



ELAN Microelectronics Corporation

**2018
ANNUAL REPORT**

URL: <http://mops.tse.com.tw>

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ELAN Microelectronics Corporation



Chairman: YEH, I-HAU



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I. LETTER TO SHAREHOLDERS

1. Operating results of the year 2018

In 2018, under the multiple favorable factors such as the introduction of new customer models, the increase in penetration rate of first-line notebook customers, and the rise in shipments of high-end ICs with stylus function, the Company's revenue and profit have achieved excellent performance. Notwithstanding the touchscreen industry has entered into maturity, the Company is still working on promoting its market share and increasing the added value of ICs as the focus of operation and thus is still setting growth records in terms of revenue, gross profit margin and profit in this mature industry and market.

In 2018, revenue and profit of touchscreen industry and related applications both grew significantly. The main reason is the close cooperative relationship with global major specifications and platform developers such as Microsoft, Wacom, Google, Huawei and other US, China and Japan megafactories, the control of the latest information and technical cooperation, the fast supply of products to first-tier international megafactories, and the establishment of customer's confidence in the Company, which allow the competitive edge in touchscreen products developed by the Company to be realized and resulted in the significant rise in penetration rate among individual customers; it has also led the Company's touchscreen products (touch screen ICs or touch pads) to rise significantly in global market share.

In the meanwhile, in addition to cooperation with specification and platform developers, the Company's high value-added IC products have also been successfully introduced into the products of the major specification developers, such as Microsoft's 2-in-1 notebook "Surface Go", Huawei's 2-in-1 notebooks, etc. Since the main platform or specification developers have a wide range of marketing channels around the world, this will boost the increase in volume and price of the Company's products and drive operational growth.

The pointing stick (PST) modular products have skewed dazzling performance in 2018. Notwithstanding there was only one customer, it can still achieve nearly 30% annual growth; the main reason of which is that manufacturers have increased the promotion on commercial notebook and achieved results. Since the major global customers of this product are only the Americans and Lenovo (China), the Company is also fully developing US customers in addition to continuously stabilizing its existing customers, hoping to achieve mass production shipments in the coming year.

Due to the active development and application in biometric products, the overall shipment volume in 2018 slightly decreased by 3.5% compared to that of the previous year. The average selling price dropped significantly mainly due to there are large number of suppliers of capacitive fingerprint sensors and the fierce competition in smart phones; however, customer orders of capacitive fingerprint sensors for notebook application have increased and accounted for 50% of the overall fingerprint sensors. In order to seek market segmentation and increase profit margins, enhancing capacitive fingerprint sensor in payment and encryption features to increase added value is expected to contribute to revenue and profit growth in 2019.

Although touchscreen has emerged into mature industry with many domestic and foreign manufacturing competitors, fierce price war in the market and decline in average product selling prices, the Company still effectively reduced costs and optimized product mix based on its strength in chip design technical engineering, which resulted in the increase in overall annual revenue of 14.9% compared with that of the previous year and NT\$8,430,000,000 revenue in 2018, setting new records since the establishment of the Company. In addition, due to its continuous product mix optimization and efforts to reduce costs, the gross profit margin was significantly better than that of the previous year and maintained at a high level of 46%, the net operating profit margin reached 21%, and the profit before tax reached NT\$1,885,000,000.

Due to the prolonged cycle of smart phone replacement, high penetration rate in many large markets, political and economic uncertainty, rise in the price of smart phones and many other factors, market demand has slowed down. According to IDC's latest research survey, the global smart phone shipments has reached 1,400,000,000pcs in 2018 with an annual decline of 4.1%. As for TrendForce's notebook shipment report, the total number of notebooks shipped has reached 121,000,000pcs during the first three quarters of 2018 and is expected to be slightly declined by 1.9% during the fourth quarter due to the impact of CPU shortage; therefore, notebook shipment is expected to be 162,900,000pcs in 2018 with an annual decline of 0.13%.

In order to respond to the rapid changes in the overall economic situation and the continued high competition in the industry, the Company continues to invest heavily in research and development expenses and engineering human resources for the technical improvement and application of touch control and biometrics; the Company also invests in artificial intelligence (AI) technology and received COMPUTEX TAIPEI 2019 Best Choice Award with its panoramic 360-degree fisheye AI smart traffic detection technology, while strengthening its product functions and continues its efforts in costs reduction. In 2018, the annual output of touch screen notebook ICs was more than 17,000,000 sets, which included major orders of global first-tier brand manufacturers, with an annual growth rate of 20% and a market share of more than 60%, ranking first in the world.

In the meanwhile, the current global market share of another main product, the Touch Pad, is more than 40%, which once again leading in the global market. The Company is working toward the goal of continuous market share expansion and is expected to challenge the goal of 50% global market share in 2019. In order to enhance the competitiveness of customers in the international market, the Company continues to improve IC products with single chip, high voltage, low noise and low power consumption characteristics and best performance and has achieved good results. In 2018, the total shipments has reached 66,200,000 units with an annual growth of 15%. The touch screen IC and Touch Pad products have jointly created the major source of revenue and profit of the Company.

In product research and development, the Company continued to deepen the research and development of various products with large market demand and respond to the development trend of the terminal market. In 2018, R&D expenditures accounted for 16% of revenue; and successively completed the development of biometric solution that supports notebook encryption function, battery-free contactless biometric smart card solution, 2-in-1 network fire fighting modular IC, IC

with touch pad and touch point 2-in-1 functions, touch control IC for active pen AMOLED panel, solution integrating 18:9 touch FHD panel and driver ICs for mobile phones, and NB touch lock (SMUX4.0) solution.

In 2018, the Company's was frequently awarded. The Company won the 2018 Hsinchu Science Park "R&D Accomplishment Award", the 2018 Hsinchu Science Park "Innovative Product Awards", the "Excellent Health workplace" prize and "Gender-Friendly Health Award" issued by the Health Promotion Administration of the Ministry of Health and Welfare, and the Hsinchu Science Park "Distinguished Green Landscaping Award".

(1) 2018 operating conditions (consolidated statements):

unit: NT\$'000

Year	2018
Net Revenue	8,651,332
Operating Costs	4,709,457
Gross Income	3,944,177
Operating Expenses	2,213,889
Net Operating Profit	1,730,288
Non-Operating Income and Expenses	139,780
Net Profit Before Tax	1,870,068

(2) Revenues, Expenses, and Profitability Analysis (consolidated statements):

unit: NT\$'000

Items		2018	2017
Revenues & expenses	Net Income	8,651,332	7,503,267
	Gross Income	3,944,177	3,347,820
	Net Income After Taxes	1,531,702	1,032,110
	Net Income After Taxes attributable to owner(s) of the parent company	1,559,580	1,073,802
	Net Income After Taxes attributable to non-controlling interest	(27,878)	(41,692)
Profitability analysis	Return on Asset (%)	15.40	10.75
	Return on Equity (%)	22.03	14.52
	Proportion to paid-up capital (%)	Operating profit 56.94 Net Profit Before Tax 61.54	31.09 29.08
	Net Profit Margin (%)	17.70	13.76
	Basic Earnings Per Share (NT\$)	4.16	2.58

2. 2019 Business Plan Summary

2019 is a year of high uncertainty. The International Monetary Fund (IMF) revised 2019 and 2020 global economic growth forecasts down to be 3.5% and 3.6%, respectively, which were the lowest in three years. The reasons of which are the US-China trade war, China's economic slowdown and Brexit risk, which weaken the economic growth momentum. The US-China trade war has shaken the world. The World Bank had bluntly commented that the arrogant atmosphere of both sides will still be the main cause of impact on the world economy in 2019. As a result, the World Bank's global economic growth rates for 2019 and 2020 were revised down to 2.9% and 2.8%, respectively.

Improving the Company's own product R&D capacity is the key in facing the complex and ever-changing overall economy, while clear understanding of the customers' real demands in response to the changes in the big environment. The Company basically is still maintaining a prudent attitude towards 2019 while maintaining growth. The main growth momentum comes from the supply of high value-added biometric products with 3D security for notebooks. Since the average selling price is higher than anticipated, it is expected to further drive revenue and profitability.

Secondly, the TDDI with Pen function solution, which combines touchscreen and LCD driver chips, is a solution that differentiates from the competitors and locks in the market of smart phones. At present, there are many competitors in the market who can supply TDDI chips. In 2019, TDDI chip market will become a even more competitive battlefield. In order to differentiate from the market, emphasizing the provision of better differentiated solutions to its customers and seeking to launch chips with stylus function will help the Company to increase product profit and avoid price war.

The chip solution with touchscreen and capacitive stylus functions is one of the most competitive products of the Company with shipment grew by nearly 70% in 2018 and mainly (90%) supplied to the notebook market. Currently, the Out Cell, On-Cell, and In-Cell designs are fully supported in respond to the increase in the chance of using stylus due to the increasingly enlarged display screen of smart phones while foldable smart phones is emerging, which all provides growth opportunity for chip with touchscreen and capacitive stylus functions. In 2019, the Company will invest full efforts in this potentially huge business opportunity.

The touch screen chip for notebooks still holds a high global market share, and its shipment volume of this year is still possible to be better than that of last year. The Touch Pad is another main product line of the Company, which is mainly used in notebooks and currently holds a global market share of more than 40%; its overall shipment volume this year will be better than that of last year under the prospect of two operating systems (Window base & Chrome) and the increase in customer penetration rate, which ensures the goal of becoming No.1 in global market share.

The Company is a professional IC design company. The smooth cooperation of overall supply chain is crucial, because the chips are outsourced; therefore, continuous maintenance of upstream and downstream partnerships with domestic and foreign IC foundries and packaging & testing companies is adopted to gain cost competitiveness, while cooperating with supply chain manufacturers such as touchscreen factories, LCD display factories, smart phone and notebook assembly factories to ensure smooth product shipments and maintain long-term and close partnerships with customers.

In addition, the Company's future development strategy will still be affected by the external competitive environment, regulations and overall business environment, but the Company will continue to develop its core technologies and integrate imaging, sound, entertainment and other components to create cost-effective chips with powerful functions and to offer customers with world-class competitive solutions via system integration concept, while implementing business strategies, establishing patent networks, developing blueprints, continuous investing in the development of new products, improving performance and quality of chips, and exploring own core competitive edge, which are the cornerstones of outstanding revenue and profit.

Chairman: YEH, I-HAU

President: YEH, I-HAU

Chief Accounting Officer: CHEN, YI-LIN

II. COMPANY PROFILE

1. Date of Incorporation: May 5, 1994

2. Company History

1. 1994

May Formally established with nominal and paid-up capital amounting to NT\$1 billion even.

June Hsinchu Science Park Bureau issued the Business Registration Certificate and the Company officially commence its operations.

2. 1995

April The neural network IC series and development system have received grants from Hsinchu Science Park's "Key Components and Products R & D Plan".

3. 1996

January The high-speed computer screen controller received grants from Hsinchu Science Park's "Innovation, Technology, Research and Development Plan".

May The MPEG-2 video decoder received grants from Hsinchu Science Park's "Innovation, Technology, Research and Development Plan".

May The MPEG-2 audio decoder received grants from Hsinchu Science Park's "Innovation, Technology, Research and Development Plan".

December Won Hsinchu Science Park's "1996 Research and Development Investment Award".

4. 1997

April Won Corporate Silver Medal in the 6th National Invention Prize.

April Established ELAN Microelectronics Hong Kong branch office to expand markets and marketing bases in Hong Kong and mainland China.

5. 1998

June Won the "1998 Excellent Intellectual Property Management System Award" organized by the Industrial Development Bureau, MOEA.

6. 1999

December Won Hsinchu Science Park's "1999 Research and Development Investment Award".

7. 2000

- | | | |
|--|-------|--|
| | April | Authorized by the Securities and Futures Commission, Ministry of Finance to list and trade its stocks over the counter (stock code: 5433). |
|--|-------|--|
8. 2001
- | | | |
|--|-----------|--|
| | February | The ELAN Technology Building located on No. 12, Chuangxin 1st Road has completed and officially moved in. |
| | March | Received Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award". |
| | September | Authorized by the Securities and Futures Commission, Ministry of Finance to list and trade its stocks in the exchange market (stock code: 2458). |
| | October | Won gold medal in the 10 th National Invention Prize. |
| | November | Passed ISO9001 quality certification. |
| | December | Won Hsinchu Science Park's "2001 Innovative Product Awards". |
9. 2002
- | | | |
|--|---------|---|
| | March | Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 2 nd consecutive year. |
| | October | Recognized by Forbes as one of the "200 Best Small Companies". |
| | October | Entered the eastern China market and established Elan Shanghai, Ltd. |
10. 2003
- | | | |
|--|----------|--|
| | March | Entered the European market and established ELAN's European branch office in Switzerland. |
| | March | Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 3 rd consecutive year. |
| | June | Entered southern China market and established Elan Shenzhen Co., Ltd. |
| | October | Authorized by the Department of Industrial Technology, MOEA to establish a forward-looking technology R & D center. |
| | December | Received a subsidy from the consultation program for the development of leading new products ("Leading Product") of the Industrial Development Bureau, MOEA. |
| | December | Won Hsinchu Science Park's First "R & D Achievement Award". |
11. 2004
- | | | |
|--|---------|--|
| | March | Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 4 th consecutive year. |
| | May | Received grants from Hsinchu Science Park's innovative technology R & D program "TFT LCD single-chip controller". |
| | October | Received grants from Hsinchu Science Park's innovative technology R & D program "2.45GHz RF Transceiver IC for Cordless Phones". |

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|-----|-----------|--|
| | October | Received Outstanding Award in the 12 th “MOEA Industrial Science and Technology Development Award” from Department of Industrial Technology, MOEA. |
| | October | Recognized by Forbes as one of the “100 Best Small Asia-Pacific Companies” in 2003”. |
| | December | Won Hsinchu Science Park’s Second “R & D Achievement Award”. |
| 12. | 2005 | |
| | March | Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping Award” for the 5 th consecutive year. |
| | December | Won Hsinchu Science Park’s Third “R & D Achievement Award”. |
| 13. | 2006 | |
| | March | Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping Award” for the 6 th consecutive year. |
| | April | Received a subsidy from the consultation program for the development of leading new products (“Leading Product”) of the Industrial Development Bureau, MOEA. |
| | October | Won Hsinchu Science Park’s “2006 Innovative Product Award”. |
| 14. | 2007 | |
| | March | Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping Award” for the 7 th consecutive year. |
| | September | Won Contribution Award in the “2007 National Invention and Creation Award” from Ministry of Economic Affairs. |
| 15. | 2008 | |
| | October | Won Hsinchu Science Park’s “2008 Innovative Product Award”. |
| | October | ELAN Microelectronics was officially merged with Elantech Devices. |
| 16. | 2009 | |
| | June | Won “Best Choice Award” in Taipei International Information Technology Show (the “COMPUTEX Taipei”) for the awarded items hereinunder:
The “Transparent Touch pad” won the Annual Award;
The “Transparent Touch pad” won the Excellence Award in the peripheral and accessories category;
The “Smart Remote Control” won the Excellent Digital Entertainment Product Award. |
| | June | Received grants for the “Portable Soft-Film Multi-Touch Surface Capacitive Module Program” from the “Industrial Technology Development Program” of Ministry of Economic Affairs. |

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| September | Won Outstanding Innovation Award in the 17 th “Industrial Science and Technology Development Award” from Ministry of Economic Affairs. |
| October | The “Smart Remote Control” won the “2009 IT Month’s Outstanding Information Application and Products Award”. |
| November | Won the 10 th “Industrial Excellence Award” from Ministry of Economic Affairs. |
| December | The “Smart Remote Control” won Hsinchu Science Park’s “2009 Innovative Product Awards”;
Won 2009 Hsinchu Science Park’s “R & D Achievement Award”;
Won Hsinchu Science Park’s “2009 Promotion of International Exchange and Cooperation Award for Excellence”;
Won Outstanding Award in Hsinchu Science Park’s “2009 Environmental Protection Competition”. |
17. 2010
- | | |
|----------|--|
| January | The “Smart Remote Control” won “Innovative Design and Engineering Award” in USA’s 2010 Consumer Electronics Show. |
| June | The “Capacitive Multi-Finger Touch Screen and Stylus” won the “13 th Outstanding Photonics Product Award”. |
| December | Received grants for the “Optical System Integration Chip Plan With High Recognition Rate and Wide Dynamic Range” from Hsinchu Science Park’s “Research on Framework of University-Industry Collaboration for Enhancing Sustainable Growth for NSC Science Park”;
Won Hsinchu Science Park’s “2010 R & D Achievement Award”;
The “Smart-3D Remote Control” won Hsinchu Science Park’s “2010 Innovative Product Awards”. |
18. 2011
- | | |
|----------|--|
| August | Received grants for the “Capacitive Touch Screen With Force Sensing Program” from the “Leading Program” of Ministry of Economic Affairs. |
| December | The “Capacitive 10-Finger Touch Screen and Stylus” won Hsinchu Science Park’s “2011 Innovative Product Awards”. |
19. 2012
- | | |
|------|---|
| June | The “Smart-Touchscreen™ IC” won “Golden Award” and “Best Choice of the Year” in the IC & components product category of the Best Choice Award of COMPUTEX Taipei. |
|------|---|
20. 2013
- | | |
|-----------|---|
| September | Received grants for “Portable Product with 3D Depth Sensor for Hand |
|-----------|---|

- Gesture Recognition” program from the “Leading Program” of Ministry of Economic Affairs.
- October Won the “Corporate Standardization Award” in the “14th National Standardization Award” of Ministry of Economic Affairs.
- November The “Windows 8 Single-Chip Smart Touch Screen Solution” won 2013 IT Month’s “Gold Award” and “Top 100 Innovative Product Award”.
- December Won Hsinchu Science Park’s “2013 R & D Achievement Award”;
The “Windows 8 Single-Chip Smart Touch Screen Solutions” won Hsinchu Science Park’s “2013 Innovative Product Awards”;
Won the “2nd Excellent Backbone Enterprises Award” from the Industrial Development Bureau, MOEA.
21. 2014
- July Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping Award” for the 10th time.
- December Won Hsinchu Science Park’s “2014 R & D Achievement Award”.
22. 2015
- June Obtained SGS certification for the Corporate Social Responsibility Report; passed international certifications of AA1000 AS Type 2 Moderate-Level Assurance and GRI G4.
- July Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping Award”.
- December Won Hsinchu Science Park’s “2015 R & D Achievement Award”;
The “Chromebook Smart Touch pad and Touch Screen Solution” won Hsinchu Science Park’s “2015 Innovative Product Awards”;
Won the “Vitality Award” in the “Healthy Workplace Health Promotion” from the Health Promotion Administration, Ministry of Health and Welfare.
23. 2016
- July Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping Award”.
- December Won Hsinchu Science Park’s “2016 R & D Achievement Award”;
The “Smart-ID Solution” won Hsinchu Science Park’s “2016 Innovative Product Awards”.
24. 2017
- July Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping and Contribution Award”.
- November The “Biometric Smart Card” won “Top 100 Innovative Product Award” in the consumer electronic product category of 2017 IT Month.

- | | |
|----------|--|
| December | The “Pen-Emulated Finger-Pen-Concurrent Touch Screen Solutions” won Hsinchu Science Park’s “2017 Innovative Product Awards”. |
|----------|--|
25. 2018
- | | |
|----------|--|
| May | Won Taiwan Industrial Technology Association’s “Taiwan Golden Root Award - Industrial Technology Special Contribution Award”. |
| July | Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping and Contribution Award”. |
| October | Won Hsinchu Science Park’s “2018 R & D Achievement Award”. |
| October | Won Hsinchu Science Park’s “2018 Innovative Product Awards”. |
| December | Won the “Excellent Health workplace” prize and “Gender-Friendly Health Award” issued by the Health Promotion Administration of the Ministry of Health and Welfare. |
26. 2019
- | | |
|------|---|
| May | The “battery-free contactless biometric smart card solution” won Hsinchu Science Park’s “Smart Science Park Innovation Application Award”. |
| June | Won “Best Choice Award” in Taipei International Information Technology Show (the “COMPUTEX Taipei”) for the “panoramic 360-degree fisheye AI smart traffic detection technology”. |

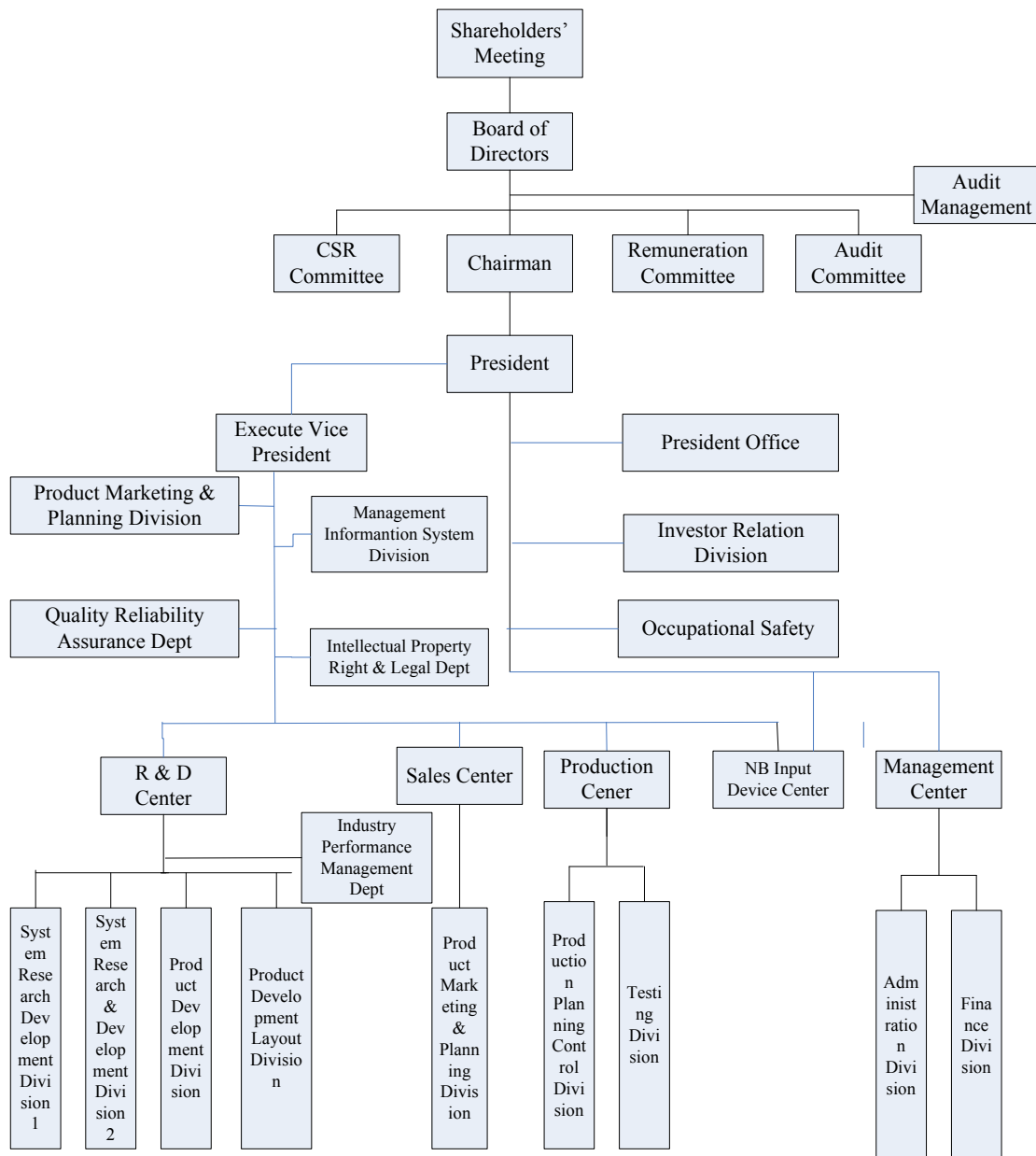
III. CORPORATE GOVERNANCE REPORT

1. Organization

(1) Organizational structure

Organizational Chart of ELAN Microelectronics Corporation

Effective date: March 27, 2019



(2) Operations of major departments

Department	In charge of
President's Office	Executing and coordinating the Company's overall business; planning and decision-making for the Operating objectives, and organize and control subordinates to achieve the task.
Auditor Committee	Investigate and evaluate the soundness, rationality and effectiveness of the internal control system and various management systems of the Company.
Management Information System Division	Responsible for MIS system's software assessment, system planning, program writing and maintenance.
Product Marketing & Planning Division	Responsible for developing and expanding new markets, global business promotion for major branding customers, and strategic cooperation with branding customers
Intellectual Property Rights & Legal Department	Responsible for patent applications, contract formulation and review and processing of legal proceedings related matters.
Quality Reliability Assurance Department	Quality inspection on incoming / outgoing goods, analyze and process customer complaints, product reliability analysis.
Safety & Health Office	Managing labor safety, fire-fighting and health related operations.
Investor Relation Division	Responsible for the Company's news release and the establishment and maintenance of relationship with domestic and foreign corporate bodies, media and investors.
Production Planning Control Division	Responsible for the management of raw materials, the planning and management of production schedules, procurement, import and export, customs bonds, etc.
Testing Division	Responsible for coordinating new product development, and the development of product property analysis and testing program.
Administration Division	Including Manpower Performance Management Department and Public Resources Department, which are responsible for the recruitment and management of human resources and the maintenance and operation for plant(s).
Finance Division	Comprehensive management of financial resources, and the establishment and maintenance of financial accounting, management accounting and tax filing.
Product Marketing & Planning Division	Responsible for the development of domestic and foreign markets, planning and implementation of marketing plans, sales of products, customer services, agent management, etc.
Industry Performance Management Department	Responsible for the management of new product projects, improvement of R & D processes and document management processes, management of R & D documents, proofreading of technical documents, application for various prizes and grants, promotion of corporate social responsibility and promotion of knowledge management of the Company.
System Research Development Division 1	Responsible for the planning, system integration, formulation of system specification, verification and system design for the IoT product market, and the development, design and mass production planning for the touch control products solutions.
System Research Development Division 2	Responsible for the system development, customer service, customer analysis and product promotion of product applications related to MCU, brushless DC motors, computer peripheral products, fingerprint recognition and touch pads.
Product Development Division	Responsible for the development, design and integration of digital circuits and sensing technology for the Company's products.
Product Development Layout Division	Responsible for strategically planning and designing the product development.
NB Input Device Center	1. Research and develop pointing sticks and driver program for notebook PCs; 2. Produce and manufacture notebook PCs pointing sticks; 3. Promote notebook PCs pointing sticks; 4. Comprehensive management of personnel management, plant operations and management accounting related issues of the NB Input Device Center.

2. Directors, Supervisors and Management Team:
(1) Directors and supervisors
1.1. Shares held by the directors and supervisors

April 12, 2019

Chairman		job title	
Taiwan	Taiwan	nationality or country of incorporation	
YEH, I-HAU	Yulong Investment Co., Ltd.	name	
male		gender	
June 2, 2015	June 2, 2015	date of appointment	
3 years	3 years	term	
May 5, 1994	June 26, 2002	initial appointment date	
10,621,565	9,888,656	number of shares	shares held at time of appointment
2.41%	2.24%	shareholding ratio	
5,057,895	7,083,059	number of shares	number of shares currently held
1.66%	2.23%	Shareholding ratio	
N/A	-	number of shares	shares currently held by spouse and/or children under 20 years of age
N/A	-	shareholding ratio	
N/A	-	number of shares	shares held in the name of others
N/A	-	Shareholding ratio	
Institute of Communications Engineering; Engineer of the Industrial Technology Research Institute; Manager of Huazhan Semiconductor Co., Ltd.; Director of Hualong Microelectronics Co., Ltd.	N/A	major work (education) experiences (Note 2)	
Director of Lianding, Huading, Qiding, Jiuding, Yuanding, Fuding, Wending, Liding Venture Capital, Yiding Biotech Ventures, North Star Venture Capital, InnoBridge International, Applied Materials, SINOCON Industrial Standards Foundation, Chuwang Technology, ELAN (HK) and Power Asia; Chairman of Metanoia, Avisonic Technology, and PiXORD	N/A	Currently serving concurrently in the Company and other company	
N/A	N/A	job title	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
N/A	N/A	name	
N/A	N/A	relationship	

Director		job title	
Taiwan	Taiwan	nationality or country of incorporation	
WEA, CHI-LIN	Zonglong Investment Co., Ltd.	name	
male		gender	
June 2, 2015	June 2, 2015	date of appointment	
3 years	3 years	term	
June 12, 2006	June 26, 2002	initial appointment date	
N/A	4,398,434	number of shares	shares held at time of appointment
N/A	1.0%	shareholding ratio	
N/A	4,398,434	number of shares	number of shares currently held
N/A	1.01%	Shareholding ratio	
N/A	N/A	number of shares	shares currently held by spouse and/or children under 20 years of age
N/A	N/A	shareholding ratio	
N/A	N/A	number of shares	shares held in the name of others
N/A	N/A	Shareholding ratio	
Paris University, Ph.D. in Economics; The Imperial College of Science, Technology and Medicine (Imperial College, London); Master of Management; Chairman of Land Bank of Taiwan; Secretary-general, Executive Yuan; Director of Internation Business, National Taiwan University	N/A	major work (education) experiences (Note 2)	
Professor of Business Administration, National Taiwan Univerty; Director of Abtel Polytech; Director of Qiding, Huading, Yuanding Ventures; and Independent Director of Inventec Besta, Sinbon and Formosa Plastics	N/A	Currently serving concurrently in the Company and other company	
N/A	N/A	job title	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
N/A	N/A	name	
N/A	N/A	relationship	

Independent Director	Independent Director	job title
Taiwan	Taiwan	nationality or country of incorporation
LIN, HSIEN-MING	LIN, MAO-KUE(Note)	name
male	male	gender
June 2, 2015	June 2, 2015	date of appointment
3 years	3 years	term
June 2, 2015	June 2, 2015	initial appointment date
N/A	N/A	shares held at time of appointment
		number of shares
N/A	N/A	shareholding ratio
		number of shares
N/A	N/A	number of shares
		Shareholding ratio
N/A	N/A	shares currently held by spouse and/or children under 20 years of age
		number of shares
N/A	N/A	shareholding ratio
		number of shares
N/A	N/A	shares held in the name of others
		Shareholding ratio
Bachelor in Electrical and Computer Engineering, National Chiao Tung University; President of Acer Inc.	Graduated from National Taipei Technical College; Executives Program, NCCU MBA Program; Honorary Doctorate, National Taipei University of Technology; Plant Manager of Lite-on Electronics Co., Ltd.	major work (education) experiences (Note 2)
Chairman and Chief Strategy Officer of Wistron Company; Chairman of Wistron Information Technology & Services Corporation; Director of Gamania Digital Entertainment Co., Ltd.; Independent Director of Taiwan Model Semiconductor Co., Ltd.; Chairman of Wiwynn, Wistron Biotech Investment Holding Corporation, Wistron Digital Technology Holding Corporation	Note	Currently serving concurrently in the Company and other company
N/A	N/A	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
N/A	N/A	job title
N/A	N/A	name
N/A	N/A	relationship

Independent Director	job title
Taiwan	nationality or country of incorporation
CHEN, HOMIN	name
male	gender
June 2, 2015	date of appointment
3 years	term
June 2, 2015	initial appointment date
N/A	shares held at time of appointment
N/A	number of shares
N/A	shareholding ratio
N/A	number of shares
N/A	Shareholding ratio
N/A	shares currently held by spouse and/or children under 20 years of age
N/A	number of shares
N/A	shareholding ratio
N/A	number of shares
N/A	Shareholding ratio
Ph.D. in Marketing, Business Administration, National Taiwan University; Dean of the Commerce Development Research Institute; Dean of the College of Management, National Chung Hsing University	major work (education) experiences (Note 2)
Independent Director of Fulltech Fiber Glass; Director of Roo Hsing Co., Ltd.	Currently serving concurrently in the Company and other company
N/A	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
N/A	job title
N/A	name
N/A	relationship

Note: LIN, MAO-KUEI passed away on September 13, 2018.

