,476	0.7	Obligation under capital leases - current	6(17)	2,361	-	-	-
Other financial assets - current	6(6)	143,382	1.6	26,742	0.3	Total current liabilities		4,477,209	49.9	4,199,784	47.6
Total current assets		6,378,539	71.1	6,256,831	71.0	<b>NONCURRENT LIABILITIES</b>					
<b>NONCURRENT ASSETS</b>						Long-term loans	6(16)	220,000	2.5	320,000	3.6
Financial assets carried at cost - noncurrent	6(8)	-	-	62,000	0.8	Deferred income tax liabilities	6(29)	51,715	0.6	41,425	0.5
Property, plant and equipment	6(9)	2,377,611	26.5	2,293,868	26.0	Obligation under capital leases - noncurrent	6(17)	2,456	-	-	-
Investment properties, net	6(10)	75,011	0.9	75,461	0.9	Net defined benefit liabilities - noncurrent	6(18)	75,660	0.8	73,712	0.8
Intangible assets	6(11)	23,506	0.3	21,988	0.2	Guarantee deposits		5,145	0.1	4,499	0.1
Deferred income tax assets	6(29)	65,794	0.7	54,742	0.6	Total noncurrent liabilities		354,976	4.0	439,636	5.0
Refundable deposits		29,322	0.3	26,607	0.3	Total Liabilities		4,832,185	53.9	4,639,420	52.6
Long-term prepaid rent	6(12)	18,805	0.2	19,761	0.2	<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>					
Other noncurrent assets - others		2,968	-	2,211	-	Share capital					
Total noncurrent assets		2,593,017	28.9	2,556,638	29.0	Ordinary shares	6(19)	2,509,297	28.0	2,509,297	28.5
						Capital surplus	6(20)	366,903	4.1	365,706	4.1
						Retained earnings					
						Legal reserve	6(21)	628,886	7.0	563,140	6.4
						Special reserve	6(21)	127,111	1.4	82,857	0.9
						Unappropriated earnings	6(21)	671,883	7.5	746,322	8.5
						Other equity	6(22)	(164,709)	(1.9)	(127,111)	(1.4)
						Total equity attributable to owners of the parent		4,139,371	46.1	4,140,211	47.0
						<b>NON-CONTROLLING INTERESTS</b>					
						Total equity	6(23)	-	-	33,838	0.4
						Total equity		4,139,371	46.1	4,174,049	47.4
<b>TOTAL ASSETS</b>		<u>\$8,971,556</u>	<u>100.0</u>	<u>\$8,813,469</u>	<u>100.0</u>	<b>TOTAL LIABILITIES AND EQUITY</b>		<u>\$8,971,556</u>	<u>100.0</u>	<u>\$8,813,469</u>	<u>100.0</u>

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

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	Note	Year Ended December 31			
		2018		2017	
		Amount	%	Amount	%
OPERATING REVENUES	6(24)	\$11,965,298	100.0	\$10,946,728	100.0
OPERATING COSTS	6(5)	9,563,763	79.9	8,492,264	77.6
GROSS PROFIT		2,401,535	20.1	2,454,464	22.4
OPERATING EXPENSES					
Sales and marketing		531,682	4.4	520,355	4.8
General and administrative		570,707	4.8	527,294	4.8
Research and development		690,164	5.8	650,911	5.9
Expected credit loss (gain)	6(4)	7,433	-	-	-
Total operating expenses		1,799,986	15.0	1,698,560	15.5
INCOME FROM OPERATIONS		601,549	5.1	755,904	6.9
NON-OPERATING INCOME AND EXPENSES					
Other income	6(26)	136,934	1.1	151,542	1.4
Other gains and losses	6(27)	63,530	0.5	(51,580)	(0.5)
Finance costs	6(28)	(18,188)	(0.1)	(13,781)	(0.1)
Total non-operating income and expenses		182,276	1.5	86,181	0.8
INCOME BEFORE INCOME TAX		783,825	6.6	842,085	7.7
INCOME TAX EXPENSE	6(29)	176,142	1.5	178,669	1.6
NET INCOME		607,683	5.1	663,416	6.1
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit obligation		(6,841)	(0.1)	(4,365)	-
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income		8,985	0.1	-	-
Income tax benefit related to items that will not be reclassified subsequently		(2,020)	-	(741)	-
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations		(45,335)	(0.4)	(53,256)	(0.5)
Income tax benefit related to items that may be reclassified subsequently to profit or loss		(8,614)	(0.1)	(8,618)	(0.1)
Total other comprehensive loss, net of income tax	6(30)	(32,557)	(0.3)	(48,262)	(0.4)
TOTAL COMPREHENSIVE INCOME		\$575,126	4.8	\$615,154	5.7
NET INCOME ATTRIBUTABLE TO:					
Owners of the parent		605,120	5.1	657,459	6.0
Non-controlling interests		2,563	-	5,957	0.1
Total		607,683	5.1	663,416	6.1
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owners of the parent		572,736	4.8	609,585	5.6
Non-controlling interests		2,390	-	5,569	0.1
Total		\$575,126	\$4.8	\$615,154	\$5.7
EARNINGS PER SHARE					
Basic	6(31)	\$2.41		\$2.62	

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

SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Shareholders of the Parent										
	Share Capital					Others					Total Equity
						Retained Earnings		Exchange Differences on Translating foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income		
	Ordinary Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings						
BALANCE AT JANUARY 1, 2017	\$2,509,297	\$365,706	\$505,950	\$79,155	\$655,235	(\$82,857)	\$ -	\$ -	\$34,479	\$4,066,965	
Appropriations and distributions of prior years' earnings:											
Legal reserve	-	-	57,190	-	(57,190)	-	-	-	-	-	
Special reserve	-	-	-	3,702	(3,702)	-	-	-	-	-	
Cash dividends - \$2 per share	-	-	-	-	(501,860)	-	-	-	-	(501,860)	
Total	-	-	57,190	3,702	(562,752)	-	-	-	-	(501,860)	
Net income in 2017	-	-	-	-	657,459	-	-	-	5,957	663,416	
Other comprehensive income (loss) in 2017, net of income tax	-	-	-	-	(3,620)	(44,254)	-	-	(388)	(48,262)	
Total comprehensive income in 2017	-	-	-	-	653,839	(44,254)	-	-	5,569	615,154	
Increase (decrease) in non-controlling interests	-	-	-	-	-	-	-	-	(6,210)	(6,210)	
BALANCE AT DECEMBER 31, 2017	2,509,297	365,706	563,140	82,857	746,322	(127,111)	-	-	33,838	4,174,049	
Impact of retrospective application and retrospective restatement	-	-	-	-	-	-	3,415	-	-	3,415	
Adjusted balance at January 1, 2018	2,509,297	365,706	563,140	82,857	746,322	(127,111)	3,415	-	33,838	4,177,464	
Appropriations and distributions of prior years' earnings:											
Legal reserve	-	-	65,746	-	(65,746)	-	-	-	-	-	
Special reserve	-	-	-	44,254	(44,254)	-	-	-	-	-	
Cash dividends - \$2.3 per share	-	-	-	-	(577,138)	-	-	-	-	(577,138)	
Total	-	-	65,746	44,254	(687,138)	-	-	-	-	(577,138)	
Net income in 2018	-	-	-	-	605,120	-	-	-	2,563	607,683	
Other comprehensive income (loss) in 2018, net of income tax	-	-	-	-	(4,821)	(36,548)	8,985	-	(173)	(32,557)	
Total comprehensive income in 2018	-	-	-	-	600,299	(36,548)	8,985	-	2,390	575,126	
Reorganization	-	1,050	-	-	-	(1,050)	-	-	-	-	
Differences between considerations and carrying amounts of subsidiaries acquired or disposed	-	147	-	-	-	-	-	-	-	147	
Increase (decrease) in non-controlling interests	-	-	-	-	-	-	-	-	(36,228)	(36,228)	
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	12,400	-	(12,400)	-	-	-	
BALANCE AT DECEMBER 31, 2018	\$2,509,297	\$366,903	\$628,886	\$127,111	\$671,883	(\$164,709)	-	-	-	\$4,139,371	

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

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In Thousands of New Taiwan Dollars)

	Year Ended December 31	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$783,825	\$842,085
Adjustment for :		
Income and expenses having no effect on cash flows:		
Depreciation	285,265	260,181
Amortization	57,248	51,309
Expected credit loss	7,433	-
Provision for (reversal of) allowance for doubtful accounts	-	(2,056)
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	(4)	40
Interest expense	18,188	13,781
Interest income	(31,377)	(30,726)
Loss on disposal and retirement of property, plant and equipment	8,229	2,508
Transfer of property, plant and equipment to expenses	1,571	2,214
Gain on disposal of investments	(25,547)	(3,716)
Impairment loss on non-financial assets	-	15,371
Total income and expenses having no effect on cash flows	321,006	308,906
Net changes in operating assets and liabilities		
Decrease (increase) in financial assets held for trading	-	(42,980)
Decrease (increase) in financial assets mandatorily classified as at fair value through profit or loss	124,941	-
Decrease (increase) in notes receivable	(3,962)	19,431
Decrease (increase) in accounts receivable	(370,924)	130,136
Decrease (increase) in other receivables	37,815	(30,786)
Decrease (increase) in inventories	(47,998)	(366,142)
Decrease (increase) in prepayments	(29,532)	(37,357)
Decrease (increase) in other financial assets	16,679	14,263
Total changes in operating assets	(272,981)	(313,435)
Net changes in operating liabilities		
Increase (decrease) in contract liabilities	(25,275)	-
Increase (decrease) in accounts payable	121,899	80,323
Increase (decrease) in other payables	18,694	59,441
Increase (decrease) in provisions	2,945	(450)
Increase (decrease) in advance receipts	-	33,859
Increase (decrease) in net defined benefit liabilities	(4,893)	(4,868)
Total changes in operating liabilities	113,370	168,305
Total net changes in operating assets and liabilities	(159,611)	(145,130)
Total adjustments	161,395	163,776

	Year Ended December 31	
	2018	2017
Cash generated from operations	945,220	1,005,861
Interest received	31,492	30,870
Interest paid	(17,778)	(24,088)
Income tax paid	(192,501)	(214,543)
Net cash generated from operating activities	<u>766,433</u>	<u>798,100</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposal of financial assets at fair value through other comprehensive income	74,400	-
Disposal subsidiary	23,330	-
Acquisition of property, plant and equipment	(440,705)	(427,401)
Proceeds from disposal of property, plant and equipment	17,365	33,246
Increase in refundable deposits	(3,225)	-
Decrease in refundable deposits	-	8,272
Acquisition of intangible assets	(15,507)	(4,894)
Increase in other financial assets	(133,319)	-
Increase in other noncurrent assets	(7,391)	(3,331)
Net cash used in investing activities	<u>(485,052)</u>	<u>(394,108)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term loans	206,995	182,130
Repayments of long-term loans	(100,000)	-
Increase in guarantee deposits	646	1,361
Increase in obligation under captial leases	4,817	-
Cash dividends paid	(577,138)	(501,860)
Increase (decrease) in non-controlling interests	(36,081)	(6,598)
Net cash used in financing activities	<u>(500,761)</u>	<u>(324,967)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(22,397)	(30,691)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(241,777)</u>	<u>48,334</u>
CASH AND CASH EQUIVALENTS , BEGINNING OF PERIOD	1,386,750	1,338,416
CASH AND CASH EQUIVALENTS , END OF PERIOD	<u><u>\$1,144,973</u></u>	<u><u>\$1,386,750</u></u>

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

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**  
**(In Thousands of New Taiwan Dollars, Except Stated Otherwise)**

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**1. GENERAL INFORMATION**

Sunonwealth Electric Machine Industry Co., Ltd. (collectively as the “Company”) was incorporated in October 1980. The Company engages mainly in the manufacturing and selling of AC/DC brushless fans, electric fans, motors and related components, and microcooling fans. The principal operating activities of the Company and its subsidiaries (collectively as the “Group”) are described in Note 4(3). In addition, the Company has no ultimate parent company.

The Company's board of directors approved on March 30, 2007 to merge (simplified merger) with Inventor Precision Co., Ltd., and the effective merger date was May 31, 2007. The Company was the surviving company. The merger was for the purpose of reorganization. The Company didn't issue new shares for the consolidation.

Inventor Precision Co., Ltd. was incorporated in March 2000. The main activities were the manufacturing and selling of molds and areo parts, and business consulting.

The Company's board of directors approved on August 25, 2009 to merge by absorption with Sunon Motor Co., Ltd. The Company was the surviving company. The merger was for the purpose of reorganization. The Company didn't issue new shares for the consolidation. The effective merger date was December 31, 2009.

Sunon Motor Co., Ltd. was incorporated in March 1999. The main activities were the manufacturing of other machines, data storage and processing equipment, wholesale of motors and parts, and international trading.

The Company's board of directors approved on August 8, 2018 to merge (simplified merger) with Sunon Smt Co., Ltd., and the effective merger date was October 1, 2018. The Company was the surviving company. The merger was for the purpose of reorganization. The Company didn't issue new shares for the consolidation.

Sunon Smt Co., Ltd. was incorporated in November 2000. The main activities were the manufacturing of electronic components, wholesale of information software, electronic materials and molds, business management, processing data and supplying electronic information.

The consolidated financial statements are presented in the Company's functional currency, New Taiwan Dollars.

**2. THE AUTHORIZATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved and authorized for issue by the board of directors on March 14, 2019.

### 3.APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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

Except for the following, the application of the above amendments have no significant effect on the Group’s financial condition and financial performance.

#### A. IFRS 9 “Financial Instruments” and related amendment

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

The Group elects not to restate prior reporting period when applying the requirements for the classification, measurement and impairment of financial assets and financial liabilities under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application.

The impact on measurement categories, carrying amount and related reconciliation for each class of the Group’s financial assets when retrospectively applying IFRS 9 on January 1, 2018 is detailed below:

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$1,386,750	\$1,386,750	(a)
Mutual funds	Held for trading	Mandatorily at fair value through profit or loss (FVTPL)	228,965	228,965	
Equity securities	Financial assets carried at cost	Fair value through other comprehensive income(FVTOCI)	62,000	65,415	(b)
Time deposits with original maturities more than three month	Loans and receivables	Amortized cost	26,742	26,742	(a)
Notes receivable, accounts receivable and other receivables	Loans and receivables	Amortized cost	2,807,695	2,807,695	(a)
Refundable deposits	Loans and receivables	Amortized cost	26,607	26,607	(a)

The Group classified financial assets at FVTPL and available-for-sale financial assets with their fair value can’t be measured reliably as financial assets measured at amortized cost - noncurrent.

	Carrying Amount as of January 1, 2018 (IAS 39)	Reclassifications	Remeasurements	Carrying Amount as of January 1, 2018 (IFRS 9)	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTOCI							
- Equity instruments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Add: From financial assets carried at cost (IAS 39)	-	62,000	3,415	65,415	-	3,415	(b)
Total	\$ -	\$62,000	\$3,415	\$65,415	\$ -	\$3,415	

(a) Those financial assets were classified as loans and receivables under IAS 39 are now classified financial assets at amortized cost with no material impact on future lifetime expected credit loss under IFRS 9.

(b) Equity investment on unlisted companies originally classified as financial assets carried at cost by IAS 39 were re-designated as financial assets at fair value through other comprehensive income by IFRS9 and were re-measured its fair value to both increase financial asset at fair value through comprehensive income and other equity-unrealized gain or loss of FVTOCI by \$3,415 thousand.

#### B. IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18, “Revenue,” IAS 11, “Construction Contracts,” and a number of revenue-related interpretations. Please refer to Note 4 for information relating to the relevant accounting policies.