1.2. Main shareholders of corporate shareholders

April 12, 2019

name of the corporate shareholders	main shareholders of corporate shareholders
Yulong Investment Co., Ltd.	YEH, I-HAU (100%)
Zonglong Investment Co., Ltd.	YEH, I-HAU (100%)

1.3. Independence of the Directors and Supervisors:

April 12, 2019

Qualification name	Does he/she have more than 5yrs of work experience and the following professional qualifications?			Degree of independence (Note)										Number of independent directors serving concurrently as independent director of other public companies
	Public and private universities lecturer (or above) in business, legal, financial, accounting or other fields related to the business of the Company	Judge, prosecutor, lawyer, accountants or other certified professionals and technicians in the fields related to the business of the Company	Work experience in business, legal, financial, accounting or fields related to the business of the Company	1	2	3	4	5	6	7	8	9	10	
Yulong Investment Representative YEH, I-HAO			V						V	V		V	V	
YEN, KUO-LUNG			V			V	V	V	V	V	V	V	V	
CHIU, TE-CHEN			V	V	V	V	V	V	V	V	V	V	V	2
Zonglong Investment Representative WEA, CHI-LIN	V		V	V	V	V	V	V	V	V	V	V	V	3
LIN, MAO-KUEI (Note)			V	V	V	V	V	V	V	V	V	V	V	Note
LIN, HSIEN-MING			V	V	V	V	V	V	V	V	V	V	V	1
CHEN, HOMIN	V		V	V	V	V	V	V	V	V	V	V	V	1

- (1) Not an employee of the Company nor its affiliates;
- (2) Not a director or supervisor of the Company's affiliate (this does not apply to the independent director established pursuant to the Act or local law of the Company or its parent company and/or subsidiary);
- (3) Not a person, or his/her spouse, or his/her children under twenty (20) years of age, or in the name of others, who holds more than 1 percent of the Company's total shares issued or a top 10 natural person shareholder;
- (4) Not the spouse, a relative by blood or marriage within second degree of kinship or relationship or a relative by blood within fifth degree of kinship of those listed in (1) – (3);
- (5) Not a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the Company's total shares issued, nor a director, supervisor or employee of a top 5 corporate shareholder;
- (6) Not a professional providing business, legal, financial, and accounting services or consultation to the Company or its affiliates; not an owner, partner, directors (council), supervisor, manager or his/her spouse of a sole proprietorships, partnership, company or institution.
- (7) Not a professional providing business, legal, financial, and accounting services or consultation to the Company or its affiliates; not an owner, partner, directors (council), supervisor, manager or his/her spouse of a sole proprietorships, partnership, company or institution. However, this shall not apply where a member is performing his/her authority pursuant to Article 7 of the [Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter];
- (8) Not a spouse or a relative by blood or marriage within second degree of kinship or relationship of another director;
- (9) Not having any one of the circumstances as identified in Article 30 of the Company Act;
- (10) Not a government agency, juristic person or its proxy pursuant to Article 27 of the Company Act.

Note: LIN, MAO-KUEI passed away on September 13, 2018.

(2) Information about the President and the management team:

April 12, 2019

Execute Vice President	Chairman & President	job title (Note 1)		date of assuming the position	shareholding		shares currently held by spouse and/or children under 20 years of age		shares held in the name of others		major work (education) experiences (Note 2)	position held concurrently in other company	Manager(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship		
					number of shares	Shareholding ratio	number of shares	Shareholding ratio	number of shares	Shareholding ratio			job title	name	relationship
Taiwan	Taiwan														
YEN, KUO-LUNG	YE, I-HAU														
male	male														
November 10, 2000	September 1, 1994														
2,002,555	5,057,895														
0.66%	1.66%														
N/A	N/A														
N/A	N/A														
N/A	N/A														
N/A	N/A														
Graduate Institute of Electrical Engineering, National Taiwan University; Engineer of the Industrial Technology Research Institute; Manager of Hualong Microelectronics Co., Ltd.	Institute of Communications Engineering; Engineer of the Industrial Technology Research Institute; Manager of Huazhan Semiconductor Co., Ltd.; Director of Hualong Microelectronics Co., Ltd.														
Director of Eminent Electronic Technology; Corporate Representative of Avisonic Technology, Metanoia Communications, Uniband Electronic, Lyra Semiconductor	Director of Lianding, Huading, Qiding, Jiuding, Yuanding, Fuding, Wending, Liding Venture Capital, Yiding Biotech Ventures, North Star Venture Capital, InnoBridge International, Applied Materials, SINOCON Industrial Standards Foundation, Chuwang Technology, ELAN (HK), Power Asia; Chairman of Metanoia, Avisonic Technology, PiXORD														
N/A	N/A														
N/A	N/A														

Chief Finance and Accounting Officer	Taiwan	CHEN, I-LIN	male	June 28, 2013	0	0	N/A	N/A	N/A	N/A	Department of Accounting and Information Technology; National Chengchi University Department of Finance; Deputy Manager of Klynveld Peat Marwick Goerdeler; Manager of Elantech Devices Corporation; Senior Manager of ELAN Microelectronics Corporation	N/A	N/A	N/A
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Note 1: All job positions, regardless of the job title, equivalent to President, Vice President or Director shall be disclosed.

Note 2: If the experiences related to the current position involves serving in the firm of the auditing Certified Public Accountant or its affiliate during the prior period thereof, the job title and job descriptions therein shall be specified.

(3) Remunerations paid to the Directors, Supervisors, President and Vice President during the last fiscal year:

3.1 Directors' remuneration

December 31, 2018
unit: NT\$'000 / '000 share

Director			Director	Chairman		job title														
WEA, CHI-LIN	Zonglong Investment Co., Ltd.	YEN, KUO-LUNG	YEH, I-HAU	Yulong Investment Co., Ltd.	name															
					remuneration (A) [Note 2]	Directors' remuneration		compensations received as an employee					percentage of A+B+C+D+E+F +G to Net Income After Taxes [Note 10]		percentage of A+B+C+D+E+F +G to Net Income After Taxes [Note 10]		remuneration received from nonsubsidiary joint venture business [Note 11]			
					the Company	Pension (B) [Note 1]	Directors' remuneration (C) [Note 3]	business execution costs (D) [Note 4]	percentage of A+B+C+D to Net Income After Taxes [Note 10]	salary, bonus and special disbursement (E) [Note 5]	pension (F) [Note]	employee compensation (G) [Note 6]	percentage of A+B+C+D+E+F +G to Net Income After Taxes [Note 10]							
					all companies listed in the financial statements (Note 7)	the Company	all companies listed in the financial statements (Note 7)	the Company	all companies listed in the financial statements (Note 7)	the Company	all companies listed in the financial statements (Note 7)	the Company	all companies listed in the financial statements (Note 7)	the Company	all companies listed in the financial statements (Note 8)					
		1,600																		
		1,600																		
		0																		
		0																		
		29,000																		
		29,000																		
		0																		
		0																		
		1.96%																		
		1.96%																		
		21,382																		
		26,760																		
		308																		
		308																		
		7,780																		
		0																		
		7,780																		
		0																		
		3.85%																		
		4.20%																		
		1,860																		

Independent Director	Independent Director	Independent Director	Director
CHEN, HOMIN	LIN, HSIEN-MING	LIN, MAO-KUEI (Note 2)	CHIU, TE-CHEN

* The remuneration received by the Company’s Directors for services rendered (such as serving as non-employee consultants) to all companies listed in the financial statements other than those disclosed in the schedule above: N/A

[Note 1] “Pension” referred to the pension amount contributed in 2018.

[Note 2]: LIN, MAO-KUEI passed away on September 13, 2018.

Schedule of Remuneration

remuneration range paid to each Director of the Company	Director's name			
	total remuneration amount (A+B+C+D)		total remuneration amount (A+B+C+D+E+F+G)	
	the Company (Note 8)	all companies listed in the financial statements (Note 9) H	the Company (Note 8)	all joint venture businesses (Note 9) I
less than NT\$2,000,000	LIN, MAO-KUEI; LIN, HSIEN-MING; CHEN, HOMIN	LIN, MAO-KUEI; LIN, HSIEN-MING; CHEN, HOMIN	LIN, MAO-KUEI; LIN, HSIEN-MING; CHEN, HOMIN	WEA, CHI-LIN; LIN, MAO-KUEI; LIN, HSIEN-MING; CHEN, HOMIN
NT\$2,000,000 (including) ~ NT\$5,000,000	CHIU, TE-CHEN	CHIU, TE-CHEN	CHIU, TE-CHEN	CHIU, TE-CHEN
NT\$5,000,000 (including) ~ NT\$10,000,000	Yulong Investment; Zonglong Investment; YEN, KUO-LUNG	Yulong Investment; Zonglong Investment; YEN, KUO-LUNG	Yulong Investment; Zonglong Investment	Yulong Investment; Zonglong Investment
NT\$10,000,000 (including) ~ NT\$15,000,000				
NT\$15,000,000 (including) ~ NT\$30,000,000			YEH, I-HAU; YEN, KUO-LUNG	YEH, I-HAU; YEN, KUO-LUNG
NT\$30,000,000 (including) ~ NT\$50,000,000				
NT\$50,000,000 (including) ~ NT\$100,000,000				
NT\$100,000,000 or above				
total	7 seats	7 seats	8 seats	9 seats

Note 1: The names of the Directors shall be separately presented (a corporate shareholder shall list the name of the corporate shareholder and its representative separately) and disclose the amount of each payment in a consolidated manner. If a Director is serving concurrently as a President or Vice President, this form and form (3-1) or (3-2) hereinafter shall be filled in.

Note 2: Referred to the Directors' remuneration in the last fiscal year (including Directors' salary, supervisory differential pay, termination pay, various bonuses, incentives, etc.).

Note 3: Fill in Directors' remuneration amount of the last fiscal year authorized by the Board of Directors to be distributed.

Note 4: Referred to the relevant business execution costs (including transportation allowances, special disbursements, various allowances, living quarters, assigned company cars, etc.) of the Directors incurred during the last fiscal year. If house, car and other transportation or personal expenditures are provided, the nature and costs of the assets so provided, actual rent or rent at fair market value, gasoline allowances and other payments shall be disclosed. In addition, if driver(s) is provided, please specify relevant compensation of the driver(s) paid by the Company, of which shall not be included in the remuneration.

Note 5: Referred to the salary, supervisory differential pay, termination pay, various bonus, incentives, transportation allowances, special disbursements, various allowances, living quarters and assigned company cars of the Directors for serving concurrently as employee (including serving concurrently as President, Vice President, other manager and employee) incurred during the last fiscal year. If house, car and other transportation or personal expenditures are provided, the nature and costs of the assets so provided, actual rent or rent at fair market value, gasoline allowances and other payments shall be disclosed. In addition, if driver(s) is provided, please specify relevant compensation of the driver(s) paid by the Company, of which shall not be included in the remuneration. Furthermore, salary expenses, including employee stock option certificate(s), restricted stock award(s) and participation in stock options at cash capital increase, recognized pursuant to IFRS 2 "Share-based Payment" shall also be included in the remuneration.

Note 6: The employee compensation (including shares and cash) of the Directors serving concurrently as employee (including serving concurrently as President, Vice

- President, other manager and employee) during the last fiscal year shall be disclosed upon the Board of Directors' authorization to distribute. If the amount cannot be estimated, the proposed amount to be distributed shall be based on the proportional actual distributed amount of the previous year and fill out the attached form 1 – 3.
- Note 7: The total amount of various remunerations paid to the Company's Directors by the companies (including the Company) listed in the consolidated financial statements shall all be disclosed.
- Note 8: The total amount of various remunerations paid to each Director by the Company shall be disclosed in the Schedule of Remuneration along with name of the Directors.
- Note 9: The total amount of various remunerations paid to each Director by the companies listed in the consolidated financial statements shall be disclosed in the Schedule of Remuneration along with name of the Directors.
- Note 10: Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.
- Note 11: a) The remuneration amount received by the Company's Directors from the related nonsubsidiary joint venture business(es) shall be clearly stated in this field.
b) If the Company's Directors received remuneration from related nonsubsidiary joint venture business(es), the remuneration received by the Company's Directors from nonsubsidiary joint venture business(es) shall be consolidated in field-I of the Schedule of Remuneration and revise the field name to be "all joint venture businesses".
c) The remuneration referred to the remunerations (including employee compensation and Directors and Supervisors' remuneration) and business execution costs related compensation received by the Company's Directors for serving as Directors, Supervisors or managers in the nonsubsidiary joint venture business(es).

3.2 Supervisors' remuneration: The Company has appointed 3 Independent Directors in 2015 to establish the Audit Committee in lieu of Supervisors; therefore, there was no Supervisors' remuneration in 2018.

3.3 President and Vice President's remunerations:

December 31, 2018
Unit: NT\$'000 / '000 shares

job title	name	salary (A) (Note 2)		pension (B)		bonus and special disbursement (C) (Note 3)		employee compensation amount (D) (Note 4)				percentage of A+B+C+D to Net Income After Taxes (Note 8)		remuneration received from nonsubsidiary joint venture business (Note 9)
		the Company	all companies listed in the financial statements (Note 5)	the Company	all companies listed in the financial statements (Note 5)	the Company	all companies listed in the financial statements (Note 5)	the Company		all companies listed in the financial statements (Note 5)		the Company	all companies listed in the financial statements (Note 5)	
								cash amount	amount in shares	cash amount	amount in shares			
President	YEH, I-HAU	16,169	20,778	308	308	5,213	5,982	7,780	0	7,780	0	1.89%	2.23%	480
Execute Vice President	YEN, KUO-LUNG													

[Note] "Pension" referred to the pension amount contributed in 2018.

Schedule of Remuneration

remuneration range paid to each President and Vice President of the Company	name of the President and Vice President	
	the Company (Note 6)	all joint venture businesses (Note 7) E
less than NT\$2,000,000		
NT\$2,000,000 (including) ~ NT\$5,000,000		
NT\$5,000,000 (including) ~ NT\$10,000,000		
NT\$10,000,000 (including) ~ NT\$15,000,000	YEN, KUO-LUNG	YEN, KUO-LUNG
NT\$15,000,000 (including) ~NT\$30,000,000	YEH, I-HAU	YEH, I-HAU
NT\$30,000,000 (including) ~ NT\$50,000,000		
NT\$50,000,000 (including) ~ NT\$100,000,000		
NT\$100,000,000 or above		
total	2 persons	2 persons

Note 1: The names of the President and Vice President shall be separately presented and disclose the amount of each payment in a consolidated manner. If a Director is serving concurrently as a President or Vice President, this form and form (1-1) or (1-2) hereunder shall be filled in.

Note 2: Referred to the President and Vice President's remuneration in the last fiscal year (including Directors' salary, supervisory differential pay, termination pay, various bonuses, incentives, etc.).

Note 3: Fill in various bonus, incentives, transportation allowances, special disbursements, various allowances, living quarters, assigned company cars and other remuneration amount of the President and Vice President incurred during the last fiscal year. If house, car and other transportation or personal expenditures are provided, the nature and costs of the assets so provided, actual rent or rent at fair market value, gasoline allowances and other payments shall be disclosed. In addition, if driver(s) is provided, please specify relevant compensation of the driver(s) paid by the Company, of which shall not be included in the remuneration. Furthermore, salary expenses, including employee stock option certificate(s), restricted stock award(s) and participation in stock options at cash capital increase, recognized pursuant to IFRS 2 "Share-based Payment" shall also be included in the remuneration.

Note 4: The employee compensation (including shares and cash) of the President and Vice President during the last fiscal year authorized to be distributed by the Board of Directors. If the amount cannot be estimated, the proposed amount to be distributed shall be based on the proportional actual distributed amount of the previous year and fill out the attached form 1 – 3. Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.

Note 5: The total amount of various remunerations paid to the Company's President and Vice President by the companies (including the Company) listed in the consolidated financial statements shall all be disclosed.

Note 6: The total amount of various remunerations paid to each President and Vice President by the Company shall be disclosed in the Schedule of Remuneration along with name of the President and Vice President.

Note 7: The total amount of various remunerations paid to each President and Vice President by the companies listed in the consolidated financial statements (including the Company) shall be disclosed in the Schedule of Remuneration along with name of the President and Vice President.

Note 8: Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.

Note 9: a) The remuneration amount received by the Company's President and Vice President from the related nonsubsidiary joint venture business(es) shall be clearly stated in this field.
b) If the Company's President and Vice President received remuneration from related nonsubsidiary joint venture business(es), the remuneration received by the Company's President and Vice President from nonsubsidiary joint venture business(es) shall be consolidated in field-E of the Schedule of Remuneration and revise the field name to be "all joint venture businesses".

c) The remuneration referred to the remunerations (including employee compensation and Directors and Supervisors' remuneration) and business execution costs related compensation received by the Company's President and Vice President for serving as Directors, Supervisors or managers in the nonsubsidiary joint venture business(es).

3.4 Name(s) of the manager(s) and the employee compensation distributed:

December 31, 2018
Unit: NT\$'000 / share

	job title (Note 1)	name (Note 1)	stock bonus amount	cash bonus amount	total	Percentage of the total amount to Net Income After Taxes
managers	President	YEH, I-HAU	0	8,261	8,261	0.53%
	Executive Vice President	YEN, KUO-LUNG				
	Chief Finance and Accounting Officer	CHEN, I-LIN				

Note 1: The names and job title(s) of the manager(s) shall be presented and disclose the amount of profit distribution in a consolidated manner.

Note 2: The employee compensation (including shares and cash) of the manager(s) during the last fiscal year authorized to be distributed by the Board of Directors. If the amount cannot be estimated, the proposed amount to be distributed shall be based on the proportional actual distributed amount of the previous year. Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.

Note 3: "Manager" shall, pursuant to the provisions prescribed in document number Tai-Cai-Zheng-San-Zi-0902001301 issued by the Chamber on 27 March 2003, include the following:

- (1) President and those assuming equivalent position;
- (2) Vice President and those assuming equivalent position;
- (3) Director and those assuming equivalent position;
- (4) Chief Financial Officer
- (5) Chief Accounting Officer
- (6) Other managing personnel and signatory of the Company.

Note 4: The Director, President and Vice President who received employee compensation (including shares and cash) shall, in addition to filling out the attached for 1 – 2, also fill out this form.

- (4) Analysis on the percentage of total remuneration amount paid to the Company's Directors, Supervisors, President and Vice President by the Company and all companies listed in the consolidated financial statements to Net Income After Taxes during the past 2 years and explain the policies, standards and mix of remuneration, the procedures of setting the remuneration, and the correlation with operating performance:

Unit: NT\$'000

job title	2018				2017			
	the Company		all companies listed in the consolidated financial statements		the Company		all companies listed in the consolidated financial statements	
	total remuneration amount	Percentage to Net Income After Taxes	total remuneration amount	Percentage to Net Income After Taxes	total remuneration amount	Percentage to Net Income After Taxes	total remuneration amount	Percentage to Net Income After Taxes
Director	30,600	1.96%	30,600	1.96%	21,800	2.03%	21,800	2.03%
Supervisor	0	0%	0	0%	0	0%	0	0%
President and Vice President	29,470	1.89%	34,848	2.23%	22,537	2.10%	27,779	2.59%

Explanation:

- (1) The remunerations of the Company's Directors and managers are subject to provisions of the Articles of Association, which shall be reviewed by the Remuneration Committee based on each Director and manager's degree of participation and contribution in the Company's operation and submitted to the Board of Directors after taking into account the payment standard in the industry;
- (2) The 2017 Profit Distribution was the proposed distribution amount; the 2016 Profit Distribution was the actual distributed remuneration;
- (3) The directors' remuneration was increased in 2018 compared with that of in 2017 mainly due to profit increase in 2018 compared with that of in 2017, which resulted in the increase in the directors' remuneration so recognized. The 2018 increment of directors' remuneration is equivalent to the increment of net profit after tax, and the total increment of directors' remuneration is not greater than the increment of net profit after tax.

3. Implementation of Corporate Governance:

(1) Operation of the Board of Directors:

The Board of Directors has held 7 meetings (A) during the last fiscal year, and the attendance thereof is described as follows:

job title	name	actual number of times of attendance [B]	number of times attended by a proxy	actual attendance rate (%) [B/A]	remarks
Chairman	Yulong Investment Co., Ltd. representative: YEH, I-HAU	7	0	100%	
Director	YEN, KUO-LUNG	7	0	100%	
Director	Zonglong Investment Co., Ltd. representative: WEA, CHI-LIN	7	0	100%	
Director	CHIU, TE-CHEN	6	1	85.7%	
Independent Director	LIN, MAO-KUEI	5	1	83.3%	passed away on September 13, 2018
Independent Director	LIN, HSIEN-MING	7	0	100%	
Independent Director	CHEN, HOMIN	7	0	100%	

Other items to be noted:

- In the event of any of the following circumstances concerning the operation of the Board of Directors, the date, session number, agenda of the Board meeting, all Independent Director's opinions and how the Company process the Independent Director's opinions shall be specified:
 - Matters relating to Article 14-3 of the Securities and Exchange Act: Not applicable; the Company has established the Audit Committee.
 - Other Board resolutions, except the matters mentioned above, opposed or given qualified opinion by Independent Director(s) with record(s) or written statement(s): not applicable.
- Where the Director avoided conflict of interests, specify the Director's name, agenda, reason for the avoidance of conflict of interests and participation in voting: not applicable.
- The goals to strengthen the functions of the Board of Directors (such as establishing an Audit Committee, enhance information transparency, etc.) for the current year and last fiscal year and assessment on the execution: On 2 June 2015, 3 Independent Directors were appointed during the shareholders' meeting and formed an Audit Committee to improve the diversity among the Board members; In 2018, the Board of Directors set the "Code of Corporate Governance" and the "methods of evaluating the performances of the Board of Directors" to implement corporate governance and enhance functions of the Board.

(2) Operation of the Audit Committee:

The Audit Committee has held 3 meetings (A) during the last fiscal year, and the attendance of the Independent Director is described as follows:

job title	name	actual number of times of attendance [B]	number of times attended by a proxy	actual attendance rate (%) [B/A] (Note)	remarks
Independent Director	LIN, MAO-KUEI	1	1	50%	passed away on September 13, 2018
Independent Director	LIN, HSIEN-MING	3	0	100%	
Independent Director	CHEN, HOMIN	3	0	100%	

Other items to be noted:

- In the event of any of the following circumstances concerning the operation of the Audit Committee, the date, session number, agenda of the Board meeting, the Audit Committee resolution and how the Company process the Audit Committee resolution shall be specified.

- Matters relating to Article 14-5 of the Securities and Exchange Act;
- Other Board resolutions, except the matters mentioned above, authorized by 2/3 (or above) of the Directors byt opposed by the Audit Committee:

Board Meeting	agenda and subsequent processes	Matters relating to Article 14-5 of the Securities and Exchange Act	Board resolutions authorized by 2/3 (or above) of the Directors byt opposed by the Audit Committee
The Eighth Session No. 17 March 10, 2018	1. To discuss about the Company's 2017 self-closing financial statements and consolidated financial statements.	V	
	2. To pass the internal control design and Statement on Internal Control.	V	
	3. To appoint accountant(s) of Klynveld Peat Marwick Goerdeler (KPMG) to audit and certify the Company's 2018 financial statements and tax reports.	V	
	4. To amend rules of procedure for the Board meeting.	V	
	5. To amend the rules governing Audit Committee's exercise of authority.	V	
	The Audit Committee resolutions (March 8, 2018): all members of the Audit Committee have agreed to authorize.		
	How the Company process the Audit Committee resolution: all attending Directors agreed to authorize.		
The Ninth Session No. 2 August 7, 2018	1. To discuss about the Company's Q2 / 2018 self-closing financial statements and consolidated financial statements.	V	
	2. To revise the 2017 profit distribution proposal.	V	
	The Audit Committee resolutions (August 7, 2018): all members of the Audit Committee have agreed to authorize.		
	How the Company process the Audit Committee resolution: all attending Directors agreed to authorize.		
The Ninth Session No. 4 December 21, 2018	1. The property,plants and equipments circulation under the Company's "Internal Control System" added lease related operation, and the "Internal Audit Implementation Rules" added lease related auditing operation.	V	
	2. US\$5 million subscription in Vertex Growth(SG)LP (hereinafter referred to as Vertex)	V	
	The Audit Committee resolutions (December 21, 2018): all members of the Audit Committee have agreed to authorize.		
	How the Company process the Audit Committee resolution: all attending Directors agreed to authorize.		

- Where the Independent Director avoided conflict of interests, specify the Independent Director's name, agenda, reason for the avoidance of conflict of interests and participation in voting: not applicable.
- Communication between the Independent Director and chief audit executive and accountant (include major topics, methods and results relating to the Company's financial and business status that shall be communicated):
Summary of communication between independent directors and internal audit supervisor:

date	method of	key points	recommendations
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	communication		and results
March 8, 2018	Audit Committee	1、Internal Audit Report from December 2017 to January 2018. 2、2017 “Statement on Internal Control”.	no objection
April 17, 2018	Board of Directors	Internal Audit Report from February 2018 to March 2018.	no objection
May 8, 2018	Board of Directors	Internal Audit Report of April 2018.	no objection
August 7, 2018	Audit Committee	Internal Audit Report from May 2018 to June 2018.	no objection
November 8, 2018	Board of Directors	Internal Audit Report from July 2018 to September 2018.	no objection
December 21, 2018	Audit Committee	1、Internal Audit Report from October 2018 to November 2018. 2、The property, plants and equipments circulation under the Company's “Internal Control System” added lease related operation, and the “Internal Audit Implementation Rules” added lease related auditing operation.	no objection
Summary of communication between independent directors and CPA:			
date	key points		recommendations and results
March 8, 2018	1. Auditor's responsibility to audit the financial statements; 2. The scope of audit; 3. Audit result, which include the company's financial status, major adjustment entries, key audit items; 4. Independence; 5. Updates on important accounting standards or interpretations, FSC rules and tax laws and regulations.		no objection

Note:

- ✧ If an Independent Director left his/her position before the end of the year, the date he/she left the position shall be specified in the “remarks” field and the actual attendance rate (%) shall be calculated based on the number of Audit Committee meetings and his/her actual number of times of attendance during his/her term.
- ✧ If there is an independent director re-election before the end of the year, the information of both previous and new Independent Directors shall be filled in the “remarks” field specifying who is the previous Independent Director, who is the new or re-elected Independent Director and the re-election date; and the actual attendance rate (%) shall be calculated based on the number of Audit Committee meetings and his/her actual number of times of attendance during his/her term.

(3) Supervisors' participation in the operation of the Board of Directors: N/A. The Company has established the Audit Committee in lieu of Supervisors in 2015.

(4) Differences between the corporate governance status and the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor:

assessment items	operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations	
1. Did the Company set and disclose the Code of Corporate Practice pursuant to the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”?	V		The Company’s Board of Directors had established the “Code of Corporate Governance” On November 8, 2018 and announced it on the Company’s website and Market Observation Post System.	N/A
2. The Company’s equity structure and shareholders equity				
(1) Did the Company set and implement internal operating procedures to process shareholders’ advises, doubts, disputes and litigation matters?	V		The Company has set up Spokesperson system and legal department to process relevant issues.	N/A
(2) Did the Company master the list of the Company’s major shareholders and ultimate controllers of the major shareholders?	V		The Company has set up personnel dedicated to stocks/shares related matters and entrusted agent Masterlink Securities to process stocks/shares related affairs.	N/A
(3) Did the Company establish and execute risk management and firewall mechanisms with its affiliates?	V		The Company has formulated the “Regulations on the Operating Management of Subsidiary” as the basis for control.	N/A
(4) Did the Company set internal regulations prohibiting the Company’s staff members from using undisclosed information in securities trading?	V		The Company has formulated the “Major Internal Information Processing Procedures” and “Ethical Code of Conduct” specifications.	N/A
3. Composition and responsibilities of the Board of Directors				
(1) Did the Board of Directors formulate and implement a diversified approach for the member composition?	V		1. The Company adopted the “Code of Corporate Governance” on the Ninth Session No. 3 Board meeting on November 8, 2018, of which diversified policy was set out in Chapter 3 “Strengthening the Board Functions”. The nomination and selection of the Board members of the Company adopts the nomination system for candidates as prescribed in the Articles of Association and abides by the “Guidelines Governing the Election of Directors” and “Code of Corporate Governance” to ensure the diversity and independence of the Board members.	N/A
(2) Did the Company, in addition to the establishment of the Remuneration Committee and Audit Committee by laws, voluntarily establish other types of functional committees?		V	2. The Company’s current Board of Directors consists of 4 directors and 2 independent directors. Among the directors, there are those specialized in leadership, operational judgment, management, crisis management, industrial and international market knowledges such as YEH, I-HAU, YEN, KUO-LUNG, CHIU, TE-CHEN, WEA, CHI-LIN; CHIU, TE-CHEN has many years experiences in venture capital management and rich experiences in the industry; WEA, CHI-LIN has served as a professor in government unit and university and is currently chairman of a bills finance company with rich industrial, government, and academic experiences; the independent director LIN, HSIEN-MING is chairman of a well-known domestic electronics manufacturer who often provides valuable advises on operational practices; another independent director CHEN, HOMIN is	Will establish other functional committees according to the actual Operating needs of the Company.