The Group currently recognizes revenues of goods sales while (1) significant risk and rewards of ownership were transferred to clients; (2) revenues and costs can be reliably measured; (3) it is probable that the consideration can be received; (4) the Group no longer retains continuing managerial involvement over the goods sold. After initial adoption of IFRS15, the Group will recognize revenue while the client gains control of the goods sold. No impact on revenue recognizing will occur. But to some contracts, the Group had already collect portion of the consideration at the contract establishment. The portion collected which were accounted as advance receipt currently will be accounted as contract liabilities after adoption of IFRS 15.

The impact on assets, liabilities and equity when retrospectively applying IFRS 15 on January 1, 2018 is detailed below:

	Carrying Amount as of January 1, 2018 (IAS 18)	Adjustments Arising from Initial Application	Carrying Amount as of January 1, 2018 (IFRS 15)
Advance receipts	\$97,417	(\$97,417)	\$ -
Contract liabilities - current	-	97,417	97,417
Total effect on liabilities	\$97,417	\$ -	\$97,417

If the Group continues to adopt IAS 11, IAS 18 and related interpretations in 2018, the impact on the current period of the application of IFRS15 is detailed below:

Impact on Assets, Liabilities and Equity for current period	December 31, 2018
Increase (decrease) in assets	\$ -
Increase in contract liabilities - current	\$72,085
Decrease in advance receipts	(72,085)
Increase (decrease) in liabilities	\$ -
Increase (decrease) in equity	\$ -

No impact on comprehensive income and cash flow item for Year 2018.

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
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 (Note 2)
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

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

Note 2: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

Except for the following items, the Group believes that the adoption of aforementioned standards or interpretations will not have a significant effect on the Group's accounting policies.

1) IFRS 16 "Leases"

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

## The Group as lessee

Upon initial application of IFRS 16, except for payments for low-value asset and short-term leases which will be recognized as expenses on a straight-line basis, the Group will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets. However, right-of-use assets which meet the definition of investment property will be presented as investment property. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities and computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion and the interest portion of lease liabilities are classified within financing activities and operating activities, respectively.

Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Financial lease contracts are classified within lease assets and obligation under capital leases, respectively.

Under initial application of IFRS 16, the Group anticipates applying retrospectively with the cumulative effect of this standard at the date of initial application, comparative information will not be restated.

Leases agreements on office building and staff dormitory classified as operating leases under IAS 17 will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

Right-of-use assets are subject to impairment testing under IAS 36, except for following expediency (2). The Group will apply the following practical expedients to measure right-of-use assets and lease liabilities on January 1, 2019 :

- (1) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- (2) The Group will adjust the right-of-use assets in the amount of provision that recognized as onerous leases at the end year of December 31, 2018.
- (3) The Group will exclude incremental costs of obtaining the lease from the measurement of right-of-use assets on January 1, 2019.
- (4) The Group will determine lease period (if the contract includes an extension or the option to terminate) base on project status to measure assets.

For the leases classified as financial leases based on IAS17, the carrying amount of the lease assets and liabilities as at December 31, 2018 will be used as the carrying amount as at January 1, 2019.

The Group as lessor

The Group will not make any adjustments for leases in which it is a lessor, and will be accounting for those leases under IFRS 16 starting from January 1, 2019.

If the Group continues to adopt IAS 17 in 2018, the impact on the current period of the application of IFRS16 is detailed below:

	Carrying Amount as of December 31, 2018 (IAS 17)	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019 (IFRS 16)
Prepaid leases - current	\$1,659	(\$1,274)	\$385
Right-of-use asset	-	245,931	245,931
Long-term prepaid rent	18,805	(18,805)	-
Total impact on assets	\$20,464	\$225,852	\$246,316
Lease liabilities - current	\$ -	\$69,033	\$69,033
Lease liabilities - noncurrent	-	156,819	156,819
Total impact on liabilities	\$ -	\$225,852	\$225,852
Total impact on equity	\$ -	\$ -	\$ -

Except for the above influences, the Group believes that the adoption of aforementioned standards or interpretations will not have a significant effect on the Group's financial position and financial performance as of the date the accompanying consolidated financial statements were issued.

(3) The IFRSs issued by IASB but not yet endorsed and issued into effect by FSC

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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

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

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

The Group continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the aforementioned standards or interpretations. The related impact will be disclosed when the Group completes the evaluation.

#### **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 accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the IFRSs, IASs, interpretations as well as related guidance endorsed by the FSC with the effective dates.

##### **(2) Basis of preparation**

A.Except for the following items, these 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 in 2018.
- 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 compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. The Group retrospectively applied IFRS 9 and IFRS 15 electing not to prepare comparative consolidated financial report and notes of 2017 and recognized the differences in retained earnings or other equity at January 1, 2018. The consolidated financial report and notes of 2017 were prepared according to IAS 39, IAS 11, IAS 18 and other related explanations.

(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 (including structured 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 unrealized 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.
- d. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.
- e. When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss or transferred directly to retained earnings as appropriate, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. The consolidated entities were as follows:

Investee / Subsidiary	Main Businesses	Percentage of Ownership	
		December 31, 2018	December 31, 2017
<b>1.Sunonwealth Electric Machine Industry Co., Ltd.</b>			
Sunon INC.	Manufacturing and selling of fans	100.00%	100.00%
Sunon SAS.	Manufacturing and selling of fans	100.00%	100.00%
Sunon Corporation	Manufacturing and selling of fans	100.00%	100.00%
Sunonwealth Electric Machine Ind.(H.K.)Ltd.	Manufacturing and selling of fans	99.99%	99.99%
Sunon Smt Co., Ltd.	Manufacturing and wholesale of electronic parts	- (prefer to B.(b).I)	85.00%
Successful Century Co., Ltd.	Investments	100.00%	100.00%
BVI Sunon International Limited	Investments	100.00%	100.00%
<b>2.BVI Sunon International Limited</b>			
Sunon Electronic (Foshan) Co., Ltd.	Manufacturing and selling of fans	100.00%	100.00%
Sunon Electronic (Bei Hai) Co., Ltd.	Manufacturing and selling of new type electronic parts	100.00%	100.00%
<b>3.Successful Century Co., Ltd.</b>			
Sunon Electronic (Kunshan) Co., Ltd.	Manufacturing and selling of fans	100.00%	100.00%
<b>4.Sunon Electronic (Kunshan) Co., Ltd.</b>			
Hefei Hua Zhun Electronics Co., Ltd. [Formerly named Sunon Electronic (He Fei) Co., Ltd. ]	Manufacturing and selling of new type electronic parts	- (prefer to B.(b).II)	100.00%

Investee / Subsidiary	Main Businesses	Percentage of Ownership	
		December 31, 2018	December 31, 2017
5.Sunon Smt Co., Ltd.			
Liyuan Investments Co., Ltd.	Investments	- (prefer to B.(b).III)	85.00%
Great Smt Electronics Co., Ltd.	Investments	- (prefer to B.(b).IV)	85.00%
6.Liyuan Investments Co., Ltd.			
Li Man Electronics (Foshan) Co., Ltd.	Manufacturing and wholesale of electronic parts	- (prefer to B.(b).V)	85.00%
7.Great Smt Electronics Co., Ltd.			
Kunshan Guang Ying Technology Co., Ltd.	Manufacturing and wholesale of electronic parts	- (prefer to B.(b).VI)	85.00%
8.Sunon SAS			
Sunon Deutschland GmbH	selling of fans	100.00%	100.00%

a. Some subsidiaries' financial statements contained in the above consolidated financial statements were audited by the other auditors. These subsidiaries' total assets amounted to \$447,337 thousand and \$447,350 thousand, representing 4.99% and 5.08% of the consolidated assets, and their total liabilities amounted to \$304,169 thousand and \$322,978 thousand, representing 6.29% and 6.96% of the consolidated liabilities as of December 31, 2018 and 2017, respectively; their total operating revenues amounted \$1,054,511 thousand and \$1,065,868 thousand, representing 8.81% and 9.74% and their total comprehensive income amounted to \$18,793 thousand and \$30,967 thousand, representing 3.27% and 5.03% of the total comprehensive income for the years ended December 31, 2018 and 2017, respectively.

b. Changes in subsidiaries:

I. The Group's board of directors approved on August 8, 2018 to merge with Sunon Smt Co., Ltd., and the effective merge date was October 1, 2018.

II. The Group sold 100% of equity of Hefei Hua Zhun Electronics Co., Ltd. in December, 2018.

III. The Group's board of directors approved on August 8, 2018 to merge with BVI Sunon International Limited, and the effective merge date was October 1, 2018.

IV. The Group's board of directors approved on August 8, 2018 to merge with

Successful Century Co., Ltd., and the effective merge date was October 1, 2018.

V. The Group's board of directors approved on August 8, 2018 to merge with Sunon Electronic (Foshan) Co., Ltd., and the effective merge date was October 1, 2018.

VI. The Group's board of directors approved on August 8, 2018 to merge with Sunon Electronic (Kunshan) Co., Ltd., and the effective merge date was October 1, 2018.

C. Subsidiaries not included in the consolidated financial reports: none.

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

E. Material restrictions: none.

F. Contents of the parent company's securities held by subsidiaries: none.

G. Subsidiaries that have non-controlling interest that are material to the Group: none.

#### (4) Foreign currency translation

A. 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.

B. In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Such exchange differences are recognized in profit or loss in the year in which they arise. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items that are measured in terms of historical cost in foreign currencies are not retranslated.

C. For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Taiwan Dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to noncontrolling interests as appropriate).

(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 pay off 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 paid off within the normal operating cycle;
  - b. Liabilities arising mainly from trading activities;
  - c. Liabilities that are to be paid off 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 and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and 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 (including the original maturity of the time deposits within three months.)

(7) Financial instruments

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

Financial assets and financial liabilities are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1. Financial assets

The Group adopts trade-date accounting to recognize and derecognize financial assets.

(1) Category of financial assets and measurement

2018

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

A. Financial asset at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets are designated initially at FVTPL, if the designation can be eliminated or significantly reduces the measurement or recognition of inconsistencies.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss including relevant dividend or interest income. Fair value is determined in the manner described in Note 12.

B. Financial assets at amortized cost

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

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

Financial assets at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss. Except for the following two cases, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

- a. Purchased or originated credit-impaired financial assets: for those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- b. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets: for those financial assets, the Group shall apply the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

C. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is

contingent consideration recognized by an acquirer in a business combination.

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

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

## 2017

Financial assets are classified into the following specified categories: loans, receivables, and financial assets at FVTPL.

### A. Loans and receivables

#### Accounts receivable

They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

### B. Financial assets at fair value through profit or loss

a. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. 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. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(a) Hybrid (combined) contracts; or

(b) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

b. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.

- c. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost - noncurrent'

## (2) Impairment of financial assets

### 2018

- A. At the end of each reporting period, a loss allowance for expected credit loss is recognized for financial assets at amortized cost (including accounts receivable), investments in debt instruments that are measured at FVTOCI, lease receivable and contract assets.
- B. The Group always recognize lifetime Expected Credit Loss (i.e. ECL) for accounts receivables. For other financial assets, the Group recognize lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equaling to 12-month ECL.
- C. Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. In contrast, lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.
- D. The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

- A. Except for financial asset at FVTPL, 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.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
- a. Significant financial difficulty of the issuer or debtor;
  - b. A breach of contract, such as a default or delinquency in interest or principal payments;
  - c. 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;
  - d. It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
  - e. The disappearance of an active market for that financial asset because of financial difficulties;
  - f. 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;
  - g. 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;
  - h. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- C. 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:
- a. Loans and receivables  
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.

b. Financial assets measured 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.

(3) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows from the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The Group neither retains nor transfers substantially all risks and rewards of ownership of the financial asset; however, it has not retained control of the financial asset.

On derecognition of a financial asset in its entirety, the difference between the financial asset's carrying amount and the sum of the consideration received or receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss. But for equity instruments at fair value through other comprehensive income under IFRS 9 since 2018, the cumulative profit and loss will be transferred directly to retained earnings without reclassified into profit and loss at disposal.

2. Equity instruments

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

### 3. Financial liabilities

#### (1) Subsequent measurement

Financial liabilities other than those held for trading purposes and designated as at fair value through profit or loss are subsequently measured at amortised cost at the end of each reporting periods.

#### (2) Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

#### (8) Inventories

Inventories are stated at the lower of cost and net realisable value, accounted for on a perpetual basis. 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 (allocated based on normal operating capacity). 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.

#### (9) 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. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. 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.

Service lives estimated as follows:

Buildings:

Main building, 20 to 57 years;

Others, 2 to 39 years;

Machinery and equipment, 1 to 22 years;

Other equipment, 1 to 24 years;

Leasehold improvement, 1 to 22 years;

D. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(10) Leases/The Group as a lessee

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

- A. Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.
- B. Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.
- C. The property, plant and equipment acquired under finance leases are depreciated based on the durability of the assets. If it is not reasonable to determine that the Group will acquire ownership at the end of the lease term, the depreciation is provided based on the short-lived period of the asset and the lease term.

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

(11) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes), also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

Investment properties under construction of which the fair value is not reliably measurable are stated at cost less accumulated depreciation and accumulated impairment loss until either such time as the fair value becomes reliably measurable or construction is completed (whichever comes earlier).

Investment properties in the course of construction are stated at cost less accumulated impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Depreciation of these assets commences when the assets are ready for their intended use.

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

#### (12) Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis over the following estimated lives: computer software - 2 to 15 years; trademarks are the economic benefit or contract period. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

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

#### (13) Long-term prepaid rent

Long-term prepaid rent is land-use right, which is amortized over 50 years using straight-line method.

#### (14) Impairment of non-financial assets

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. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognised in profit or loss.

#### (15) Provisions

Provisions 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.

#### (16) 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 recognized as expenses in that period when the employees render service.

##### B. Pensions

###### a. Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses 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

(a) 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 with the Group in current period or prior period. 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, together with adjustments for unrecognised past service costs. 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 high-quality corporate bonds 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; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

(b) Actuarial gains and losses arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

(c) Past service costs are recognised immediately in profit or loss.

##### C. Employees' bonus and directors' and supervisors' remuneration

Employees' bonus and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal or

constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be recognised based on the accounting for changes in estimates.

#### D. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognises expense when it can no longer withdraw an offer of termination benefits or it recognises related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

### (17) Share capital and treasury shares

#### A. Share capital

Ordinary share is classified as equity. The classification of the preferred stock depends on the essence of the agreement. If the preferred stock matches the definition of the financial liability, it is classified as a liability. Otherwise, it is classified as equity. Incremental cost that can be attributed to the issuance of stocks or options is deducted from the capital issued.

#### B. Treasury Shares

When the Group acquires its outstanding shares that have not been disposed or retired, treasury shares are stated at cost and shown as a deduction in stockholders' equity. When treasury shares are sold, if the selling price is above the book value, the difference should be credited to the capital surplus - treasury share transactions. If the selling price is below the book value, the difference should first be offset against capital surplus from the same class of treasury share transactions, and the remainder, if any, debited to retained earnings. The carrying value of treasury shares is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Group's treasury shares are retired, the treasury share account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. The carrying value of treasury shares in excess of the sum of its par value and premium on stock should first be offset against capital surplus from the same class of treasury share transactions, and the remainder, if any, debited to retained earnings. The sum of the par value and premium on treasury shares in excess of its carrying value should be credited to capital surplus from the same class of treasury share transactions.

(18) Share-based payment transactions

A. 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-market 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. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

B. Cash-settle share-based payment arrangements are the fair value of liabilities undertaken recognized in remuneration costs and liabilities in the vesting period and measured by the fair value of equity instruments offered at each balance sheet date and the settlement date. Any changes are recognized in profit or loss.

(19) 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 charge 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 income tax is recognised, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries and associates, 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 income 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 income tax asset is realised or the deferred income tax liability is settled.

D. Deferred income 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 income 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 income 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.

F. Tax preference given for expenditures incurred on acquisitions of equipment or technology, research and development, employees' training and equity investments is recorded using the income tax credits accounting.

## (20) Revenue Recognition

### 2018

The Group recognizes revenues based on the following steps:

1. Identifying the contracts;
2. Identifying obligations in the contracts;
3. Determining prices;
4. Allocating prices into the obligations in the contracts;
5. Recognizing revenues while fulfilling the obligations.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

#### 1. Goods sales

The Group sells fans and other relevant products. Sales revenues are recognized while the control of goods is transferred to the customers since the customers already have the rights to use, set price, take the major responsibility to resell the good and bear the risk of obsolescence. The Group recognizes revenues and accounts receivable at the point and presents it in net term after deducting sales return, quantity discount and sales allowance.

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

## 2. Service revenue

Revenue from technical services is recognized when services are provided that in accordance with the relevant agreements.

## 2017

### 1. Sale of goods

The Group manufactures and sells fans. Revenue is measured at the fair value of the consideration received or receivable taking into account value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- (1) The Group has transferred to the buyer the significant risk and rewards of ownership of the goods;
- (2) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (3) The amount of revenue can be measured reliably;
- (4) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- (5) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

### 2. Service revenue, technique service income, rental income, dividend income and interest income

- (1) Revenues from a contract to provide services are recognized by reference to the stage of completion of the contract. However, if certain work is more important than other work, the recognition of revenue shall be deferred until the completion of the certain work.
- (2) Revenues from technical services is recognized in accordance with the substance of the relevant agreement provided that it is probable that the economic benefits associated with the transaction flow to the Group and the amount of the revenue can be measured reliably.
- (3) Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.
- (4) Dividend income from investments is recognized when the shareholder's right to receive payment has been established, provided that it is probable that the

economic benefits will flow to the Group and the amount of income can be measured reliably.

- (5) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(21) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All borrowing costs other than those stated above are recognized in profit or loss in the period in which they are incurred.

(22) Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and will receive the grants. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognized as non-current liabilities and are amortized to profit or loss over the estimated useful lives of the related assets using to straight-line method.

## **5. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY**

The preparation of the Group's consolidated financial statements is adopting accounting policies based on the following significant judgements, significant accounting estimates and assumptions:

(1) Critical judgements in applying accounting policies

A. Judgment of financial asset classification (applied to 2018)

The Group assesses the business model of financial assets based on the hierarchy that reflects the Group of financial assets that are jointly managed for specific business purposes. This assessment requires consideration of all relevant evidence, including measures of asset performance, risks affecting performance, and the manner in which the relevant managers are determined, and judgments are required. The Group continues to assess the adequacy of its business model and monitors the financial assets measured by the amortized cost before the maturity date and the debt instrument investments measured at fair value through other comprehensive income. Evaluate whether the disciplinary action has the same goal of business model. If the business model has been changed, the Group delays the adjustment of the subsequent classification of financial assets.

B. Financial assets carried at cost (applied to 2017)

The Group believed that the fair value of the above unlisted equity investments held by the Group cannot be reliably measured due to no recent sufficient information for reasonable fair value estimates, therefore, they were classified as financial assets carried at cost.

C. Revenue recognition

2018

The Group follows IFRS 15 to determine if it controls the specified good or service before that good or service is transferred to the customer, and the Group is acting as a principal or an agent in that transaction. When the Group acts as an agent, revenue is recognized on a net basis.

The Group acts as a principal as that it meets one of the following situations:

- a. The Group gains control over the goods from the other party before transferring goods to customers.
- b. The Group controls the right of providing service by the other party in order to control the ability of the party to provide service to customers.
- c. The Group gain control over goods or service from the other party in order to combine with other goods or services to provide specific goods or services to customers.

The indicators (not limited to) which assist making judgment on whether the Group controls the goods or services before transferring goods or services to customers:

- a. The Group has primary responsibilities for the goods or services it provides;
- b. The Group bears inventory risk before transferring the specific goods or services to customer, or after transferring the control to customer. (For example, if the customer has the right to return.)
- c. The Group has the discretion to set prices.

2017

The sales transaction classified as a principal or agent is pursuant to the type and economic nature of transaction. If the exposure to the risk and reward is material at the sale of goods or service providing, the Group is a principal in that transaction and the revenue is recognized in gross sales amount. Otherwise, the revenue is recognized in net sales amount.

The Group's transaction of manufacturing and selling of precise motors and fans is classified as a principal based on:

- a. Taking the major responsibility at the sale of goods
- b. Taking the inventory risk
- c. Taking the credit risk of the customers

## (2) Critical accounting estimates and assumptions

### A. Revenue Recognition

#### 2018

The Group recognizes records a refund for estimated future returns and other allowances in the same period the related revenue is recorded. Refund for estimated sales returns and other allowances is generally made and adjusted at a specific percentage based on historical experience and any known factors that would significantly affect the allowance, and our management periodically reviews the adequacy of the percentage used.

#### 2017

The Group recognizes revenue when performance obligations are satisfied. Revenue is reduced by the amount of estimated customer returns, rebates and other similar allowances. Allowances for sale returned and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and base on past experience and other relevant factors.

### B. Estimated impairment of financial assets (applied to 2018)

The provision for impairment of trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

### C. Process of fair value measurement and evaluation (applied to 2018)

When the assets and liabilities at fair value with no active market, the Group determines whether to use outside appraisal and using proper evaluation techniques based on related regulation or its own judgment. If the Level 1 input value is not available while evaluating, the Group refers to the analysis of the investee's financial position and operating outcome, recent trading price, quotes on non-active market of same equity instrument, quotes on active market of similar equity instrument and evaluation multiples of comparable companies. If the future input value is different from expectation, the fair value might change. The Group updates input values quarterly according to the market status in order to monitor if the measurement of fair value is appropriate.

D. Impairment assessment of tangible and intangible assets

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.

E. Realisability of deferred income tax assets

Deferred income tax assets are recognized 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 income tax assets involves critical accounting judgements and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, laws, and regulations might cause material adjustments to deferred income tax assets.

F. 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. 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.

G. Calculation of accrued pension obligations

When calculating the present value of defined pension obligations, the Group must apply judgments 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.

H. Financial assets - fair value measurement of unlisted stocks without active market (applied to 2017)

The fair value of unlisted stocks held by the Group that are not traded in an active market is determined considering those companies' recent fund 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 judgments 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.

## 6. CONTENTS OF SIGNIFICANT ACCOUNTS

### (1) CASH AND CASH EQUIVALENTS

Item	December 31	
	2018	2017
Cash on hand	\$839	\$878
Cash in banks	1,144,134	1,385,872
Total	<u>\$1,144,973</u>	<u>\$1,386,750</u>

A. The Group have good credit quality in financial institutions, and the Group's transactions with a number of financial institutions to diversify credit risk that are unlikely to be expected to default.

B. The Group had no cash and cash equivalents pledged to others.

### (2) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

#### - CURRENT

Item	December 31	
	2018	2017
Non-derivative financial assets		
Beneficiary certificates	\$107,831	\$228,965
Total	<u>\$107,831</u>	<u>\$228,965</u>

A. The Group recognized net gain (loss) of financial assets at fair value through profit or loss of \$5,574 thousand and \$3,676 thousand for the years ended December 31, 2018 and 2017, respectively.

B. The Group had no financial assets at fair value through profit or loss pledged to others.

### (3) NOTES RECEIVABLE, NET

Item	December 31	
	2018	2017
At amortized cost		
Notes receivable	\$31,761	\$27,799
Less: Loss allowance	(24)	(24)
Net	<u>\$31,737</u>	<u>\$27,775</u>

A. The Group had no notes receivable pledged to others.

B. The relevant disclosure of loss allowance for notes receivable. Please refer to Note 6(4).

**(4) ACCOUNTS RECEIVABLE, NET**

Item	December 31	
	2018	2017
At amortized cost		
Accounts receivable	\$3,074,385	\$2,704,133
Less: Loss allowance	(15,174)	(7,847)
Net	<u>\$3,059,211</u>	<u>\$2,696,286</u>

A. The accounts receivable that were neither past due nor impaired was following the Group's credit policy determined by reference to the industry characteristics, operation scale and current financial position of the counterparties. The average credit period on sales of goods was 3-4 months.

B. The Group had no account receivable pledged to others.

C. To reduce major credit risk, the Group bought credit guarantee insurance.

2018

1. The Group applies the simplified approach to provisions for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected credit losses provision for trade receivables (including other receivables). The expected credit losses on trade receivables are estimated by reference to past account aging records of the debtor, an analysis of the debtor's current financial position, industrial trend. The Group estimates expected credit losses based on the number of days for which receivables are past due. As the Group's historical credit losses experience does not show significantly different loss patterns for different customer segments, the provision for losses based on past due status of receivables is not further distinguished between the Group's different customer base.

2. The Group measures the loss allowance for notes receivable, accounts receivable and other receivables according to the preparation matrix:

December 31, 2018	Expected credit loss rate	Notes receivable	Allowance for doubtful accounts	Amortized Cost
No pase due	0.05%-5%	\$2,772,586	(\$10,824)	\$2,761,762
Past due within 30 days	0.05%-5%	326,691	(1,152)	325,539
Past due 31-90 days	0.05%-5%	46,262	(31)	46,231
Past due over 91 days	0.05%-5%	6,302	(3,191)	3,111
Total		<u>\$3,151,841</u>	<u>(\$15,198)</u>	<u>\$3,136,643</u>

3. Movements of the loss allowance for notes and accounts receivable (include other receivables) were as follows:

	2018
Balance at January 1, 2018 (IAS 39)	\$7,871
Effect of retrospective application of IFRS 9	-
Balance at January 1, 2018 (IFRS 9)	\$7,871
Add: Provision for impairment	7,433
Less: Reversal of impairment	-
Less: Derecognition	-
Less: Write - offs	-
Less: Foreign exchange differences	(105)
Impact of consolidated individuals reduced	(1)
Balance at December 31, 2018	<u>\$15,198</u>

The above provision has already taken into consideration of collateral or other credit enhancement. The other credit enhancement possessed by above receivables was \$930,593 thousand.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery of the receivable. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables which are due.

Where recoveries are made, these are recognized in profit or loss. The Group's trade receivables for offsetting the contract amount is \$0 thousand in 2018.

4. Please refer to Note 12 for the relevant credit risk management and assessment method.

#### 2017

1. The aging analysis of notes and accounts receivable (including other receivables) that were past due but not impaired was as follows:

Item	December 31, 2017
Up to 30 days	\$222,397
31 to 90 days	16,089
Over 91 days	6,619
Total	<u>\$245,105</u>

The above was analyzed on the basis of the past due date.

The Group considered no significant change in credit quality for above mentioned receivables and the amounts were still recoverable.

2. Movements of the allowance for doubtful receivables (including other receivables):

Year Ended December 31, 2017

Item	Individual provision	Group provision	Total
Beginning balance	\$ -	\$10,033	\$10,033
Provision for impairment	-	-	-
Reversal of impairment	-	(2,056)	(2,056)
Write-offs	-	-	-
Foreign exchange differences	-	(106)	(106)
Ending balance	\$ -	\$7,871	\$7,871

The Group recognized allowance for doubtful accounts for impaired receivables amounting to \$0 thousand as of December 31, 2017.

The aging analysis of notes and accounts receivable that were impaired: None.

**(5) INVENTORIES AND OPERATING COSTS**

Item	December 31	
	2018	2017
Raw materials	\$787,608	\$755,616
Supplies	41,318	25,642
Work in process	301,969	284,854
Finished goods	827,241	784,166
Subtotal	\$1,958,136	\$1,850,278
Less: Valuation allowance	(163,767)	(105,784)
Net	\$1,794,369	\$1,744,494

A. The related inventory gain (loss) recognized as operating cost for the years ended December 31, 2018 and 2017 were as follows:

Item	Year Ended December 31	
	2018	2017
Cost of goods sold	\$9,465,618	\$8,448,666
Unallocated overheads and labor cost	31,669	33,512
Gain (loss) on inventory valuation	56,031	(4,707)
Others	10,445	14,793
Total	\$9,563,763	\$8,492,264

B. The Group recognized inventory valuation gain (loss) of \$56,031 thousand and (\$4,707) thousand for the years ended December 31, 2018 and 2017, respectively, as a result of inventory's write-down to net realizable value and recovery of inventory net realizable value.

C. The Group had no inventories pledged to others.

**(6) OTHER FINANCIAL ASSETS - CURRENT**

Item	December 31	
	2018	2017
Time deposits with maturity more than three months	\$10,063	\$26,742
Restricted assets	133,319	-
Total	<u>\$143,382</u>	<u>\$26,742</u>

**(7) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NONCURRENT - 2018**

1. The investment in Tongli Industrial Co., Ltd is held for medium to long-term purposes. The management of the Group considers that if the short-term fair value fluctuations of the investment is included in the profit or loss and inconsistent with the aforementioned long-term investment plans, therefore such investment is accounted for as FVTOCI. This investment was originally classified by IAS 39 as financial assets measured at cost - noncurrent. Please refer to Note 3 and Note 6(8) for the reclassification and information for 2017.
2. The Group adjusted its investment position in 2018 to diversify risks, and therefore sold all stocks for \$74,400 thousand. The related other equity - unrealized gain or loss on financial assets at FVTOCI of \$12,400 thousand were transferred to retained earnings.
3. Please refer to Note 12 for related credit risk management and assessment methods.

**(8) FINANCIAL ASSETS CARRIED AT COST - NONCURRENT**

Item	December 31, 2017
Overseas unlisted stocks	<u>\$62,000</u>

- A. Since there is a wide range of estimated fair values of the Group's investments in non-publicly traded stocks, the Group concludes that the fair value cannot be reliably measured and therefore they are classified as financial assets carried at cost - noncurrent.
- B. The accumulated impairment loss were \$0 thousand as of December 31, 2017.
- C. The Group had no financial assets carried at cost - noncurrent pledged to others.