assessment items	operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations	
(3) Did the Company set methods of evaluating the performances of the Board of Directors perform the evaluation regularly on a yearly basis?	V		<p>currently a professor teaching business at a national university who provide company-related academic views.</p> <p>3. Among the Company’s directors, 33% of them are employees, 33% of them are independent directors. The term of independent director is 4 years, and their ages are between 60-69. There is one director whose age is over 70 years old; there are two director whose age is between 60 to 69 years old; and there is one director whose age is below 60 years old.</p> <p>Currently, no other functional committees has been established.</p> <p>The Company’s Board of Directors has formulated the “methods of evaluating the performances of the Board of Directors” on December 21, 2018, which stipulated that the Board of Directors shall perform an internal Board performance evaluation once a year. The internal evaluation period of the Board of Directors shall be at the end of each year, which shall conduct annual performance evaluations on the entire Board of Directors, individual Board members and the functional committees. The results of the Board’s internal performance evaluation shall be completed prior to the earliest Board meeting of the following year.</p> <p>Performance evaluation of the Board of Directors (functional committee):</p> <ol style="list-style-type: none"> 1. The level of participation in the Company's operations. 2. Improve the quality of decision-making of the Board of Directors. 3. Composition and structure of the Board of Directors. 4. Election, appointment and continuous training of the directors. 5. Internal control. <p>Performance evaluation of the Board members (self or peers) shall at least cover the following six aspects:</p> <ol style="list-style-type: none"> 1. The level of mastering the Company's goals and tasks. 2. Understanding of director's duties. 3. The level of participation in the Company's operations. 4. Internal relationship management and communication. 5. Director’s profession and continuous training. 6. nternal control. <p>At the end of each year, each implementation unit shall collect relevant information concerning activities of the Board of Directors and distribute relevant self-assessment questionnaires to fill out. Then, the organizing implementation unit shall collect the data, record the evaluation results report and sends it to the Board of Directors for report.</p> <p>The Company has completed the performance evaluation of the Board of Directors and the directors in February 2019 and reported in the Board meeting on March 12, 2019. Results of the performance evaluation of the</p>	N/A

assessment items	operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor																					
	Yes	No	brief explanations																						
(4) Did the Company regularly evaluate the independence of the Certified Public Accountant?	V		<p>Company’s Board member are all good.</p> <p>The Company assessed the independence of the accountant on yearly basis and has submitted the results on 12 March 2019 to the Audit Committee and the Board of Directors for authorization before the appointment of the accountant. The Company has evaluated Accountant TSENG, MEI-YU and Accountant CHOU, PAO-LIEN of Klynveld Peat Marwick Goerdeler (KPMG) and concluded with the issuance of written statement that they both met the Company’s independence assessment standards (Note 1) and are suitable to serve as the Company’s Certified Public Accountants and accounting firm.</p> <p>Note 1: Independence assessment standards for accountant(s)</p> <table><tr><th>assessment items</th><th>assessment results</th><th>independence</th></tr><tr><td>1. Does the Accountant has direct or major indirect financial interests with the Company?</td><td>No</td><td>Yes</td></tr><tr><td>2. Does the Accountant have financing or guarantee behaviors with the Company or the Company’s Directors?</td><td>No</td><td>Yes</td></tr><tr><td>3. Does the Accountant have close business relationship and potential employment relationship with the Company?</td><td>No</td><td>Yes</td></tr><tr><td>4. Did the Accountant and its audit team member currently or use to serve in the Company as a director, manager or other position having major influence on the audit work during the past 2 years?</td><td>No</td><td>Yes</td></tr><tr><td>5. Did the Accountant provide the Company with non-audit service item that may directly affect audit the work?</td><td>No</td><td>Yes</td></tr><tr><td>6. Did the Accountant ever serve as the Company’s defender or represent the Company in coordinating conflicts with other third parties?</td><td>No</td><td>Yes</td></tr></table>	assessment items	assessment results	independence	1. Does the Accountant has direct or major indirect financial interests with the Company?	No	Yes	2. Does the Accountant have financing or guarantee behaviors with the Company or the Company’s Directors?	No	Yes	3. Does the Accountant have close business relationship and potential employment relationship with the Company?	No	Yes	4. Did the Accountant and its audit team member currently or use to serve in the Company as a director, manager or other position having major influence on the audit work during the past 2 years?	No	Yes	5. Did the Accountant provide the Company with non-audit service item that may directly affect audit the work?	No	Yes	6. Did the Accountant ever serve as the Company’s defender or represent the Company in coordinating conflicts with other third parties?	No	Yes	N/A
assessment items	assessment results	independence																							
1. Does the Accountant has direct or major indirect financial interests with the Company?	No	Yes																							
2. Does the Accountant have financing or guarantee behaviors with the Company or the Company’s Directors?	No	Yes																							
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5. Did the Accountant provide the Company with non-audit service item that may directly affect audit the work?	No	Yes																							
6. Did the Accountant ever serve as the Company’s defender or represent the Company in coordinating conflicts with other third parties?	No	Yes																							

assessment items	operating status (Note)					Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations			
			7. Is the Accountant related in kinship or marriage with the Company’s Director, manager or other person having major influence on the audit work?	No	Yes	
4. Did the TWSE/GTSM listed companies establish Corporate Governance Responsible Unit or personnel to be responsible for corporate governance related affairs (including but not limited to providing information required by the Directors and/or Supervisors to execute the business, and, pursuant to laws and regulation, processing the Board meeting and shareholders’ meeting related matters, processing company registration and change of registration, generating minutes of the Board meetings and shareholders’ meetings, etc.)?	V		The Company assigned the Finance Division, Administration Division, Intellectual Property Rights & Legal Department and Auditor Committee to take charge of corporate governance related operations: 1. To study and plan appropriate company system and organizational structure to promote the independence of the Board of Directors, transparency of the Company, compliance with the laws and regulations, and implementation of the internal control of internal audit. 2. To prepare the agenda before the Board meeting and notify all Directors to attend and provide sufficient meeting materials at least 7 days before the meeting to facilitate the Directors in understanding the contents of the related topics; the interested parties shall be reminded should the contents of the issues call for their avoidance of conflict of interests. 3. Register the date of the shareholders' meeting within the deadline on yearly basis pursuant to laws and regulations, generate and file the meeting notification, meeting handbook and minutes within the deadline, and register after the amendment on Article of Association or re-election of the Directors.			N/A
5. Did the Company establish communication channel with interested parties (including but not limited to shareholders, employees, customers and suppliers), set up an Interested Parties Zone on the Company’s website, and duly respond to important corporate social responsibility issues concerned by the interested parties?	V		The Company’s website has set up an Interested Parties Zone and public e-mail to safeguard the communication channel of the interested parties.			N/A
6. Did the Company appoint professional service agency to process affairs of the shareholders’ meeting?	V		The Company has entrusted professional stock agent Masterlink Securities to handle the shareholders’ meeting related affairs.			N/A
7. Information disclosure (1) Did the Company set up a website to disclose information concerning financial operations and corporate governance? (2) Did the Company adopt other means of disclosing information (such as setting up an English website, assigning someone to take charge of the collection and disclosure of the Company’s information, implementing the Spokesperson system, posting Corporate Conference process on the Company’s	V V		The Company has set up external website (URL http://www.emc.com.tw) to disclose financial operations information and corporate governance information. Currently, the Company has a dedicated website and dedicated Spokesperson. The video/audio files and newsletter of Corporate Conference will also be posted on the Company’s website for public references.			N/A N/A

assessment items	operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor																																			
	Yes	No	brief explanations																																				
website)?																																							
8. Does the Company possess other important information (including but not limited to employee rights, employee care, investor relations, supplier relations, rights of the interested parties, trainings of the Directors and Supervisors, execution status of risks manage policies and risks measurement standards, execution status of customer policies, liability insurance purchased by the Company for the Directors and Supervisors, etc.) that can help in understanding the corporate governance operating status?	V		<div><div><div>1. In addition to common benefit such as health insurance, social security, group insurance and pension, employees of the Company also enjoy benefits provided by the Company such as bonuses for the year, employee compensation, regular health checkups, established medical room to care for employees’ health, employees travel allowances and club activities.</div><div>2. The Company has set up Spokesperson, Acting Spokesperson, investment contact person and public e-mail as communication channels between the Company and the investors. The Company’s external website (URL http://www.emc.com.tw) also has set up an Interested Parties Zone to present various aspects concerned by the interested parties and related means of communication and response.</div><div>3. Training status of the Directors and Supervisors:</div></div><table><tr><th>job title</th><th>name</th><th>date</th><th>organizer</th><th>name of the course</th><th>number of hours</th></tr><tr><td rowspan="2">Chairman</td><td rowspan="2">YEH, I-HAU</td><td>July 2018</td><td>Securities and Futures Institute</td><td>Advocacy briefing on compliance with laws governing public offering of equity transactions of listed company’s internal members</td><td>3</td></tr><tr><td>December 2018</td><td>Taiwan Corporate Governance Association</td><td>The impact of recent Company Act amendments on corporate governance - starting with disputes</td><td>3</td></tr><tr><td rowspan="2">Director</td><td rowspan="2">YEN, KUO-LUNG</td><td rowspan="2">May 2018</td><td>Securities and Futures Institute</td><td>2018 Annual advocacy conference on anti-insider trading</td><td>3</td></tr><tr><td>Taiwan Stock Exchange</td><td>Summit forum on new corporate governance blueprint of listed company</td><td>3</td></tr><tr><td rowspan="2">Director</td><td rowspan="2">CHIU, TE-CHEN</td><td>Aug. 2018</td><td>Taiwan Corporate Governance Association</td><td>Company’s compliance to laws and regulations and supervisory obligations of the director</td><td>3</td></tr><tr><td>Sep. 2018</td><td>Taiwan Stock Exchange</td><td>2018 ESG Investment Forum</td><td>3</td></tr></table></div>	job title	name	date	organizer	name of the course	number of hours	Chairman	YEH, I-HAU	July 2018	Securities and Futures Institute	Advocacy briefing on compliance with laws governing public offering of equity transactions of listed company’s internal members	3	December 2018	Taiwan Corporate Governance Association	The impact of recent Company Act amendments on corporate governance - starting with disputes	3	Director	YEN, KUO-LUNG	May 2018	Securities and Futures Institute	2018 Annual advocacy conference on anti-insider trading	3	Taiwan Stock Exchange	Summit forum on new corporate governance blueprint of listed company	3	Director	CHIU, TE-CHEN	Aug. 2018	Taiwan Corporate Governance Association	Company’s compliance to laws and regulations and supervisory obligations of the director	3	Sep. 2018	Taiwan Stock Exchange	2018 ESG Investment Forum	3	N/A
job title	name	date	organizer	name of the course	number of hours																																		
Chairman	YEH, I-HAU	July 2018	Securities and Futures Institute	Advocacy briefing on compliance with laws governing public offering of equity transactions of listed company’s internal members	3																																		
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Director	YEN, KUO-LUNG	May 2018	Securities and Futures Institute	2018 Annual advocacy conference on anti-insider trading	3																																		
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assessment items	operating status (Note)							Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor	
	Yes	No	brief explanations						
			juridical person director	WEA, CHI-LIN	May 2018	Taiwan Academy of Banking and Finance	Workshop on Corporate Governance, Session 36	3	
					Oct. 2018	Taiwan Academy of Banking and Finance	Workshop on Corporate Governance, Session 37	3	
			Independent Director	LIN, HSIEN-MING	Apr. 2018	Taiwan Corporate Governance Association	Corporate governance and laws governing securities and exchange	3	
					May 2018	Securities and Futures Institute	Early warning of and analysis on corporate financial crisis	3	
					Nov. 2018	Taiwan Corporate Governance Association	Role of director in the process of corporate merger and acquisition	3	
						Taiwan Corporate Governance Association	Impact of the latest Company Act amendments on the company, director and supervisor and its countermeasures	3	
						Taiwan Corporate Governance Association	Impact of China-US trade war on Taiwanese companies and its countermeasures	3	
			Independent Director	CHEN, HOMIN	Sep. 2018	Taiwan Corporate Governance Association	Corporate ethical management and preventive practice against corruption and malfeasance	3	
						Taiwan Corporate Governance Association	Impact on corporate governance, internal control and responsibility of the director and supervisor by the latest Company Act amendments	3	
			4. If the Board meeting convened by the Company involves personal interests of the Director(s) which are potentially damaging to the Company’s interests, the Director(s) shall uphold self-discipline to avoid the participation in voting or represent other Director(s) in exercising voting power.						

assessment items	operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations	
			5. The Company has purchased NT\$160,000,000 liability insurance for the Directors and managers, of which the related underwriting period and premiums has been reported in the Board meeting on August 7, 2018.	
<p>9. Please state the status of improvement for issues identified in the corporate governance evaluation results issued by the Corporate Governance Center of Taiwan Stock Exchange Corporation in the last fiscal year and propose priority enhancements and measures for those that have not yet improved. (This is not applicable for the companies not listed as a rated company: The issues identified in the Company’s 2018 corporate governance evaluation results that have been improved: English version of the meeting notification was uploaded 30 days before Annual General Meeting of Shareholders was held; English version of the meeting handbook was uploaded 21 days before Annual General Meeting of Shareholders was held; English version of the annual report was uploaded 7 days before Annual General Meeting of Shareholders was held. Future priority enhancement items: <u>Authorize the directors' relevant proposals and set corporate governance personnel.</u></p>				
Note: Explanations shall be specified in the “brief explanations” field regardless whether Yes or No was selected for the operating status.				

(5) Information about members of the Remuneration Committee

Job title (Note 1)	Qualification name	Does he/she have more than 5yrs of work experience and the following professional qualifications?			Degree of independence (Note 2)								Number of independent directors serving concurrently as independent director of other public companies	remarks
		Public and private universities lecturer (or above) in business, legal, financial, accounting or other fields related to the business of the Company	Judge, prosecutor, lawyer, accountants or other certified professionals and technicians in the fields related to the business of the Company	Work experience in business, legal, financial, accounting or fields related to the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	CHEN, HOMIN	✓			✓	✓	✓	✓	✓	✓	✓	✓	1	We, based on professional and objective position, evaluated directors' remuneration policies and systems of the Company and made recommendations to the Board of Directors as decision-making reference.
Independent Director	LIN, MAO-KUEI (Note)			✓	✓	✓	✓	✓	✓	✓	✓	✓	Note	
Independent Director	LIN, HSIEN-MING			✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Other	CHUNG, RONG-DAR			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note: LIN, MAO-KUEI passed away on September 13, 2018.

Note 1: Please fill in the job title as “Director”, “Independent Director” or “other”.

Note 2: For each director who meets the following conditions during the past two years prior to his/her appointment and during his/her term, please mark “☒” in the cell under that number.

- (1) Not an employee of the Company or its affiliates;
- (2) Not a director or supervisor of the Company or its affiliates. However, this does not apply to the Independent Director established pursuant to the Act or local law of the Company or its parent company and/or subsidiary);
- (3) Not a person, or his/her spouse, or his/her children under 20 years of age, or in the name of others, who holds more than 1 percent of the Company's total shares issued or a top 10 natural person shareholder;
- (4) Not the spouse, a relative by blood or marriage within second degree of kinship or relationship or a relative by blood within third degree of kinship of those listed in (1) – (3);
- (5) Not a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the Company's total shares issued, nor a director, supervisor or employee of a top 5 corporate shareholder;
- (6) Not a director (council), supervisor, manager or shareholder with more than 5% shareholding of a specific company or organization having financial or business relationship with the Company;
- (7) Not a professional providing business, legal, financial, and accounting services or consultation to the Company or its affiliates; not an owner, partner, directors (council), supervisor, manager or his/her spouse of a sole proprietorships, partnership, company or institution;
- (8) Not having any one of the circumstances as identified in Article 30 of the Company Act.

(6) Operating status of the Remuneration Committee

1. The Company has a total of 3 Remuneration Committee members.
2. Term of the members of the 3rd Committee: CHEN, HOMIN、LIN, MAO-KUEI、LIN, HSIEN-MING, June 11, 2015 to June 10, 2018. Term of the members of the 4th Committee: CHEN, HOMIN、LIN, HSIEN-MING, June 11, 2018 to June 10, 2021; CHUNG, RONG-DAR, November 8, 2018 to June 10, 2021. The Remuneration Committee has held 3 meetings (A) during the last fiscal year. The member eligibility and attendance status are as follows:

job title	name	actual number of times of attendance [B]	number of times attended by a proxy	actual attendance rate (%) [B/A] (Note)	remarks
Convener	CHEN, HOMIN	3	0	100%	
Member	LIN, MAO-KUEI	1	1	50%	passed away on September 13, 2018.
Member	LIN, HSIEN-MING	3	0	100%	
Member	CHUNG, RONG-DAR	N/A	N/A	N/A	Newly appointed on November 8, 2018, so did not attend the 2018 Remuneration Committee.

The dates, sessions, motions and resolutions of the Remuneration Committee's meetings during the most recent year, and the Company's actions towards the Remuneration Committee's opinions:

Remuneration Committee	content of the motions and its follow-up actions	resolution	The Company's method of handling opinions of the Remuneration Committee
The Third Session No. 9 March 8, 2018	1. Director and manager's remuneration planner 2. Payment of manager's 2017 performance bonus 3. Payment of 2017 employee's compensation and directors' remuneration	all members of the Committee have agreed to authorize.	Submit to the Board meeting to be authorized upon consent of all the attending directors.
The Fourth Session No. 1 August 7, 2018	1. Payment of 2017 directors' remuneration 2. Managers' salary adjustment 3. Payment of managers' 2018 incentives	all members of the Committee have agreed to authorize.	Submit to the Board meeting to be authorized upon consent of all the attending directors.
The Fourth Session No. 2 November 8, 2018	Payment of 2017 managers' remuneration	all members of the Committee have agreed to authorize.	Submit to the Board meeting to be authorized upon consent of all the attending directors.

Other items to be noted:

1. In the event of where the Board of Directors did not approve or correct the Remuneration Committee's propose, the date, session number, agenda of the Board meeting, the Board resolution and how the Company process the Remuneration Committee's resolution shall be specified (if the remuneration authorized by the Board of Directors is better than that of proposed by the Remuneration Committee, please specify the differences and reason therefor): N/A.
2. In the event of where the Remuneration Committee's resolutions opposed or given qualified opinion by its member(s) with record(s) or written statement(s), the date, session number, agenda of the Remuneration Committee meeting, opinions of all members and how the members' opinions were processed: N/A.

Note:

- (1) If a Remuneration Committee member left his/her position before the end of the year, the date he/she left the position shall be specified in the "remarks" field and the actual attendance rate (%) shall be calculated based on the number of Remuneration Committee meetings and his/her actual number of times of attendance during his/her term.
- (2) If there is a Remuneration Committee member re-election before the end of the year, the information of both previous and new Remuneration Committee members shall be filled in the 'remarks' field specifying who is the previous Remuneration Committee member, who is the new or re-elected Remuneration Committee member and the re-election date; and the actual attendance rate (%) shall be calculated based on the number of Remuneration Committee meetings and his/her actual number of times of attendance during his/her term.

(7) Performance of social responsibility:

assessment items	operating status (Note 1)			Differentiation from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations (Note 2)	
<p>1. Implementation of corporate governance</p> <p>(1) Did the Company set policies or system for corporate social responsibility and review the effectiveness of the implementation?</p> <p>(2) Did the Company regularly hold training on social responsibility?</p> <p>(3) Did the Company establish dedicated unit to promote corporate social responsibility, which is authorized to the top management level by the Board of Directors to take charge and report the status to the Board of Directors?</p> <p>(4) Did the Company set reasonable salary remuneration policies, combine the employee performance evaluation system with corporate social responsibility policies, and establish clear and effective reward and punishment system?</p>	Yes		<p>(1) The corporate social responsibility management system and promotion plan of ELAN Microelectronics were set and effective on April 21, 2015 upon the Board of Directors’ approval, which will also incorporate corporate social responsibility policies into performance indicators of each department with the effectiveness of implementation reviewed regularly in monthly quality meeting.</p> <p>(2) The Company holds training on social responsibility regularly every year.</p> <p>(3) The Company has established CSR committee; the Industry Performance Management Department is serving concurrently as the unit for promoting corporate social responsibility, while President was authorized by the Board of Directors to serve as chairman of the committee to report the progress to the Board of Directors.</p> <p>(4) The Company has surveyed the market conditions and set reasonable compensation / remuneration policies to ensure that the compensation plan can meet the objectives of the organizational strategy and interests of the interested parties. The unit responsible for promoting corporate social operations was listed in the annual KPI items to combine with performance evaluation. A clear reward and punishment system was also established.</p>	No differences
<p>2. Development for a sustainable environment</p> <p>(1) Did the Company commit to improving the efficiency in the utilization of various resources and use recycled materials that have a low impact on the environment?</p> <p>(2) Did the Company establish suitable environmental management system according to the nature of its industry?</p> <p>(3) Did the Company pay attention to the impact of climate change on operating activities, implement inspections on greenhouse gases, and formulate company-wide strategy forenergy conservation, carbon reduction and greenhouse gas reduction?</p>	Yes		<p>(1) “Green Product” is the most basic requirement of ELAN Microelectronics. ELAN ‘s full range of products are all in compliance with RoHS, Sony GP, REACH, and halogen-free requirements, of which the customers are provided with Certificate of Non-Use of Hazardous Substances.</p> <p>(2) The Company has passed the ISO-14001:2014 Environmental Quality Management certification.</p> <p>(3) The Company has obtained OHSAS 18001 Occupational Safety and Health Management System certification in May 2016.</p> <p>In 2014, the Corporate Social Responsibility Report was introduced, inspection on greenhouse gases was commenced, and an minimum 1% annual energy conservation and carbon reduction KPI was set. In addition, paperless operation and full-scale electronic management system were promoted.</p>	No differences
<p>3. Maintenance of social welfare</p> <p>(1) Did the Company formulate management policies and procedures in accordance with</p>	Yes		<p>(1) In addition to the Work Rules are in compliance with the relevant laws and regulations, the Company has also adopted the “Human Rights Policy” upon Board resolution to safeguard basic human rights of the employees, to shape</p>	No differences

assessment items	operating status (Note 1)			Differentiation from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations (Note 2)	
relevant laws and regulations and international Human Rights Treaties?			protect the environment with full human rights protection, and to recognize and support UN’s “Universal Declaration of Human Rights”, “The United Nations Global Compact” and other internationally recognized basic human rights, while requiring cooperative manufacturers to prevent any violation of human rights in operate activities, treating internal and external staff members with dignity and respect, and abide by the local labor related laws and regulations of the company.	
(2) Did the Company establish mechanisms and channel for the employees to file complaints? Did the Company duly process employees complaints?	Yes		(2) The Company has provided effectively and appropriate complaint filing mechanisms and concise, convenient and unimpeded channel through the formulation of the “Employees’ Complaint Filing Procedures” to ensure equality and transparency in the complaint filing processes and the complaints are duly responded by dedicated personnel. Furthermore, in order to implement the ethical management policy and actively prevent unethical behavior, the “allegation reporting system” authorized by the Board of Directors in accordance with the Company’s “Ethical Corporate Management Best Practice Principles” and “Ethical Corporate Management Best Practice Procedures and Code of Conduct”, specifically regulates the Company’s personnel in performing business operations.	
(3) Did the Company provide employees with a safe and healthy work environment and regular safety and health education?	Yes		(3) In the past 24 years, there have been no occupational safety accidents. In the 14th year, the Company has received “Distinguished Green Landscaping Award” from Hsinchu Science Park Bureau for providing the employees with healthy, comfortable and safe work environment. It has also implement safety and health training and health promotion activities on regular basis pursuant to relevant laws and regulations. The Company obtained the certification of OHSAS 18001 (Occupational Health and Safety Management Systems) in May 2016. In 2018, the Company began to promote the latest occupational safety and health management system ISO 45001 and is expected to be certified in 2019. In 2018, the Company participated in the prize issued by the Health Promotion Administration of the Ministry of Health and Welfare and won the “Gender-Friendly Health Award”.	
(4) Did the Company establish regular communication mechanisms for its employees and notify its employees about operating changes that may have a significant impact on the employees via reasonable means?	Yes		(4) The Company has established a regular communication channel for the employees (such as monthly operation and employee / employer meeting), and reasonable means to notify its employees about operating changes that may have a significant impact on the employees and the right to express opinions.	
(5) Did the Company establish effective training programs to develop career ability for the employees?		No	(5) The Company has created a good environment and established an effective career ability development training program for the career development of it employees.	
(6) Did the Company formulate policies and			(6) The Company’s products are key components (chips and modules) that do	

assessment items	operating status (Note 1)			Differentiation from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations (Note 2)	
<p>complaint filing procedures to protect consumer rights for R & D, procurement, production, operation and service processes?</p> <p>(7) Did the Company comply with relevant laws and regulations and international standards for the marketing and labeling of products and services?</p> <p>(8) Did the Company assess the supplier’s past records of environmental and social impact before establishing business relationship with the supplier?</p> <p>(9) Is it specified in the contract between the Company and its major suppliers that the contract may be terminated or rescinded if the supplier is involved in the violation of its corporate social responsibility policies and caused significant environment and social impact?</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p>		<p>not directly face consumers. However, the Company has a complete customer service and customer complaints system. If customers have problems with the products, the Company’s customers will respond through this system.</p> <p>(7) The marketing and labeling of the Company’s products and services all complied with “ISO 9001 Quality Management System”, “ISO 14001 Environmental Management System” international standards, as well as laws and regulations.</p> <p>(8) Review and evaluated based on investigating ISO14001 certificate and OHSAS 18001 certificate in accordance with the supplier management procedures in the “Outsourcing Vendor Site Review Confirmation Form”.</p> <p>(9) Subsequent and new major suppliers’ contracts have already included terms that the contract may be terminated or rescinded if the supplier is involved in the violation of its corporate social responsibility policies and caused significant environment and social impact.</p>	
<p>4. Strengthen information disclosure</p> <p>(1) Did the Company disclose relevant and reliable corporate social responsibility related information on its website and Market Observation Post System?</p>	Yes		<p>The Company has disclosed “2016 ELAN Microelectronics’ Corporate Social Report” on external website and Market Observation Post System, which has been verified by certification bodies.</p> <p>The Company has set up “Code of Corporate Governance” and “interested parties” zones on the external website to provide communication channel and questionnaire survey in order to strengthen the interaction and communication with the interested parties.</p>	No differences
<p>5. If the Company has its own code of corporate social responsibility based on the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies”, please state the difference between its operation and the code thereof:</p> <p>No difference, because the “ELAN Microelectronics’ Corporate Social Responsibility Management System and Promotion Plan” are all in compliance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies”.</p>				
<p>6. Other important information that may facilitate the understanding about the status of the Company’s social responsibility operation:</p> <p>In order to implement the disclosure of corporate social responsibility information, the Company has officially issued “2017 Corporate Social Responsibility Report” in Traditional and Simplified Chinese and English versions and disclosed on the Company's external website and Market Observation Post System.</p> <p>In addition, the abstracts of various social activities of which the Company had participated are as follows:</p> <p>Caring for the disadvantaged groups - elderly living alone</p> <p>Since 2010, Elan has cooperated with the Catholic Social Service Center for eight consecutive years and jointly held cherish fair on the eve of the Mid-Autumn Festival. In response to the event, the Company set up charity sell booth and took the initiative to purchase tickets of fair; the Company's staff members volunteered to support the charity sale on the same day. The proceeds from the charity sale was then all donated to Hsinchu Social Service Center for the care of the vulnerable elderly and the purchase of transportation, hoping that through the charity sale activities, the elderlies who are poor, living alone and disabled will be able to enjoy a beautiful Mid-Autumn Festival.</p> <p>Another elderly caring activity is to respond to the Huashan Social Welfare Foundation's “2018 Year-round Service and Love for the Elderly on Dragon Boat Festival” at the eve of the Dragon Boat Festival. The funds raised from the event are mainly for the free home visit provided to the 21,500 elderlies in Taiwan who are disabled, demented, or have no family.</p>				

assessment items	operating status (Note 1)			Differentiation from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor																				
	Yes	No	brief explanations (Note 2)																					
Caring for the disadvantaged - vulnerable children On the eve of Christmas every year, manufacturers of Hsinchu Science Park’s would enthusiastically plan a warm event called “Christmas Dreams Come True” to collect Christmas gift donations for the disadvantaged children in Hsinchu. Elan Electronics has always been a major participating manufacturer. The staff members give back to the society out of pure intent of hoping to, through their own power, help the children of disadvantaged families to fulfill their Christmas wishes. This Christmas Dreams Come True project gift donation activity has lasted for 16 years, fulfilling dreams of the children of disadvantaged families and practicing the concept of social citizens with real actions, hoping to plant the seeds of love in children’s hearts, so that they can sprout and grow in the future to take care of more people who need help. In 2018, the staff members made a voluntary gift donations and helped 99 children fulfilling their wishes.																								
Supporting Talent and Intern Programs – College Students Elan is a professional IC design company; cultivating talents is the most direct and effective way to give back to the society. Starting from campuses, Elan provides internship quota to the school, which creates a mutually beneficial win-win situation between Elan and the school. There is no doubt that internship is where the corporation and school connect together and one of the most effective and easiest ways to develop talents in an early stage. Through the provision of workplace internship opportunities to the students, the internships and work content are arranged in a planned manner. Under the leadership and subtle influence of the seniors, the interns are able to practice the practical ability of the workplace and cultivate correct working attitudes. The enterprise can also assess the development potential of interns during the process, which can reduce pre-employment training costs and reserve future talent. Such internship program is planned in advance by Elan and the school to conduct business internships through "semester" or "full academic year" approach arrangements, setting a system with specific job descriptions and achievable tasks, so that students can enter the workplace early to broaden knowledge and practice what they have learned, as well as to inject new vitality and creativity into the organization of Elan and to use this opportunity to explore suitable talents and keep excellent internships as new force of the Company. For the students, it is possible to understand workplace and employment environment early, to strengthen own skills, and to make the right career choices. By the end of 2018, 49 job vacancies have been provided to college students and postgraduate internships.																								
<table><tr><td>Sponsored schools</td><td>2018</td><td>2017</td><td>2016</td><td>2015</td></tr><tr><td>National Taipei University of Technology</td><td></td><td></td><td></td><td>9</td></tr><tr><td>National Sun Yat-sen University</td><td></td><td></td><td>12</td><td></td></tr><tr><td>China University of Science and Technology</td><td>14</td><td>14</td><td></td><td></td></tr></table>					Sponsored schools	2018	2017	2016	2015	National Taipei University of Technology				9	National Sun Yat-sen University			12		China University of Science and Technology	14	14		
Sponsored schools	2018	2017	2016	2015																				
National Taipei University of Technology				9																				
National Sun Yat-sen University			12																					
China University of Science and Technology	14	14																						
Cultivate AI talents - AI industry talents In order to enhance Taiwan's industrial competitiveness, ELAN Electronics and its affiliates jointly promoted “Taiwan AI Academy”, hoping to use this school as a platform to promote accurate understanding and latest technology of artificial intelligence, to foster AI talent pool for industrial, government, academic and research circles, while referring to the industrial-academic demand and supply, allowing Taiwan to occupy a place in the rapid development of global artificial intelligence and information science and technology. The establishment of AI Academy can help the industry to solve the big challenge of industrial AI: to make up for the lack of practical talents, to narrow the industrial-academic gap, and to gradually establish Taiwan's independent technology as a contribution to Taiwan's technology ecosystem. In 2018, more than NT\$14,000,000 has been donated and is expected to reach the goal of donating NT\$30,000,000 within three years.																								
7. If the Company’s Corporate Social Responsibility Report was verification standards by relevant certification bodies, it shall be specified: The Company’s “2017 Corporate Social Responsibility Report” was verified by the Societe Generale de Surveillance S.A (SGS) according to GRI Standards G4 Core Option’s AA1000 Accountability Assurance Standard, AA1000AS principle and, due to the nature and regionality of the industry, the Responsible Business Alliance (RBA), Taiwan’s “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” were also referenced for social responsibility behaviors specifications. The report is annexed with BSI statement.																								

Note 1: Explanations shall be specified in the “brief explanations” field regardless whether Yes or No was selected for the operating status.

Note 2: If the Company has prepared the Corporate Social Responsibility Report, “see page ____ of the Corporate Social Responsibility Report” can be noted in lieu of brief explanations.

(8) The Company's performance of ethical management and the measures adopted:

assessment items	operating status (Note 1)			Differentiation from the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and the reasons therefor
	Yes	No	brief explanations	
<p>1. Set ethical operation policies and plans</p> <p>(1) Did the Company specify ethical operating policies and the commitment of the Board of Directors and management level to actively implement operating policies practices in Articles of Association and external documents?</p> <p>(2) Did the Company set plans to prevent unethical conducts, stipulate operating procedures, code of conduct, punishment for violation and complaint filing system in various plans, and implement accordingly?</p> <p>(3) Did the Company adopt preventive measures for the operating activities that have higher risks of unethical conduct in businesses identified in Paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" or other scope of business?</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p>		<p>(1) The Company has set "Ethical Corporate Management Best Practice Principles" and "Ethical Corporate Management Best Practice Procedures and Code of Conduct", which were authorized by the Board of Directors; the management level actively implemented the ethical operating policies based on fair, honest, trustworthy and transparent principles of engaging operating activities.</p> <p>(2) The Company has set operating procedures, code of conduct, punishment for violation and complaint filing system in various plans in accordance to "Ethical Corporate Management Best Practice Principles", "Ethical Corporate Management Best Practice Procedures and Code of Conduct" and "allegation reporting system" and implement accordingly.</p> <p>(3) The Company has set "Ethical Corporate Management Best Practice Principles" and "Ethical Corporate Management Best Practice Procedures and Code of Conduct" to prevent operating activities that have higher risks of unethical conduct within its scope of business.</p>	No differences
<p>2. Implementation of ethical operation</p> <p>(1) Did the Company evaluate ethical records of the counterparties, and specify provision of ethical conduct in the contract it entered into with its transaction counterparties?</p> <p>(2) Did the Company establish dedicated unit under the Board of Directors to promote corporate ethical operation, of which regularly report its execution status to the Board of Directors?</p> <p>(3) Did the Company formulate, provide and implement policies to prevent conflict of interests and suitable channel to express opinion / statement?</p> <p>(4) Did the Company establish effectively accounting system and internal control system to implement ethical operations and be regularly audited by internal audit unit or outsourced accountant(s)?</p> <p>(5) Did the Company regularly hold internal and/or external training on ethical operation?</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p></p> <p></p>	<p></p> <p></p> <p></p> <p></p> <p>No</p>	<p>(1) The Company fully understood counterparties' ethical operating conditions when entering into contract with others, and specified in the contract that the contract may be unconditionally terminated or rescind if the operating activities involve unethical conduct.</p> <p>(2) The Company has assigned President as the dedicated unit to promote corporate ethical operation, of which would report unusual operating conditions and business adjustments to the Board of Directors.</p> <p>(3) In the event when Company's staff member performed the Company's business found that there is a conflict with the interests of his/her own or the juristic person it represents, or may result in the obtaining of unproperty interests by him/herself or him/herself spouse, parent(s), children or interested parties, he/she shall report the matter to his/her direct superior and the Company's dedicated unit, and the direct superior shall provide adequate guidance.</p> <p>(4) The Company has established effectively accounting system and internal control system; external accounts or secret account(s) are prohibited, and review were conducted to ensure that the design and implementation of the system continues to be effective. The internal audit unit regularly check</p>	無差異No differences

assessment items	operating status (Note 1)			Differentiation from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations	
			compliance of the relevant systems according to the audit plan. (5) The Company has promoted full understanding on the Company’s ethical operating policies to the Directors, Supervisors, managers and employee on as need basis, while the business unit promoted the same to counterparties of the Company’s business behaviors.	
3. Operating status of the Company’s allegation reporting system (1) Did the Company set specific reporting allegations and reward system, establish convenient reporting allegations channel, and assign appropriate dedicated personnel to process the allegations? (2) Did the Company set standards operating procedures and related confidentiality mechanisms to process allegations? (3) Did the Company adopt measures to protect those who reported allegations from improper treatment due to the allegations?	Yes		(1) The Company has set specific reporting allegations and reward system, of which the employee may report to the Supervisors, managers, internal audit unit or other appropriate personnel when violation of laws and regulations or Ethical Code of Conduct is suspected or found. (2) The Company has set standards operating procedures and related confidentiality mechanisms. The Intellectual Property Rights & Legal Department was established as the dedicated unit for processing business secrets, responsible for formulating and implementing the Company’s business secrets management, storage and safeguarding procedures to ensure continued effectiveness of the operating procedures. (3) The Company will do its best to protect safety of who reported allegations from improper treatment due to the allegations.	No differences
4. Strengthen information disclosure (1) Did the Company disclose its set Ethical Corporate Management Best Practice Principles contents and effectiveness in promotion on its website and Market Observation Post System?	Yes		The Company has disclosed its “Ethical Corporate Management Best Practice Principles” and “Ethical Corporate Management Best Practice Procedures and Code of Conduct” on its website and Market Observation Post System.	No differences
5. Where the Company has formulated its own Ethical Corporate Management Best Practice Principles based on the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”, please specify the differences between the two: No differences				
6. Other important information that may facilitate the understanding about the status of the Company’s ethical operation: (such as: the Company’s review and revise its own Ethical Corporate Management Best Practice Principles): N/A				

Note 1: Explanations shall be specified in the “brief explanations” field regardless whether Yes or No was selected for the operating status.