**(9) PROPERTY, PLANT AND EQUIPMENT**

December 31

Item	2018	2017
Land	\$804,381	\$804,381
Buildings	477,598	479,171
Machinery and equipment	1,543,050	1,547,257
Miscellaneous equipment	1,258,688	1,133,061
Leasehold improvements	312,925	310,895
Equipment to be inspected and construction in progress	134,045	91,454
Total cost	\$4,530,687	\$4,366,219
Less: Accumulated depreciation	(2,153,076)	(2,072,351)
Accumulated impairment	-	-
Carrying amount	\$2,377,611	\$2,293,868

Cost	Equipment to be Inspected and Construction in Progress						Total
	Land	Buildings	Machinery and Equipment	Miscellaneous equipment	Leasehold improvement	Progress	
Balance at January 1, 2018	\$804,381	\$479,171	1,547,257	\$1,133,061	\$310,895	\$91,454	\$4,366,219
Additions	-	2,370	109,762	123,458	6,289	181,127	423,006
Disposals	-	(886)	(120,756)	(53,495)	(1,698)	(949)	(177,784)
Reclassification	-	1,731	51,700	79,393	1,398	(134,222)	-
Transfer to expenses	-	-	-	-	-	(1,571)	(1,571)
Transferred from other noncurrent assets	-	-	-	-	827	-	827
Impact of consolidated individuals reduced	-	-	(15,528)	(3,007)	-	-	(18,535)
Effect of foreign currency exchange difference	-	(4,788)	(29,385)	(20,722)	(4,786)	(1,794)	(61,475)
Balance at December 31, 2018	\$804,381	\$477,598	\$1,543,050	\$1,258,688	\$312,925	\$134,045	\$4,530,687

Accumulated depreciation and impairment							
Balance at January 1, 2018	\$ -	\$212,066	\$871,781	\$729,132	\$259,372	\$ -	\$2,072,351
Depreciation expense	-	15,070	125,208	128,427	16,110	-	284,815
Disposals	-	(531)	(108,668)	(41,293)	(1,698)	-	(152,190)
Reclassification	-	-	(9,016)	9,016	-	-	-
Impact of consolidated individuals reduced	-	-	(10,700)	(3,000)	-	-	(13,700)
Effect of foreign currency exchange difference	-	(2,264)	(18,182)	(13,506)	(4,248)	-	(38,200)
Balance at December 31, 2018	\$ -	\$224,341	\$850,423	\$808,776	\$269,536	\$ -	\$2,153,076

Cost	Land	Buildings	Machinery and Equipment	Miscellaneous equipment	Leasehold improvement	Equipment to be	Total
						Inspected and Construction in Progress	
Balance at January 1, 2017	\$804,381	\$476,859	\$1,400,007	\$1,017,418	\$311,072	\$103,050	\$4,112,787
Additions	-	6,916	118,357	134,651	3,669	169,099	432,692
Disposals	-	-	(39,461)	(70,419)	-	(6,462)	(116,342)
Reclassification	-	985	96,917	69,901	1,616	(169,419)	-
Transfer to expenses	-	-	-	-	-	(2,214)	(2,214)
Transferred from other noncurrent assets	-	143	-	-	-	-	143
Transfer to other noncurrent assets	-	-	-	-	-	(132)	(132)
Transfer to intangible assets	-	-	-	-	-	(378)	(378)
Transfer to inventories	-	-	-	-	-	(229)	(229)
Effect of foreign currency exchange difference	-	(5,732)	(28,563)	(18,490)	(5,462)	(1,861)	(60,108)
Balance at December 31, 2017	\$804,381	\$479,171	\$1,547,257	\$1,133,061	\$310,895	\$91,454	\$4,366,219
Accumulated depreciation and impairment							
Balance at January 1, 2017	\$ -	\$199,945	\$809,673	\$679,966	\$240,994	\$ -	\$1,930,578
Depreciation expense	-	14,298	114,039	108,923	22,471	-	259,731
Disposals	-	-	(33,405)	(47,183)	-	-	(80,588)
Reclassification	-	-	-	-	-	-	-
Effect of foreign currency exchange difference	-	(2,177)	(18,526)	(12,574)	(4,093)	-	(37,370)
Balance at December 31, 2017	\$ -	\$212,066	\$871,781	\$729,132	\$259,372	\$ -	\$2,072,351

A.The details of interest capitalized: None.

B.Impairment of property, plant and equipment: None.

C.Property, plant and equipment pledged for the borrowings: Please refer to Note 8.

D.Reconciliations of current additions and the acquisition of property, plant and equipment in statement of cash flows were as follows:

Item	Year Ended December 31	
	2018	2017
Acquisition of property, plant and equipment	\$423,006	\$432,692
Decrease (increase) in equipment payable	17,699	(5,291)
Cash paid for acquisition of property, plant and equipment	\$440,705	\$427,401

**(10) INVESTMENT PROPERTIES, NET**

Item	December 31		
	2018	2017	
Land	\$89,384	\$89,384	
Building	26,070	26,070	
Total cost	\$115,454	\$115,454	
Less: Accumulated depreciation	(14,385)	(13,935)	
Accumulated impairment	(26,058)	(26,058)	
Net	\$75,011	\$75,461	

Cost	Land	Buildings	Total
Balance at January 1, 2018	\$89,384	\$26,070	\$115,454
Additions	-	-	-
Balance at December 31, 2018	\$89,384	\$26,070	\$115,454

Accumulated depreciation and impairment	Land	Buildings	Total
Balance at January 1, 2018	\$26,058	\$13,935	\$39,993
Depreciation expense	-	450	450
Balance at December 31, 2018	\$26,058	\$14,385	\$40,443

Cost	Land	Buildings	Total
Balance at January 1, 2017	\$89,384	\$26,070	\$115,454
Additions	-	-	-
Disposals	-	-	-
Balance at December 31, 2017	\$89,384	\$26,070	\$115,454

Accumulated depreciation and impairment	Land	Buildings	Total
Balance at January 1, 2017	\$10,687	\$13,485	\$24,172
Depreciation expense	-	450	450
Disposals	-	-	-
Provision for impairment loss	15,371	-	15,371
Balance at December 31, 2017	\$26,058	\$13,935	\$39,993

A. Rent income and direct operating expense of investment properties:

Item	Year Ended December 31	
	2018	2017
Rent income of investment properties	\$2,196	\$2,196
Direct operating expense incurred for the investment properties with current rent income	\$781	\$777

B. The fair values of investment properties held by the Group were both \$101,402 thousand as of December 31, 2018 and 2017. The fair value determination was performed by independent qualified professional appraisers. The valuation was based on the comparison method, and the fair value was measured by using Level 3 inputs. Please refer to Note 12(3).

C. The accumulated impairment of investment properties were both \$26,058 thousand as of December 31, 2018 and 2017.

D. The Group had no investment properties pledged to others.

**(11) INTANGIBLE ASSETS**

Item	December 31	
	2018	2017
Trademark	\$8,449	\$8,284
Computer software	30,105	23,649
Total cost	\$38,554	\$31,933
Less: accumulated amortization	(15,048)	(9,945)
Net	\$23,506	\$21,988

<u>Cost</u>	<u>Trademark</u>	<u>Computer Software</u>	<u>Total</u>
Balance on January 1, 2018	\$8,284	\$23,649	\$31,933
Additions	-	12,568	12,568
Derecognition	-	(5,861)	(5,861)
Effect of foreign exchange difference	165	(251)	(86)
Balance on December 31, 2018	<u>\$8,449</u>	<u>\$30,105</u>	<u>\$38,554</u>
Accumulated amortization and impairment	<u>Trademark</u>	<u>Computer Software</u>	<u>Total</u>
Balance on January 1, 2018	\$ -	\$9,945	\$9,945
Amortization expenses	-	11,125	11,125
Derecognition	-	(5,861)	(5,861)
Effect of foreign exchange difference	-	(161)	(161)
Balance on December 31, 2018	<u>\$ -</u>	<u>\$15,048</u>	<u>\$15,048</u>
<u>Cost</u>	<u>Trademark</u>	<u>Computer Software</u>	<u>Total</u>
Balance on January 1, 2017	\$8,716	\$27,472	\$36,188
Additions	-	9,941	9,941
Derecognition	-	(13,883)	(13,883)
Transfer from property, plant and equipment	-	378	378
Effect of foreign exchange difference	(432)	(259)	(691)
Balance on December 31, 2017	<u>\$8,284</u>	<u>\$23,649</u>	<u>\$31,933</u>
Accumulated amortization and impairment	<u>Trademark</u>	<u>Computer Software</u>	<u>Total</u>
Balance on January 1, 2017	\$ -	\$17,137	\$17,137
Amortization expenses	-	6,847	6,847
Derecognition	-	(13,883)	(13,883)
Effect of foreign exchange difference	-	(156)	(156)
Balance on December 31, 2017	<u>\$ -</u>	<u>\$9,945</u>	<u>\$9,945</u>

**(12) LONG-TERM PREPAID RENTS**

Item	December 31	
	2018	2017
Land-use right	\$19,417	\$20,384
Less: due within 1 year	(612)	(623)
Total	<u>\$18,805</u>	<u>\$19,761</u>

**(13) SHORT-TERM LOANS**

Borrowings Nature	December 31, 2018	
	Amount	Interest
Unsecured loan	<u>\$843,257</u>	0.80%-4.16%

Borrowings Nature	December 31, 2017	
	Amount	Interest
Unsecured loan	<u>\$636,262</u>	0.83%-3.20%

**(14) OTHER PAYABLES**

Item	December 31	
	2018	2017
Accrued payroll	\$288,925	\$287,679
Service fee payable	19,426	18,779
R & D payable	32,832	34,322
Bonus to employees and remuneration to directors and supervisors	26,000	27,976
Equipment payable	63,334	81,033
Others	368,738	352,444
Total	<u>\$799,255</u>	<u>\$802,233</u>

**(15) PROVISIONS - CURRENT**

Item	December 31	
	2018	2017
Employee benefits	<u>\$42,570</u>	<u>\$40,045</u>

Item	Year Ended December 31	
	2018	2017
Beginning balance	\$40,045	\$40,930
Additional provisions recognized	3,465	935
Reversing un-usage balances	(520)	(1,385)
Effect of foreign exchange difference	(420)	(435)
Ending balance	<u>\$42,570</u>	<u>\$40,045</u>

Provision for employee benefits represents vested short-term service leave entitlements accrued.

#### **(16) LONG-TERM LOANS AND CURRENT PORTION OF LONG-TERM LOANS**

Item	December 31	
	2018	2017
Mortgage loans	\$220,000	\$320,000
Less: portion due within one year	-	-
Long-term loans	<u>\$220,000</u>	<u>\$320,000</u>
Interest rates	<u>1.34%</u>	<u>1.46%</u>

A. Refer to Note 8 for assets pledged as collateral for long-term borrowings.

B. Under the loan agreement, the Group should maintain certain current, debt, interest coverage and net value ratios based on the Group's audited semi-annual and annual consolidated financial statements. As of December 31, 2018, the Group had no irregularities.

#### **(17) OBLIGATION UNDER CAPITAL LEASES**

The Group leases information equipment under finance leases. According to the terms of the lease contract, the Group can obtain the ownership of the equipment unconditionally when the contract expires. The rent is priced according to the contract and is paid in half a year. The total amount of the minimum lease payments and their present value as at December 31, 2018 and 2017 are as follows:

	December 31, 2018		
	Total Amount	Future financial expenses	Present Value
Current			
Under 1 year	\$2,500	\$139	\$2,361
Noncurrent			
1 year to 5 year	\$2,500	\$44	\$2,456
Over 5 years	-	-	-
Subtotal	\$2,500	\$44	\$2,456
Total	\$5,000	\$183	\$4,817

December 31, 2017: None.

## **(18)PENSION**

### **A. Defined contribution plans**

- a. The plan under the Labor Pension Act (the “Act”) is deemed a defined contribution plan. Pursuant to the Company has made monthly contributions equal to 6% of each employee’s monthly salary to employees’ pension accounts.
- b. The employees of the Group’s subsidiaries are members of a state-managed retirement benefit plan operated by local government. The subsidiary is required to contribute amounts calculated at a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions to the fund.
- c. The total expenses recognized in the consolidated statement of comprehensive income were \$101,761 thousand and \$88,558 thousand, representing the contributions payable to these plans by the Group at the rates specified in the plans for the years ended December 31, 2018 and 2017, respectively.

### **B. Defined benefit plans**

- a. The Company and Sunon Smt Co., Ltd. have defined benefit plans under the Labor Standards Law that provide benefits based on an employee’s length of service and average monthly salary for the six-month period prior to retirement. The aforementioned companies contribute an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee’s name in the Bank of Taiwan. Before the end of each year, the Company assesses the balance in the Funds. If the amount of the balance in the Funds is inadequate to pay retirement benefits for employees who conform to retirement

requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Funds are operated and managed by the government's designated authorities; as such, the Group does not have any right to intervene in the investments of the Funds.

b. The amounts arising from the defined benefit obligation of the Group in the consolidated balance sheets were as follows:

Item	December 31	
	2018	2017
Present value of defined benefit obligation	\$94,388	\$97,611
Fair value of plan assets	(18,728)	(23,899)
Net defined benefit liabilities	\$75,660	\$73,712

c. Movements of the net defined benefit liabilities were as follows:

Item	Year Ended December 31, 2018		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Balance, beginning of year	\$97,611	(\$23,899)	\$73,712
Service cost			
Current service cost	120	-	120
Interest expense (income)	1,433	(365)	1,068
Past service cost	-	-	-
Settlement loss (income)	(9,769)	10,598	829
Recognized in profit or loss	(\$8,216)	\$10,233	\$2,017
Remeasurement			
Return on plan assets (excluding amounts included in net interest expense)	\$ -	(\$497)	(\$497)
Actuarial loss (gain) -			
Changes in demographics assumptions	1,367	-	1,367
Changes in financial assumptions	1,845	-	1,845
Experience adjustments	4,126	-	4,126
Recognized in other comprehensive income	\$7,338	(\$497)	\$6,841
Contributions from the employer	\$ -	(\$6,910)	(\$6,910)
Benefits paid from plan assets	(2,345)	2,345	-
Balance, end of year	\$94,388	(\$18,728)	\$75,660

Year Ended December 31, 2017

Item	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Balance, beginning of year	\$93,086	(\$18,867)	\$74,219
Service cost			
Current service cost	121	-	121
Interest expense (income)	1,366	(318)	1,048
Past service cost	1,028	-	1,028
Settlement loss (income)	-	-	-
Recognized in profit or loss	\$2,515	(\$318)	\$2,197
Remeasurement			
Return on plan assets (excluding amounts included in net interest expense)	\$ -	\$116	\$116
Actuarial loss (gain)			
Changes in demographics assumptions	2,403	-	2,403
Changes in financial assumptions	-	-	-
Experience adjustments	1,847	-	1,847
Recognized in other comprehensive income	\$4,250	\$116	\$4,366
Contributions from the employer	\$ -	(\$6,042)	(\$6,042)
Benefits paid from plan assets	(2,240)	1,212	(1,028)
Balance, end of year	\$97,611	(\$23,899)	\$73,712

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

- a. Investment risk: The pension funds are invested in equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the government's designated authorities or under the mandated management. However, under the Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return.
- b. Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.

- c. Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.
- E. The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions of the actuarial valuation were as follows:

	Measurement Date	
	December 31, 2018	December 31, 2017
Discount rate	1.375%	0.875%-1.5%
Future salary increase rate	2.00%	1.25%-2.00%
The weighted average duration of the defined benefit obligation	14.9 years	5.9-14.8 years

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

Item	December 31	
	2018	2017
Discount Rate		
0.25% higher	(\$3,433)	(\$3,423)
0.25% lower	\$3,598	\$3,587
Expected rates of salary increase		
0.25% higher	\$3,518	\$3,512
0.25% lower	(\$3,374)	(\$3,370)

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

- F. The Group expects to make contributions of \$7,200 thousand to the defined benefit plans for the year ended December 31, 2019.

## (19)SHARE CAPITAL

A. Movements in the number of the Group's ordinary shares outstanding were as follows:

Item	Year Ended December 31, 2018	
	Shares (in thousands)	Amount
Balance at January 1	250,930	\$2,509,297
Capital increase in cash	-	-
Capitalization of retained earnings	-	-
Balance at December 31	<u>250,930</u>	<u>\$2,509,297</u>

Item	Year Ended December 31, 2017	
	Shares (in thousands)	Amount
Balance at January 1	250,930	\$2,509,297
Capital increase in cash	-	-
Capitalization of retained earnings	-	-
Balance at December 31	<u>250,930</u>	<u>\$2,509,297</u>

B. As of December 31, 2018, the authorized capital are \$3,000,000 thousand, consisting of 300,000 thousand shares.

## (20)CAPITAL SURPLUS

Item	December 31	
	2018	2017
From merger	\$18,227	\$18,227
From convertible bonds	326,015	326,015
Treasurry share transactions	21,464	21,464
Reorganization	1,050	-
Differences between considerations and carrying amounts of subsidiaries acquired or disposed	147	-
Total	<u>\$366,903</u>	<u>\$365,706</u>

Under the Company Act, the capital surplus generated from the excess of the issuance price over the par value of capital stock and donations can be used to offset deficit or may be distributed as stock dividends or in cash. Under the regulations of the Security Exchange Law, the maximum amount transferred from the foregoing capital surplus to the Company's capital per year shall not be over 10% of the Company's paid-in capital. Capital surplus can't be used to offset deficit unless legal reserve is insufficient. The capital surplus from long-term investments may not be used for any purpose.

## (21) RETAINED EARNINGS AND DIVIDEND POLICY

(1) In accordance with the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside a special reserve in accordance with the laws and regulations, and the remainder plus prior year's unappropriated earnings will be recommended by the board of directors and approved through the shareholders' meeting.

In consideration of its operation and capital expenditure demands, the Company stipulates appropriate dividend distribution ratio, and proposes for approval in the shareholders' meeting. However, at least 20% of total dividends should be distributed in cash .

(2) Legal reserve may be used to offset a deficit, and be transferred to capital or distributed in cash. However, legal reserve can be transferred to capital or distributed in cash only when the legal reserve has exceeded 25% of the Company's paid-in capital.

(3) Special reserve

Item	December 31	
	2018	2017
Reserve for the debit balance of other equities	\$47,956	\$3,702
Reserve for first-time adoption of IFRS	79,155	79,155
Total	\$127,111	\$82,857

A. While earning distribution, the earnings can be distributed after appropriation of the equivalent amount of the debit balance of the other equities of the balance sheet.

B. Under Rule No.1010012865 issued by the FSC for first-time adoption of IFRS, the special reserve can be reversed while usage, disposal and reclassification of related assets.

(4) The appropriation of 2017 and 2016 earnings had been resolved at the shareholders' meeting in May 2018 and June 2017, respectively. Details were summarized below:

Item	Amount		Dividends Per Share	
	2017	2016	2017	2016
Legal reserve	\$65,746	\$57,190		
Special reserve	44,254	3,702		
Cash dividends	577,138	501,860	2.3	2.0
Total	\$687,138	\$562,752		

(5) The appropriation of 2018 earnings had been proposed by the board of directors on March 14, 2019. Details were summarized below:

<u>Item</u>	<u>Amount</u>	<u>Dividends Per Share</u>
Legal reserve	\$60,512	
Special reserve	37,598	
Cash dividends	501,860	2.0

A. The appropriations of earnings for 2018 are to be presented for approval in the shareholders' meeting to be held in June 2019.

B. In the event of repurchase of the Company's shares, transfer, conversion or annulment of treasury stocks, and exercise of employees' stock options, leading to a change in the number of outstanding shares and a consequent change in dividend yield, it is proposed that the chairman is authorized by the Board of Directors to duly adjust stocks and cash payout rates.

(6) Information on the earnings appropriation proposed by the Company's Board of Directors and approved by the Company's shareholders is available on the Market Observation Post System website of the Taiwan Stock Exchange.

## (22) OTHERS EQUITY

<u>Item</u>	<u>Exchange Differences on Translating Foreign Operations</u>	<u>Unrealized Gain (Loss) on Financial Assets at Fair Value Through other Comprehensive Income</u>	<u>Total</u>
Balance at January 1, 2018	(\$127,111)	\$ -	(\$127,111)
Impact of retroactive applications of IFRS 9	-	3,415	3,415
Exchange differences arising on translation of foreign operations	(36,548)	-	(36,548)
Unrealized Gain (loss) on financial assets at fair value through other comprehensive income	-	8,985	8,985
Transfer to retained earning on disposal of equity instruments at fair value through other comprehensive income	-	(12,400)	(12,400)
Reorganization	(1,050)	-	(1,050)
Balance at December 31, 2018	<u>(\$164,709)</u>	<u>\$ -</u>	<u>(\$164,709)</u>

Item	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through other Comprehensive Income		Total
Balance at January 1, 2017	(\$82,857)	\$	-	(\$82,857)
Exchange differences arising on translation of foreign operations	(44,254)		-	(44,254)
Balance at December 31, 2017	(\$127,111)	\$	-	(\$127,111)

### (23)NON-CONTROLLING INTERESTS

Item	Year Ended December 31	
	2018	2017
Balance as of January 1	\$33,838	\$34,479
Attributable to non-controlling interests:		
Net income	2,563	5,957
Other comprehensive income	(173)	(388)
Non-controlling interests - dividend	(5,254)	(6,210)
Non-controlling interests - disposal	(30,974)	-
Balance as of December 31	\$ -	\$33,838

### (24)OPERATING REVENUES

Item	Year Ended December 31	
	2018	2017
Revenue from contracts with customer		
Total revenues	\$12,100,625	\$11,060,347
Sales returns	(77,901)	(76,583)
Sales discount	(57,426)	(37,036)
Net	\$11,965,298	\$10,946,728

#### A. Explain of contract revenue

Sales of fans and other related goods are mainly to system manufacturers and distributors. Please refer to Note 14 for the main sale areas.

#### B. The Group's timing of recognition is transferred the goods at a certain point of time.

### C. Contract balances

The Group recognizes the accounts receivable, contract assets and contract liabilities related to contract revenue as follows:

	December 31, 2018
Accounts receivable	\$3,059,211
Contract assets	-
Total	\$3,059,211
Contract liabilities - current	\$72,085

#### a. Significant changes in contract assets and contract liabilities

The changes in the contract assets and contract liabilities primarily result from the timing difference between the satisfaction of performance obligation and the customer's payment, and there is no other significant changes.

#### b. Amount from previous period's satisfied performance obligations and beginning contract liabilities recognized in the current period as income were as follows:

	Year Ended December 31, 2018
Revenue in the current period	\$97,417
From beginning contract liabilities	-
From previous period's satisfied performance obligations	-

### (25) LABOR COST, DEPRECIATION AND AMORTIZATION

	Year ended December 31, 2018		
Item	Operating cost	Operating expenses	Total
Labor cost			
Salaries	\$1,058,339	\$701,739	\$1,760,078
Insurance	57,610	62,746	120,356
Pension	65,762	41,744	107,506
Others	672,603	67,230	739,833
Depreciation	191,260	94,005	285,265
Amortization	24,918	32,330	57,248
Total	\$2,070,492	\$999,794	\$3,070,286

Year ended December 31, 2017

Item	Operating cost	Operating expenses	Total
Labor cost			
Salaries	\$920,444	\$668,027	\$1,588,471
Insurance	52,807	56,864	109,671
Pension	57,548	33,207	90,755
Others	563,438	59,180	622,618
Depreciation	180,384	79,797	260,181
Amortization	16,125	35,184	51,309
Total	<u>\$1,790,746</u>	<u>\$932,259</u>	<u>\$2,723,005</u>

1. The Company accrued employees' compensation and remuneration to directors and supervisors at the rates not less than 2% and not higher than 5% of net income before income tax, employees' compensation and remuneration to directors and supervisors during the period. If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

2. The employees' compensation and remuneration to directors for the years ended December 31, 2018 and 2017 had been approved by the Company's Board of Directors meeting held on March 14, 2019 and March 12, 2018, respectively, and the relevant amounts recognized in the consolidated financial statements were as follows:

	Year ended December 31			
	2018		2017	
	Employees' compensation	Remmuneration to directors	Employees' compensation	Remmuneration to directors
Resolution amount of allotment	\$16,500	\$9,500	\$17,500	\$10,000
Recognized in financial statements	16,500	9,500	17,500	10,000
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The above mentioned employees' compensation will be paid by cash.

3. Information about the appropriation of employees' compensation and directors' remuneration by the Company as proposed by the Board of Directors and resolved by the shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

**(26) OTHER INCOME**

Item	Year Ended December 31	
	2018	2017
Rental income	\$6,834	\$5,492
Interest income	31,377	30,726
Others - sample sales	34,683	31,807
Others - subsidy	25,317	22,162
Others	38,723	61,355
Total	<u>\$136,934</u>	<u>\$151,542</u>

**(27) OTHER GAINS AND LOSSES**

Item	Year Ended December 31	
	2018	2017
Net gain (loss) on financial instruments at FVTPL	\$4	(\$40)
Loss on disposal of property, plant and equipment	(8,229)	(2,508)
Net currency exchange gain	56,343	(25,720)
Gain on disposal of investments	5,570	3,716
Gain on disposal of investments - disposal of subsidiaries	19,977	-
Impairment loss on non-financial assets	-	(15,371)
Others	(10,135)	(11,657)
Total	<u>\$63,530</u>	<u>(\$51,580)</u>

**(28) FINANCE COSTS**

Item	Year Ended December 31	
	2018	2017
Interest on loans	\$17,680	\$13,116
Others	508	665
Less: capitalized amount for qualified assets	-	-
Carrying amount	<u>\$18,188</u>	<u>\$13,781</u>

Others are interest paid by subsidiaries for corporate income tax and interest on finance leases.

## (29) INCOME TAX EXPENSE

A. Income tax recorded in profit or loss.

a. The major components of tax expense were as follows:

	Year Ended December 31	
	2018	2017
<b>Current income tax</b>		
Current tax expense	\$171,281	\$194,492
Additional tax on unappropriated earnings	-	618
Adjustments in tax of prior periods	(5,043)	(566)
Total	\$166,238	\$194,544
<b>Deferred income tax</b>		
The origination and reversal of temporary differences	\$5,225	(\$15,875)
Effect of tax rate change	4,679	-
Total	\$9,904	(\$15,875)
Income tax expense	\$176,142	\$178,669

b. Income tax expense recognized in other comprehensive income was as follows:

Item	Year Ended December 31	
	2018	2017
Exchange differences on translation of foreign operations	(\$8,614)	(\$8,618)
Remeasurement of defined benefit plans	(2,020)	(741)
Total	(\$10,634)	(\$9,359)

B. A reconciliation of income before income tax and income tax expense recognized in profit or loss was as follows:

Item	Year Ended December 31	
	2018	2017
Income before income tax	\$783,825	\$842,085
Income tax expense at the statutory rate	\$209,203	\$199,372
Tax effect of adjusting items:		
Expense not deductible for tax purpose	(37,922)	(4,880)
Adjustments for prior year's tax adjustments	(5,043)	(566)
Additional income tax on unappropriated earnings	-	618
Deferred income tax expense		
Temporary differences	5,225	(15,875)
Effect of tax rate change	4,679	-
Income tax expense recognized in profit or loss	\$176,142	\$178,669

The corporate income tax is 17% in 2017. The corporate income tax rate was adjusted from 17% to 20% starting from 2018. In addition, the tax rate applicable to unappropriated earnings was reduced from 10% to 5%.

C. Amounts of deferred tax assets or liabilities as a result of temporary difference, loss carryforward and investment tax credit were as follows:

	Year Ended December 31, 2018					Balance, End of Year
	Balance, Beginning of Year	Effect of Tax Rate Change	Recognised in Profit or Loss	Recognised in Other Comprehensive Income	Effect of Exchange Rate Changes	
Deferred income tax assets:						
Temporary differences						
Loss on investment under the equity method	\$1,302	\$230	(\$1,147)	\$ -	\$ -	\$385
Net defined benefit liability	12,531	1,608	(1,027)	2,020	-	15,132
Unrealized loss on inventories	14,174	904	7,636	-	(212)	22,502
Unused compensated absences	2,162	382	80	-	-	2,624
Unrealized exchange loss	86	15	(101)	-	-	-
Others	21,261	1	970	-	-	22,232
Operating loss carryforward	3,226	-	(256)	-	(51)	2,919
Subtotal	<u>\$54,742</u>	<u>\$3,140</u>	<u>\$6,155</u>	<u>\$2,020</u>	<u>(\$263)</u>	<u>\$65,794</u>
Deferred income tax liabilities:						
Temporary differences						
Gain on foreign investment under the equity method	\$39,016	\$7,404	\$14,017	(\$9,436)	\$ -	\$51,001
Unrealized exchange gain	2,350	415	(2,389)	-	-	376
Others	59	-	272	-	7	338
Subtotal	<u>\$41,425</u>	<u>\$7,819</u>	<u>\$11,900</u>	<u>(\$9,436)</u>	<u>\$7</u>	<u>\$51,715</u>
Total	<u>\$13,317</u>	<u>(\$4,679)</u>	<u>(\$5,745)</u>	<u>\$11,456</u>	<u>(\$270)</u>	<u>\$14,079</u>

Year Ended December 31, 2017

	Balance, Beginning of Year	Recognised in Profit or Loss	Recognised		Balance, End of Year
			in Other Comprehensive Income	Effect of Exchange Rate Changes	
Deferred income tax assets:					
Temporary differences					
Loss on investment under the equity method	\$2,140	(\$838)	\$ -	\$ -	\$1,302
Net defined benefit liability	12,617	(828)	742	-	12,531
Unrealized loss on inventories	6,068	8,005	-	101	14,174
Unused compensated absences	2,173	(11)	-	-	2,162
Unrealized exchange loss	2,297	(2,211)	-	-	86
Others	25,088	(3,549)	-	(278)	21,261
Operating loss carryforward	-	3,190	-	36	3,226
Subtotal	<u>\$50,383</u>	<u>\$3,758</u>	<u>\$742</u>	<u>(\$141)</u>	<u>\$54,742</u>
Deferred income tax liabilities:					
Temporary differences					
Gain on foreign investment under the equity method	\$59,553	(\$11,395)	(\$9,142)	\$ -	\$39,016
Unrealized exchange gain	-	2,350	-	-	2,350
Others	3,322	(3,072)	-	(191)	59
Subtotal	<u>\$62,875</u>	<u>(\$12,117)</u>	<u>(\$9,142)</u>	<u>(\$191)</u>	<u>\$41,425</u>
Total	<u>(\$12,492)</u>	<u>\$15,875</u>	<u>\$9,884</u>	<u>\$50</u>	<u>\$13,317</u>

D. Items with no deferred tax assets recognized:

Item	December 31	
	2018	2017
Deductible temporary differences	\$19,027	\$7,590
Unused loss carryforwards	2,919	1,229
Total	<u>\$21,946</u>	<u>\$8,819</u>

E. As of December 31, 2018, the tax authorities have ractified Company's income tax returns through Year 2016.

**(30)OTHER COMPREHENSIVE INCOME (LOSS)**

Year Ended December 31, 2018

Item	Other Comprehensive Income (Loss), Before Tax	Income Tax (Expense) Benefit	Other Comprehensive Income (Loss), Net of Tax
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	(\$6,841)	\$2,020	(\$4,821)
Unrealized gain on investments in equity instruments at fair value through other comprehensive income	8,985	-	8,985
Subtotal	\$2,144	\$2,020	\$4,164
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations	(\$45,335)	\$8,614	(\$36,721)
Subtotal	(\$45,335)	\$8,614	(\$36,721)
Recognized in other comprehensive income (loss)	(\$43,191)	\$10,634	(\$32,557)

Year Ended December 31, 2017

Item	Other Comprehensive Income (Loss), Before Tax	Income Tax (Expense) Benefit	Other Comprehensive Income (Loss), Net of Tax
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	(\$4,365)	\$741	(\$3,624)
Subtotal	(\$4,365)	\$741	(\$3,624)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations	(\$53,256)	\$8,618	(\$44,638)
Subtotal	(\$53,256)	\$8,618	(\$44,638)

Recognized in other comprehensive income (loss)	(\$57,621)	\$9,359	(\$48,262)
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### (31) EARNINGS PER SHARE

Item	Year Ended December 31	
	2018	2017
Net income attributable to owners of the parent	\$605,120	\$657,459
Weighted average shares outstanding (in thousands)	250,930	250,930
Basic earnings per share (after tax)	\$2.41	\$2.62
Net income attributable to owners of the parent	\$605,120	\$657,459
Effect of potential dilutive ordinary shares	-	-
Net income used in computation of diluted earning per share	\$605,120	\$657,459
Weighted average shares outstanding (in thousands)	\$250,930	\$250,930
Impact on employees' compensation (Note)	517	437
Weighted average number of ordinary shares outstanding after dilution (in thousands)	\$251,447	\$251,367
Diluted earning per share (after tax)	\$2.41	\$2.62

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

### (32)TRANSACTIONS WITH NON-CONTROLLING INTERESTS

#### 1.Acquisition of additional interests in subsidiary

2018:

In July 2018, the Company purchased an additional 15% equity of its subsidiary, Sunon Smt Co., Ltd. in cash of \$30,827 thousand, and the shareholding ratio increased from 85% to 100%. As the above transaction did not change the control to subsidiary, the Company treats it as an equity transaction:

	<u>Sunon Smt Co., Ltd.</u>
Carrying amount	\$30,974
Payment to the non-controlling interest	<u>(30,827)</u>
Capital surplus - differences between considerations and carrying amounts of subsidiaries acquired and disposed	<u>\$147</u>

2017: None.