- (9) If the Company has set corporate governance code and related regulations, it shall disclose the enquiry methods: The Company's "Code of Corporate Governance" and related regulations have been disclosed on the Company's website and Market Observation Post System. For enquiries, please refer to our URL (<http://www.emc.com.tw>) or Market Observation Post System (<http://mops.twse.com.tw>).
- (10) Other important information that may facilitate the understanding about the implementation status of the corporate governance operation shall also be disclosed: There are regulation concerning corporate governance under "Code of Corporate Governance" in the Company's external webpage.
- (11) Disclosure about the implementation of internal control system shall include the following items:
 1. Statement on Internal Control: (please see page 276)
 2. Where there is ad hoc audit on internal control system by outsourced accountant(s), the Accountant's audit report shall be disclosed: N/A.
- (12) Where, during the last fiscal year and until the publishing date of the annual report, the Company and its staff members were sanctioned by law and/or the Company applied punitive measures on its staff members who violated provisions of the internal control system, the major deficiencies and improvement thereof: N/A.
- (13) Important resolution adopted by shareholders' meeting and the Board meeting during the last fiscal year and until the publishing date of the annual report:

resolution adopted by shareholders' meeting and the implementation:

meeting date	meeting	important resolutions adopted by a the shareholders' meeting	implementation status
June 11, 2018	2018 Annual General Meeting of Shareholders	Acknowledgement:	
		(1) Authorize and acknowledge 2017 Business Report and financial statements	Proceed as per resolutions.
		(2) Authorize and acknowledge 2017 profit distribution proposal	Set July 29, 2018 as the reference date of the distribution of rights, and August 8, 2018 as the cash dividends pay day (cash dividend distributed per share was NT\$2.3).
		Discussions:	
		(1) To approve the amendment on Articles of Association	Obtained Hsinchu Science Park Bureau's approval to register on June 19, 2018 and announced on the Company's website.
		(2) To authorize capital surplus distribution by cash;	Set July 29, 2018 as the reference date of the distribution of rights, and August 8, 2018 as the cash dividends pay day (cash dividend distributed per share was NT\$0.28)
		(3) To authorize capital reduction and refund of shares paid;	Obtained Hsinchu Science Park Bureau's approval to register on August 29, 2018. October 19, 2018 is the base date for capital reduction with stock replacement. October 24, 2018 is the date of cash capital reduction to refund shares paid.
		Election:	
		Re-election of the Company's ninth Board of Directors (including independent directors): List of directors elected: Yulong Investment representatives: YEH, I-HAU, YEN, KUO-LUNG, CHIU, TE-CHEN; Zonglong Investment representatives: WEA, CHI-LIN. List of independent directors elected: CHEN, HOMIN, LIN, HSIEN-MING, LIN, MAO-KUEI	Obtained Hsinchu Science Park Bureau's approval to register on June 19, 2018.
		Other motions: to authorize the lifting the directors' non-competition restrictions	Proceed as per resolutions.

The Board resolutions:

meeting date	nature of the meeting	important resolution adopted by a the shareholders' meeting
March 8, 2018	Board meeting	<ol style="list-style-type: none"> 1. Remuneration Committee's proposal: Director and manager's remuneration planner 2. Remuneration Committee's proposal: Payment of manager's performance bonus 3. Remuneration Committee's proposal: Discussion about the distribution of employee compensation and Directors' remuneration; 4. Amendment on rules of procedure for the Board meeting. 5. Amendment on the rules governing Audit Committee's exercise of authority. 6. Discussion about the Company's 2017 self-closing financial statements and consolidated financial statements; 7. Discussion about the Company's profit distribution for the year 2017; 8. Discussion about the Company's capital surplus distribution; 9. Re-election of the Company's ninth board of directors; 10. Nominate List of director (including independent director) candidates; 11. Lifting the directors' non-competition restrictions 12. Discussion about the date and venue for holding the Company's 2018 Annual General Meeting of Shareholders; 13. Set the period and location for receiving and processing shareholders' proposal; 14. Audit Committee's proposal: Internal control design and the Statement on Internal Control; 15. Audit Committee's proposal: Appointing Accountants of Klynveld Peat Marwick Goerdeler (KPMG) to audit and certify the Company's 2018 financial statements and tax reports.
April 17, 2018	Board meeting	<ol style="list-style-type: none"> 1. Discussion on amending the Articles of Association; 2. Discussion concerning cash capital reduction to refund shareholders for the shares paid
May 8, 2018	Board meeting	<p>Reporting the Q1 / 2018 self-closing consolidated financial statements.</p> <p>Amendment on the regulations of "Ethical Corporate Management Best Practice Procedures and Code of Conduct".</p>
June 12, 2018	Board meeting	<ol style="list-style-type: none"> 1. Election of a chairman; 2. Appointment of a president; 3. Establishment of a Audit Committee; 4. Appointment of members of the Remuneration Committee; 5. Stipulation of cash dividends distribution base date and dividend payment date.
August 7, 2018	Board meeting	<p>Reporting the Q2 / 2018 self-closing consolidated financial statements.</p> <ol style="list-style-type: none"> 1. Revision of 2017 profit distribution proposal 2. Remuneration Committee's proposal: Distribution of 2017 Directors' remuneration; 3. Remuneration Committee's proposal: Managers' salary adjustments; 4. Remuneration Committee's proposal: Payment of managers' 2018 incentives. 5. Amendment on the regulations of "Ethical Corporate Management Best Practice Procedures and Code of Conduct". 6. Formulating "Human Rights Policy" 7. Formulating the "allegation reporting system". 8. Discussion on the subscription in PiXORD's 2018 cash capital increase.
November 8, 2018	Board meeting	<p>Reporting the Q3 / 2018 self-closing consolidated financial statements.</p> <ol style="list-style-type: none"> 1. Remuneration Committee's proposal: Payment of 2017 managers' remuneration; 2. Appoint a remuneration commissioner; 3. Formulating "Code of Corporate Governance"; 4. Discussion on the purchase of real estate.
December 21, 2018	Board meeting	<ol style="list-style-type: none"> 1. Discussion on the subscription of US\$5,000,000 in Vertex Growth(SG)LP. 2. Audit Committee proposal: The property, plants and equipments circulation under the Company's "Internal Control System" added lease related operation, and the "Internal Audit Implementation Rules" added lease related auditing operation. 3. Set the 2019 audit plan 4. Formulating "methods of evaluating the performances of the Board of Directors". 5. Discussion on the purchase of shares of Chimei Motor Electronics; submission for recognition.
March 12, 2018	Board meeting	<ol style="list-style-type: none"> 1. Remuneration Committee's proposal: Director and manager's remuneration planner; 2. Remuneration Committee's proposal: Payment of managers' performance bonus; 3. Remuneration Committee's proposal: Distribution of employee compensation and Directors' remuneration; 4. Discussion on amending the Articles of Association; 5. Amendment on procedures of acquisition or disposal of assets 6. Discussion about the Company's 2018 self-closing financial statements and consolidated financial statements; 7. Discussion about the Company's profit distribution for the year 2018; 8. Discussion about the Company's capital surplus distribution; 9. Re-election of an independent director; 10. Nominate and review list of director (including independent director) candidates.

meeting date	nature of the meeting	important resolution adopted by a the shareholders' meeting
		11.Lifting the directors' non-competition restrictions 12.Discussion about the date and venue for holding the Company's 2019 Annual General Meeting of Shareholders; 13.Set the period and location for receiving and processing shareholders' proposal; 14.Audit Committee's proposal: Internal control design and the Statement on Internal Control; 15.Audit Committee's proposal: Appointing Accountants of Klynveld Peat Marwick Goerdeler (KPMG) to audit and certify the Company's 2019 financial statements and tax reports.

- (12) Where there are recorded or written statements during the last fiscal year and until the publishing date of the annual report regarding the Directors or Supervisors' opposing on important Board resolution(s), its main contents are: N/A.
- (13) Summary of resignation and dismissal of financial statements related staff members (including Chairman, President, Chief Accounting Officer, Chief Financing Officer, Chief Audit Executive and Chief R & D Officer, etc.) during the last fiscal year and until the publishing date of the annual report: N/A.

4. Audit Fee Information:

Range of Audit fee (please check-mark the corresponding range or fill in the amount):

name of the accounting firm	name of CPA	audit period	remarks
Klynveld Peat Marwick Goerdeler (KPMG)	TSENG, MEI-YU KAO, WEI-CHUAN	2018	

Note: If the Company changes its Accountant or accounting firm during the current year, please list their audit periods separately and explain the reasons for the replacement in the “remark” field.

Unit: NT\$'000

range	items	auditing fees	non-auditing fees	Total
1	less than NT\$2,000,000		V	
2	NT\$2,000,000 (including) ~ NT\$4,000,000			
3	NT\$4,000,000 (including) ~ NT\$6,000,000	V		V
4	NT\$6,000,000 (including) ~ NT\$8,000,000			
5	NT\$8,000,000 (including) ~NT\$10,000,000			
6	NT\$10,000,000 (including) or above			

Unit: NT\$'000

name of the CPA firm	Name of CPA	auditing fees	non-auditing fees					CPA's audit period	remarks
			system design	business registration	HR	other (Note 2)	subtotal		
Klynveld Peat Marwick Goerdeler (KPMG)	KAO, WEI-CHUAN	5,370						2018	Review of capital reduction declaration documents, offshore company maintenance fees, tax consultation service charges, traveling expenses
	TSENG, MEI-YU		-	-	-	285	5,655		

Note 1: If the company changes its accountant or accounting firm in the current year, please list their audit periods separately and explain the reasons for replacement in the “remark” field. Please disclose the auditing and non-auditing fees in sequence.

Note 2: Please list the non-auditing fees separately according to the service items. If the “others” non-auditing fees amount to 25% of the total non-auditing fees, its service content shall be listed in the remark field:

- (1) If the non-auditing fees for the Certified Public Accountant and his/her firm and its affiliate(s) are more than one quarter of the auditing fees: N/A.
- (2) Nature of the non-auditing fees: i.e. the offshore investment company maintenance fees.
- (3) If there is a change in accounting firm and the auditing fees in the year of such change is less than the auditing fees in the previous year: No change.
- (4) If the auditing fees was decrease by more than 15% comparing to that of in the previous year: N/A.

5. Information Regarding the Change of Accountant: N/A

6. The Company's Chairman, President, chief financial officer or chief accounting officer who has worked for the CPA's firm or its affiliates during the last fiscal year: N/A

7. Any transfer of shareholdings and changes in equity pledge from the directors, managers and shareholder(s) holding more than 10% of the shares during the last fiscal year and until the publishing date of the annual report:

(1) Changes in equity among the directors, manager and large shareholder(s):

job title	name	2018		as of March 31	
		Increase (decrease) in number of shares held	Increase (decrease) in number of pledged shares	Increase (decrease) in number of shares held	Increase (decrease) in number of pledged shares
Director	Yulong Investment Co., Ltd.	(2,805,597)	(420,000)	-	-
Chairman and President	YEH, I-HAO	(563,670)	-	-	-
Director	YEN, KUO-LUNG	(858,239)	-	-	-
Director	CHIU, TE-CHEN	-	-	-	-
Director	Zonglong Investment Co., Ltd.	(1,319,531)	(300,000)	-	-
Independent Director	LIN, MAO-KUEI (Note)	-	-	-	-
Independent Director	LIN, HSIEN-MING	-	-	-	-
Independent Director	CHEN, HOMIN	-	-	-	-
Manager	CHEN, I-LIN	-	-	-	-

Note: LIN, MAO-KUEI passed away on September 13, 2018.

(2) The counterparty of an equity pledge who is also a related party shall disclose name of the counterparty, the relationship with the Company, Director, Supervisor, and/or shareholder holding more than 10% of the shares and number of shares obtained or pledged:

2.1 Equity transfer information: Not applicable, because it is traded freely in the exchange market.

2.2. Equity pledge information: not applicable.

8. Information Regarding the Relationship Between the Related Parties and the Top 10 Shareholders:

name	own held shares		shares currently held by spouse and/or children under 20 years of age		total shares held in the name of others		Where the relationship among the top 10 shareholders is a related party, spouse, and/or a relative by blood or marriage within second degree of kinship or relationship, please specify the name and relationship (Note 3)		remarks
	number of shares (shares)	shareholding percentage	number of shares (shares)	shareholding percentage	number of shares (shares)	shareholding percentage	name	relationship	
Morgan Stanley & Co International PLC entrusted to HSBC Bank (Taiwan)	11,301,733	3.71%	N/A	N/A	N/A	N/A	—	—	
iShares IV Co., Ltd. Investment Account entrusted to the Business Department of Standard Chartered	9,356,712	3.07%	N/A	N/A	N/A	N/A	—	—	
Credit Suisse Investment Account entrusted in Standard Chartered	8,247,401	2.71%	N/A	N/A	N/A	N/A	—	—	
Yulong Investment Co., Ltd. representative: YEH, I-MING	7,083,059	2.33%	N/A	N/A	N/A	N/A	YEH, I-HAU	the Company's major shareholder	
	0	0%	N/A	N/A	N/A	N/A	YEH, I-HAU	second degree of kinship or relationship	
APG mutual fund account of emerging market stocks entrusted in Chase Bank	6,993,400	2.30%	N/A	N/A	N/A	N/A	—	—	
Robeco Capital Growth Funds Investment Account entrusted in JPMorgan Chase	6,908,100	2.27%							
Norges Bank Investment Account entrusted in Citibank Taiwan	5,614,303	1.84%	N/A	N/A	N/A	N/A	—	—	
YEH, I-HAU	5,057,895	1.66%	N/A	N/A	N/A	N/A	—	—	
Goldman Sachs core stock portfolio investment account entrusted in Deutsche Bank	4,725,000	1.55%	N/A	N/A	N/A	N/A	—	—	
PGIA Progressive Total International Stock Index entrusted in Chase Bank	4,536,800	1.49%	N/A	N/A	N/A	N/A	—	—	

Note 1: The top ten shareholders shall be listed in full; corporate shareholder shall list its name and the names of its representative separately;

Note 2: The calculation of the shareholding percentage referred to the percentage of shares held in his/her/its own name, or under the name of his/her/its spouse, children under 20 years of age, or others;

Note 3: The relationship between above-listed juristic person shareholders and natural person shareholders shall be disclosed pursuant to the regulations governing the preparation of financial statements of the issuer.

9. The number of shares held by the company, the company's directors, supervisors, managers, and businesses directly or indirectly controlled by the Company in the same joint venture, and the combined shareholding percentage.

Unit: '000 shares; %

joint ventures (Note)	Investments of the Company		Investments of the directors, supervisors, managers and their investment in business which they have direct or indirect control of.		Comprehensive investments	
	number of shares (shares)	shareholding percentage	number of shares (shares)	shareholding percentage	number of shares (shares)	shareholding percentage
Elan (HK)	29,328	100.00%			29,328	100.00%
Elan Investment Corporation	50,000	100.00%			50,000	100.00%
Elan Information	65	100.00%			65	100.00%
JPUP Electron Co., Ltd.	784	49.00%			784	49.00%
Metanoia Communications Inc.	54,057	63.60%	3,626	4.27%	57,683	67.87%
Avisonic Technology Corporation	26,633	74.93%	2,154	6.06%	28,787	80.99%
Tongfu Investment Co., Ltd.	3,000	46.73%			3,000	46.73%
Brighten Heart Technology Co., Ltd.	1,805	45.07%			1,805	45.07%
PiXORD Corporation Co., Ltd.	33,871	96.78%	174	0.50%	34,045	97.28%
Eminent Electronic Technology Co., Ltd.	3,351	29.89%			6,202	29.89%
Wending Venture Capital Co., Ltd.	24,000	30.00%			24,000	30.00%
Fong Yue Corporation	3,000	100.00%			3,000	100.00%
Uniband Electronic Corporation	8,000	23.12%			8,000	23.12%
Finger Pro. Incorporation	600	23.08%			600	23.08%

Note: Long-term equity investments of the Company using equity method.

IV. Capital Overview

1. Capital and Shares:

(1) Source of capital stock

Date	issue price	authorized capital stock		paid-up capital		Notes		
		number of shares ('000 shares)	amount (NT\$'000)	number of shares ('000 shares)	amount (NT\$'000)	Source of capital stock (NT\$'000)	Stock subscription offset by non-cash property	other
May 1994	10	100,000	1,000,000	100,000	1,000,000	Established	N/A	N/A
Aug. 1997	10	110,600	1,106,000	110,600	1,106,000	Retained Earnings Transferred to Capital 100,000 Employee bonus 6,000	N/A	Document No. (86)Tai-Cai-Zheng(1)-52750 issued on July 5, 1997
Jul. 1998	10	147,140	1,471,400	147,140	1,471,400	Retained Earnings Transferred to Capital 331,800 Employee bonus 33,600	N/A	Document No. (87)Tai-Cai-Zheng(1)-52941 issued on June 18, 1998
Sep. 1999	10	164,854	1,648,540	164,854	1,648,540	Retained Earnings Transferred to Capital 147,140 Employee bonus 30,000	N/A	Document No. (88)Tai-Cai-Zheng-63446 issued on July 12, 1999
Jun. 2000	10	220,810	2,208,102	220,810	2,208,102	Retained Earnings Transferred to Capital 494,562 Employee bonus 65,000	N/A	Document No. (89)Tai-Cai-Zheng-35156 issued on May 2, 2000
Jul. 2001	10	450,000	4,500,000	295,038	2,950,383	Retained Earnings Transferred to Capital 662,431 Employee bonus 79,850	N/A	Document No. (90)Tai-Cai-Zheng(1)-43780 issued on May 2, 2001
Jul. 2002	10	450,000	4,500,000	329,239	3,292,391	Retained Earnings Transferred to Capital 295,038 Employee bonus 46,970	N/A	Document No. (91)Tai-Cai-Zheng-Yi-Zi-0910137334 issued on July 8, 2002
Jul. 2003	10	450,000	4,500,000	330,792	3,307,923	convert corporate bonds to shares 15,532	N/A	Document No. Yuan-Shang-Zi-092 0020871 issued on July 30, 2003
Oct. 2003	10	450,000	4,500,000	335,307	3,353,071	convert corporate bonds to shares 45,148	N/A	Document No. Yuan-Shang-Zi-092 0029312 issued on October 21, 2003
Jan. 2004	10	450,000	4,500,000	338,311	3,383,114	convert corporate bonds to shares 30,043	N/A	Document No. Yuan-Shang-Zi-093 0001801 issued on January 29, 2004
Apr. 2004	10	450,000	4,500,000	338,903	3,389,028	convert corporate bonds to shares 5,914	N/A	Document No. Yuan-Shang-Zi-093 0010383 issued on April 21, 2004
Jul. 2004	10	450,000	4,500,000	343,235	3,432,348	convert corporate bonds to shares 43,319	N/A	Document No. Yuan-Shang-Zi-093 00199753 issued on July 27, 2004
Sep. 2004	10	450,000	4,500,000	355,684	3,556,841	Retained Earnings Transferred to Capital 101,493 Employee bonus 23,000	N/A	Document No. Yuan-Shang-Zi-093 0025813 issued on September 21, 2004
Jan. 2005	10	450,000	4,500,000	364,625	3,646,253	convert corporate bonds to shares 89,412	N/A	Document No. Yuan-Shang-Zi-094 0001655 issued on January 20, 2005
Apr. 2005	10	450,000	4,500,000	359,625	3,596,253	Capital reduction by Treasury Stock Retired (50,000)	N/A	Document No. Yuan-Shang-Zi-094 0011303 issued on

								April 28, 2005
Oct. 2005	10	450,000	4,500,000	367,876	3,678,760	Retained Earnings Transferred to Capital 67,507 Employee bonus 15,000	N/A	Document No. Yuan-Shang-Zi-094 0026465 issued on October 5, 2005
Aug. 2006	10	450,000	4,500,000	366,876	3,668,760	Capital reduction by Treasury Stock Retired (10,000)	N/A	Document No. Yuan-Shang-Zi-095 0022570 issued on August 23, 2006
Oct. 2006	10	450,000	4,500,000	371,755	3,717,548	Retained Earnings Transferred to Capital 36,788 Employee bonus 12,000	N/A	Document No. Yuan-Shang-Zi-095 0025887 issued on October 2, 2006
Nov. 2006	10	450,000	4,500,000	361,785	3,617,848	Capital reduction by Treasury Stock Retired (99,700)	N/A	Document No. Yuan-Shang-Zi-095 0029921 issued on November 15, 2006
Oct. 2008	10	480,000	4,800,000	410,670	4,106,698	Capital addition from merger 488,850	N/A	Document No. Yuan-Shang-Zi-097 0029807 issued on October 21, 2008
Aug. 2009	10	480,000	4,800,000	415,936	4,159,360	Employee stock option executed 11,480 Retained Earnings Transferred to Capital 41,182	N/A	Document No. Yuan-Shang-Zi-098 0023343 issued on August 26, 2009
Jul. 2010	10	480,000	4,800,000	416,094	4,160,936	Employee stock option executed 1,576	N/A	Document No. Yuan-Shang-Zi-099 0020694 issued on July 19, 2010
Jul. 2011	10	480,000	4,800,000	416,343	4,163,428	Employee stock option executed 2,492	N/A	Document No. Yuan-Shang-Zi-210 17 issued on July 21, 2011
Oct. 2012	10	480,000	4,800,000	418,245	4,182,445	Employee stock option executed 19,017	N/A	Document No. Yuan-Shang-Zi-321 56 issued on October 17, 2012
Jan. 2013	10	480,000	4,800,000	418,938	4,189,381	Employee stock option executed 6,936	N/A	Document No. Yuan-Shang-Zi-195 4 issued on January 17, 2013
Apr. 2013	10	480,000	4,800,000	428,228	4,282,277	Employee stock option executed 92,896	N/A	Document No. Yuan-Shang-Zi-102 0010764 issued on April 16, 2013
Jul. 2013	10	480,000	4,800,000	432,599	4,325,985	Employee stock option executed 43,708	N/A	Document No. Yuan-Shang-Zi-102 0020794 issued on July 15, 2013
Oct. 2013	10	480,000	4,800,000	433,215	4,332,125	Employee stock option executed 6,140	N/A	Document No. Yuan-Shang-Zi-102 0031608 issued on October 18, 2013
Apr. 2014	10	480,000	4,800,000	435,121	4,351,214	Employee stock option executed 19,089	N/A	Document No. Zhu-Shang-Zi-1030 010997 issued on April 18, 2014
May 2014	10	480,000	4,800,000	438,598	4,385,978	Employee stock option executed 34,764	N/A	Document No. Zhu-Shang-Zi-1030 014030 issued on May 19, 2014
Oct. 2014	10	480,000	4,800,000	439,335	4,393,348	Capital addition by employee stock option 7,370	N/A	Document No. Zhu-Shang-Zi-1030 030508 issued on October 20, 2014
Dec. 2014	10	480,000	4,800,000	441,145	4,411,448	Employee stock option executed 18,100	N/A	Document No. Zhu-Shang-Zi-1030 038314 issued on December 26, 2014
Aug. 2016	10	480,000	4,800,000	434,115	4,341,148	Capital reduction by Treasury Stock Retired (70,300)	N/A	Document No. Zhu-Shang-Zi-1050 023250 issued on

								August 16, 2016
Aug. 2018	10	480,000	4,800,000	303,880	3,038,804	Capital reduction 1,302,344	N/A	Document No. Zhu-Shang-Zi-1070 025345 issued on August 29, 2018

Types of stocks:

Unit: share

Types of stocks	authorized capital stocks			remarks
	common stocks outstanding (stock of the listed company)	unlisted stocks	total	
registered common stocks	303,880,392	176,119,608	480,000,000	—

(2) Shareholders structure

April 12, 2019

shareholders structure numbers	Government Agency	Financial Institution	Other legal persons	Personal	Foreign institution and foreigner	Total
Number of persons	-	7	189	36,839	346	37,381
Number of shares held	-	5,033,600	45,935,996	91,985,815	160,924,981	303,880,392
Shareholding ratio	-	1.66%	15.12%	30.27%	52.95%	100%

Note: The Company has no mainland China shareholders.

Note: The primary listing (OTC) company and listed company at emerging market shall disclose the percentage of shareholding funded by mainland China investment; “mainland China investment” shall, as identified in Article 3 of the “Regulations Governing the Permission for People from the Mainland Area to Invest in Taiwan”, refer to the individuals, juristic person, group, other agencies or the company it invested in the third region.

(3) Stock dispersion

April 12, 2019

Shareholding ranges	Number of persons	Number of shares held	Shareholding ratio (%)
1 to 999	23,452	5,565,761	1.83
1,000 to 5,000	10,964	22,550,030	7.42
5,001 to 10,000	1,479	10,692,664	3.52
10,001 to 15,000	549	6,827,862	2.24
15,001 to 20,000	168	2,968,604	0.98
20,001 to 30,000	219	5,337,227	1.76
30,001 to 50,000	151	8,981,451	1.97
50,001 to 100,000	139	10,067,531	3.31
100,001 to 200,000	93	12,814,685	4.22
200,001 to 400,000	58	16,674,398	5.49
400,001 to 600,000	34	16,859,568	5.55
600,001 to 800,000	12	8,332,845	2.74
800,001 to 1,000,000	12	10,617,171	3.49
1,000,001 and above	51	168,590,595	55.48
Total	37,381	303,880,392	100

(4) Major shareholders list

April 12, 2019

major shareholders' names	shareholding	number of shares held	shareholding percentage (%)
Morgan Stanley & Co International PLC entrusted to HSBC Bank (Taiwan)		11,301,733	3.71%
iShares IV Co., Ltd. Investment Account entrusted to the Business Department of Standard Chartered		9,356,712	3.07%
Credit Suisse Investment Account entrusted in Standard Chartered		8,247,401	2.71%
Yulong Investment Co., Ltd.		7,083,059	2.33%
APG mutual fund account of emerging market stocks entrusted in Chase Bank		6,993,400	2.30%
Robeco Capital Growth Funds Investment Account entrusted in JPMorgan Chase		6,908,100	2.27%
Norges Bank Investment Account entrusted in Citibank Taiwan		5,614,303	1.84%
YEH, I-HAU		5,057,895	1.66%
Goldman Sachs core stock portfolio investment account entrusted in Deutsche Bank		4,725,000	1.55%
PGIA Progressive Total International Stock Index entrusted in Chase Bank		4,536,800	1.49%

(5) Market price, net value, earnings and dividends per share in the past 2 years:

Unit: NT\$

items		Year	2017	2018	as of March 31, 2019 Note (8)
market price per share Note (1)	highest		54.9	82.2	93.7
	lowest		33.8	41.7	72.6
	average		42.65	51.78	85.22
net value per share Note (2)	before distribution		16.87	21.66	23.09
	after distribution		14.29	16.66	18.09
earnings per share	weighted-average number of shares ('000 shares)		416,360	374,723	291,442
	earnings per share (Note 3)	before retroactive adjustments	2.58	4.16	1.36
		after retroactive adjustments	—	—	—
dividends per share (Note 9)	cash dividends		2.58	5.00	—
	stock grants	surplus distribution	—	—	—
		capital surplus distribution	—	—	—
	accumulated outstanding dividends (Note 4)		—	—	—
investment yield analysis	P/E ratio (Note 5)		16.53	12.45	—
	dividend ratio (Note 6)		16.53	10.36	—
	cash dividends yield (Note 7)		6.05%	9.66%	—

Note 1: List the highest and lowest market prices of each year and calculate average market price base on trading value and trading volume of each year.

Note 2: Please fill in the number of shares that have been issued as of the end of the year according to the distribution decided by the shareholders meeting.

Note 3: If there are retrospective adjustments due to circumstances such as stock grants, both pre-adjustment and post-adjustment earnings per share shall be listed.

Note 4: If the equity securities issuance conditions stipulated that dividends that have not been paid in the current year can be accumulated to be paid in the surplus year, the accumulated unpaid dividends as of the current year shall be separately disclosed.

Note 5: P/E ratio = average closing price per share of the year / earnings per share.

Note 6: Dividend ratio = average closing price per share of the year / cash dividends per share.

Note 7: Cash dividends yield = cash dividend per share / average closing price per share of the year.

Note 8: Shall fill in information of the year as of the publishing date of the annual reports.

Note 9: Dividend per share shall be filled in according to profit distribution of the year and the distribution resolution to be adopted by a shareholders' meeting in the following year.

(6) The Company's dividend policies and implementation status

(1) Dividend policies:

The Company's dividends policies, taking into consideration the future demand of funds, overall internal and external environmental changes and shareholders' cash inflow demand, stipulated that if there is a surplus after the annual closing, 10% statutory surplus reserve will be contributed first, in addition to pay the profit-seeking enterprise income tax make up for previous annual losses pursuant to the laws, and the decreased shareholders equity amount of the year will be recognized in special reserve. Any remaining, together with the accumulated undistributed earnings carrying forward from the previous year, will be subject to resolution to be adopted by a shareholders' meeting for the distribution proposal adopted by the Board of Directors. The distribution ratio is as follows:

The amount of surplus to be distributed for the current year shall not be less than 50% of the cumulative distributable surplus; considering the funding demand for future expansion plan and investment, the cash dividend shall not be less than 10% of total dividends.

(2) Distribution of dividends proposed at the shareholders' meeting:

The Company's 2018 profit distribution proposal was authorized in 2019 by the 9th Board of Directors' 5th Board meeting, of which shareholders' bonus of NT\$1,413,043,823 was proposed to be appropriated from the available surplus as cash dividends at NT\$4.65 per share; in addition, cash dividends of NT\$106,358,138 was proposed to be appropriated from capital surplus, which is "the income derived from the issuance of new shares at a premium" pursuant to Article 241 of the Company Act (i.e. the capital surplus distributed from the issuance of common shares at a premium), as cash dividends at NT\$0.35 per share. The aforementioned dividend distributions are subject to the target dividend distribution date to be set by the Board of Directors upon resolutions adopted by the Annual General Meeting of Shareholders of this year.

(3) Any anticipated material changes in dividend policies shall be explained:
N/A.

(7) The impact of stock grants to be proposed at the shareholders' meeting on the Company's business performance and earnings per share:

Not applicable, because the Company did not disclosure 2017 financial forecast information pursuant to document number Tai-Cai-Zheng(1)-OO371 issued on 1 February 2000, provided that the Company is not required to disclose such information.

(8) Employee compensation and Directors and Supervisors' remuneration:

1. The employee compensation and the Directors and Supervisors' remuneration pay scale stipulated in the Articles of Association:

The Company shall, if there is any surplus upon annual closing, pay taxes and make up for accumulated losses first before appropriating 10% as statutory surplus reserve. However, this is not applicable if the statutory surplus reserve has reached the same amount as the Company's paid-up capital. In addition, special reserve shall be recognized according to the Company's Operating requirements and statutory provisions. Any remaining, together with the accumulated undistributed earnings carrying forward from the previous year, will be subject to resolution to be adopted by a shareholders' meeting for the distribution proposal prepared by the Board of Directors. The dividend distribution ratio is as follows: The amount of surplus to be distributed for the current year shall not be less than 50% of the cumulative distributable surplus; the cash dividend shall not be less than 10%

of total dividends.