### (33)DISPOSAL OF SUBSIDIARY

1.The Group disposed Hefei Hua Zhun Electronics Co., Ltd. [Formerly named Sunon Electronic (He Fei) Co., Ltd.] in December 2018. The analysis of assets and liabilities over which the control lost is as follows:

	<u>Date of Lossing Control</u>
Current assets	
Cash and cash equivalents	\$15,486
Accounts receivable	670
Other receivables	9
Inventories	15
Prepayments	66
Noncurrent assets	
Property, plant and equipment	4,835
Refundable deposits	510
Current liabilities	
Accounts payable	(668)
Contract liabilities	(57)
Other payables	<u>(1,441)</u>
Net assets disposed of	<u>\$19,425</u>

## 2. Gain on disposal of subsidiary

	Year Ended
	<u>December 31, 2018</u>
Net consideration received	\$38,816
Net assets disposed of	(19,425)
Cumulative exchange difference reclassified from equity to profit or loss due to loss of control over subsidiary	586
Gain on disposal	<u><u>\$19,977</u></u>

## 3. Net cash inflow on disposal of subsidiary

	Year Ended
	<u>December 31, 2018</u>
Net consideration received	\$38,816
Less: Balance of cash and cash equivalents disposed of	(15,486)
Net cash inflow on disposal of subsidiary	<u><u>\$23,330</u></u>

## 7. RELATED PARTY TRANSACTIONS

### (1) Parent and ultimate controlling party:

The Group has no parent and ultimate controlling party.

### (2) Related party name and category:

<u>Related Party Name</u>	<u>Related Party Category</u>
Guang Sheng Investment Corporation	Other related parties
Shehng-Yuan Children Development and Adult Support Services Center	Other related parties
Yo Yuan Investment Corporation	Other related parties

### (3) Significant transactions with related parties:

A. Sales: None.

B. Purchase: None.

C. Contract assets: None.

D. Contract liabilities: None.

E. Balance of receivables (excluding lending to related parties): None.

F. Balance of payables (excluding borrowing from related parties): None.

G. Prepayments: None.

H. Property transactions: None.

I. Financing activities - lending to related parties: None.

J. Financing activities - borrowing from related parties : None.

K. Guarantee for related parties: None.

L. Others:

a. Refundable deposits:

Related Party Category	December 31	
	2018	2017
Other related parties	\$26	\$446

b. Guarantee deposits:

Related Party Category	December 31	
	2018	2017
Other related parties	\$55	\$55

c. Miscellaneous income:

Related Party Category	Year Ended December 31	
	2018	2017
Other related parties	\$194	\$181

d. Miscellaneous expenses:

Related Party Category	Year Ended December 31	
	2018	2017
Other related parties	\$1,756	\$2,812

(3) Key management compensation

Item	Year Ended December 31	
	2018	2017
Salaries and other short-term employee benefits	\$49,121	\$47,112
Post-employment benefits	3,728	-
Other long-term employee benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total	\$52,849	\$47,112

## 8. PLEDGED ASSETS

Item	December 31	
	2018	2017
Property, plant and equipment (net)	\$496,858	\$496,858

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) As of December 31, 2018 and 2017, the Group issued guarantee notes for bank loans amounting to \$2,822,185 thousand and \$2,705,908 thousand, respectively.

(2) Commitments and contingency as of December 31, 2018 and 2017 consisted of the following:

Item	December 31	
	2018	2017
L/C Amount	USD 520	USD 1,401 NTD 1,484

(3) As of December 31, 2018 and 2017, the note endorsement for material purchase were as follows:

Item	December 31	
	2018	2017
USD	\$1,979	\$1,409
NTD	1,289	3,896

(4) As of December 31, 2018 and 2017, the Group endorsed guarantees for others.

Please refer to Note 13 for the information.

(5) ADDA Corporation manufactured fan products, which was suspected infringing the Group's new patents. The related lawsuit details were as follows:

The ADDA Corporation manufactured fan products, which was suspected infringing the Group's new patents for No. I381559, No. I384723 and No. I389429. The Group filed a lawsuit seeking for infringement obviation and requesting compensation from that company and its related parties. However, the Court dismissed the lawsuit. The Group believe that the use of the judgment has been violated and has appealed against the judgment. At present, the Intellectual Property Court is still in the process of judgement.

(6) Significant contract

The Group entered into the land usage right transfer contract with Farms Agribusiness Corporation in Kunshan Economic and Technological Development Zone in Year 2000. The contents of the contract were as below:

A. Transfer object: land usage right of 48,688 square meters at Kunshan Economic and Technological Development Zone for the construction of the plant and dormitory.

B. Land usage right period: 50 years.

C. Transfer price of land-usage right: US\$828 thousand (RMB 6,842 thousand).

(7) Operating lease arrangements

The Group entered into a non-cancellable operating lease agreement for the factories and other assets, with the lease term of 2006 - 2023 and renewal options included in the contract. Rent expenses were \$62,833 thousand and \$63,727 thousand for the years ended December 31, 2018 and 2017, respectively.

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

Item	December 31	
	2018	2017
Not later than one year	\$51,073	\$60,526
Later than one year and not later than five years	84,411	128,319
Later than five years	-	2,531
Total	\$135,484	\$191,376

**10. SIGNIFICANT DISASTER LOSS: NONE.**

**11. SIGNIFICANT SUBSEQUENT EVENTS: NONE.**

**12. OTHERS**

(1) Capital risk management

The Group should maintain an adequate capital structure to enable the expansion and enhancement of equipments. Therefore, the Group manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, capital asset purchases and debt service requirements associated with its existing operations over the next 12 months.

## (2) Financial instruments

### A. Financial risk of financial instruments

#### Financial risk management policies

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 Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.

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

During the implementation of such plans, the Group Treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties.

#### Significant financial risks and degrees of financial risks

##### a. Market risk

###### (a) Foreign exchange rate risk

The Group's functional currency is New Taiwan dollars. Many of the Group's operating activities are denominated in foreign currencies. Consequently, the Group is exposed to foreign currency risk. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Group raises loans denominated in foreign currency and derivative financial instruments to hedge the currency exposure. These instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements. The net investment in foreign operation is strategic investment. Therefore, the Group does no hedge for it.

## (b) Foreign currency risk and sensitivity analysis

			December 31, 2018			
			Sensitivity Analysis			
	Foreign Currency	Exchange Rate	Carrying Value (NTD)	Variation	Profit and Loss Impact	Equity Impact
<u>Financial assets</u>						
<u>Monetary item</u>						
USD:NTD	68,377	30.7150	2,100,202	increase 1%	21,002	-
EUR:NTD	8,325	35.2000	293,049	increase 1%	2,930	-
USD:RMB	70,351	6.8632	2,160,832	increase 1%	21,608	-
USD:EUR	1,184	0.8726	36,364	increase 1%	364	-
<u>Financial liabilities</u>						
<u>Monetary item</u>						
USD:NTD	65,606	30.7150	2,015,087	increase 1%	(20,151)	-
EUR:NTD	217	35.2000	7,636	increase 1%	(76)	-
USD:RMB	43,254	6.8632	1,328,534	increase 1%	(13,285)	-
USD:EUR	902	0.8726	27,693	increase 1%	(277)	-
			December 31, 2017			
			Sensitivity Analysis			
	Foreign Currency	Exchange Rate	Carrying Value (NTD)	Variation	Profit and Loss Impact	Equity Impact
<u>Financial assets</u>						
<u>Monetary item</u>						
USD:NTD	65,385	29.7600	1,945,871	increase 1%	19,459	-
EUR:NTD	7,839	35.5700	278,818	increase 1%	2,788	-
USD:RMB	61,909	6.5342	1,842,415	increase 1%	18,424	-
USD:EUR	1,886	0.8367	56,117	increase 1%	561	-
<u>Financial liabilities</u>						
<u>Monetary item</u>						
USD:NTD	56,639	29.7600	1,685,576	increase 1%	(16,856)	-
EUR:NTD	386	35.5700	13,744	increase 1%	(137)	-
USD:RMB	43,887	6.5342	1,306,070	increase 1%	(13,061)	-
USD:EUR	1,682	0.8367	50,059	increase 1%	(501)	-

When New Taiwan dollar appreciates and other variation factors stay unchanged, there will be the same but opposite amount of influence as of December 31, 2018 and 2017.

The details of unrealized exchange gain (loss) for monetary items due to material exchange rate fluctuation were as follow:

Year Ended December 31, 2018			
Foreign Exchange Gain (Loss)			
Foreign Currency			
Item	(In thousands)	Exchange Rate	Carrying Value
<b>Financial Assets</b>			
<b>Monetary Item</b>			
USD: NTD	-	30.1750	(4,310)
EUR: NTD	-	35.5900	1,805
USD: RMB	(3,842)	6.6174	(17,521)
USD: EUR	(8)	0.8479	(287)
<b>Financial Liabilities</b>			
<b>Monetary Item</b>			
USD: NTD	-	30.1750	4,306
EUR: NTD	-	35.5900	(3)
USD: RMB	538	6.6174	2,452
USD: EUR	3	0.8479	100
Year Ended December 31, 2017			
Foreign Exchange Gain (Loss)			
Foreign Currency			
Item	(In thousands)	Exchange Rate	Carrying Value
<b>Financial Assets</b>			
<b>Monetary Item</b>			
USD: NTD	-	30.4100	(19,067)
EUR: NTD	-	34.4000	1,996
USD: RMB	(5,091)	6.7518	(22,931)
USD: EUR	(25)	0.8840	(865)
<b>Financial Liabilities</b>			
<b>Monetary Item</b>			
USD: NTD	-	30.4100	30,579
EUR: NTD	-	34.4000	12
USD: RMB	5,776	6.7518	26,017
USD: EUR	25	0.8840	856

b. Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet at fair value through profit or loss and at fair value through other comprehensive income.

The Group is exposed to beneficiary certificates and foreign unlisted stocks.

If the price of the Group's equity investments in overseas unlisted companies rise 1%, the net income resulting from equity instruments at fair value through profit and loss will increase \$1,078 thousand and \$2,290 thousand for the years ended December 31, 2018 and 2017, respectively; the comprehensive income resulting from financial assets at fair value through other comprehensive income will increase or decrease \$0 thousand for the yeas end December 31, 2018.

c. Interest rate risk

The carrying amount of the financial assets and liabilities that exposed interest rate risk as reporting date was as follow:

Item	Carrying Value	
	December 31, 2018	December 31, 2017
Fair value interest rate risk:		
Financial assets	\$10,063	\$26,742
Financial liabilities	(4,817)	-
Net	\$5,246	\$26,742
Cash flow interest rate risk:		
Financial assets	\$1,269,141	\$1,379,149
Financial liabilities	(1,063,257)	(956,262)
Net	\$205,884	\$422,887

(a) Sensitivity analysis of fair value interest rate risk

The Group does not classify any fixed-rate instruments as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. In addition, the Group does not designate derivatives (interest rate swap) as hedge instruments under hedge accounting. Therefore, the change of interest rate at reporting date does not have influence on net income and other comprehensive income.

(b) Sensitivity analysis of cash flow interest rate risk

The Group's financial instruments with variable interest rate are those with floating-rate. If interest rate increases 1%, the net income will increase \$2,059 thousand and \$4,229 thousand for the years ended December 31, 2018 and 2017, respectively.

## B. Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a contract leading to a financial loss to the Group. The Group is exposed to credit risk from operating activities, primarily accounts receivables, and from investing activities, primarily deposit and other financial instruments. Credit risk is managed separately for business related and financial related exposures.

### a. Business related credit risk

In order to maintain the credit quality of accounts receivables, the Group has established procedures to monitor and limit exposure to credit risk on trade receivables. Credit evaluation is performed in the consideration of the relevant factors which may affect the customer's paying ability such as financial condition, external and internal credit scoring, historical experience, and economic conditions.

### b. Financial credit risk

The Group's exposure to financial credit risk which pertained to bank deposits and other financial instruments were evaluated and monitored by Group Treasury function. The Group only deals with creditworthy counterparties, banks, and government so that no significant credit risk was identified. In addition, the Group has no financial assets at amortized and investments in debt instruments at fair value through other comprehensive income.

#### (a) Credit concentration risk:

As of December 31, 2018 and 2017, the Group's ten largest customers accounted for 34.55% and 42.68% of accounts receivable, respectively. The Group believes the concentration of credit risk is insignificant for the remaining accounts receivable. The Group continuously evaluated customers' financial situation. To reduce major credit risk, the Group bought credit guarantee insurance, and asked customers to make payment in advance.

#### (b) Measured in expected credit loss - 2018

(i) Account receivables adopts a simplified approach, please refer to Note 6(4).

(ii) Identification basis for whether credit risk is significantly increased: None.

### c. Details of financial effect of exposure amount:

December 31, 2018: None.

	Decrease Amount of Credit Risk Maximum Exposure			Total
	Security	Net Settlement Agreement	Other Credit Strengthening	
December 31, 2017				
Receivables	\$147,769	\$ -	\$697,755	\$845,524

### C. Liquidity risk

#### a. Liquidity risk management:

The objective of liquidity risk management is to ensure the Group has sufficient liquidity to fund its business requirements of cash and cash equivalents and the unused of financing facilities associated with existing operations.

#### b. Financial liabilities with repayment periods:

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods.

December 31, 2018						
Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Contract Cash Flow	Carrying Value
Non-derivative						
Financial liabilities						
Short-term loans	\$843,257	\$ -	\$ -	\$ -	\$843,257	\$843,257
Accounts payable	2,670,802	225	-	-	2,671,027	2,671,027
Other payables	798,927	193	135	-	799,255	799,255
Long-term loans	-	-	220,000	-	220,000	220,000
(Inclusive of current portion)						
Obligation under capital leases	2,500	2,500	-	-	5,000	4,817
Guarantee deposits	5,145	-	-	-	5,145	5,145
<b>Total</b>	<b>\$4,320,631</b>	<b>\$2,918</b>	<b>\$220,135</b>	<b>\$ -</b>	<b>\$4,543,684</b>	<b>\$4,543,501</b>
December 31, 2017						
Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Contract Cash Flow	Carrying Value
Non-derivative						
Financial liabilities						
Short-term loans	\$636,262	\$ -	\$ -	\$ -	\$636,262	\$636,262
Accounts payable	2,549,795	-	1	-	2,549,796	2,549,796
Other payables	801,957	84	192	-	802,233	802,233
Long-term loans	-	-	320,000	-	320,000	320,000
(Inclusive of current portion)						
Guarantee deposits	4,499	-	-	-	4,499	4,499
<b>Total</b>	<b>\$3,992,513</b>	<b>\$84</b>	<b>\$320,193</b>	<b>\$ -</b>	<b>\$4,312,790</b>	<b>\$4,312,790</b>

## 2. Categories of financial instruments

The carrying value of financial assets and liabilities of the Group as of December 31, 2018 and 2017 was as follow:

Financial assets	December 31	
	2018	2017
<b>Financial assets measured at amortized cost</b>		
Cash and cash equivalents	\$1,144,973	\$ -
Notes and accounts receivable	3,090,948	-
Other receivables	45,695	-
Other financial assets-current	143,382	-
Refundable deposits	29,322	-
<b>Loans and receivables</b>		
Cash and cash equivalents	-	1,386,750
Notes and accounts receivable	-	2,724,061
Other receivables	-	83,634
Other financial assets-currents	-	26,742
Refundable deposits	-	26,607
Financial asset at fair value through profit or loss	107,831	228,965
Financial assets carried at cost - noncurrent	-	62,000
<b>Financial liabilities</b>		
<b>Financial liabilities measured at amortized cost</b>		
Short-term loans	843,257	636,262
Notes and accounts payable	2,671,027	2,549,796
Other payables	799,255	802,233
Obligation under capital leases	4,817	-
Long-term loans	220,000	320,000
Guarantee deposits	5,145	4,499

### (3) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(3)C. Details of the fair value of the Group's investment property measured at cost are provided in Note 6(10).

B. 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. The fair value of the Group's investment in listed stocks, beneficiary certificates and others is included in Level 1.

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 investments in government bonds, corporate bonds, financial debentures, convertible bonds, and most derivative instruments is included in Level 2.

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

C. Financial instruments that are not measured at fair value

The Group considers that the carrying amounts of financial instruments cash and cash equivalents, receivables, long-term loans and gurantee deposits that are not measured at fair value approximate their fair values.

D. 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 is as follows:

Item	December 31, 2018			Total
	Level 1	Level 2	Level 3	
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value				
through profit or loss:				
- beneficiary certificates	\$107,831	\$ -	\$ -	\$107,831

Item	December 31, 2017			Total
	Level 1	Level 2	Level 3	
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value				
through profit or loss:				
- beneficiary certificates	\$228,965	\$ -	\$ -	\$228,965

E. The methods and assumptions the Group used to measure fair value are as follows:

Valuation techniques of financial instruments valued at fair value

- (a) The fair value of financial assets and liabilities traded in an active market is based on the quoted market prices. The quotation, which is published by the main exchange center or that which was deemed to be a public bond by the Treasury Bureau of

Center Bank, is included in the fair value of the listed securities instruments and the debt instruments in active markets with open bid.

A financial instrument is regarded as the quoted price in an active market if the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency; and if those prices represent the actual and regularly occurring market transactions on an arm's length basis. Otherwise, the market is deemed to be inactive. Normally, a market is considered to be inactive when the bid-ask spread is increasing; or the bid-ask spread varies significantly; or there has been a significant decline in trading volume.

- (b) Except for the above-mentioned financial instruments traded in an active market, the fair value is based on the valuation techniques or the quotation from the counterparty. The fair value refers to the current fair value of the other financial instruments with similar conditions and characteristics, using a discounted cash flow analysis or other valuation techniques, such as calculations of using models (for example, applicable yield curve from Taipei Exchange, or average quoted price on interest rate of commercial paper from Reuters), based on the information acquired from the market at the balance sheet date.

When the financial instrument of the Group is not traded in an active market, the fair value is determined based on the ratio of the quoted market price of the comparative company, its book value per share and its operating situation. Also, the fair value is discounted for its lack of liquidity in the market.

F. There was no transfer between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

G. Changes in level 3 instruments as at December 31, 2018:

Item	Financial Assets Measured at Fair Value Through Other Comprehensive Income - Unlisted Stock
January 1, 2018	\$ -
Adjustment on initial application of IFRS 9	65,415
Acquisition	-
Sale	(74,400)
Recognized in profit or loss	-
Recognized in comprehensive income	8,985
December 31, 2018	\$ -

H. The Group's Finance Department is responsible for validating the fair value measurements to ensure that the valuation are in line with market conditions. The Department reviews regularly to ensure the measurement or assessment are reasonable.

(4) Transfer of financial assets: None.

(5) Offset of financial assets and liabilities: None.

### 13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information (before consolidated elimination)

A. Financings provided: Table 1

B. Endorsement/guarantee provided: Table 2

C. Marketable securities held: Table 3

D. Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Table 4

E. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: None

F. Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None

G. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Table 5

H. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 6

I. Information about the derivative financial instruments transaction: None.

J. The business relationship between the parent and the subsidiaries and significant transactions between them: Table 7

(2) Information on investees (before consolidated elimination): Table 8

(3) Information on investments in Mainland China (before consolidated elimination):  
Table 9

Table 1

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**

FINANCINGS PROVIDED

DECEMBER 31, 2018

(Amounts in Thousands of New Taiwan Dollars and Foreign Currencies)

No.	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the Period	Ending Balance (Note 4)	Amount Actually Drawn	Interest Rate	Nature for Financing (Note 3)	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company (Note 1)	Financing Company's Total Financing Amount Limits (Note 2)
													Item	Value		
0	Sunonwealth Electric Machine Industry Co., Ltd.	Sunon SAS	Other receivables-related parties	Yes	35,200 (EUR 1,000)	—	—	1.2%	2	—	Operating capital	—	—	—	413,937	827,874

Note 1: Financing limits for each borrowing company:

(1) For trading partner:

Shall not be higher than the purchase or sales amount of the most recent year.

(2) For short-term financing:

Shall not exceed 10% of the company's net worth.

Note 2: The maximum balance of financing activities:

(1) For trading partner:

Shall not exceed 20% of the company's net worth

(2) For short-term financing:

Shall not exceed 20% of the company's net worth

(3) The policy for loans granted mutually between overseas subsidiaries of which the Company directly or indirectly holds 100% of their voting shares is as follows:

The maximum amount for total loan for individual enterprise shall not exceed 60% of its net worth. °

Note 3: The code represents the nature of financing activities as follows:

(1) Related to trading partner is "1".

(2) Short-term financing is "2".

Note 4: The maximum amount was approved by the Board of Directors' meeting.

Note 5: All the transactions had been eliminated.

Table 2

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**

**ENDORSEMENTS/GUARANTEES PROVIDED**

DECEMBER 31, 2018

(Amounts in Thousands of New Taiwan Dollars and Foreign Currencies)

No. (Note 1)	Endorsers	Endorseees		Endorsement limit for a single entity (Note 3)	Highest balance during the period	Ending balance at December 31, 2018	Actual amount drawn	Balance secured by collaterals	Ratio of accumulated amount to net worth of the Company	Maximum amount of endorsement (Note 4)	Provision of endorsements by parent company to subsidiary	Provision of endorsements by subsidiary to parent company	Provision of endorsements to the party in Mainland China
		Name of endorseees	Relationship (Note 2)										
0	Sunonwealth Electric Machine Industry Co., Ltd.	Sunon Electronic (Kunshan) Co., Ltd	3	1,241,811	NTD 337,865 (USD 11,000)	NTD 276,435 (USD 9,000)	—	—	6.68%	2,069,686	Y	N	Y
0	Sunonwealth Electric Machine Industry Co., Ltd.	Sunon Electronic (Foshan) Co., Ltd	3	1,241,811	NTD 92,145 (USD 3,000)	NTD 92,145 (USD 3,000)	NTD 92,145 (USD 3,000)	—	2.23%	2,069,686	Y	N	Y
0	Sunonwealth Electric Machine Industry Co., Ltd.	Sunon Electronic (Bei Hai) Co., Ltd	3	1,241,811	NTD 245,720 (USD 8,000)	NTD 245,720 (USD 8,000)	NTD 107,840 (USD 3,511)	—	5.94%	2,069,686	Y	N	Y

Note 1: The description of the number column is as follows:

- (1) The issuer is represented in 0.
- (2) The investee company is numbered sequentially from Arabic numeral 1.

Note 2: The following code represents the relationship with the Company :

1. Trading partner.
2. Majority owned subsidiary
3. The Company direct and indirect owns over 50% ownership of the investee company.
4. A subsidiary jointly owned over 90% by the Company.
5. Guaranteed by the Company according to the construction contract.
6. An investee company. The guarantees were provided based on the Company's proportionate share in the investee company.
7. Joint and several guaranteed by the Company according to the pre-construction contract under Consumer protection Act.

Note 3: Endorsements/guarantees provided by the Company to a single enterprise and a single foreign affiliate shall not exceed 20% and 30% of the Company's net worth, respectively.

Note 4: The maximum amount of the endorsements/guarantees provided by the Company shall not exceed 50% of the Company's net worth.

Table 3

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**

**MARKETABLE SECURITIES HELD**

DECEMBER 31, 2018

(Amounts in Thousands of New Taiwan Dollars)

Investor	Type and name of securities	Relationship with the issuer	General ledger account	Ending balance				Remarks
				Number of shares (in thousands)	Book value	Percentage of ownership	Fair value	
Sunon Electronic (Foshan) Co., Ltd.	China Resources Yuanda Fund - Common stock	None	Financial assets at fair value through profit or loss	—	23,164	—	23,164	
Sunon Electronic (Bei Hai) Co., Ltd.	China Resources Yuanda Fund - Common stock	None	Financial assets at fair value through profit or loss	—	84,667	—	84,667	

Table 4

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**  
**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST**  
**NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL**  
**DECEMBER 31, 2018**

(Shares in thousands; amounts in Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	General ledger account	Counter-party	Relationship with the investor	Beginning Balance		Addition (Note)		Disposal				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Selling price	Book value	Gain (loss) on disposal	Shares	Amount
Sunon Electronic (Foshan) Co., Ltd.	China Resources Yuanda Fund - Common stock	Financial assets at fair value through profit or loss	China Resources Yuanda Fund Management Co., Ltd.	None	—	92,311 (RMB 20,268)	—	159,227 (RMB 34,991)	—	231,643 (RMB 50,800)	228,374 (RMB 50,083)	3,269 (RMB 717)	—	23,164 (RMB 5,176)
Sunon Electronic (Bei Hai) Co., Ltd.	China Resources Yuanda Fund - Common stock	Financial assets at fair value through profit or loss	China Resources Yuanda Fund Management Co., Ltd.	None	—	136,654 (RMB 30,004)	—	219,306 (RMB 48,410)	—	273,594 (RMB 60,000)	271,293 (RMB 59,495)	2,301 (RMB 505)	—	84,667 (RMB 18,919)

(Note): Including current purchase of \$380,296 thousand, net loss of financial assets at fair value through profit or loss of \$4 thousand and the exchange rate impact of (\$1,767) thousand.

Table 5

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**  
**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST**  
**NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**  
**DECEMBER 31, 2018**

(Amounts in Thousands of New Taiwan Dollars)

Company Name Related Party		Nature of Relationships	Transaction Details				Abnormal Transaction		(Notes/Accounts Payable) Or Receivable		Remarks
			Purchases/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Sunonwealth Electric Machine Industry Co., Ltd.	Sunon Electronic (Kunshan) Co., Ltd.	Indirect-subsiary	Sales	663	0.01%	3 to 4 months	—	—	367	0.02%	
			Purchases	1,580,065	27.41%	2 to 3 months					
			Outsourcing processing fee	102,233	8.31%	2 to 3 months	—	—	(292,973)	14.31%	
	Sunon Electronic (Foshan) Co., Ltd.	Indirect-subsiary	Sales	24,915	0.30%	3 to 4 months	—	—	5,421	0.25%	
			Purchases	27,541	0.48%	2 to 3 months					
			Outsourcing processing fee	883,828	71.82%	2 to 3 months	—	—	(239,620)	11.70%	
	Sunon Electronic (Bei Hai) Co., Ltd.	Indirect-subsiary	Sales	204,216	2.49%	3 to 4 months	—	—	146,250	6.85%	
			Purchases	1,601,026	27.78%	2 to 3 months	(Note)	(Note)	(494,011)	24.12%	
	Sunon INC	Subsidiary	Sales	412,990	5.04%	2 to 3 months	—	—	101,059	4.73%	
	Sunon SAS	Subsidiary	Sales	395,926	4.84%	2 to 3 months	—	—	93,942	4.40%	
Purchases			3,796	0.07%	2 to 3 months	—	—	—	—		
Sunon Smt Co., Ltd.	Subsidiary	Purchases	2,597	0.05%	2 to 3 months						
		Outsourcing processing fee	120,270	9.77%	2 to 3 months	—	—	—	—		

Note 1: It is the transaction that undertakes the transfer of the Company, so it is based on the order price of the Company, and the payment period is 2-3 months.

Note 2: The above-mentioned parent-subsiary transactions have been eliminated.

Table 6

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**

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

DECEMBER 31, 2018

(Amounts in Thousands of New Taiwan Dollar and Foreign Currencies)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover	Overdue		Amounts Received in Subsequent Period (Note1)	Allowance for Bad Debts
					Amount	Action Taken		
Sunonwealth Electric Machine Industry Co., Ltd.	Sunson Electronic (Bei Hai) Co., Ltd.	Subsidiary	146,250	4.50	—	—	96,154	—
Sunon Electronic (Kunshan) Co., Ltd.	Sunonwealth Electric Machine Industry Co., Ltd.	The ultimate parent company	292,973 (RMB 65,464)	5.04	—	—	292,944 (RMB 65,458)	—
Sunon Electronic (Foshan) Co., Ltd.	Sunonwealth Electric Machine Industry Co., Ltd.	The ultimate parent company	239,619 (RMB 53,543)	4.57	—	—	239,619 (RMB 53,543)	—
Sunon Electronic (Bei Hai) Co., Ltd.	Sunonwealth Electric Machine Industry Co., Ltd.	The ultimate parent company	494,009 (RMB 110,386)	5.02	—	—	483,481 (RMB108,033)	—

Note 1: Amounts collected as of March 14, 2019.

Note 2: The above-mentioned parent-subsidiary transactions have been eliminated.

Table 7

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**

DECEMBER 31, 2018

(Amounts in Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Account	Amount	Terms (Note 4)	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Sunonwealth Electric Machine Industry Co., Ltd.	Sunon SAS	1	Sales revenues	395,926	(Note 4)	3.31%
				Accounts receivable	93,942		1.05%
		Sunon INC	1	Sales revenues	412,990	(Note 4)	3.45%
				Accounts receivable	101,059		1.13%
Sunon Electronic (Bei Hai) Co., Ltd.	1	Sales revenues	204,216	(Note 4)	1.71%		
		Accounts receivable	146,250		1.63%		
1	Sunon Electronic (Kunshan) Co., Ltd.	Sunonwealth Electric Machine Industry Co., Ltd.	2	Sales revenues	1,652,335	(Note 4)	13.81%
				Accounts receivable	292,973		3.27%
2	Sunon Electronic (Foshan) Co., Ltd.	Sunonwealth Electric Machine Industry Co., Ltd.	2	Sales revenues	849,769	(Note 4)	7.10%
				Accounts receivable	239,619		2.67%
3	Sunon Electronic (Bei Hai) Co., Ltd.	Sunonwealth Electric Machine Industry Co., Ltd.	2	Sales revenues	1,956,654	(Note 4)	16.35%
				Accounts receivable	494,009		5.51%
4	Sunon Smt Co., Ltd.	Sunonwealth Electric Machine Industry Co., Ltd.	2	Sales revenues	124,035	(Note 4)	1.04%
5	Li Man Electronics (Foshan) Co., Ltd.	Sunon Smt Co., Ltd.	2	Sales revenues	70,131	(Note 4)	0.59%

Note 1: The description of the number column is as follows:

- (1) The issuer is represented in 0.
- (2) The investee company is numbered sequentially from Arabic numeral 1.

Note 2: There are three types of relationships with traders. The type of mark is as follows:

- (1) No. 1 represents the transactions from parent company to subsidiary.
- (2) No. 2 represents the transactions from subsidiary to parent company.
- (3) No. 3 represents the transactions between subsidiaries.

Note 3: The ratio of transaction amount to consolidated revenues or total assets is calculated as follows:

- (1) asset/liability items: ending balance to total assets;
- (2) profit and loss items: accumulated amount to consolidated revenues.

Note 4: (1) The sales terms between the parent and the subsidiary are equivalent to those of other clients. The collection period is 3-4 months.

(2) The trading terms of the parent-subsidiary processing fee are equivalent to those of other processing companies. The payment period is 2-3 months.

(3) The purchase price between the Company and Beihai Jianzhun is based on the order price of the Company due to the nature of transference trading. The rest transactions are equivalent to other suppliers. The payment term is average 2-4 months for ordinary suppliers and 2-3 months for related parties.

(4) The remaining transactions between the parent and subsidiaries are with no similar transactions. The trading conditions are negotiated by engaging parties.

(5) The terms between subsidiaries are equivalent to those of the parent company.