The Company shall, if there surplus of the year, contribute no less than 10% as employees compensation and no more than 2% as Directors' remuneration, provided that, if the Company still has accumulated loss, the amount for making up the previous losses shall be reserved first.

2. Accounting treatment for the basis of listing the estimated amount of employees compensation and the Directors and Supervisors remuneration of the period, the basis of calculating the number of shares distributed as employees compensation, and when the actual distribution amount is different from the estimated amount: For this period, the Company relied on the Articles of Association and past references of actual Directors and Supervisors' remuneration payment to estimate possible payment amount for the employee compensation and Directors' remuneration. Any difference between the actual payment amount and the estimated amount will be treated according to "Changes in Accounting Estimates" and listed as profit or loss of the following year.
3. Remuneration distribution authorized by the Board of Directors:

The Company has authorized the 2018 profit distribution proposal by Board resolutions on 12 March 2019, but has yet authorized by the shareholders' meeting. the proposed distribution is as follows:

Unit: NT\$'000;'000 shares

items \ amount	cash distribution	share distribution			remuneration	Any difference with the recognized estimated expenses of the year?
		amount	number of shares	Proportion to the sum of Net Income After Taxes plus employee compensation		
employee compensation	226,000	0	0	0	0	No differences
Directors' remuneration	0	0	0	0	29,000	

4. Actual distribution of employee compensation and Directors and Supervisors' remunerations of the previous fiscal year:

The Company has Authorized the 2017 profit distribution proposal by Board resolutions on 8 March 2018 and authorized by Annual General Meeting of Shareholders on June 11, 2018. The actual distributed employees compensation and Directors Supervisorss remunerations are the same as that of adopted resolutions. The actual distribution is as follows:

Unit: NT\$'000;'000 shares

items \ amount	cash distribution	share distribution			remuneration	Differences between the expenses recognized with the original amount proposed by the Board of Directors
		amount	number of shares	proportion to profit transferred		
employee bonus	155,000	0	0	0	0	No differences
Directors and Supervisors' remuneration	0	0	0	0	20,000	

- (9) The Company's repurchase of company shares:

May 23, 2019

number of time of repurchase	Session No. 10	Session No. 11	Session No. 12
Purpose of the repurchase	transfer shares to employees	transfer shares to employees	transfer shares to employees
Repurchase period	March 17, 2011 to May 16, 2011	July 15, 2011 to September 14, 2011	August 7, 2013 to October 6, 2013

Repurchase price range	24.70~63.00	18.20~49.90	40~65
type and number of share repurchased	7,578,000 common shares	4,110,000 common shares	7,030,000 common shares
share amount repurchased	NT\$290,410,356	NT\$118,551,219	NT\$362,293,814
number of share sold and transferred	7,578,000 shares	4,110,000 shares	7,030,000 shares
accumulated number of shares held by the Company	0 share of common stocks	0 share of common stocks	0 share of common stocks
proportion of accumulated number of shares held by the Company to total number of shares issued (%)	0%	0%	0%

2. Corporate Bond: N/A.

3. Preference Share: N/A.

4. Issuance of overseas depositary receipt: N/A.

5. Employee Stock Option Certificates:

- (1) The progress of the Company's outstanding employee stock option certificates as of the publishing date of the annual reports and its impact on shareholders' equity shall be disclosed: The Company has no outstanding employee stock option certificate.
- (2) Name of the managers who acquired employee stock option certificates and top 10 employees who acquired stock option certificates, and the detailed of the employee stock option certificates acquisition as of the publishing date of the annual reports: N/A.
- (3) Status of restricted stock awards: N/A.

6. Status of New Shares Issuance in Connection with Mergers and Acquisitions: N/A.

7. Financing Plans and Implementation: N/A.

V. Operating Highlights

1. Operating activities

(1) Scope of business:

(1) Major business operations:

Research, development, production, manufacture and sales of the following products:

- (a) Neural network and fuzzy processor
- (b) Digital signal processor
- (c) 8-bits RISC Microprocessor
- (d) Application-specific integrated circuit
- (e) Import and export trading business related with the Company's business.

(2) Major business operations in 2018 and its sales proportion:

Operating activities	revenue (NT\$'000)	sales proportion (%)
consumer touch control IC	2,921,360	33.76
notebook input devices module	5,516,229	63.76
network communication IC	108,562	1.26
video process IC	64,561	0.75
safety monitoring module	40,620	0.47
Total	8,651,332	100.00

(3) Planned new product development:

New products that the Company planned to develop include:

- Development of smart smoke sensor control IC
- Development of low-power touch screen solutions
- Development of MPP2.0 active pen solution
- Development of optical biometric ICs
- Development of high waterproof and low power consumption touch solutions for consumer products
- Development of secure biometric wireless mouse solution
- Development of a touch-display integrated single-chip solution for mobile phone supported active pens
- Development of lighting touch pad solutions

(2) Industry overview

(1) Industry status:

Gartner, a market research agency, released that the global semiconductor output value has reached US\$476.7 billion in 2018, a 13.4% growth from 2017. The total revenue of the top 25 semiconductor suppliers grew by 16.3% in 2018, accounting for 79.3% of the market, which showed that semiconductor concentration is quite high. In 2018, growth of the dynamic random access memory (DRAM) market was most significant.

Looking forward to 2019, Gartner predicts that the semiconductor market may be quite different from the past two years in 2019, as the memory market has begun to fall and there are China-US trade war and global economic uncertainty. At the same time, capital expenditure of the

semiconductor industry will decline by 10% compared with that of last year. Among them, investment reduction in the memory IC foundries will be the greatest with an annual reduction of 20% to 30%. Moreover, the development of current global mainstream applications of semiconductors such as smart phones and personal computers has matured, and the future growth and scale are limited; therefore, the major research institutes predict that the semiconductor industry will grow between 3%~5% in 2019, and there is also prediction of a 1% recession.

On the other hand, IEK of the Industrial Technology Research Institute observed that the terminal application products are shifting from the past 3C electronic products to the value-added fields such as AI and IoT. For the IC specification, in addition to the miniaturization of components, it is required to include high-speed computation and transmission, integration of multiple heterogeneous components, low power consumption and other features, which are all important future topics of considerations in terms of semiconductor product and process design.

In 2018, Taiwan's IC industry showed an annual growth of 6.4%, reaching NT\$2,619,900,000,000. The largest growth of which was the memory manufacturing, with an annual growth rate of 23.7%. Secondly, each sub-industry also showed an annual growth trend. The output value is the largest in IC manufacturing, with revenues of NT\$1,485,800,000,000 (including NT\$1,285,100,000,000 of IC foundries and NT\$200,500,000,000 of memories). The IC design industry has the second highest output value, reaching NT\$641,300,000,000, with an annual growth of 3.9%; IC package revenue reached NT\$344,500,000,000, with an annual growth of 3.5%; IC testing revenue reached NT\$148,500,000,000, with an annual growth of 3.1%.

According to the analysis of IEK of the Industrial Technology Research Institute, the upstream and downstream industrial chain of Taiwan's semiconductor industry is complete, the division of labor is unique, the IC design value ranks the second in the world, and the output value of IC foundry and IC packaging and testing ranks the first in the world. The value added of export value, employment population or other industry-related benefits are all among the best in Taiwan's manufacturing industry.

At the same time, observing the development of the semiconductor industry in mainland China, the development of industrial technology has achieved fruitful results under policy support. According to a research report released by TrendForce, the output value of China's IC design industry has reached RMB251,500,000,000 in 2018, with an annual growth rate of nearly 23%. It is estimated that the output value of China's IC design industry will reach RMB 296,500,000,000 in 2019, with a slowed growth rate of 17.9% due to the decline in consumer electronics demand, the slowdown in global economy growth, the impact from China-US trade war and other external factors.

However, according to the report, China's IC design industry has made significant progress in 2018. At the same time, China has achieved international leading position in the 5G field. As the world gradually emerge into commercial 5G, there will be significant benefits to the competition pattern of China's IC design industry, as well as its growth, which is worth paying special attention to.

(2) The relationship between upstream, midstream and downstream industries

The upstream and downstream industrial chain of Taiwan's semiconductor industry is complete, the division of labor is unique, the IC design value ranks the second in the world, and the output value of IC foundry and IC packaging and testing ranks the first in the world. The overall development ranked a key position in the world. The most important feature is the professional division of work, which is also the most important basis driving Taiwan's semiconductor development for the past 40 years. The semiconductor wafer foundry manufacturing industry is a capital and technology-intensive industry. Currently, it has entered the era of mature 8-inch wafers and advanced 12-inch wafers. The construction of plants and equipments that cost tens of billions of Taiwan dollars has become a basic requirement. Taiwan Semiconductor Manufacturing Co., Ltd., a global IC foundry company, has commenced 7 nm and 5 nm process nodes, while planning to pursue R & D for 3 nm to introduce more advanced process nodes, lead continued growth of Taiwan's wafer foundry industry, and contribute to the overall development of Taiwan's semiconductor industry.

In 2018, Taiwan's IC industry showed an annual growth of 6.4%, reaching NT\$2,619,900,000,000, of which IC manufacturing showed the highest output value. IC Insight, a market research agency, released the monthly output capacity of IC foundries in various regions or countries. Among them, Taiwan ranked first, South Korea ranked second, Japan ranked third, the United States ranked fourth, and China ranked fifth. The report shows that Taiwan IC foundries have a monthly output capacity of 4,126,000pcs of 8-inch equivalent wafers, which accounts for 21.8% of the global monthly output capacity, ranking first. Taiwan's overall semiconductor industry, with the strong support of IC foundries, drives the overall development of the industry as a whole.

Currently, wafer foundry industry in Taiwan ranks among the most important behind-the-scenes heroic roles in the world. In 2018, the manufacturers' overall market share of Taiwan's foundry industry exceeded 60%; it's every move affects global electronic industry, which also drove the overall industrial competitiveness in related industrial chain such as the packaging and testing, photomasks, and IC design industries and created a mutual co-prosperity relationship. Comparing with the integration of upstream, midstream and downstream IC industries in the United States, Japan, South Korea, and other countries, Taiwan has adopted a highly specialized division of work; any of the IC design, photomask manufacturing,

wafer manufacturing, cutting, packaging, and testing industries can be an independent industry. The vertical division of work in Taiwan's IC industry has become increasingly integrated over the years, making the semiconductor industry cluster increasingly profitable, and the semiconductor industry has now exceeded NT\$2 trillion under the specialization approach of concentrating resources in a single industry, making it not only Taiwan's important economic lifeline, but also puts it at an unassailable position in the global 3C industry and market.

(3) Product development trend and status of competition

Biometrics has become a standard feature of smart phones. In 2018, the penetration rate of fingerprint recognition ICs used in mobile phones has exceeded 60% and become increasingly mature. Due to fierce market competition and high and saturated penetration rate in the mobile phone market, the market has gradually shifted toward the development of diversified biometric products, especially optical recognition, ultrasonic identification and other biometrics solutions. It is estimated that the market penetration rate of optical recognition, ultrasonic identification and other biometrics solutions in 2019 will exceed 10%, providing users with more diversified choices.

As the penetration rate of smart phones has been high and there are many biometric manufacturers competing in the mobile phone market, therefore, it is the focus of the Company to break away from the competitive market and seek a profitable market. Thus, in addition to the continuous works on smart phones, capacitive biometric ICs also focused strongly on the notebook computer market, offering high value-added products and providing customers with the best market competitiveness, while focusing on the development of biometric screen, hoping to continue to provide a full range of solutions to branding customers while maintaining the smart phone market.

Secondly, the Company has long invested in the development and application of touch control technology and has patents in the United States, Japan, mainland China, and Taiwan. In general, the touch control ICs that the Company successfully developed and mass produced are applicable in touch control panels of various large, medium, and small sizes, coupled with fully integrated terminal pre-sales and after-sales services for smart phones, tablet computers and touch control notebooks. The Company will continue to provide customers with an overall solution that is more competitive in the international market.

In the meanwhile, the Company is at a key market position while facing global rivals in the touch control IC industry, among which the touch control notebook ICs accounted for more than 60% of global market share and the touch pad modules also accounted for more than 40% market share, outrun the other competitors, ranking first in the market. The competitors that the Company is currently facing include many IC design companies at home and abroad such as US manufacturer Synaptics and Microchip, Alps of Japan, and Goodix of China. The increasingly fierce competition has also led to a decline in IC prices, therefore, effectively improving IC performance, increasing added value of the product, reducing IC production costs, establishing

competitive technical thresholds and sales channels are the goals of the Company's continuous efforts in 2019.

Current product lines of ELAN Microelectronics and affiliates:

The Company currently has two major products categories and five major product lines:

The two major product categories are touch control and non-touch control categories, respectively. The revenue of touch control category is the main driving force of the business for 2018. Touch screen ICs and touch pad module accounted for more than 69% of last year's revenue. The five major product lines include touch screen ICs, touch pad module, fingerprint recognition ICs under touch control category, and MCU and under non-touch control category.

- (1) Touch screen ICs: accounting for 19% of revenue in 2018. The applications include smart phones, tablet PCs, notebook PCs, AIO PCs, e-books, etc. The domestic and foreign competitors are US manufacturers Synaptics and Microchip, Goodix of China, and Focaltech and Parade of Taiwan.
- (2) Touch pad modules and ICs: accounted for 46% of revenue in 2018 and were mainly used in notebook computers. The domestic and foreign competitors include US manufacturer Synaptics, Alps of Japan, etc.
- (3) Biometric ICs: accounted for 4% of revenue in 2018. The range of applications was very broad, ranging from smart phones, notebooks, tablets, smart cards and PC peripherals to IoT. The domestic and foreign competitors include US manufacturers Synaptics, FPC of Sweden, Goodix of mainland China, and Egis of Taiwan, etc. In 2019, the capacitive biometric ICs will focus on the notebook market, seeking maximum revenue and profits. In the meanwhile, since the optical biometric for screen is growing, the Company is also striving for this huge potential business opportunity.
- (4) MCU IC: accounted for 13% of revenue in 2018. The main core technologies of the Company's MCU IC products are: 8-bit RISC processor, 16-bit MCU with DSP computing function and development platform, which were mainly used in small or large home appliances, security systems, communications peripherals such as chargers, high-end interactive toys, mobile phones, electronic dictionaries, language learning machines, optical mouse, keyboard control ICs and other markets. Domestic competitors include Generalplus, Holtek, Pixart, Sonix, Nuvoton, etc.
- (5) Pointing stick: accounted for 16% of revenue in 2018; the growth was nearly 30%. This product is used in notebook computers. Since customers' sales performance for pointing stick products were very good in recent years, the Company has benefited accordingly. The Company has successively completed high noise-cancelling, anti-RFI pointing stick sensor ICs. The main competitors are foreign manufacturers, such as Synaptics of US, Alps, NMB, etc.

(3) Technology and R & D overview:

- (1) R & D expenditures for the past 2 years:

Unit: NT\$'000

items \ annual	2018	2017
R & D expenses	1,531,009	1,386,852
Net Income	8,651,332	7,503,267
proportion to Net Income	18%	18%

Source: CPA's report

(2) Technology or products successfully developed:

- Completed the development of biometric solution that supports notebook encryption function;
- Completed the development of battery-free and contactless biometric smart card solution;
- Completed the development of 2-in-1 network fire fighting modular IC;
- Completed the development of IC with touch pad and touch point 2-in-1 functions;
- Completed the touch control IC for active pen AMOLED panel;
- Completed the solution integrating 18:9 touch FHD panel and driver ICs for mobile phones;
- Completed the development of NB touch lock (SMUX4.0) solution.

(3) Affiliates: products and planned product developments of Metanoia Communications, Avisonic Technology and PiXORD:

Metanoia Communications: main products include ICs and solutions for VDSL2 /VDSL35b system, ICs and solutions for G.fast system, ICs and solutions for smart home network IEEE1902.1 PLC /Zigbee /Thread IoT system.

Products planned to be developed include new generation VDSL35b, G.fast's latest ultra high-speed broadband IC for 424MHz /212MHz /106MHz bandwidth, G.fast /VDSL2 /VDSL35b SFP module and Narrow Band PLC smart /power grid and Zigbee Thread IoT ICs.

The abovementioned products will be developed in collaboration with major foreign IC manufacturers combined with innovative business model. In the future, the company will, in addition to the launch of related G.fast /VDSL35b ICs, target at telecom operators, telecom equipment vendors and cable TV bidirectional coaxial cable transmission operators. The company will combine major foreign IC manufacturers' IoT, WiFi 11ac/ax and 5G/LTE technologies and

universal cable & wireless broadband integrated SOC for IP development to provide the applications of mid- to high-end Gateway, IoT Gateway, WiFi AP and 5G /LTE small cell for corporate users and home users.

In addition, the G.fast /VDSL2/VDSL35b SFP module will be used in enterprise SD-WAN routers, targeting the market for the most popular SDN/NFV virtualization software-defined networks. The G.fast/VDSL2 SFP module will also be ideal for outdoor WiFi APs and smart city IoT integrated collectors for easy plug and play. The company is making a steady progress in the market dominated by Switzerland, England, Australia, Germany and France through the destructive innovation of the new generation G.fast/VDSL2 SFP modules.

Lastly, Metanoia will integrate all of the aforementioned ICs (VDSL2 /VDSL35b /G.fast) and NB PLC /Zigbee IoT ICs to build a Smart Gateway ecosystem, which will be combined with the software platform of Metanoia to connect Cloud and big data analysis, in order to develop new generation services for smart city and smart home IoT.

Avisonic Technology: Avisonic Technology's current main products include: (1) fisheye lens image calibration processing ICs; (2) megapixel high-resolution image processing ICs; (3) Around View Monitor (AVM) and advanced driver-assistance systems (ADAS); (4) development of modules for computer peripheral applications and consumer electronics applications; (5) customized module design.

New products that Avisonic Technology planned to develop (including ICs and application modules & systems):

- (1) ICs: In order to strengthen the development of in-vehicle smart application technology, it began to aim at the advanced driver-assistance systems (ADAS) market since mid-2018, hoping to provide drivers with automatic image-distance-measuring camera angle adjustment for front protection while driving at medium to low-speed and safe parking while backing.
- (2) Application: Provide product with customized and integrated application to shorten customer's development time and meet the diverse characteristics of future market demand to enhance product competitive advantage.

PiXORD: main products include: (1) 5 Mega Pixel 360 degree Fisheye H.264 IP Camera; (2) Dual Lens Panoramic Dome Network Camera; (3) 3 Mega Pixel Outdoor Bullet Network Camera; (4) 2 Mega Pixel Low Lux Outdoor Bullet Network Camera; (5) VDSL2 Point to Point Long Distance Media Converter; (6) Artificial Intelligence Traffic Detection System.

In recent years, PiXORD has been committed to the promotion of applying AI imaging to various smart solutions. Firstly, it uses AI technology to effectively solve the problem of traffic jams. It cooperated with the Academia Sinica team and proposed the “City Traffic Solution” to analyze traffic flow and optimize traffic signals through AI technology. Especially the world's first application of panoramic 360-degree fisheye images to analyze traffic flow conditions at the terminal using AI technology. At present, smart traffic flow systems have been set up at domestic intersections to assist in analyzing intersection traffic flow to analyze and improve traffic flow. Furthermore, patents have been applied in various countries as well.

PiXORD has entered into strategic alliances with corporate partners of various expertise and proposed various smart applications to enhance the unique competitiveness of PiXORD through the intelligent analysis of AI technology. PiXORD also actively participate in the planning of smart application projects in various counties, cities and industrial parks; by winning the advantages in various fields, it'll not only increase sales revenue but also obtain more big data and applications needed for artificial intelligence to provide basis for the development of next-generation artificial intelligence products.

(4) Long-term and short-term business development plan

(1) Short-term plan

A. Marketing strategy:

- (a) In order to meet the market demand for smart terminal device products, various IC protocols for smart phones were developed. For example, the capacitive fingerprint sensor module is one of the corresponding solutions. In addition, facial recognition is the next stage product, TDDI and TDDI ICs with pen functions are all alternative solutions supporting various IC protocols for smart phones.

At the same time, the optical biometric for screen is also under development, which can enhance the visibility in the smart phone market with various diversified solutions, while fighting for orders through various types of cooperation with the

specification developers, panel manufacturers, module factories, mobile phone ODM plants, etc.

- (b) Strengthen the development of OBMs in Taiwan, mainland China, US and Northeast Asia markets of budget smart phones, tablet PCs and notebooks with fingerprint recognition and touch control, in order to increase the number of customers and the number of cases to enhance the operating momentum.
- (c) Gain more home appliance customers in mainland China by all-purpose MCU with low power consumption and high noise-cancelling ability; and earn greater market share by launching touch pad control IC with high noise-cancelling ability for home appliances, and MCU for brushless DC motors.
- (d) Require business marketing personnel to work deeper into the industry and face customer demand directly, in order to master the overall industrial supply chain, understand the key demand of the market, identify customers who can generate business energy, and seek cooperation and collaboration with muscle of the industry. At the same time, establish office in the main markets with after-sales service engineers ready at all time to provide customer with the best services in line with business demands.

B. Product development direction:

- (a) The development of touch-and-display 2-in-1 integrated ICs for smart phones was completed: TDDI is an industrial trend; combining touch and display driver ICs into a single chip will effectively reduce costs and improve performance. At the same time, seeking market differentiation and uses TDDI ICs with pen functions to win more branding customers can all provide smart phones with variety of IC solutions.
- (b) Actively developing capacitive and optical biometric ICs with 3D security for notebooks
- (c) Development of high waterproof and low power consumption touch solutions for consumer products
- (d) Development of a touch-display integrated single-chip solution for mobile phone supported active pens
- (e) Development of lighting touch pad solutions
- (f) Development of low-power touch screen solutions

C. Production strategies:

- (a) Strengthen the planning and management for automation of the entire production process to improve output efficiency of the modules and achieve rapid delivery. At the same time, prepare capacity planning in advance for the demands arising from wafer

foundry capacity, packaging and testing, and biometric products related materials, while working closely with business units to meet the requirements of on-time delivery.

- (b) Maintain close cooperative relationship with upstream, midstream and downstream players in the semiconductor industry, such as foundries, touch screen manufacturers, liquid crystal display panel (LCD) manufacturers, notebook ODM /OEMs and mobile phone module foundries, packaging and testing factories, photomask factories, hardware and software manufacturers and other outsourced vendors, ensure good communication with each other, acknowledge different production processes of each manufacturer and related progress and changes, effectively reduce inventory by various countermeasures through motorized operations and activate optimal production efficiency.
- (c) Strictly set various production indicators, ensure the indicators are achieved, further strengthen the contents of the indicators, and constantly update and refine the production process to achieve the optimal production efficiency.

D. Operating strategies:

- (a) More flexible product sales strategies: The use of modular, single-chip and other sales approaches are the key sales approaches for continuous implementation, in order to strengthen market expansion, increase revenue scale effectively, meet customer demands and further enhance deeper understanding of the market. In particular, the modular business model has accounted for more than half of the revenue; it covers many component procurement, characteristic analyzation, cost control and other operations, allows ICs design to cross over to the manufacturing side, and possesses more Know- How, which will build a competitive threshold to effectively block competitors from joining the competition, while facilitating the increase of the Company's revenue and profit.
- (b) Concentration: In order to cope with the increasingly fierce competition in the overall market, the Company focuses on the competitive and profitable application markets. In terms of notebooks, the Company offers a variety of different solutions, such as touch screen ICs, touch screen pen-based ICs, touch pad modules, pointing sticks, biometric encryption, payment functions, etc. The Company gradually expands market size and increases market share through differentiated product features, customized requirements and all-round services. In 2019, it will add 3D security capacitive and optical biometric sensing modules into active market development for smart phones, hoping to increase the scale of smart phone operation.
- (c) Performance optimization: apply touch control function to the Company's full range of products and introduce the competitive pen function into various consumer products will not only

increase products' added value, but also effectively improve customers and the Company's market competitiveness and increase average selling price (ASP) in order to increase gross margin of the products.

- (d) Go hand-in-hand with brand, ODMs and related supply chains customers: strengthen cooperative programs with branding customers while diversifying by collaborating with ODMs and customer resources of upstream, midstream, and downstream supply chains to improve operating performance.

E. Financial strategy:

Seeking cooperation opportunities in the industry's upstream, mid-stream and downstream supply chains to achieve corporate financial benefits by means of investment; while achieving maximum effectiveness in fund utilization through sound financial operation.

(2) Long-term development plan

A. Marketing strategy:

- (a) Set Taiwan in Asia as the operating headquarter and the center of strategic management in building global marketing network and distribution network (including renowned notebook, smartphone and tablet PC OBM's in Asia are all important customers of the Company); flexibly use the marketing and technical support capabilities of the Company and the agents' distribution system; strive to become the most important leader in the market and aim at improving operational performance every year by cooperating with well-known US and Japan companies to jointly develop the market; provide product design services through the Company's powerful patent network; strengthen the application of various products; increase gross margin of the products.
- (b) Actively deepen the relationship with branding customers and marketing channels in Europe and the United States. First of all, strengthen the promotion with renowned US and European branding customers of consumer electronic products and establish cooperative partnerships with brand factories and ODMs to strategically develop towards internationalization, accumulate higher penetration rate in tier-one manufacturers, focus on renowned customers with strength and potential and provide comprehensive marketing and complete after-sales services, in order to boost revenue and increase market awareness and market share.
- (c) Actively establish the Company's own elite talent pool, to enhance international marketing capabilities and strengthen technical support, and obtain cooperative opportunities with world-class manufacturers.

B. Product development direction:

- (a) Continue the collaboration with multiple renowned platform industry players in U.S. and Japan to launch products that respond to the latest demands of the market, which will be

- applied in smart phones, tablet PCs, notebooks, smart home appliances and other products.
- (b) Actively collaborate with affiliate(s) of joint venture(s) and related IoT technology companies to jointly develop AI technology related platforms and to invest in automotive electronics, smart home, smart city, smart transportation, video surveillance and other fields.
 - (c) The era of information and network security is coming. In response to the market demand for various smart terminal products (notebook or mobile phone), biometric sensing module adding encryption and payment functions are necessary. The Company also proposed a number of solutions such as optical, capacitive and facial recognition products and continue to innovate new and different specifications thereof to meet the market demand in response to the consideration for thinness and cost minimization.
- C. Production strategies:
- (a) Continuously improve product yields to improve product quality, reduce production costs, and effectively increase gross margins.
 - (b) Establish a close cooperative relationship or strategic alliance with the outsource factories to ensure sufficient production capacity.
 - (c) Seek the best production method between process nodes and products in order to produce the most competitive product with effective and low cost production capacity.
- D. Operating strategies:
- (a) Effectively use self-developed MCU in various bits and digital signal processor technologies, together with outsourced advanced developing technology, licensing or cooperation, to launch high-integration ICs, modularized products and application platforms with competitive prices and quality in various application fields through integrating the IP and technologies required for the communication, consumer electronic, notebook PCs, smart phones, tablet PCs and other application fields, and cooperate with leading manufacturers in various fields to create a win-win situation and expand business scale.
 - (b) Focus on competitive products, expand their scope of application, enhance differentiation strategy and derive creative concept products with business opportunities, especially in touch control related products, in order to increase business scale, gross profit margin and profitability.
 - (c) Strategic alliances: leverage on external strength, seek related upstream and downstream industries with similar goals, work together to achieve coexistence and common prosperity.
- E. Financial strategies:
- Fully utilize, in line with the continuous expansion of business scale, various types of financial instruments in the capital market to obtain lower-cost working capital and strengthen the financial structure.

2. Market and Sales Overview

(1) Market analysis:

(1) Sales regions of major products during the past 2 years

Unit: NT\$'000

region \ sales	year	2017		2018	
		sales amount	percentage (%)	sales amount	percentage (%)
Taiwan		1,107,829	12.81	1,266,700	16.88
China		1,847,316	21.35	1,484,219	19.78
Hong Kong		5,613,718	64.89	4,653,405	62.02
other		82,469	0.95	98,943	1.32
Total Net Income		8,651,332	100.00	7,503,267	100.00

Due to the impact of US-China trade war, overall economic uncertainty, high penetration rate of smart phones reaching its saturation point, and conservative trend in consumer behavior, the demand in emerging markets has slowed down. According to IDC's latest research survey, the global smart phone shipments has reached 1,400,000,000pcs in 2018 with an annual decline of 4.1%. As for TrendForce's notebook shipment report, the total number of notebooks shipped has reached 121,000,000pcs during the first three quarters of 2018 and is expected to be slightly declined by 1.9% during the fourth quarter due to the impact of CPU shortage; therefore, notebook shipment is expected to be 162,900,000pcs in 2018 with an annual decline of 0.13%. In addition, according to Strategy Analytics' latest research survey, global shipments in tablet market has reached 173,800,000pcs in 2018 with an annual decline of 6.15%.

Personal privacy and online information security is also an important development trend. Mobile payment has becoming a major usage habit allowing users to complete transactions easily through mobile devices, such as smart phones, notebooks, tablets, smart cards, PC peripherals, etc.

Although biometric ICs have shifted from capacitive to optical or ultrasonic waves capable, the new ICs are adapting changes in materials such as changing from TFT LCD to OLED panel, etc., and all the required characteristics are different, but after various APPs are provided on each platform, the means to protect the privacy of consumers and the security in Internet usage to avoid hacking is very important for consumers; therefore, encrypted ICs are thus born. This product facilitates the provision of differentiated competing energy and improvement in operations.

The means to unleash the competitive advantage of the Company is a top priority. The Company works closely with the world-renowned Pen Protocol specification makers to provide terminal customers with the specification makers' latest and best solutions for smart phones, notebooks, tablets and other products. Due to the increasing size of smart phone screens and the availability of flexible and foldable phones, the potential for future development of pen-based touch control IC is anticipated.

In the meanwhile, smart card products with biometric function (including credit card, ATM card, Easy Card, ID card, NHI card, etc.) are the application products with the most long-term potential. Many cards are not limited to one personal use, therefore, the market opportunity is optimistic. Other the other hand, smart cards adopting device with biometric function can effectively prevent the spread of fake cards and reduce credit cards incidents and disputes between banks and users arising from lost of credit cards and unauthorized use of credit cards; which, in addition to ensuring the security of the personal property, it also maintains goodwill of the vendors. The biggest difference is that the consumers have long been issued with the cards free of cost without purchasing. The means to reduce the cost of the smart card product with biometric function is also a key task. At present, biometric vendors are actively striving for market opportunities in this field.

In addition, the Company has long been engaged in the development and application of touch technology, and has patents in the United States, Japan, China and Taiwan. In general, the application of the successfully mass produced touch control ICs that the Company researched and developed covers touch panel of various large, medium and small sizes, and coupled with complete terminal pre-sales and after-sales services for smart phones, tablets and stylus notebooks. The Company will continue to provide customers with a total solution that is more competitive in the international market.

While facing the global competition from peers of the touch control IC industry, the Company is still maintaining its leading position; of which the touch screen notebook ICs account for more than 60% of the world market share, while the touch pad modules also account for more than 40% of the world market share and is moving toward a 50% market share. At present, the competitors include many domestic and foreign IC design companies, such as American manufacturers Synaptics and Microchip, Japanese manufacturer Alps and China manufacturer Goodix. On the other hand, due to the increasingly fierce competition, IC prices also dropped; therefore, effectively improving the performance of ICs, reducing IC production costs, establishing differentiated product characteristics, competitive technology thresholds and sales channels are the goals of the Company's continued efforts in 2019.

The most important applications in the touch control industry are smart phones, notebooks and tablets. As competitors have accelerated their investment in recent years, the number of manufacturers have increased and their production capacities have expanded. As a result, competition among the entire supply chain has intensified, and manufacturers that cannot maintain strong competitiveness cannot profit or are forced to withdraw from

the competition.

As for the pointing stick products for notebooks, the Company currently ranks first in the world in terms of market share. The Company mainly supplies to the world's largest notebook manufacturers. The Company has successfully developed high anti-noise and anti-RFI interference pointing stick sensor ICs and is gradually expanding to compete for new customers.

As for the MCUs, the Company will continue to develop lower power consumption IC platforms to provide customers with the best solutions, while strengthening the collaboration with solution companies in mainland China and providing the best cost-effective control ICs.

(2) Market share:

The Company is a professional IC design company with a full range of integrated solutions. It has a strong R & D team and invests more than 15% in R & D each year. It is a IC design company that focuses on research and development of new products. The quality of products developed by the Company is recognized by the customers; the proportion of revenue from global tier-one manufacturer customers accounted for more than half of the total revenue. The touch control notebook ICs accounted for nearly half of the world's market share. At present, the Company has three products that ranks first in the world, namely stylus notebook screen IC, touch pad module and pointing stick.

According to the data from IEK of ITRI, output value of Taiwan's IC design industry reached NT\$6,413 trillion in 2018; the proportion that the Company accounted for was approximately 1.3%.

(3) Future supply, demand and growth of the market:

In the past, the growth experience of semiconductors and the global economic growth rate of GDP are showing a synchronous trend. The International Monetary Fund (IMF) revised 2019 and 2020 global economic growth forecasts down to be 3.5% and 3.6%, respectively, which were the lowest in three years. The reasons of which are the US-China trade war, China's economic slowdown and Brexit risk, which weaken the economic growth momentum. The US-China trade war has shaken the world. The World Bank had bluntly commented that the arrogant atmosphere of both sides will still be the main cause of impact on the world economy in 2019. As a result, the World Bank's global economic growth rates for 219 and 2020 were revised down to 2.9% and 2.8%, respectively.

However, the real impact on semiconductors is the changes in the terminal market demand. It is obvious that consumer electronics products (including smart phones, notebooks and tablets) that demand

for semiconductors the most are highly saturated in the market. Among then, penetration rate of smart phone has been high, coupled with insufficient innovation, new products with special features tend to be priced too high and difficult to be popular in a short run. In addition, tablets are declining every year, and notebook is also an industry that is not easy to grow. Thus, it is inevitable that semiconductors will encounter headwinds in a short run. However, due to the promising prospects of AI, 5G, and automotive electronics, that is to say, future developments of semiconductors are still bright after a short period of low key.

Although the uncertainty in overall economic prospects has enhanced, while China's strong policy support on semiconductor industry remains unchanged, of which the goal is to boost domestic supply and demand percentage; therefore, in order to meet the challenges of the overall external environment, the Company, as a member of semiconductor design companies with its main markets concentrated in North America and Asia, will combine US and Japan platforms, the strength of the specification developers, the Company's insight into the market and customer needs, and IC design capacity to jointly expand global market and continuously seek profitable IC products and corporate cooperation or alliances to enrich it strength, through different feasible mechanisms in order to respond to the changes in the overall economy and the market.

At the same time, grasping relevant technologies, enhancing competitive momentum, gaining insights on market application trends (such as artificial intelligence, smart home, smart transportation, automotive electronics, etc.) and combining the resources of related companies to develop biometric sensor ICs and ultra-low power consumption sensor technology are the important development directions. Fully grasping the new opportunities for semiconductor development created by the changes in global artificial intelligence and new generation ICT industry markets can effectively enhance the added value of the Company, strengthen its competitiveness, and further drive its operations.

The application of artificial intelligence can be regarded as the next wave of huge business opportunities following smart phones, PCs and tablets. The Company plans to combine its own technology, external resources from friendly people and businesses, and affiliates to jointly develop competitive smart devices to drive the Company's business growth.

(4) Competitive niche:

A. Possession of strong R & D team and huge patented technologies;

- B. Master the key technologies and IP of the products with important competitive advantages;
 - C. Specialized technical services, effective product integration and provision of customer & technical engineering supports;
 - D. Provide modularized solution that is different from the peers' operating models. Differentiated sales strategies effectively enhanced closer relationships with the customers;
 - E. Well-established distribution agents and global sales offices at home and abroad;
 - F. Collaboration and mass production experience with domestic and foreign smart phone module manufacturers, touch control manufacturers, panel manufacturers and notebook ODMs.
- (5) Favorable and unfavorable factors of development prospects:
- A. Favorable factors
 - The Company focused on the global market, combined with renowned platforms providers and specification makers in the United States and Japan, and conducted comprehensive contacts with tier-one brands and customers in China to gain purchase orders. There are gradual progress, which gradually reflected in operating performance. In 2019, the focus of market development will be continuous enhancing the penetration rate of global branding manufacturers in using the Company's IC products, as well as the tier-one branding customers in mainland China.
 - Flexible business strategies: modularized, single-chip or chipset methods of sales are available. Among them, the modularized sales model can enhance closer collaboration with system manufacturers and access to the earliest market information, which is favorable in gaining purchase orders.
 - Man-machine interface operation: Touch control applications are becoming more and more popular in smart mobile devices. This kind of operation mode that emphasizes man-machine interface is becoming more and more popular and has already penetrated into various types of consumer electronic products with increasing penetration rate over the years. The Company owns patented multi-finger technology that can be widely used in various consumer electronics products, just in line with the development trend of the market.
 - Own a strong R & D team and hundreds of patented

technologies.

- Close to the market: outsource production in the vast consumer market, achieve the goal of rapid delivery, and strengthen customer service.
- Complete system of production chain: various large-scale domestic and foreign wafer factories and related packaging and testing downstream subcontractors will expand the scale of capital expenditures, which will be favorable when IC design companies expand their production cooperation. At the same time, the increasingly specialized division of work of the above-mentioned manufacturers has already evolved into considerable economic scale, providing the Company with stable wafer supply and related post-processing services while effectively controls production quality and timeliness, reduces production costs and risks, all of which are favorable for the development and timing of new products.
- Long-term collaboration with upstream, midstream, and downstream supply chains of the customers: understand the requirements of production and process nodes, reduce processing time, reduce peripheral costs and increase production efficiency.
- In response to the demand for market price/function ratio: As the market is increasingly competitive, reducing the size of IC and overall cost has always been the goal of the company. At the same time, with regard to the different requirements of product features in different markets, the company also provides a diversified product range to provide different product solutions in response to customer demand.
- Product diversification: low impact from the economic environment, broad distribution channels, low impact from changes in a single market, and a stable customer base.
- Consumer electronic digitalization has become the mainstream of the market. Since the establishment of the Company, it has oriented towards consumer electronics and the market, and realized that consumer electronics is already the mainstream industry in the future. Therefore, the continuous introduction of new products helps the Company in meeting the market demand.

B. Unfavorable factors

- The IC design industry is highly dependent on wafer production capacity and is susceptible to wafer manufacturer; when the wafer production capacity is full, IC design companies must pay higher costs to obtain production capacity.
- The amount of development funds invested in artificial intelligence-related applications is relatively high, the application environment is in the thriving period, the product life cycle is short and the changes are rapid, creating pressure on product development.
- R & D talents are an important lifeblood for the survival and development of IC design companies. High employee turnover rate can hamper the accumulation of research and development capabilities. In addition, since both China and Taiwan are emphasizing the development of semiconductors, the competition for talents surfaces.
- Insufficient domestic R & D manpower makes recruitment a problem for companies.
- Competition and price war among domestic and foreign IC design companies have become increasingly fierce; the increasing pressure on product prices created operating pressure.
- The rise of IC design companies in mainland China: due to policy support in terms of funding or markets, the scale of operations continues to expand and pose a threat to Taiwan's IC design industry.

(6) Countermeasures:

- Grasp the evolution of market trends and develop appropriate strategies. 5G smart phone is about to be commercialized, and the demand for autonomous driving is rising, which drive the increase in demand for ICs usage in automotive electronics, plus the era of artificial intelligence (AI) is coming, the huge potential business opportunities will once again lead a bright future of the semiconductor industry. In respond to the development trend of the market, the Company has completed the capacitive biometric sensing ICs, which has been mass-produced and shipped for many years. The facial recognition ICs have also completed the development and application stage. In addition, it continues to develop the optical ICs products for biometric screens, which is expected to have break through in 2019. All products are

developed for applications such as smart phones, notebooks and tablets. At the same time, the Company actively invests in the field of artificial intelligence (AI) for future product development, which is expected to effectively enhance the added value of the Company's IC products, strengthen competitiveness and drive innovation.

- Flexible business strategies: modularized, single-chip or chipset methods of sales are available. Among them, the modularized sales model can enhance closer collaboration with system manufacturers, establish competition threshold, and access to the earliest market information, which is favorable in gaining purchase orders.
- Continuous recruit specialized R & D talents, implement localization strategies, increase overall engineering manpower, reduce related operating costs, build the strength of R & D teams, and achieve the goal of shortening product development timelines.
- Expanding the market through strategic alliances with domestic and foreign peers or related players to accelerate revenue and profit growth.
- Build marketing channels, expand marketing outlets at home and abroad, and actively develop new customers.
- Understand the market development trends, understand the needs of end-users and consumers, and respond to their needs in order to achieve the goal of profit growth; strengthen the application of products, and enrich the service mechanism of the application engineering manpower so that the Company can coexist and prosper with customers.

(2) Important uses and production processes of the major products:

(1) Important uses of the major products

At present, the company has two major product categories and five product lines. The two product categories are touch control and non-touch control. The touch control category includes touch screen ICs, touch pad module, and biometric ICs. The non-touch control category includes MCU and a pointing stick. All related production processes are carried out by the Company from IC design, to outsourcing the photomask company to make the photomask, to transfer to the wafer factory for the various fabrication (such as exposure to UV-light, etching, etc.), to perform wafer testing and packaging testing before ship to the customer for production. All production time varies according to various required IC functions, precision, etc.

A、 Application products in touch control category:

Application products in touch control category are the key source of income of the Company in 2018 and will still be the key source of income in 2019. It is divided into two categories and one of them is the touch screen ICs, and its major application products include smart phones, tablet computers and notebook computers, e-books, and AIO. PC, etc.

B、 Touch Pad module:
Mainly used on notebook PCs.

C、 Biometric ICs:

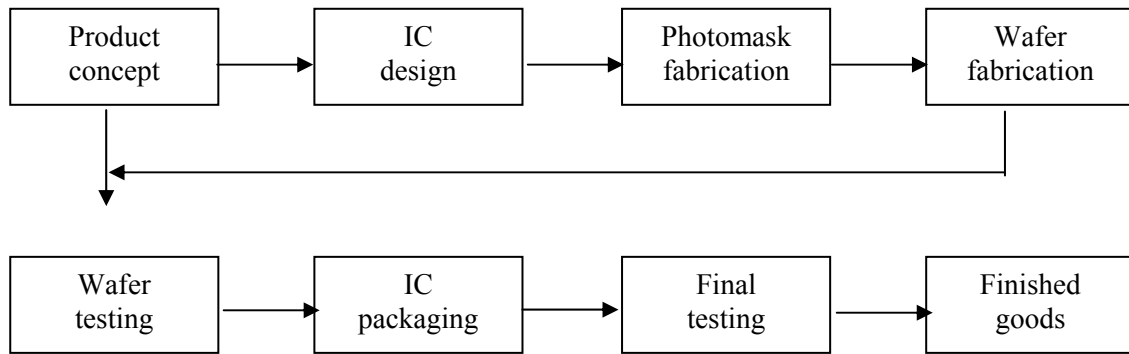
In 2018, there is still frequent price war for biometric ICs due to fierce competition in the mobile phone market, thus, the focus is profit-oriented. Notebook is a large application, which accounts for more than half of the revenue. The development of biometric screen solution will continue, and the effort in the smart phone market will continue. Since the scope of biometric IC application is very broad, covering smart phones, notebooks, tablets, smart cards, PC peripherals, etc., seeking a profitable application industry with bright development prospects is the focus of efforts in the future.

D、 MCU IC:

The main core technologies of the Company's MCU IC products include: 8-bit RISC processor and 16-bit MCU with DSP computing function and development platform, which are mainly used in small and large home appliances, security systems, and communications peripherals such as chargers, high-end interactive toys, mobile phones, electronic dictionaries, language learning machines, optical mice, keyboard control ICs and other markets. MCU has been dominated by foreign IC manufacturers. The product lines developed by the Company are competitively priced, and the development tools such as OTP, MTP, and ICE are quite complete, allowing the customers to quickly market their products and achieve "Time to Market" requirements. In the future, more engineering talents will be recruited, and the Company will seek collaboration with more solution companies to provide customers with overall solutions and achieve a customer-corporation-consumer win-win-win situation.

E、 Pointing stick products: used on notebook computers; high noise-cancelling, anti-RFI pointing stick sensor IC were already completed.

(2) Production processes



(3) Supply of major raw materials:

The Company's main raw materials are wafers and photomasks. The Company's main collaborating professional wafer foundries are Magnachip, UMC, and Macronix, which have excellent quality, process nodes technology and on-time delivery. In addition, in the photomask part, the main collaboration partners are Taiwan Mask and TCE, which are all long-term cooperative manufacturers with no concern in supply shortage or interruption.

- (4) List of major suppliers and customers
 (1) List of major customers (account for more than 10% of sales revenue)

Information on Major Customers in the Past 2 Years (consolidated basis)

Unit: NT\$'000

No.	2017				2018				as of the previous quarter of 2019 (Note 2)			
	name	amount	Proportion to net sales revenue of the year (%)	relationship with the issuer	name	amount	Proportion to net sales revenue of the year (%)	relationship with the issuer	name	amount	Proportion to net sales revenue of the year as of the previous quarter of 2019 (%)	relationship with the issuer
1	Ultra Source	3,106,645	41.40	non-related parties	Ultra Source	3,021,462	34.92	non-related parties	Ultra Source	686,814	36.52	non-related parties
2	Silicon Application	981,552	13.08	non-related parties	Silicon Application	1,944,270	22.47	non-related parties	Silicon Application	407,765	21.68	non-related parties
	other	3,415,070	45.52		other	3,685,600	42.61		other	786,035	41.80	
	net sales revenue	7,503,267	100.00		net sales revenue	8,651,332	100.00		net sales revenue	1,880,614	100	

Note 1: Specify the name, sales amount and proportion to sales revenue of the customer whose sales amount accounted for more than 10% of the total sales revenue in the past two years. If the customer name cannot be disclosed due to the contractual agreement or the transaction counterparty is a non-related individual, a code can be used in lieu thereof.

Note 2: As of the date of publishing the annual reports, listed company or company of which stocks have been traded at the securities firm shall disclose the most recent financial information certified by CPA.

- (2) List of major suppliers (account for more than 10% of purchase amount)

Information on Major Suppliers in the Past 2 Years (consolidated basis)

Unit: NT\$'000

No.	2017 (Note 3)				2018 (Note 3)				as of the previous quarter of 2019 (Note 2, Note 3)			
	name	amount	Proportion to net purchase amount of the year (%)	relationship with the issuer	name	amount	Proportion to net purchase amount of the year (%)	relationship with the issuer	name	amount	Proportion to net purchase amount of the year as of the previous quarter of 2019 (%)	relationship with the issuer
1	Lien Hwa	714,716	19.84	non-related parties	Lien Hwa	879,358	21.65	non-related parties	Lien Hwa	264,465	29.65	non-related parties
2	MagnaChip	514,674	14.29	non-related parties	MagnaChip	326,623	8.04	non-related parties	MagnaChip	52,195	5.85	non-related parties

3	TPT	369,249	10.25	non-related parties	TPT	509,607	12.55	non-related parties	TPT	75,789	8.50	non-related parties
	other	2,002,996	55.62		other	2,346,365	57.76		other	499,583	56.00	
	Net purchase amount	3,601,635	100		Net purchase amount	4,061,953	100		Net purchase amount	892,032	100	

Note 1: Specify the name, purchase amount and proportion to total purchase amount of the supplier whose purchase amount accounted for more than 10% of the total purchase amount in the past two years. If the supplier's name cannot be disclosed due to the contractual agreement or the transaction counterparty is a non-related individual, a code can be used in lieu thereof.

Note 2: As of the date of publishing the annual reports, listed company or company of which stocks have been traded at the securities firm shall disclose the most recent financial information certified by CPA.

Note 3: Including finished goods purchased.

(5) Schedule of production and sales value for the past 2 years

1. Schedule of production value (consolidated basis):

Unit: '000pcs, NT\$'000

year production value major products	2017			2018		
	production capacity	output	output value	production capacity	output	output value
consumer touch control IC	—	508,371	2,359,302	—	498,751	2,054,952
notebook input devices module	—	68,064	2,476,190	—	161,299	3,844,279
network communication IC	—	383	49,380	—	527	73,382
image process IC	—	727	69,358	—	728	41,003
safety monitoring module		5	12,184		3	6,426
total		577,550	4,966,414		661,308	6,020,042

2. Schedule of production and sales value (consolidated basis):

Unit: '000pcs, NT\$'000

year major products	2017				2018			
	Domestic sales		Export		Domestic sales		Export	
	Sales volume	Sales value	Sales volume	Sales value	Sales volume	Sales value	Sales volume	Sales value
consumer touch control IC	134,831	1,106,305	278,165	1,800,653	153,493	905,257	279,562	2,016,103
notebook input devices module	502	42,907	66,461	4,384,271	974	70,134	78,295	5,446,095
network communication IC	192	37,362	46	29,715	157	35,054	109	73,508
image process IC	417	50,578	71	19,421	471	57,835	62	6,726
safety monitoring module	5	29,548	2	2,507	2	39,550	2	1,070
total	135,947	1,266,700	344,745	6,236,567	155,097	1,107,830	358,030	7,543,502

* "Other" referred to design development revenues, sales of DEMO BOARD and ICE.

3. Basic Human Resources information

Consolidated number of employees, average years of service, age and academic distribution ratio for the past two years:

year		2017	2018	March 31, 2019
number of employees	Managers	218	202	211
	Technician	293	309	295
	General staff	673	679	662
	total	1,184	1,190	1,168
average age		35.9	35.9	36.1
average years of service		6.9年	7.1年	7.3年
academic distribution ratio	Ph.D.	1.1%	1.1%	1.0%
	Master	42.9%	42.6%	43.7%
	Bachelor	39.7%	34.4%	34.5%
	High school	3.7%	7.8%	7.7%
	Below high school	12.6%	14.1%	13.1%

4. Environmental Protection Expenditures

The Company has always attached great importance to environmental protection; its pollution prevention performance is good, and there was no sanction received due to environmental pollution and violation.

(1) Total amount of losses and sanctions in the past two years due to environmental pollution: N/A.

(2) Future countermeasures expenditures and possible expenditures: N/A.

(3) Work environment and employee personal safety protection measures:

The Company's working environment is excellent and is the only integrated circuit (IC) design company that has won the Distinguished Green Landscaping Award of Hsinchu Science Park Bureau for 14 consecutive years. In addition, the Company has always attached importance to matters concerning employees' health and safety, such as:

1. Employee health checkups;
2. Established Safety & Health Office and medical room for labor safety health education and environmental protection management;
3. Invite lecture with expertise to hold several health promotion seminars;
4. Hire professional medical practitioners to the Company on monthly basis to perform on-site health services and provide health advice to the employees;
5. Hold safety and health training every six months;
6. Hold weight loss classes and weight loss competitions to promote employee health;
7. Drinking water quality testing;
- 8.. The Company commissions professional manufacturers to overhaul and report fire fighting facilities on yearly basis;
9. Conduct employees' firefighting training every six months.
10. Conduct CO₂ measurement for the workplace environment every six months to safeguard employee health;
11. Obtained ISO 14001 Environmental System Certification. Environmental policies: prevention of pollution, company-wide full participation, commitment to environmental protection, continuous improvement;
12. The Corporate Social Responsibility Report has been introduced since 2014; the greenhouse gases inspections was commenced since 2014; and a KPI performance indicator of at least 1% in energy conservation and carbon reduction per year was set;
13. Obtained OHSAS 18001 Occupational Safety and Health Management System certification in May 2016. In 2018, the Company began to promote the latest occupational safety and health management system ISO 45001 and is expected to be certified in 2019.
14. In 2018, the Company participated in the prize issued by the Health Promotion Administration of the Ministry of Health and Welfare and won the "Gender-Friendly Health Award".

5. Labor Relations

The Company's labor relations are harmonious and there was no major loss due to labor disputes.

(1) Current important employer-employee agreement and its implementation status

1. Employee benefit measures

(1) In addition to the canteen, exercise are, fitness equipment area and

medical room facilities established by the Company, employees also enjoy health insurance, group insurance, pension benefits, regular health checkups, and health management services provided by professional medical personnel. In addition, the benefits provided by the Company also include: bonuses of the year, employees' compensation, club activities subsidy, New Year gift certificates, etc.

- (2) The Company has established the Employee Welfare Committee pursuant to laws and selected the Welfare Committee to handle employee welfare issues. The source of its benefits is 1% capital contribution at the time of establishment and 0.5% and 0.12% contributed from monthly salary and revenue, respectively. The Welfare Committee is responsible in setting annual plan and budget, holding Welfare Committee meetings on a regular basis to discuss, resolve and organize various welfare activities, and to disclose the income and expenses of the welfare funds. The welfare provided by the Welfare Committee include: birthday gifts, travel subsidies, wedding subsidies, funeral subsidies and maternity subsidies.

2. Employee education and training

In order to enrich the knowledge and skills of our staff members and enhance their morale and quality, the Company has set up a dedicated unit to plan the training for all staff members and provide external training opportunities in accordance with their professionalism, in order to combine the growth of staff members with the development of the Company to create a joint corporate vision.

- (1) Internal trainings:
The Training Unit is responsible for planning annual training courses; training courses that are professional in nature will be organized by each department and co-organized by the Training Unit. In addition, the Company has established e-learning and know-how management system on the Company's internal website to effectively pass down professional know-how.
- (2) External trainings:
Staff members shall apply for the course of which the materials was collected by the Training Unit and various departments, and proceed with the registration and payment procedures at the HR Department upon the supervisor's approval.
- (3) Newcomer trainings:
Responsible by the HR Department and Public Resources Department, to ensure the newcomers understand and get familiar with the Company's organizational profile, personnel regulations, quality policies, industrial safety and health, people and the environment.
- (4) On-job training:
Responsible by each department.
- (5) Consolidated employee training and training execution status of the Company of the last fiscal year (2018)

Unit: NT\$ / number of person / hour

items	expenses	number of persons	hours
technology and R & D category	189,604	1,734	10,999
management category	516,955	358	679
patent and intellectual property category	10,600	2	24
total	717,159	2,094	11,702

- (6) Certificate(s) obtained by the chief finance, accounting and auditing officers:

job title	name	date	certificate name	certificate no.
Chief auditor	CHUNG,I-MEI	March 2006	Internal Auditor of The Institute of Internal Auditors-Chinese Taiwan	(Zheng)-9420032

3. Pension system

(1) Pension fund contribution:

- A. The Company has formulated an employee retirement plan and established a Retirement Reserve Supervision Committee. The Company contributes 2% of the monthly salary to the retirement reserve funds pursuant to the "Regulations for the Allocation and Management of the Workers' Retirement Reserve Funds" and deposits in the Retirement Reserve Account at Taiwan bank.
- B. The Company, pursuant to the Labor Pension Act, also deposits the 6% contribution from monthly salary of those employees who are eligible for pension as identified by the Labor Pension Act to each individual pension account.

(2) Pension system:

- A. Mandatory retirement:
 - a. Those who reached the age of 65; or
 - b. Those who suffer from the loss of mind or physical disability and unfit to work.
- B. Volunteer retirement:
 - a. Those who have served over 25 years; or
 - b. Those who have served over 15 years and reached the age of 55; or
 - c. Those who have served over 10 years and reached the age of 60.
- C. Base point: average salary of the last 6 months prior to the retirement.

- (3) Retirement benefits: For those who have reached the years of serve applicable for pension pursuant to the Labor Standards Act shall receive 2 base points for each full year; for who have served for more than 15 years shall receive additional 1 base point for each full year; the total number of base points is limited to 45 points.

4. Agreements between employee / employer and the safeguarding of employees' rights and interests

The Company has not established a written agreement with the employee. Employees can freely express various advises for the Company

through the quarterly employee-employer meeting, employee suggestion boxes, e-mail, internal network systems, etc.; the Manpower Performance Management Department gathers opinions from employees and distributes them, based on their opinions, to the responsible units for reply, and be processed pursuant to Employees' Code of Work after reporting to the President; the protection of the rights and interests of employees are subject to the Employees' Code of Work and the relevant regulations of the competent authorities.

(2) Loss due to labor disputes during the last fiscal year

The Company's labor relations are harmonious and there was no major loss due to labor disputes.

6. Important Contracts

contractual nature	party	contract commence and ending date	main contents	limitations
technology licensing	Peripheral Imaging Corp.	Jan. 1, 2002 ~ termination called by any party	Product Development & Licence Agreement	N/A
technology licensing	Cybernetic	Jan. 1, 2005	LRC & HASC & ESAC	N/A
technology licensing	Synatics	Oct. 19, 2008 ~	Settlement and Cross -Linense Agreement	N/A
technology licensing	Apple	Jan. 3, 2012 ~	SETTLEMENT AND LICENSE AGREEMENT	N/A
technology licensing	Startek	Jul. 30, 2014 ~	Software Development and License Agreement	N/A
technology licensing	Finger Pro.	May 1, 2014 ~	Software license agreement	N/A
technology licensing	NEC Corporation	Nov. 30, 2012 ~	Software License For Evaluation	N/A
technology licensing	Precise Biometrics AB	Jul. 1, 2017 ~ Jun. 30, 2019	ADDENDUM2 SOFTWARE BUSINESS AGREEMENT1	N/A
technology licensing	ARM	Dec. 28, 2018 ~ Dec. 27, 2021	Technology License Agreement Cortex-M0+	N/A
Cooperative licensing	Chengdu Finchos Electronics Co., Ltd.	Aug. 22, 2016 ~	Cooperative Contract for Fingerprint Algorithm	N/A
Cooperative licensing	Chengdu Finchos Electronics Co., Ltd.	Jan. 4, 2017	Supplementary Cooperative Contract for Fingerprint Algorithm	N/A
technology licensing and development	Taluko holdings SAS	Jun. 4, 2016 ~	LICENSING AND DEVELOPMENT COLLABORATION AGREEMENT	N/A
technology licensing	NXP	Oct. 1, 2017	NON-EXCLUSIVE TECHNOLOGY LICENSE AGREEMENT	N/A
development service	NXP	Oct. 1, 2017	SERVICES AGREEMENT	N/A
commissioned development	National Taiwan University of Science and Technology	Dec. 1, 2010 ~ termination date of the rights and obligation	Industry-Academy Cooperative Contract	N/A
commissioned development	Industrial Technology Research	Dec. 1, 2013 ~ Feb. 28, 2024	Commissioned Service and Licensing Contract	N/A
commissioned development	Intel	Sep. 18, 2014	Software Development, Support and Demonstration Agreement	N/A
commissioned development	Altptech	May 18, 2017	Commissioned Software Development Contract	N/A
commissioned development and licensing contract	Shengxin Technology Co., Ltd.	March 12, 2018	Commissioned Development and Licensing Contract	

VI. Financial Information

1. Last Five Fiscal Years' Financial Summary

(1) Concise Balance Sheet and Income Statement

1. Concise Balance Sheet - Consolidated Financial Statements

Unit: NT\$'000

item \ year	financial information of the last five years					financial information as of March 31, 2019 (Note 3)
	2014	2015	2016	2017	2018	
current assets	7,799,627	7,038,751	7,015,408	7,953,564	7,447,785	7,676,097
property, plants and equipments (Note 2)	678,708	612,066	581,444	580,010	767,874	766,255
intangible assets	326,061	290,523	250,519	256,273	225,319	215,752
other assets (Note 2)	49,112	41,669	47,075	54,739	55,439	53,860
total assets	10,166,979	9,284,645	9,131,230	10,142,805	9,803,147	10,357,098
current liabilities						
pre-distribution	1,783,442	1,682,957	1,789,056	2,410,414	2,828,645	2,762,873
post-distribution	3,371,564	2,565,247	2,470,616	3,530,430	註4	註4
non-current liabilities	513,384	510,525	446,032	408,928	391,744	576,947
total liabilities						
pre-distribution	2,296,826	2,193,482	2,235,088	2,819,342	3,220,389	3,339,820
post-distribution	3,884,948	3,075,772	2,916,648	3,939,358	註4	註4
equity attributable to owner(s) of the parent company	7,817,412	7,099,955	6,899,178	7,356,477	6,627,180	7,072,538
capital stock	4,411,448	4,411,448	4,341,148	4,341,148	3,038,804	3,038,804
capital surplus	1,173,275	976,488	735,781	536,328	444,033	444,033
reserved surplus						
pre-distribution	2,483,273	1,961,910	1,745,995	2,422,333	3,005,648	3,400,768
post-distribution	1,146,604	1,264,901	1,312,748	1,423,869	註4	註4
other equity	230,837	221,247	177,522	147,779	172,023	222,261
treasury shares	481,421	471,138	101,268	91,111	33,328	33,328
non-controlling interest	52,741	(8,792)	(3,036)	(33,014)	(44,422)	(55,260)
total equity						
pre-distribution	7,870,153	7,091,163	6,896,142	7,323,463	6,582,758	7,017,278
post-distribution	6,282,031	6,208,873	6,214,582	6,203,447	Note 4	Note 4

Note 1: Financial information of the above-listed years has been certified by the Accountant.

Note 2: If there is asset revaluation, the revaluation date and revaluation surplus shall be listed.

Note 3: Q1 / 2019 financial information certified by the Accountant.

Note 4: As of the reporting date, profit distribution has not yet been resolved by the 2018 shareholders' meeting.

Note 5: On 1 January 2015, adopted the effective International Financial Reporting Standards:2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and has retroactively restated the 2013 and 2014 Consolidated Balance Sheets. IFRS 9 and IFRS 15 was adopted on January 1, 2018 without retroactively restate consolidated balance sheets issued before the year of 2017.

2. Concise Comprehensive Income Statement - Consolidated Financial Statements

Unit: NT\$'000

item \ year	financial information of the last five years					financial information as of March 31, 2019 (Note 3)
	2014	2015	2016	2017	2018	
business revenues	7,686,322	6,605,099	6,558,933	7,503,267	8,651,332	1,880,614
gross income	3,523,924	2,813,686	2,708,170	3,347,820	3,944,177	856,471
income (loss)	1,433,528	848,884	752,415	1,349,782	1,730,288	346,756
non-operating income and expenses	254,741	62,826	(27,525)	(87,521)	139,780	131,132
net profit before tax	1,688,269	911,710	724,890	1,262,261	1,870,068	477,888
net going concern profit of the period	1,404,732	738,946	580,001	1,032,110	1,531,702	384,282
loss from discontinuing operation	0	0	0	0	0	0
net income / (loss)	1,404,732	738,946	580,001	1,032,110	1,531,702	384,282
other comprehensive income (loss) (post-tax) of the period	(13,067)	(15,316)	2,526	6,211	29,148	50,238
total comprehensive income (loss) of the period	1,391,665	723,630	582,527	1,038,321	1,560,850	434,520
net profit attributable to owner(s) of the parent company	1,491,867	824,777	652,667	1,073,802	1,559,580	395,120
net profit attributable to non-controlling interest	(87,135)	(85,831)	(72,666)	(41,692)	(27,878)	(10,838)
total comprehensive income (loss) attributable to owner(s) of the parent company	1,478,356	809,408	655,414	1,079,841	1,588,903	445,358
total comprehensive income (loss) attributable to non-controlling interest	(86,691)	(85,778)	(72,887)	(41,520)	(28,053)	(10,838)
earnings per share	3.61	1.98	1.57	2.58	4.16	1.36

Note 1: Financial information of the above-listed years has been certified by the Accountant.

Note 2: Q1 / 2019 financial information certified by the Accountant.

Note 3: On 1 January 2015, adopted the effective International Financial Reporting Standards:2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and has retroactively restated the 2013 and 2014 Consolidated Balance Sheets. IFRS 9 and IFRS 15 was adopted on January 1, 2018 without retroactively restate consolidated balance sheets issued before the year of 2017.