Table 8

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**  
**NAMES, LOCATIONS AND OTHER INFORMATION OF INVESTEE COMPANIES (EXCLUDING INVESTEE IN MAINLAND)**

DECEMBER 31, 2018

(Amounts in Thousands of New Taiwan Dollars and Foreign Currencies)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2018			Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Remarks
				As of December 31, 2018	As of December 31, 2017	Shares (In Thousands)	Percentage of Ownership	Carrying Value			
Sunonwealth Electric Machine Industry Co., Ltd.	Sunon Smt Co., Ltd.	Taiwan	Manufacturing and wholesales of electronic parts	—	26,017	—	—	—	15,017	14,142	Note 1
	Successful Century Co., Ltd.	British Virgin Islands	Investments	1,136,933	1,104,025	33,880	100.00%	1,168,133	13,742	15,798	—
	BVI Sunon International Limited	British Virgin Islands	Investments	1,035,677	963,411	—	100.00%	1,391,680	248,873	239,896	—
	Sunon INC	USA	Manufacturing and sales of fans	49,140	49,140	150	100.00%	63,462	14,422	12,339	—
	Sunon SAS	France	Manufacturing and sales of fans	16,127	16,127	50	100.00%	63,347	3,035	3,061	—
	Sunonwealth Electric Machine Ind.(H.K.) Ltd.	Hong Kong	Manufacturing and sales of fans	3,428	3,428	800	99.99%	2,065	(51)	(51)	—
	Sunon Corporation	Japan	Manufacturing and sales of fans	4,470	4,470	4	100.00%	2,557	(79)	(79)	—
			Total					2,691,244	294,959	285,106	

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2018			Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Remarks
				As of December 31, 2018	As of December 31, 2017	Shares (In Thousands)	Percentage of Ownership	Carrying Value			
Sunon Smt Co., Ltd.	Great Smt Electronics Co., Ltd.	British Virgin Islands	Investments	—	32,908	—	—	—	4,023	4,023	Note 2
	Liyuan Investments Co., Ltd.	Republic of Samoa	Investments	—	72,266	—	—	—	6,380	6,380	Note 3
Great Smt Electronics Co., Ltd.	Kunshan Guang Ying Technology Co., Ltd.	China	Manufacturing and wholesales of electronic parts	—	NTD 32,251 (USD1,000)	—	—	—	NTD 4,023 (USD 134)	NTD 4,023 (USD 134)	Note 4
Liyuan Investments Co., Ltd.	Li Man Electronics (Foshan) Co., Ltd.	China	Manufacturing and wholesales of electronic parts	—	NTD 72,266 (USD 2,220)	—	—	—	NTD 6,381 (USD 213)	NTD 6,381 (USD 213)	Note 5
Successful Century Co., Ltd.	Sunon Electronic (Kunshan) Co., Ltd.	China	Manufacturing and selling of fans	NTD1,136,276 (USD 34,000)	NTD1,104,025 (USD 33,000)	—	100.00%	NTD1,179,940 (USD 38,416)	NTD 13,741 (USD 455)	NTD 13,741 (USD 455)	—
Sunon Electronic (Kunshan) Co., Ltd.	Hefei Hua Zhun Electronics Co., Ltd. [Formerly Sunon Electronic (He Fei) Co., Ltd.]	China	Manufacturing and selling of new type electronic parts	—	NTD 32,994 (RMB 7,000)	—	—	—	NTD -7,033 (RMB -1,542)	NTD -7,033 (RMB -1,542)	Note 6

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2018			Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Remarks
				As of December 31, 2018	As of December 31, 2017	Shares (In Thousands)	Percentage of Ownership	Carrying Value			
BVI Sunon International Limited	Sunon Electronic (Foshan) Co., Ltd.	China	Manufacturing and selling of fans	NTD 765,207 (RMB166,171)	NTD 692,941 (RMB150,443)	—	100.00%	NTD 974,761 (RMB217,809)	NTD 121,068 (RMB 26,550)	NTD 121,068 (RMB 26,550)	—
	Sunon Electronic (Bei Hai) Co., Ltd.	China	Manufacturing and selling of new type electronic parts	NTD 293,115 (RMB63,732)	NTD 293,115 (RMB63,732)	—	100.00%	NTD 462,409 (RMB103,325)	NTD128,677 (RMB 28,219)	NTD128,677 (RMB 28,219)	—
Sunon SAS	Sunon Deutschland GmbH	Germany	Sales of fans	NTD 1,027 (EUR 25)	NTD 1,027 (EUR 25)	—	100.00%	NTD 5,662 (EUR 161)	NTD 2,080 (EUR 59)	NTD 2,080 (EUR 59)	—

Note 1: Merged with Sunonwealth Electric Machine Industry Co., Ltd. on October 1, 2018. Sunon Smt Co., Ltd. was the dissolved company.

Note 2: Merged with Successful Century Co., Ltd. on October 1, 2018. Great Smt Electronics Co., Ltd. was the dissolved company.

Note 3: Merged with BVI Sunon International Limited on October 1, 2018. Liyuan Investments Co., Ltd. was the dissolved company.

Note 4: Merged with Sunon Electronic (Kunshan) Co., Ltd. on October 1, 2018. Kunshan Guang Ying Technology Co., Ltd. was the dissolved company.

Note 5: Merged with Sunon Electronic (Foshan) Co., Ltd. on October 1, 2018. Li Man Electronics (Foshan) Co., Ltd. was the dissolved company.

Note 6: The Company sold entire equity of Hefei Hua Zhun Co., Ltd. on December 3, 2018.

Note 7: The above-mentioned parent-subsidary transactions have been eliminated.

Table 9

**SUNONWEALTH ELECTRIC MACHINE INDUSTRY CO., LTD. AND SUBSIDIARIES**

INFORMATION ON INVESTMENT IN MAINLAND CHINA

DECEMBER 31, 2018

(1) Mainland Investment Information:

(Amounts in Thousands of New Taiwan Dollars and Foreign Currencies)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net Income (Losses) of the Investee Company	Percentage of Ownership	Share of Profits/Losses (Note 2)	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow						
Sunon Electronic (Kunshan) Co., Ltd. (Note 5)	Manufacturing and selling of fans	NTD1,136,276 (USD 34,000) (Note 5)	(2)	NTD1,104,025 (USD33,000)	NTD32,648 (USD880)	—	NTD1,136,673 (USD 33,880)	NTD 13,741 (USD 455)	100%	NTD 13,741 (USD 455) (2).B	1,179,940 (USD 38,416)	NTD 204,545 (USD 6,792)
Sunon Electronic (Foshan) Co., Ltd. (Note 6)	Manufacturing and selling of fans	NTD 765,207 (USD 23,660) (Note 7)	(2)	NTD 671,397 (USD20,620)	NTD72,266 (USD2,220)	—	NTD 743,663 (USD 22,840)	NTD 121,068 (RMB 26,550)	100%	NTD 121,068 (RMB 26,550) (2).B	974,761 (RMB 217,809)	NTD 385,334 (USD 12,550)
Sunon Electronic (Bei Hai) Co., Ltd.	Manufacturing and selling of new type electronic parts	NTD 293,115 (USD 10,000)	(2)	NTD 293,115 (USD10,000)	—	—	NTD 293,115 (USD 10,000)	NTD 128,677 (RMB 28,219)	100%	NTD 128,677 (RMB 28,219) (2).B	462,409 (RMB 103,325)	NTD419,041 (USD 13,505)
Kunshan Guang Ying Technology Co., Ltd. (Note 5)	Manufacturing and wholesales of electronic parts	—	(2)	NTD 32,648 (USD 880)	—	NTD32,648 (USD880)	—	NTD 4,023 (USD 134)	—	NTD 4,023 (USD 134) (2).B	—	—
Li Man Electronics (Foshan) Co., Ltd. (Note 6)	Manufacturing and wholesales of electronic parts	—	(2)	NTD 72,266 (USD 2,220)	—	NTD72,266 (USD2,220)	—	NTD 6,381 (USD 213)	—	NTD 6,381 (USD 213) (2).B	—	—
Hefei Hua Zhun Electronics Co., Ltd. [Sunon Electronic (He Fei) Co., Ltd. formerly] (Note 8)	Manufacturing and selling of new type electronic parts	—	(3)	— (Note 8)	—	—	— (Note 8)	NTD -7,033 (RMB -1,542)	—	NTD -7,033 (RMB -1,542) (2).B	—	—

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment	The Cumulative Amount of Investment from Taiwan for the Disposed Mainland Subsidiaries (including sale, liquidation, dissolution, merger, bankruptcy, etc.) at the end of the period	The Repatriated Investment Income from The Disposed Mainland Subsidiaries (including sale, liquidation, dissolution, merger, bankruptcy, etc.) at the end of the period
NTD 1,136,673(USD 33,880) NTD 743,663(USD 22,840) NTD 293,115(USD 10,000)	USD 34,000 USD 23,660 USD 10,000	(Note 4)	NTD 34,284	NTD 1,024,503

Note: Gain and loss on investment are translated using average exchange rates for the year ended December 31, 2018 (USD:NTD 1:30.175; CYN:NTD 1:4.5599). Additions and ending balance are translated using the exchange rates as at December 31, 2018 (USD:NTD 1:30.715; CYN:NTD 1:4.4753)

Note 1: The investment methods are divided into the following three types:

- (1) Investing directly to the Mainland China;
- (2) Reinvesting in the Mainland China through third-region companies (please refer to Table 8);
- (3) Others.

Note 2: In the current period, the investment profit and loss column is recognized:

- (1) If during incorporation with no investment income or loss, it should be indicated;
- (2) The basis for recognition of investment gains and losses divided into the following three types, which should be indicated:
  - A. Audited financial statements by international accounting firms with cooperation relationship with accounting firms in the Republic of China.
  - B. Audited financial statements by parent company's auditors.
  - C. Others.

Note 3: The relevant figures in this form should be listed in New Taiwan Dollars.

(2)The Group's major transactions during year 2018 directly or indirectly through the third place and the mainland invested company are listed as follows:

Investee Company	Sales/ Purchases	Sales/ Purchases		Transaction Terms			(Notes/Accounts Payable) Or Receivables	
		Amount	%	Price	Payment Terms	Comparison with general transactions	Ending Balance	% to Total
Sunon Electronic (Kunshan) Co., Ltd.	Sales	663	0.01%	Cost based	3-4 months	Equivalent to sales price with ordinary clients	367	0.02%
	Purchases	1,580,065	27.41%	Cost based	2-3 months	Equivalent to purchase price with ordinary suppliers	(292,973)	14.31%
	Outsourcing processing fee	102,233	8.31%	Add a certain margin based on cost	2-3 months	Equivalent to pricing of other processors		
Sunon Electronic (Foshan) Co., Ltd.	Sales	24,915	0.30%	Cost based	3-4 months	Equivalent to sales price with ordinary clients	5,421	0.25%
	Purchases	27,541	0.48%	Cost based	2-3 months	Equivalent to purchase price with ordinary suppliers	(239,620)	11.70%
	Outsourcing processing fee	883,828	71.82%	Add a certain margin based on cost	2-3 months	Equivalent to pricing of other processors		
Sunon Electronic (Bei Hai) Co., Ltd.	Sales	204,216	2.49%	Cost based	3-4 months	Equivalent to sales price with ordinary clients	146,250	6.85%
	Purchases	1,601,026	27.78%	According to the company's order price as the basis of pricing	2-3 months	According to the Company's order price as the basis of pricing	(494,011)	24.12%

Note 4: Enterprises approved by the Ministry of Economic Affairs as the operational headquarters are not subject to the amount or proportion.

Note 5: Sunon Electronic (Kunshan) Co., Ltd. merged with Kunshan Guang Ying Technology Co., Ltd. on October 1, 2018. Kunshan Guang Ying Technology Co., Ltd. was the dissolved company. The paid-in capital included Sunon Electronic (Kunshan) Co., Ltd's initial capital USD 33,000 (NTD 1,104,025) thousand and USD 1,000 (NTD 32,251) thousand obtained by merging with Kunshan Guang Ying Technology Co., Ltd.

Note 6: The former subsidiary of Sunon Motor, Guanyuan Co., Ltd, which is owned by Innovation Co., Ltd was transferred at the price of USD 1,200 thousand (referred to Company's net worth) to BVI Sunon International Limited on July 2009, which was seen as an organization restructuring. On December 16, 2009, Sunon Electronic (Foshan) Co., Ltd. merged with Sunon Electronic (Foshan) Co., Ltd. and Nanhai Guangyuan Electronic (Foshan) Co., Ltd. was the dissolved company. Sunon Electronic (Foshan) Co., Ltd. merged with Li Man Electronics (Foshan) Co., Ltd. on October 1, 2018, and Li Man Electronics (Foshan) Co., Ltd. was the dissolved company.

Note 7: It included Sunon Electric's original capital of USD 19,420 thousand, and USD 2,020 thousand obtained by merging with Sun Growth Trading (at the purchase price of USD 1,200 thousand). The exchange rate of USD to NTD at the consolidation date is 32.32, and USD 2,220 (NTD 72,266) thousand was obtained by merging with Li Man Electronics Co., Ltd.

Note 8: It is invested by Sunon Electronic (Kunshan) Co., Ltd. In addition, the Company sold entire equity of Hefei Hua Zhun Electronics Co., Ltd. in December 2018.

## 14.SEGMENT INFORMATION

### (1) General information

For management purpose, the Group's reportable segments are listed as follows:

A. Great China: Mainly engaging business in Taiwan and China.

B. Europe and North America: Mainly engaging business in America and Europe.

C. Other: In addition to the above areas.

### (2) Measurement Basis

The Group uses profit before income tax as the measurement for segment profit and the basis of performance assessment. There was no material inconsistency between the accounting policies of the operating segment and the accounting policies described in Note 4.

### (3) Segment financial information

	(In thousands)				
Year 2018	Great China	Europe and North America	Other Areas	Elimination	Total
Sales from external customers	\$10,910,787	\$1,054,511	\$ -	\$ -	\$11,965,298
Sales among inter-segment	5,661,099	-	-	(5,661,099)	-
Total sales	<u>\$16,571,886</u>	<u>\$1,054,511</u>	<u>\$ -</u>	<u>(\$5,661,099)</u>	<u>\$11,965,298</u>
Operating profit (loss)	<u>\$1,061,341</u>	<u>\$25,842</u>	<u>(\$81)</u>	<u>(\$303,277)</u>	<u>\$783,825</u>
Segment assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,971,556</u>
Segment liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,832,185</u>

a. Total reporting segment sales should eliminate inter-segment sales of \$5,661,099 thousand.

b. Income tax expense of \$176,142 thousand is not included in segment profit (loss).

	(In thousands)				
Year 2017	Great China	Europe and North America	Other Areas	Elimination	Total
Sales from external customers	\$9,880,860	\$1,065,868	\$ -	\$ -	\$10,946,728
Sales among inter-segment	5,388,284	-	-	(5,388,284)	-
Total sales	<u>\$15,269,144</u>	<u>\$1,065,868</u>	<u>\$ -</u>	<u>(\$5,388,284)</u>	<u>\$10,946,728</u>
Operating profit (loss)	<u>\$1,063,214</u>	<u>\$49,602</u>	<u>(\$72)</u>	<u>(\$270,659)</u>	<u>\$842,085</u>
Segment assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,813,469</u>
Segment liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,639,420</u>

a. Total reporting segment sales should eliminate inter-segment sales of \$5,388,284 thousand.

b. Income tax expense of \$178,669 thousand is not included in segment profit (loss).

(4) Production and service information : No disclosure needed for only single industry in the Group.

(5) Geographic information :

	Year ended December 31	
	2018	2017
Asia	\$8,998,545	\$8,148,380
Europe	2,284,500	2,146,704
America	642,980	618,471
Others	39,273	33,173
Total	<u>\$11,965,298</u>	<u>\$10,946,728</u>

(6) Major customers : No revenue from any individual customer exceeds 10% of the Group's total revenues. Therefore, the disclosure is not required.