3. Concise Balance Sheet - Individual Financial Statements

Unit: NT\$'000

item	year	financial information of the last five years				
		2014	2015	2016	2017	2018
current assets		7,306,317	6,588,344	6,470,853	7,341,632	6,620,611
property, plants and equipments (Note 2)		661,735	598,560	567,880	572,376	761,937
intangible assets		300,311	253,764	217,847	230,104	202,743
other assets (Note 2)		25,793	24,886	28,169	79,247	58,722
total assets		10,024,306	9,072,585	8,916,171	9,886,202	9,517,947
current liabilities	pre-distribution	1,704,766	1,470,222	1,579,121	2,126,747	2,505,043
	post-distribution	3,292,887	2,352,512	2,260,681	3,246,763	註3
non-current liabilities			502,408	437,872	402,978	385,724
total liabilities	pre-distribution	2,206,073	1,972,630	2,016,993	2,529,725	2,890,767
	post-distribution	3,794,194	2,854,920	2,698,553	3,649,741	註3
equity attributable to owner(s) of the parent company		7,817,412	7,099,955	6,899,178	7,356,477	6,627,180
capital stock		4,411,448	4,411,448	4,341,148	4,341,148	3,038,804
capital surplus		1,173,275	976,488	735,781	536,328	444,033
reserved surplus	pre-distribution	2,483,273	1,961,910	1,745,995	2,422,333	3,005,648
	post-distribution	1,146,604	1,264,901	1,312,748	1,423,869	註3
other equity			221,247	177,522	147,779	172,023
treasury shares		481,421	471,138	101,268	91,111	33,328
non-controlling interest		-	-	-	-	-
total equity	pre-distribution	7,817,412	7,099,955	6,899,178	7,356,477	6,627,180
	post-distribution	6,229,291	6,217,665	6,217,618	6,236,461	Note 3

Note 1: Financial information of the above-listed years has been certified by the Accountant.

Note 2: If there is asset revaluation, the revaluation date and revaluation surplus shall be listed.

Note 4: As of the reporting date, profit distribution has not yet been resolved by the 2018 shareholders' meeting.

Note 5: On 1 January 2015, adopted the effective International Financial Reporting Standards:2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and has retroactively restated the 2013 and 2014 Consolidated Balance Sheets. IFRS 9 and IFRS 15 was adopted on January 1, 2018 without retroactively restate consolidated balance sheets issued before the year of 2017.

4. Concise Comprehensive Income Statement - Individual Financial Statements

Unit: NT\$'000

item \ year	financial information of the last five years				
	2014	2015	2016	2017	2018
business revenues	7,580,992	6,455,625	6,428,211	7,341,164	8,432,996
gross income	3,491,463	2,769,101	2,690,167	3,307,355	3,858,659
income (loss)	1,690,514	1,101,905	1,001,819	1,463,417	1,769,576
non-operating income and expenses	78,733	(109,433)	(209,533)	(167,090)	115,093
net profit before tax	1,769,247	992,472	792,286	1,296,327	1,884,669
net going concern profit of the period	1,491,867	824,777	652,667	1,073,802	1,559,580
loss from discontinuing operation	0	0	0	0	0
net income / (loss)	1,491,867	824,777	652,667	1,073,802	1,559,580
other comprehensive income (loss) (post-tax) of the period	(13,511)	(15,369)	2,747	6,039	29,323
total comprehensive income (loss) of the period	1,478,356	809,408	655,414	1,079,841	1,588,903
net profit attributable to owner(s) of the parent company	1,491,867	824,777	652,667	1,073,802	1,559,580
net profit attributable to non-controlling interest	-	-	-	-	-
total comprehensive income (loss) attributable to owner(s) of the parent company	1,478,356	809,408	655,414	1,079,841	1,588,903
total comprehensive income (loss) attributable to non-controlling interest	-	-	-	-	-
earnings per share	3.61	1.98	1.57	2.58	4.16

Note 1: Financial information of the above-listed years has been certified by the Accountant.

Note 3: On 1 January 2015, adopted the effective International Financial Reporting Standards:2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and has retroactively restated the 2013 and 2014 Consolidated Balance Sheets. IFRS 9 and IFRS 15 was adopted on January 1, 2018 without retroactively restate consolidated balance sheets issued before the year of 2017.

(2) Concise Balance Sheet and Income Statement - Taiwan's Financial Accounting Standards

1. Concise Balance Sheet - Taiwan's Financial Accounting Standards: The Company has adopted International Financial Reporting Standards in preparing financial information for five years; therefore, the Company will not prepare separate financial information base on Taiwan's Financial Accounting Standards.
2. Concise Income Statement - Taiwan's Financial Accounting Standards: The Company has adopted International Financial Reporting Standards in preparing financial information for five years; therefore, the Company will not prepare separate financial information base on Taiwan's Financial Accounting Standards.
3. Names and audit opinions of the Certified Public Accountants in the last 5 years:

year	name of the firm	Certified Public Accountant	audit opinions
2014	KPMG	KAO, WEI-CHUAN, WEI, HSING-HAI	revised unqualified opinion
2015	KPMG	KAO, WEI-CHUAN, KAO, WEI-CHUAN	revised unqualified opinion
2016	KPMG	KAO, WEI-CHUAN, KAO, WEI-CHUAN	unqualified opinion
2017	KPMG	KAO, WEI-CHUAN, TSENG, MEI-YU	unqualified opinion
2018	KPMG	TSENG, MEI-YU, KAO, WEI-CHUAN	unqualified opinion

2. Last Five Fiscal Years' Financial Analysis

(1) Financial analysis - consolidated

Item (Note 3)		financial analysis for the last five years					as of March 31, 2019 (Note 2)
		2014	2015	2016	2017	2018	
financial structure (%)	debt to assets ratio	22.59	23.62	24.48	27.80	32.85	32.25
	long-term capital to property, plant and equipment ratio	1,235.22	1,241.97	1,262.75	1,333.15	908.29	991.08
solvency ratios %	current ratio	437.34	418.24	392.13	329.97	263.30	277.83
	liquidity ratio	367.85	346.39	331.58	279.39	221.07	233.38
	interest protection multiples	3,156.64	758.86	339.58	300.61	403.08	230.64
operating capacities	receivables turnover ratio (times)	6.22	5.71	5.87	6.99	8.09	7.48
	average collection period	59	64	62	52	45	49
	inventory turnover ratio (times)	2.98	2.74	2.88	3.00	3.29	2.86
	accounts payable turnover ratio (times)	5.44	4.61	4.61	4.81	5.03	4.51
	days sales of inventory	122	133	127	122	111	128
	property, plants and equipments turnover ratio (times)	10.93	10.23	10.99	12.92	12.84	9.81
	total assets turnover ratio (times)	0.78	0.68	0.71	0.78	0.87	0.75
profitability	return on asset (%)	14.27	7.61	6.32	10.75	15.40	15.27
	return on equity (%)	18.31	9.88	8.29	14.52	22.03	22.60
	profit before tax to capital stock (%) (Note 7)	38.27	20.67	16.70	29.08	61.54	62.90
	net profit margin (%)	18.28	11.19	8.84	13.76	17.70	20.43
	earnings per share (NT\$)	3.61	1.98	1.57	2.58	4.16	1.36
Cash Flow	cash flow ratio (%)	81.50	47.86	54.19	60.69	64.18	64.75
	cash flow adequacy ratio (%)	95.47	83.61	87.57	99.04	102.01	113.73
	cash reinvestment ratio (%)	-0.07	-8.85	1.45	9.09	9.07	20.80
leverage	operating leverage	5.01	7.07	8.09	4.85	4.30	4.65
	financial leverage	1	1	1	1	1	1

Explain the reasons for changes in financial ratios in the past two years (when the rate of change exceeds 20%):

1. Financial structure:

The long-term capital to property, plant and equipment ratio decreased from the previous period, mainly due to capital reduction in 2018, which resulted in a decrease in the shareholders equity amount from that of in 2017.

2. Solvency ratios:

Due to capital reduction in 2018, the original bank time deposits with maturity of more than three months have decreased, resulting in a decrease in 2018's current ratio and quick ratio from that of in 2017; due to the increase in 2018's net profit before tax from that of in 2017, the 2018's interest protection multiples also increased from that of in 2017.

3. Profitability :

The increased sales revenue and gross sales margin in 2018 from that of in 2017 and the increased non-operating profit in 2018 from that of in 2017, caused the profitability related indicators in 2018 to be higher than that of in 2017.

(2) Financial analysis - individual

Item (Note 3)		Year (Note 1)	financial analysis for the last five years				
			2014	2015	2016	2017	2018
financial structure (%)	debt to assets ratio		22.01	21.74	22.62	25.59	30.37
	long-term capital to property, plant and equipment ratio		1,257.11	1,270.11	1,292.01	1,355.66	920.40
solvency ratios %	current ratio		428.58	448.12	409.78	345.20	264.29
	liquidity ratio		361.82	372.74	346.97	294.82	221.26
	interest protection multiples		註3	註3	49,519	162,042	235,585
operating capacities	receivables turnover ratio (times)		6.02	5.61	6.03	7.30	8.40
	average collection period		61	65	61	50	43
	inventory turnover ratio (times)		3.13	2.88	3.04	3.16	3.46
	accounts payable turnover ratio (times)		5.40	4.53	4.55	4.72	4.94
	days sales of inventory		116	127	120	116	105
	property, plants and equipments turnover ratio (times)		11.10	10.24	11.02	12.88	12.64
	total assets turnover ratio (times)		0.78	0.68	0.71	0.78	0.87
profitability	return on asset (%)		15.39	8.64	7.26	11.42	16.07
	return on equity (%)		19.60	11.06	9.32	15.06	22.31
	profit before tax to capital stock (%) (Note 7)		40.11	22.50	18.25	29.86	62.02
	net profit margin (%)		19.68	12.78	10.15	14.63	18.49
	earnings per share (NT\$)		3.61	1.98	1.57	2.58	4.16
Cash Flow	cash flow ratio (%)		105.71	73.70	81.22	76.70	73.95
	cash flow adequacy ratio (%)		115.01	101.74	106.77	116.80	116.46
	cash reinvestment ratio (%)		3.00	-5.85	4.77	10.73	9.00
leverage	operating leverage		3.31	4.19	4.68	4.18	3.63
	financial leverage		1	1	1	1	1

Explain the reasons for changes in financial ratios in the past two years (when the rate of change exceeds 20%):

- Financial structure:
The long-term capital to property, plant and equipment ratio decreased from the previous period, mainly due to capital reduction in 2018, which resulted in a decrease in the shareholders equity amount from that of in 2017.
- Solvency ratios:
Due to capital reduction in 2018, the original bank time deposits with maturity of more than three months have decreased, resulting in a decrease in 2018's current ratio and quick ratio from that of in 2017; due to the increase in 2018's net profit before tax from that of in 2017, the 2018's interest protection multiples also increased from that of in 2017.
- Profitability :
The increased sales revenue and gross sales margin in 2018 from that of in 2017 and the increased non-operating profit in 2018 from that of in 2017, caused the profitability related indicators in 2018 to be higher than that of in 2017.

- Note 1: Financial information of the above-listed years has been certified by the Accountant.
- Note 2: Q1 / 2019 financial information certified by the Accountant.
- Note 3: The interest expense in the year 2013 to 2015 Individual Financial Statements were all “0”, therefore, so the , interest protection multiples is infinite.
- Note 4: Financial ratio formula:
1. Financial structure
 - (1) Debt to assets ratio = total liabilities / total assets.
 - (2) Long-term capital to property, plant and equipment ratio = (total equity + non-current liabilities) / net property, plants and equipments.
 2. Solvency ratios
 - (1) Current ratio = current assets / current liabilities.
 - (2) Liquidity ratio = (current assets — inventory — prepaid expenses) / current liabilities.
 - (3) Interest protection multiples = earnings before interest and taxes / interest expenses of the period.
 3. Operating capacities
 - (1) Receivables (including accounts receivable and note receivable from business operations) turnover ratio = net sales revenue / average receivables (including accounts receivable and note receivable from business operations) balance of each period.
 - (2) Average collection period = 365 / receivables turnover ratio.
 - (3) Inventory turnover ratio = cost of goods sold / average inventory.
 - (4) Accounts payable (including accounts payable and note payable from business operations) turnover ratio = cost of goods sold / average accounts payable (including accounts payable and note payable from business operations) balance of each period.
 - (5) Days sales of inventory = 365 / inventory turnover ratio.
 - (6) Property, plants and equipments turnover ratio = net sales revenue / average net property, plants and equipments.
 - (7) Total assets turnover ratio = net sales revenue / average total assets.
 4. Profitability
 - (1) Return on asset = [post-tax profit or loss + interest expenses × (1 — tax rate)] / average total assets.
 - (2) Return on equity = post-tax profit or loss / average total equity.
 - (3) Net profit margin = post-tax profit or loss / net sales revenue
 - (4) Earnings per share = (profit or loss attributable to owner(s) of the parent company — preference share dividends) / weighted-average number of shares issued. (Note 4)
 5. Cash Flow
 - (1) Cash flow ratio = net cash flow from operating activities / current liabilities.
 - (2) Net cash flow adequacy ratio = net cash flow from operating activities in the last 5 years / (capital expenditures + increase in inventory + cash dividends) in the last 5 years.
 - (3) Cash reinvestment ratio = (net cash flows from operating activities — cash dividends) / (gross property, plants and equipments + long-term investment + other non-current assets + working capital). (Note 5)
 6. Leverage
 - (1) Operating leverage = (net operating income — changes in operating costs and expenses) / operating profit (Note 6).
 - (2) Financial leverage = operating profit / (operating profit — interest expenses).
- Note 5: The calculation formula for the above-mentioned earnings per share shall be measured with the following precautions:
1. Shall be based on weighted-average number of common shares instead of number of shares issued as of the end of the year.
 2. Where there is capital addition or treasury share transaction, weighted-average number of shares shall be calculated after considering the circulation period.
 3. Where there is Retained Earnings Transferred To Capital or Capital Increase By Capital Surplus, when calculating the earnings per share for the previous year and mid-year, it shall be retrospectively adjusted according to the proportion of capital increase without considering the issuing period of the capital increase.
 4. If the preference share is a non-convertible cumulative preference share, its dividends (paid or not) of the year shall be subtracted from net profit after tax or added to net loss after tax. If the preference share is

non-cumulative, the preference dividends shall be deducted from net profit after tax if there is a net profit after tax; if it is a loss, there is no need for adjustment.

Note 6: The following precautions shall be paid when measuring cash flow analysis:

1. Net cash flow from operating activities referred to the net cash inflow from operating activities shown in the cash flow statement.
2. Capital expenditure referred to the annual cash outflows for capital investment.
3. The increase in inventory is only listed when the ending balance is greater than the beginning balance. If the inventory decreases at the end of the year, the increase in inventory will be regarded as zero.
4. Cash dividends include cash dividends of common shares and preference shares.
5. Gross property, plants and equipments referred to the total property, plant and equipment before accumulated depreciation.

Note 7: The issuer shall classify various operating costs and operating expenses into fixed and variable categories. If estimation or subjective judgment are involved, the issuer shall pay attention to its rationality and maintain consistency.

Note 8: If the Company's shares have no face value or if the face value of each share is not NT\$10, the aforementioned calculation of ratio involving paid-in capital shall be calculated based on the equity ratio of the balance sheet attributable to the owner(s) of the parent company.

- (3)** Financial analysis - Taiwan's Financial Accounting Standards: The Company has adopted International Financial Reporting Standards in preparing financial information for five years; therefore, the Company will not prepare separate financial information base on Taiwan's Financial Accounting Standards.

3. Audit Committee's Review Report

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2018 financial statements and consolidated financial statements, which was audited by Accountant TSENG, MEI-YU and KAO, WEI-CHUAN of Klynveld Peat Marwick Goerdeler (KPMG) who issued an audit report, together with business report and the profit distribution proposal for Audit Committee's review. The Audit Committee hereby confirmed that there are no discrepancies and reported as above pursuant to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act and submitted for your kind approval.

ELAN Microelectronics Corporation

Convener of the Audit Committee:

March 12, 2019

Independent Auditors' Report

To the Board of Directors

ELAN MICROELECTRONICS CORPORATION:

Opinion

We have audited the financial statements of ELAN MICROELECTRONICS CORPORATION (“the Company”), which comprise the statement of financial position as of December 31, 2018 and 2017, the statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, base on our audits and the reports of other auditors (please refer to Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Other Matter

We did not audit the financial statements of Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp, which represented investment accounted for using the equity method of the Company. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as they relate to the amounts included for Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp, are based solely on the reports of other auditors. The investment in Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp accounted for using the equity method constituted 2.56% and 2.60% of the total assets at December 31, 2018 and 2017, respectively, and the related share of profit of associates and joint ventures accounted for using the equity method constituted (0.87)% and (0.72)% of the total income before tax for the years then ended, respectively.

Key Audit Matters

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

1. Valuation of inventories

Please refer to Notes 4(g) for accounting policy of inventory, Notes 5 for accounting estimations and assumption uncertainty of inventory valuation, and Notes 6(d) for the write-down of inventories to net realizable value.

Key Audit Matter Explanation:

The inventories are measured at the lower of cost and net realizable value. Due to the rapid changes in the economy and the environment, and the production technology update, the cost of inventories are in a risk that the inventory cost exceeds its net realizable value.

How the matter was addressed in our audit

For valuation of the inventories, we reviewed the inventory aging reports, analyzed the inventory turnovers and changes in its aging inventory for each period to assess the reasonableness of the Company's inventory provision rate, evaluated the accounting policy rationality, understood the sales price adopted by the management evaluation, reviewed the sales status and evaluation which was based on the net realizable value used to assess the appropriateness of the Company management's estimation on inventory provision.

2. Revenue recognition

Please refer to Note 4(p) for accounting policy of revenue recognition.

Key Audit Matter Explanation:

The major business activities of the Company are the manufacture and sale of integrated circuits. The Company also offers research and development services with respect to the products presented above. Test of revenue recognition is one of the key audit matters in our audit. Revenue is the key performance indicator to evaluate the performance by the investors and management, and thus, needs significant attention in our audit.

How the matter was addressed in our audit

We tested the effectiveness of the related controls surrounding revenue recognition, reviewed relevant sales documents to evaluate whether the revenue recognition is consistent with the accounting policy; performed trend analysis on the top ten customers and revenue by products, to assess significant exception, if any; tested the sales transactions before and after the end of the year and its relevant documents to evaluate the accuracy of the amount and period of the revenue recognized.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Tseng, May-Yu and Gau, Wey-Chuan.

KPMG

Taipei, Taiwan (Republic of China)

March 12, 2019

Notes to Readers

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

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

(English Translation of Financial Statements and Report Originally Issued in Chinese)
ELAN MICROELECTRONICS CORPORATION

Balance Sheets

December 31, 2018 and 2017

(Expressed in, New Taiwan Dollars)

		December 31, 2018		December 31, 2017				December 31, 2018		December 31, 2017			
		Amount	%	Amount	%			Amount	%	Amount	%		
Assets													
Current assets:													
1100	Cash and cash equivalents (note 6(a))	\$	1,685,150	18	1,751,025	18	2170	Total accounts payable (notes 6(g) and (t))	\$	961,996	10	890,919	9
1110	Current financial assets at fair value through profit or loss (note 6(b) and 7)		426,245	4	536,276	5	2206	Employee bonus payable (note 6(s))		255,000	3	175,000	2
1172	Accounts receivable (note 6(c))		1,001,958	11	860,048	9	2230	Current tax liabilities		256,922	3	146,715	1
1181	Accounts receivable due from related parties (notes 6(c) and 7)		42,872	-	17,487	-	2300	Total other current liabilities (notes 6(g) and (t))		1,031,125	10	914,113	10
1200	Other receivables, net (notes 6(c) and 7)		661,640	8	538,576	5				2,505,043	26	2,126,747	22
1310	Inventories, manufacturing business, net (note 6 (d)))		1,073,897	11	1,066,710	11		Non-Current liabilities:					
1410	Prepayments and other current assets		3,999	-	32,310	-	2640	Net defined benefit liability, non-current (note 6(l))		373,240	3	390,698	4
1476	Other current financial assets (note 6(a))		1,724,850	18	2,539,200	26	2645	Guarantee deposits received		10,236	-	9,984	-
			6,620,611	70	7,341,632	74	2570	Total deferred tax liabilities (note 6(m))		2,248	-	2,296	-
Non-current assets:										385,724	3	402,978	4
1510	Non-current financial assets at fair value through profit or loss (note 6(b))		583,592	6	-	-		Total liabilities		2,890,767	29	2,529,725	26
1517	Non-current financial assets at fair value through other comprehensive income (note 6(e))		160,994	2	-	-		Equity: (notes 6(n) and (o))					
1523	Non-current available-for-sale financial assets, net (note 6(f))		-	-	131,267	1	3100	Total capital stock		3,038,804	32	4,341,148	45
1551	Investments accounted for using equity method (note 6(g))		1,129,348	12	898,656	10	3200	Total capital surplus		444,033	5	536,328	5
1543	Non-current financial assets at cost, net (note 6(h))		-	-	632,920	6		Retained earnings:					
1600	Property, plant and equipment (note 6(i))		761,937	8	572,376	6	3310	Legal reserve		1,419,965	15	1,312,585	13
1780	Intangible assets (note 6(j))		202,743	2	230,104	2	3350	Total unappropriated retained earnings (accumulated deficit)		1,585,683	17	1,109,748	11
1840	Deferred tax assets (note 6(k))		29,821	-	25,808	-				3,005,648	32	2,422,333	24
1900	Other non-current assets		28,901	-	53,439	1	3400	Total other equity interest		172,023	2	147,779	1
			2,897,336	30	2,544,570	26	3500	Treasury shares		(33,328)	-	(91,111)	(1)
			2,897,336	30	2,544,570	26		Total equity		6,627,180	71	7,356,477	74
Total assets		\$	9,517,947	100	9,886,202	100		Total liabilities and equity	\$	9,517,947	100	9,886,202	100

(English Translation of Financial Statements and Report Originally Issued in Chinese)

ELAN MICROELECTRONICS CORPORATION**Statements of Comprehensive Income****For the years ended December 31, 2018 and 2017****(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)**

		2018		2017	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(o), (p) and 7)	\$ 8,432,996	100	7,341,164	100
5000	Operating costs (notes 6(d) and (l))	4,574,425	54	4,031,280	55
	Gross profit from operations	3,858,571	46	3,309,884	45
5920	Add: Realized profit on from sales	88	-	(2,529)	-
		3,858,659	46	3,307,355	45
	Operating expenses: (notes 7 and 9, 12)				
6100	Total selling expenses	525,428	6	456,467	6
6200	Total administrative expenses	230,654	3	209,726	3
6300	Total research and development expenses	1,331,429	16	1,177,745	16
6450	Expected credit impairment loss	1,572	-	-	-
		2,089,083	25	1,843,938	25
	Income from operations	1,769,576	21	1,463,417	20
	Non-operating income and expenses:				
7010	Total other income (notes 6(q) and 7)	71,365	1	87,303	1
7020	Other gains and losses, net (notes 6(g) and (q))	(11,906)	-	(91,558)	(1)
7050	Finance costs, net	(8)	-	(8)	-
7590	Miscellaneous disbursements	(1,438)	-	(5,181)	-
7070	Share of profit (loss) of associates and joint ventures accounted for using equity method, net (note 6(g))	57,080	1	(157,646)	(2)
		115,093	2	(167,090)	(2)
	Income before income tax	1,884,669	23	1,296,327	18
7950	Income tax expenses (note 6(l))	325,089	4	222,525	2
	Profit	1,559,580	19	1,073,802	16
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Gains on remeasurements of defined benefit plans	5,422	-	34,783	-
8316	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	29,727	-	-	-
8330	Share of other comprehensive income of subsidiaries, associates accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	(5,667)	-	999	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
		29,482	-	35,782	-
8360	Other components of other comprehensive income that will be reclassified to profit or loss				
8361	Exchange differences on translation	400	-	(1,922)	-
8362	Unrealized losses on valuation of available-for-sale financial assets	-	-	(35,501)	-
8380	Share of other comprehensive income of subsidiaries, associates accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(559)	-	7,680	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
	Components of other comprehensive income that will be reclassified to profit or loss	(159)	-	(29,743)	-
8300	Other comprehensive income, net	29,323	-	6,039	-
	Comprehensive income	\$ 1,588,903	19	1,079,841	16
	Earnings per share (note 6(n))				
	Basic earnings per share	\$ 4.16		2.58	
	Diluted earnings per share	\$ 4.12		2.55	

See accompanying notes to financial statements.

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

			Retained earnings		Total other equity interest			Treasury shares	Total equity
					Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available- for-sale financial assets		
	Ordinary shares	Capital surplus	Legal reserve	Unappropriated retained earnings					
Balance at January 1, 2017	\$ 4,341,148	735,781	1,264,428	481,567	(2,138)	-	179,660	(101,268)	6,899,178
Profit	-	-	-	1,073,802	-	-	-	-	1,073,802
Other comprehensive income	-	-	-	35,782	(1,922)	-	(27,821)	-	6,039
Total comprehensive income	-	-	-	1,109,584	(1,922)	-	(27,821)	-	1,079,841
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	48,157	(48,157)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(433,246)	-	-	-	-	(433,246)
Other changes in capital surplus:									
Cash dividends from capital surplus	-	(248,315)	-	-	-	-	-	-	(248,315)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	17,718	-	-	-	-	-	10,157	27,875
Changes in ownership interests in subsidiaries	-	31,144	-	-	-	-	-	-	31,144
Balance at December 31, 2017	4,341,148	536,328	1,312,585	1,109,748	(4,060)	-	151,839	(91,111)	7,356,477
Effects of retrospective application	-	-	-	17,120	-	151,839	(151,839)	-	17,120
Equity at beginning of period after adjustments	4,341,148	536,328	1,312,585	1,126,868	(4,060)	151,839	-	(91,111)	7,373,597
Profit	-	-	-	1,559,580	-	-	-	-	1,559,580
Other comprehensive income	-	-	-	5,079	(159)	24,403	-	-	29,323
Total comprehensive income	-	-	-	1,564,659	(159)	24,403	-	-	1,588,903
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	107,380	(107,380)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(998,464)	-	-	-	-	(998,464)
Other changes in capital surplus:									
Cash dividends from capital surplus	-	(121,552)	-	-	-	-	-	-	(121,552)
Capital reduction	(1,302,344)	-	-	-	-	-	-	52,812	(1,249,532)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	40,834	-	-	-	-	-	4,971	45,805
Changes in ownership interests in subsidiaries	-	(11,577)	-	-	-	-	-	-	(11,577)
Balance at December 31, 2018	\$ 3,038,804	444,033	1,419,965	1,585,683	(4,219)	176,242	-	(33,328)	6,627,180

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

ELAN MICROELECTRONICS CORPORATION**Statements of Cash Flows****For the years ended December 31, 2018 and 2017****(Expressed in Thousands of New Taiwan Dollars)**

	2018	2017
Cash flows from operating activities:		
Profit before tax	\$ 1,884,669	1,296,327
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	43,962	41,830
Amortization expense	43,239	60,417
Expected credit loss (gain) / Provision (reversal of provision) for bad debt expense	1,572	(181)
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	20,912	6,213
Interest expense	8	8
Interest income	(43,172)	(39,033)
Dividend income	(8,479)	(27,931)
Share of loss (profit) of subsidiaries, associates and joint ventures accounted for using equity method	(57,080)	157,646
Loss (gain) on disposal of property, plan and equipment	388	309
Impairment loss on financial assets	25,808	50,108
Reversal of impairment loss on financial assets	-	(16,684)
Impairment loss on non-financial assets	-	(13,036)
Reversal of impairment loss on non-financial assets	1,638	1,293
Other revenue, overdue dividends and compensation of board and directors	89,337	91,379
Other	(87)	2,703
Total adjustments to reconcile profit	118,046	315,041
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	116,168	(5,181)
Decrease (increase) in notes and accounts receivable (including related parties)	(168,867)	165,779
Increase in inventories	(96,524)	(176,611)
Decrease (increase) in other current assets	34,872	(1,282)
Increase in other receivable	(123,391)	(364,820)
Increase (decrease) in notes payable	71,077	74,805
Increase in other current liabilities	183,338	400,641
Total adjustments	134,719	408,372
Cash inflow generated from operations	2,019,388	1,704,699
Interest received	43,499	38,792
Dividends received	8,489	41,851
Interest paid	(8)	(8)
Income taxes paid	(218,944)	(154,127)
Net cash flows from operating activities	1,852,424	1,631,207
Cash flows from (used in) investing activities:		
Acquisition of financial asset at fair value through profit or loss	(29,450)	-
Proceeds from capital reduction of financial assets at fair value through profit or loss	48,065	-
Acquisition of available-for-sale financial assets	-	(30,800)
Proceeds from disposal of available-for-sale financial assets	-	18,421
Acquisition of financial assets at cost	-	(250,000)
Proceeds from disposal of financial assets at cost	-	16,684
Proceeds from capital reduction of financial assets at cost	-	56,992
Acquisition of investments accounted for using equity method	(97,732)	(7,316)
Acquisition of property, plant and equipment	(240,084)	(46,420)
Increase (decrease) in refundable deposits	670	(106)
Acquisition of intangible assets	(15,878)	(72,674)
Decrease in other non-current assets	23,868	(48,569)
Other investing activities	814,350	(498,780)
Net cash flows from (used in) investing activities	503,809	(862,568)
Cash flows used in financing activities:		
Decrease in guarantee deposits received	252	(25)
Cash dividends paid	(1,120,016)	(681,560)
Capital reduction	(1,302,344)	-
Net cash flows used in financing activities	(2,422,108)	(681,585)
Net increase (decrease) in cash and cash equivalents	(65,875)	87,054
Cash and cash equivalents at beginning of period	1,751,025	1,663,971
Cash and cash equivalents at end of period	\$ 1,685,150	1,751,025

See accompanying notes to financial statements.

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

Elan Microelectronics Corp. (the “Company”) was incorporated on May 5, 1994, under the approval of Ministry of Economic Affairs, Republic of China (“ROC”). The Company is located in the Hsinchu Science-based Industrial Park. The major business activities of the Company are the manufacture and sale of neural network and fuzzy processors, digital signal processors, 8-bit RISC micro-controllers, and integrated circuits for special use. The Company also offers research and development services with respect to the products presented above. The Company’s common shares were listed on the Taiwan Stock Exchange on September 17, 2001. Pursuant to the resolution of the shareholders’ meeting held on June 13, 2008, the Company acquired Elantech Devices Corp. (Elantech). The Company is the surviving company, and Elantech was dissolved after the acquisition, and the effective date of the acquisition was on October 1, 2008. Elantech was incorporated on September 18, 2003 as a company limited by shares under the laws of Taiwan, the Republic of China (ROC). Elantech was located in Zhonghe District, New Taipei City. The major business activities of Elantech were the research, manufacture, and sale of wireless and wired communication equipment and electronics modules.

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

These financial statements were authorized for issuance by the Board of Directors on March 12, 2019.

(3) New standards, amendments and interpretations adopted:

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

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017

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Notes to the Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

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

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

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

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

1) Sales of goods

For the sale of products, revenue is currently recognized when the goods are delivered to the customers’ premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Company assessed that the timing of revenue recognition between the current transfer of risks and rewards of ownership method and the IFRS 15 control of goods method are similar, hence, there are no significant impacts on initial application of this standard.

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

2) Rendering of services

The Company is involved in providing related services. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Revenue is currently recognized using the stage-of-completion method. Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Company sells the services in separate transactions. The Company assessed that the current relative fair value basis and the IFRS 15 stand-alone selling prices are similar, hence, there are no significant impacts on timing of revenue recognition on initial application of this standard.

3) Impacts on financial statements

The application of IFRS 15 does not have any impact on the financial statements for the year ended December 31, 2018 of the Company.

(ii) IFRS 9 “Financial Instruments”

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

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

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

1) Classification of financial assets and financial liabilities

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

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

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

2) Impairment of financial assets

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

3) Transition

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

- Comparative periods have been restated only for retrospective application of the cost of hedging approach for forward points. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company assumed that the credit risk on its asset will not increase significantly since its initial recognition.

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

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company’s financial assets as of January 1, 2018. (There are no changes in the measurement and classification of financial liabilities):

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and equivalents	Loans and receivables	1,751,025	Amortized cost	1,751,025
Equity instruments	Designated as at FVTPL (note 1)	536,276	Mandatorily at FVTPL	536,276
	Available-for-sale (note 2)	131,267	FVOCI	131,267
	Financial assets measured at cost (note 3)	572,376	Mandatorily at FVTPL	572,376
Trade and other receivables	Loans and receivables	877,535	Amortized cost	877,535
Other financial assets (other receivables, other current financial assets and guarantee deposits paid)	Loans and receivables	3,082,646	Amortized cost	3,082,646

Note 1: Under IAS 39, these equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

Note 2: These equity securities represent investments that the Company intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Company has designated these investments at the date of initial application as measured at FVOCI.

Note 3: Under IAS 39, these equity instruments were financial assets measured at cost. As these assets are managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

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

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 536,276	-	-	-	-	-
Additions – equity instruments						
From financial assets measured at cost	-	632,920	(3,654)	-	(3,654)	-
Total	<u>\$ 536,276</u>	<u>632,920</u>	<u>(3,654)</u>	<u>1,165,542</u>	<u>(3,654)</u>	<u>-</u>
Fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 131,267	(131,267)	-	-	-	-
Available for sale to FVOCI	-	131,267	-	-	-	-
Addition – equity instruments:						
From investments accounted for using equity method	898,656	-	20,774	-	20,774	-
Total	<u>\$ 1,029,923</u>	<u>-</u>	<u>20,774</u>	<u>1,050,697</u>	<u>20,774</u>	<u>-</u>

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

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

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

The application of IAS 12 does not have any significant impact on the Company.

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

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

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

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

(i) IFRS 16 “Leases”

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

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

1) Determining whether an arrangement contains a lease

The Company has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of equipment under IFRIC 4. On transition to IFRS 16, the Company can choose whether to:

- apply the IFRS 16 definition of a lease to all its contracts; or

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

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

2) Transition

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

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

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

On January 1, 2019, the Company plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, there will be no restatement of comparative information.

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

The Company chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.

- 3) So far, the most significant impact identified is that the Company will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Company estimated that the right-of-use assets and the lease liabilities to both increase by \$194,585 thousand, and no impact on the retained earnings on January 1, 2019. No significant impact is expected for the Company's finance leases. Besides, The Company does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

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Notes to the Financial Statements

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

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

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

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

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

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

(4) Summary of significant accounting policies:

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

- (a) Statement of Compliance

These financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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Notes to the Financial Statements

(b) Basis of preparation

(i) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value;
- 2) Fair value through other comprehensive income (Available-for-sale financial assets)are measured at fair value;
- 3) The defined benefit asset is recognized as the fair value of the plan assets less the present value of the defined benefit obligation.
- 4) Available-for-sale financial assets are measured at fair value.

(ii) Functional and presentation currency

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

(c) Foreign currencies

(i) Foreign currency transactions

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

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

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

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Notes to the Financial Statements

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economics, are translated to the Company's functional currency at average rate.

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

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

An entity shall classify an asset as current when:

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash and cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

An entity shall classify a liability as current when:

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

(e) Cash and cash equivalents

Cash comprise cash balances and call deposits. Cash equivalents are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

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Notes to the Financial Statements

A time deposit is qualified as cash equivalent and must be held for the purpose of short term cash commitments rather than for investment or other purposes.

(f) Financial instruments

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

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

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

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

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI)

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

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

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment' s fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

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Notes to the Financial Statements

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

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

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

4) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets measured at amortized costs, notes and accounts receivable, other receivable, leases receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI, accounts receivable measured at FVOCI and contract assets.

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

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

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

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

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Notes to the Financial Statements

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

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

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 360 days past due or the borrower is unlikely to pay its credit obligations to the Company in full.

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 360 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

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

5) Derecognition of financial assets

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

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

On derecognition of a part of debt instrument in which the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

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

The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss, available for sale financial assets and account receivables.

1) Financial asset measured at fair value through profit or loss

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

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in other gains or losses under non-operating revenue and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

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Notes to the Financial Statements

2) Available-for-sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available for sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income and dividend income are recognized in other comprehensive income and accumulated under unrealized gains (losses) on available for sale financial assets in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to non-operating revenue and expenses, and is included in other gains and losses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

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

Dividend income from equity investment is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is recognized as other income under non-operating revenue and expenses.

Interest income from investment in bond security is recognized as other income under non-operating revenue and expenses.

3) Receivables

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

Interest income is recorded as other income under non-operating revenue and expenses.

4) Impairment of financial assets

Financial assets that are not measured at fair value through profit or loss evaluate impairments at every reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

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Receivables that are not individually impaired are collectively assessed for impairment by Companying together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries, and economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

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

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

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

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

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

Impairment losses recognized on available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then impairment loss is reversed against profit or loss.

The impairment loss of accounts receivable is recognized as selling expense, while the impairment loss and recovery of the remaining financial assets are recognized as other gains and losses under non-operating revenue and expenses.

5) Derecognition of financial assets

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

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Notes to the Financial Statements

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and recorded as other gains and losses in non-operating revenue and expenses.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

Equity instruments are contractual agreement that can manifest the Company's residual interest after assets, less, liabilities. Equity instruments issued are recognized based on amount of consideration received, less, the direct cost of issuing.

2) Other financial liabilities

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

3) Derecognition of financial liabilities

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

Upon derecognition, the difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is recorded as other gains and losses under non-operating revenue and expenses.

4) Offsetting of financial assets and liabilities

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

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Notes to the Financial Statements

(g) Inventories

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

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

(h) Investments in associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

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

The financial reports include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Company from the date that significant influence commences until the date that significant influence ceases.

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

When the Company's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

(i) Investment in subsidiaries

In preparing the separate financial statement of the Company, investee companies controlled by the Company are accounted for using the equity method. Under the equity method, the Company's profit or loss and other comprehensive income are the same as the profit or loss and other comprehensive income attributable to the owners in the consolidated financial statements. The equity balance in the separate financial statements is the same as the equity balance in the consolidated financial statements.

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

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Notes to the Financial Statements

(j) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

The rental asset is depreciated over the shorter of the lease term or its useful life. Land has an unlimited useful life, and therefore, it is not depreciated. The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- 1) Buildings: 2~50 years;
- 2) Machineries and equipments: 2~6 years;
- 3) Transportation and office equipment: 2~6 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If the expectation of useful life differs from the previous estimate, the changes are accounted for as changes in an accounting estimate.

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Notes to the Financial Statements

(k) Leases

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

(ii) Lessee

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

(l) Intangible assets

(i) Goodwill

Goodwill is recognized when the purchase price exceeds the fair value of the identifiable assets under the acquisition method. Goodwill acquired through consolidation is not amortized. Impairment testing is performed on a regular basis and is measured at initial cost, less, any accumulated impairment loss.

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

(ii) Research and development

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

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

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

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- 6) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

(iii) Other intangible assets

The other intangible assets acquired by the Company are recognized at cost, less, accumulated amortization and accumulated depreciation.

(iv) Subsequent expenditure

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

(v) Amortization

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with all indefinite useful life, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Patents	1~4 years
Computer software cost	1~3 years

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

(m) Impairment – non derivative financial assets

The Company assesses non-derivative financial assets (other than inventories, deferred income tax assets and employee benefits for impairment) for impairment at every reporting date, and estimates its recoverable amount. If it is not possible to determine the recoverable amount (fair value, less, cost to sell and value in use) for individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less, costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss. An impairment loss in respect

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized.

The Company assesses the cash-generating unit of goodwill, intangible assets with uncertain useful life, and intangible assets not yet ready for use on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units (Companies). If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss, and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

(n) Provisions

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

(o) Treasury stock

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares should be recognized under Capital Reserve – Treasury Share Transactions; Losses on disposal of treasury shares should be offset against any existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted average of different types of repurchase.

During the cancellation of treasury shares, Capital Reserve – Share Premiums and Share Capital should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; losses on cancellation of treasury shares should be offset against any existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

Shares that are owned by the Company's subsidiaries are seen as identical to shares repurchased.

(p) Revenue recognition

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

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

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

1) Sale of goods

The Company outsources its manufacturing process and subsequently sells its Integrated Circuits to customers. The Company recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

The Company recognizes trade receivables upon the delivery of products, because the Company has unconditional rights to recovery of the consideration at that point in time.

2) Services

The Company provides product design and development services to its customers, and recognizes revenue during the reporting period when services are rendered. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is based on the percentage of actual cost incurred over the total costs.

3) Financing components

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

(ii) Revenue recognition (applicable before January 1. 2018)

1) Goods sold

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

2) Services

The Company rendered product design and development. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is based on the percentage of actual cost incurred over the total costs.

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

3) Grants from government

Government grant income is recognized when the Company meets the related conditions and the government grant can be received. The Company recognizes revenues based on the actual cost incurred of the total cost as non-operating income.

(q) Employee benefits

(i) Defined contribution plan

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

The Company that belongs to domestic firms should comply with the Labor Pension Act (hereinafter as “the Act”), which took effect on July 1, 2005. In accordance with the Act, the pension benefits of employees who elect to follow the Act and employees who are retired after the effective date of the Act adopt a defined contribution scheme, whereby the Company makes monthly contributions to the employees’ individual pension accounts of no less than 6% of the employees’ monthly wages. The amounts contributed are recognized as expense in the current period.

(ii) Defined benefit plan

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

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

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Notes to the Financial Statements

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period. The Company recognizes the remeasurement amount in other comprehensive income and immediately transfers it to retained earnings.

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed when the related services are provided.

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

(r) Income tax

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

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

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

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

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(iii) Initial recognition of goodwill.

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

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

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

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

(s) Business acquisition

For those acquisitions occurring after 1 January 2013 (inclusive), goodwill is measured using ROC GAAP.

The Company measured the acquisition cost of acquiring Elantech in accordance with the Statement of Financial Accounting Standards No. 25 “Business Combinations” and the Accounting Research and Development Foundation Interpretations 97 (075) and 91 (187). The stock issued by the Company is traded in an active market; therefore, the fair value of the stock issued by the Company should be used to determine the fair value of the net assets of the acquired corporation. The acquisition cost was measured in two ways. For stock acquired from non-affiliated companies, accounting was determined by using the purchase method; for stock acquired from affiliated companies, the purchase price was determined by the book value of the affiliated companies' investment in Elantech. The Company recognized the difference between the acquisition cost and the fair value of tangible assets and identifiable intangible assets, less, the liabilities, and recorded it as goodwill.

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Notes to the Financial Statements

(t) Earnings per share

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company, divided by, the weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by, the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as employee stock options and employee bonus settled using shares that have yet to be approved by the shareholders' meeting.

(u) Operating segments

The Company has disclosed information about operating segments in its consolidated financial statements. Hence no segmental information was disclosed in the separate financial statements.

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

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

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

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

Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the sales price. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to note 6(d) for further description of the valuation of inventories.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Petty cash	\$ 74	74
Checking and demand deposits	646,726	518,278
Time deposits with maturities of three months or less	1,038,350	1,232,673
	<u><u>\$ 1,685,150</u></u>	<u><u>1,751,025</u></u>

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Notes to the Financial Statements

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

As of December 31, 2018 and 2017, time deposits with maturities of more than three months held by the Company amounted to \$1,724,850 thousand and \$2,539,200 thousand, respectively, and were recorded as other current financial assets. The Company did not recognize impairment loss on other current financial assets for the year ended December 31, 2018. Other information relating to credit risk is provided in Note 6(t).

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

	December 31, 2018	December 31, 2017
Mandatorily measured at fair value through profit or loss:		
Current:		
Listed stocks	\$ 6,336	
Open-end certificates of beneficial interest	251,421	
Short-term commercial papers	168,488	
Non-current:		
Stocks	583,592	
Financial assets held for trading:		
Listed stocks	-	9,652
Open-end certificates of beneficial interest	-	374,219
Short-term commercial papers	-	152,405
Total	<u>\$ 1,009,837</u>	<u>536,276</u>

(c) Notes, accounts receivable and other receivables

	December 31, 2018	December 31, 2017
Notes receivable	\$ 292	-
Accounts receivable - fair value through other comprehensive income	726,785	-
Accounts receivable - measured at amortized cost	354,955	925,257
Less: Allowance for doubtful accounts	(37,202)	(35,630)
Sales return and allowance	-	(12,092)
	<u>\$ 1,044,830</u>	<u>877,535</u>

The Company has assessed a portion of its trade receivables that was held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; therefore, such trade receivables were measured at fair value through other comprehensive income on January 1, 2018.

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Notes to the Financial Statements

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

	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	\$ 1,006,398	0.18%	1,811
1 to 30 days past due	27,998	2.94%	824
31 to 60 days past due	6,672	15.92%	1,063
61 to 90 days past due	807	34.59%	280
More than 90 days past due	40,157	50%~100%	33,224
	\$ 1,082,032		37,202

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

	December 31, 2017
Past due 1 to 30 days	\$ 47,128
Past due 31 to 120 days	14,942
	\$ 62,070

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

	2018	2017	
		Individually assessed impairment	Collectively assessed impairment
Balance on January 1, 2018 and 2017 per IAS 39	\$ 35,630	30,069	5,742
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	35,630		
Impairment loss reversed	1,572	(726)	545
Balance on December 31, 2018 and 2017	\$ 37,202	29,343	6,287

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Notes to the Financial Statements

The average credit period of sales of goods was from 30 to 90 days. The Company applied the incurred loss model to consider the allowance of its notes and trade receivables as of December 31, 2017. The allowance for doubtful receivables was assessed by reference to collectability of notes and trade receivables. The Company considered any changes in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Company recognized an allowance for impairment loss of 100% against all receivables over 365 days due to historical experience showing that such receivables are uncollectible. Allowance for impairment loss was recognized against trade receivables within 365 days based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The Company has entered into non-recourse factoring agreements with financial institutions. According to the agreements, the Company does not have to bear the risk that the accounts receivable cannot be collected, and therefore it meets the condition of disposal of financial assets. As of December 31, 2018 and 2017, the accounts receivable which had not expired were as follows:

December 31, 2018					
Purchaser	Accounts derecognized	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral
Financial Institution	<u>\$ 588,039</u>	<u>2,000,000</u>	<u>-</u>	<u>0.05%~0.12%</u>	None

December 31, 2017					
Purchaser	Accounts derecognized	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral
Financial Institution	<u>\$ 493,794</u>	<u>1,400,000</u>	<u>-</u>	<u>0.05%~0.13%</u>	None

The Company has deducted the advanced amount from the accounts receivable in accordance with the condition of derecognition as of December 31, 2018 and 2017. The remaining amount has been reclassified into other receivable. The Company did not recognize impairment loss on other receivable for the year ended December 31, 2018, and information on other credit risk is disclosed in Note 6(t).

(d) Inventories

	December 31, 2018	December 31, 2017
Raw materials	\$ 404,354	275,144
Work in progress	486,458	523,703
Finished goods	183,085	267,863
	<u>\$ 1,073,897</u>	<u>1,066,710</u>

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Notes to the Financial Statements

Inventories recognized as cost of goods sold and the related expense amounted to \$4,484,560 thousand and \$3,939,373 thousand, \$89,337 thousand and \$91,379 thousand were deducted from the cost of inventory due to write-down of inventory to its net realizable value; loss and gain due to inventory count and other related costs increased by \$528 thousand for the years ended December 31, 2018 and 2017, respectively.

- (e) Financial assets at fair value through other comprehensive income

	December 31, 2018
Equity investments at fair value through other comprehensive income:	
Quoted shares	\$ 149,961
Emerging stocks	11,033
	<u>\$ 160,994</u>

- (i) The Company designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Company intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets on December 31, 2017.

- (ii) No strategic investments were disposed as of December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

- (iii) For market risk, please refer to note 6(t).

- (f) Non-current available-for-sale financial assets

	December 31, 2017
Emerging stocks	<u>\$ 131,267</u>

- (i) Except for above, these investments were classified as financial assets at fair value through other comprehensive income on December 31, 2018; please refer to note 6(e).

- (ii) For market risk, please refer to note 6(t).

- (g) Investments accounted for using equity method

Investments accounted for using the equity method were as follows:

	December 31, 2018	December 31, 2017
Subsidiaries	\$ 882,786	588,623
Associates	246,562	310,033
	<u>\$ 1,129,348</u>	<u>898,656</u>

(Continued)

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Notes to the Financial Statements

(i) Subsidiaries

A summary of the Company's financial information for equity-accounted investees at the reporting date is as follows:

(ii) Associates

The related information on the original cost investments of the associates was as follows:

	Nature of the relationship	Principal country	December 31, 2018		December 31, 2017	
			Amount	Share-holding (%)	Amount	Share-holding (%)
Tong Fu Investment Corporation	Investment holding	R.O.C.	\$ 30,000	46.73	30,000	46.73
Eminent Electronic Technology Corp. Ltd.	Manufactures and sells electronic devices, computer and its related products, and manufactures optical instruments	R.O.C.	38,381	29.89	71,029	29.89
Top Taiwan X Venture Capital Co. Ltd	Venture capital	R.O.C.	240,000	30.00	240,000	30.00
Uniband Electronic Corp	Manufactures and sells electronic devices	R.O.C.	80,000	23.12	80,000	24.62
Finger Pro. Incorporation	Manufactures and sells electronic devices	R.O.C.	6,000	23.08	6,000	23.08
Lighting Device Technologies Crop.	Research, design, develop, manufacture and sale on LED chips	R.O.C.	19,520	45.07	19,520	45.07
			<u>\$ 413,901</u>		<u>446,549</u>	

A summary of the Company's financial information for equity-accounted investees at the reporting date is as follows:

	2018	2017
The Company's share of loss of associates accounted for using equity method	<u>\$ (39,386)</u>	<u>(39,492)</u>

The Company's financial information for investments accounted for using the equity method that are individually insignificant were as follows:

	For the years ended December 31	
	2018	2017
Attributable to the Company:		
Loss from continuing operations	\$ (39,386)	(39,492)
Other comprehensive income	(1,399)	1,276
Comprehensive income	<u>\$ (40,785)</u>	<u>(38,216)</u>

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Notes to the Financial Statements

The Company recognized \$15,000 thousand and \$10,808 thousand in impairment losses against Eminent Electronic Technology Crop. Ltd. and Tong Fu Investment Corporation for the year ended December 31, 2018, respectively.

(iii) Pledges

As of December 31, 2018 and 2017, the investment in equity-accounted associates of the Company has not been pledged as collateral or restricted in any way.

(h) Non-current Financial assets at costs

**December 31,
2017**

Domestic non-publicly traded common stocks	\$ 632,920
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(i) Since there is a wide range of estimated fair values of the Company's investments in non-publicly traded stocks, the Company concludes that the fair value cannot be reliably measured and therefore should be measured at the cost less any impairment as of December 31, 2017. These investments were classified as financial assets at fair value through profit or loss on December 31, 2018.

(ii) The Company periodically evaluates the financial assets carried at costs and recognized the impairment loss amounting to \$50,108 thousand for the year ended December 31, 2017, due to a permanent decline of investment value, and it was recorded as part of other gains and losses.

(i) Property, plant and equipment

The movements of cost and accumulated depreciation of property, plant and equipment were as follows:

		Land	Buildings	Machinery and equipment	Office and transportation equipment	Equipment awaiting examination	Total
Cost:							
Balance as of January 1, 2018	\$	118,813	1,027,131	400,373	102,761	14,833	1,663,911
Additions		111,977	56,749	31,668	4,543	35,147	240,084
Derecognized		-	-	(8,327)	(4,285)	-	(12,612)
Reclassification		-	534	9,818	-	(16,913)	(6,561)
Balance as of December 31, 2018	\$	230,790	1,084,414	433,532	103,019	33,067	1,884,822
Balance as of January 1, 2017	\$	118,813	1,025,687	376,812	99,587	3,005	1,623,904
Additions		-	1,444	18,764	5,040	21,172	46,420
Derecognized		-	-	(4,171)	(2,242)	-	(6,413)
Reclassification		-	-	8,968	376	(9,344)	-
Balance as of December 31, 2017	\$	118,813	1,027,131	400,373	102,761	14,833	1,663,911
Accumulated depreciation:							
Balance as of January 1, 2018	\$	-	645,152	353,687	92,696	-	1,091,535
Depreciation		-	15,560	22,912	5,490	-	43,962
Derecognized		-	-	(8,327)	(4,285)	-	(12,612)
Balance as of December 31, 2018	\$	-	660,712	368,272	93,901	-	1,122,885

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Notes to the Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office and transportation equipment</u>	<u>Equipment awaiting examination</u>	<u>Total</u>
Balance as of January 1, 2017	\$ -	629,843	337,361	88,820	-	1,056,024
Depreciation	-	15,309	20,497	6,024	-	41,830
Derecognized	-	-	(4,171)	(2,148)	-	(6,319)
Balance as of December 31, 2017	<u>\$ -</u>	<u>645,152</u>	<u>353,687</u>	<u>92,696</u>	<u>-</u>	<u>1,091,535</u>
Book value:						
Balance as of December 31, 2018	<u>\$ 230,790</u>	<u>423,702</u>	<u>65,260</u>	<u>9,118</u>	<u>33,067</u>	<u>761,937</u>
Balance as of December 31, 2017	<u>\$ 118,813</u>	<u>381,979</u>	<u>46,686</u>	<u>10,065</u>	<u>14,833</u>	<u>572,376</u>

As of December 31, 2018 and 2017, none of the Company's properties, plant and equipments were pledged.

(j) Intangible assets

The movements of cost and accumulated amortization of intangible assets were as follows:

	<u>Goodwill</u>	<u>Technical Know-how</u>	<u>Computer software</u>	<u>Total</u>
Cost:				
Balance as of January 1, 2018	\$ 160,600	92,742	118,161	371,503
Additions	-	7,854	8,024	15,878
Derecognized	-	(10,755)	(2,856)	(13,611)
Balance as of December 31, 2018	<u>\$ 160,600</u>	<u>89,841</u>	<u>123,329</u>	<u>373,770</u>
Balance as of January 1, 2017	\$ 160,600	183,615	124,995	469,210
Additions	-	1,127	71,547	72,674
Derecognized	-	(92,000)	(78,381)	(170,381)
Balance as of December 31, 2017	<u>\$ 160,600</u>	<u>92,742</u>	<u>118,161</u>	<u>371,503</u>
Accumulated amortization:				
Balance as of January 1, 2018	\$ -	76,198	65,201	141,399
Additions	-	15,753	27,486	43,239
Derecognized	-	(10,755)	(2,856)	(13,611)
Balance as of December 31, 2018	<u>\$ -</u>	<u>81,196</u>	<u>89,831</u>	<u>171,027</u>
Balance as of January 1, 2017	\$ -	134,828	116,535	251,363
Additions	-	33,370	27,047	60,417
Derecognized	-	(92,000)	(78,381)	(170,381)
Balance as of December 31, 2017	<u>\$ -</u>	<u>76,198</u>	<u>65,201</u>	<u>141,399</u>
Book value:				
Balance as of December 31, 2018	<u>\$ 160,600</u>	<u>8,645</u>	<u>33,498</u>	<u>202,743</u>
Balance as of December 31, 2017	<u>\$ 160,600</u>	<u>16,544</u>	<u>52,960</u>	<u>230,104</u>

The amortization expenses of intangible assets recognized under operating costs and operating expenses for the years ended 2018 and 2017 were \$43,239 thousand and \$60,417 thousand, respectively.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(k) Employee benefits

(i) Defined benefit plans

The reconciliations of defined benefit obligations and plan assets as of December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligation	\$ 447,890	477,980
Fair value of plan assets	(74,650)	(87,282)
Net defined benefit liabilities	<u>\$ 373,240</u>	<u>390,698</u>

The Company makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

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

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$74,650 as of December 31, 2018. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Movements in the present value of defined benefit obligation

The movements in the present value of defined benefit obligation of the Company were as follows:

	For the years ended December 31 2018	2017
Defined benefit obligation at January 1	\$ 477,980	511,438
Current service cost and interest cost	8,912	8,432
Net remeasurements of defined benefit liability (asset)		
— Actuarial gains and losses arising from financial assumptions	15,601	(17,815)
— Actuarial gains and losses arising from experience adjustments	(19,002)	(17,341)
Benefits paid	<u>(35,601)</u>	<u>(6,734)</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION
Notes to the Financial Statements

Defined benefit obligation at December 31	\$ <u><u>447,890</u></u> <u><u>477,980</u></u>
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(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

3) Movements in fair value of plan assets

The movements in the fair value of plan assets of the Company were as follows:

	For the years ended December 31	
	2018	2017
Fair value of plan assets, January 1	\$ 87,283	85,798
Interests revenue	1,432	1,198
Net remeasurements of defined benefit liability (asset)		
— Return on plan assets (interest income for the year not included)	2,021	(373)
Contributions	5,843	5,942
Benefits paid	(21,929)	(5,282)
Fair value of plan assets at December 31	\$ 74,650	87,283

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss of the Company were as follows:

	For the years ended December 31	
	2018	2017
Current service costs	\$ 1,179	1,420
Net interest on defined benefit liabilities	6,301	5,814
	\$ 7,480	7,234

	For the years ended December 31	
	2018	2017
Operating cost	\$ 676	722
Selling expense	689	661
Administrative expense	622	619
Research and development expense	5,493	5,232
	\$ 7,480	7,234

5) Remeasurement values of the defined benefit liabilities recognized in other comprehensive income

The remeasurement values of the defined benefit liabilities recognized in other comprehensive income of the Company were as follows:

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

	For the years ended December 31	
	2018	2017
Cumulative amount at January 1	\$ 2,312	37,095
Recognized during the period	(5,422)	(34,783)
Cumulative amount at December 31	<u>\$ (3,110)</u>	<u>2,312</u>

6) Actuarial assumptions

Principal actuarial assumptions at the end of the reporting period were as follows:

	December 31, 2018	December 31, 2017
Discount rate	1.375%	1.625%
Expected rate of increase in future salaries	5.000%	5.000%

The expected allocation payment to be made by the Company to the defined benefit plans within a year after the end of the reporting date is \$5,754 thousand.

As of December 31, 2018 and 2017, the weighted-average duration of the defined benefit obligation was 17.25 and 17.85 years.

7) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Defined benefit obligation	
	Increase by 0.25%	Decrease by 0.25%
December 31, 2018		
Discount rate	\$ (15,601)	16,323
Expected rate of increase in future salaries	15,409	(14,828)
December 31, 2017		
Discount rate	(17,041)	17,815
Expected rate of increase in future salaries	16,849	(16,218)

The sensitivity analysis above analyzes the impact of single assumption changes based on other assumptions do not change.

In practice, many changes in assumptions are related. The sensitivity analysis was consistent with the calculation of the net pension as of balance sheet date.

The calculation and assumptions used in the sensitivity analysis during the year were consistent with prior year.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(ii) Defined contribution plans

The Company's pension costs under the defined contribution method to the Bureau of Labor Insurance for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Operating cost	\$ 6,719	6,425
Selling expense	4,252	4,057
Administrative expense	4,096	4,507
Research and development expense	34,295	31,644
	\$ 49,362	46,633

(l) Income taxes

- (i) The Company is able to avail itself of tax exemptions from its committed capital for expansion in the following years through the proceeds from common stock issuance that conform to the prescribed criteria under the "Statute for Upgrading Industries" as follows:

Year	Tax exemption products	Tax exemption period
2009	to produce and sell high-level integrated circuits	The Company was granted approval from the Industrial Development Bureau, MOEA, on December 16, 2009. The Company had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to December 31, 2020.

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

The Company's income tax expenses were as follow:

	For the years ended December 31	
	2018	2017
Current income tax expense	\$ 329,150	224,855
Deferred income tax expense	(4,061)	(2,330)
Income tax expense	\$ 325,089	222,525

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

The reconciliation of the differences between the income tax computed at the statutory income tax rate and the income tax expense for the years ended December 31, 2018 and 2017 is summarized as follows:

	For the years ended December 31	
	2018	2017
Income before income tax	\$ 1,884,669	1,296,327
Income tax computed at statutory tax rate	\$ 376,934	220,376
Tax-exempt income	(831)	(4,680)
Suspension of tax-exempt gain on disposal of domestic securities	(307)	(5,122)
Prior year' s income tax adjustment	4,019	32,863
Investment tax credit	(33,694)	(48,963)
Change in unrecognized temporary differences	(21,300)	32,500
Adjustment in tax rate	(4,149)	-
Others	4,417	(4,449)
Total	\$ 325,089	222,525

(iii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

The Company' s unrecognized deferred income tax assets were composed of the following items:

	December 31, 2018	December 31, 2017
Realized valuation losses on long-term investment	\$ 390,500	344,900
Unfunded pension expense	97,800	86,600
Provision for decline in value of inventories	24,100	22,100
Others	6,300	5,400
	\$ 518,700	459,000

Regarding the deductible temporary differences from investment tax credit, the deferred tax assets have not been recognized in respect of these items because it is not probable that the future taxable gain on disposal of securities will be available against which the Company can utilize the benefits therefrom.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

2) Recognized deferred income tax assets and liabilities

Movements of recognized deferred income tax assets and liabilities for the years ended December 31, 2018 and 2017 were as follows:

Deferred Tax Liabilities:

	Unrealized Foreign Exchange Gains	Fair Value Gains	Total
Balance at Jan 1, 2018	\$ (840)	(1,456)	(2,296)
Recognized in profit or loss	840	(792)	48
Balance at December 31, 2018	<u>\$ -</u>	<u>(2,248)</u>	<u>(2,248)</u>
Balance at Jan 1, 2017	\$ (421)	(1,802)	(2,223)
Recognized in profit or loss	(419)	346	(73)
Balance at December 31, 2017	<u>\$ (840)</u>	<u>(1,456)</u>	<u>(2,296)</u>

Deferred Tax Assets:

	Decline in Value of Inventories	Others	Total
Balance at Jan 1, 2018	\$ 22,164	3,644	25,808
Recognized in profit or loss	1,949	2,064	4,013
Balance at December 31, 2018	<u>\$ 24,113</u>	<u>5,708</u>	<u>29,821</u>
Balance at Jan 1, 2017	\$ 20,971	2,434	23,405
Recognized in profit or loss	1,193	1,210	2,403
Balance at December 31, 2017	<u>\$ 22,164</u>	<u>3,644</u>	<u>25,808</u>

(iv) The tax authorities have examined the Company's income tax returns through 2015.

(m) Capital and other equity

As of December 31, 2018 and 2017, the authorized capital of the Company amounted to \$4,800,000 thousand, which was divided into 303,880 thousand shares and 434,115 thousand shares, respectively, each at a par value of 10 New Taiwan Dollars on common stock. The issued capital was composed of common stocks only and have been fully paid-up.

The Company held a shareholders' meeting on June 11, 2018 to approve a capital reduction through cash return to its shareholders amounting to 1,302,344 thousand, which represented a cancellation of 130,234 thousand shares (30% of common shares), for the purposes of adjusting the Company's capital structure and to increase the return on equity. This capital reduction was approved by the FSC on August 10, 2018. The Company's Board of Directors approved the effective cash return date as August 27, 2018. The Company had registered this capital reduction with MOEA and the actual cash distribution date was on October 24, 2018.

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(i) Capital surplus

The balances of capital surplus as of December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Additional paid-in capital	\$ 337,409	458,961
Treasury stock	87,057	46,223
Difference arising from subsidiary' s share price and its carrying value	19,567	31,144
	<u><u>\$ 444,033</u></u>	<u><u>536,328</u></u>

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

In pursuant to the resolution of annual shareholders meeting held on June 20, 2017, the Company declared a cash dividend of \$0.572 New Taiwan dollars per share, amounting to \$248,315 thousand from capital surplus, distributed via \$20,602 thousand from additional paid-in capital, \$203,724 thousand from treasury stock, and \$23,989 thousand from expired employee stock options.

In pursuant to the resolution of annual shareholders meeting held on June 11, 2018, the Company declared a cash dividend of \$0.28 New Taiwan dollars per share, amounting to \$121,552 thousand from capital surplus, distributed via \$121,552 thousand from additional paid-in capital.

(ii) Retained earnings

According to the Company' s articles of incorporation, annual earnings after income tax shall be first used to offset any deficit, then be appropriated 10% as legal reserve, and subsequently appropriate for special reserve. The surplus to be distributed for the current year shall not be lower than 50% of accumulated attributable retained earnings. Cash dividends shall not be lower than 10% of total dividends.

1) Legal reserve

In accordance with the Companies Act, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the meeting of shareholders shall decide on the distribution of the statutory earnings reserve, either by new shares or by cash of up to 25 percent of the actual capital.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

2) Special reserve

In accordance with Ruling No. 1010012865 as issued by the Financial Supervisory Commission on 6 April 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the current-period total net reduction of other shareholders' equity. Such special reserve will be available for dividend distribution only after the related shareholders' equity reduction has been reversed by the approval of the shareholders' meeting.

3) Earnings distribution

On June 11, 2018 and June 20, 2017, the shareholder's meetings resolved to distribute the 2017 and 2016 earnings via cash dividend. The Company declared a cash dividend of \$2.3 and \$0.998 New Taiwan Dollars per share, amounting to \$998,464 thousand and \$433,246 thousand, respectively, for the year 2017 and 2016.

There was no difference between the actual distribution and estimation in the financial statements of 2017 and 2016.

(iii) Treasury stock

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Shares (in thousands)</u>	<u>Amounts</u>	<u>Shares (in thousands)</u>	<u>Amounts</u>
The Company's shares held by subsidiary	<u>12,438</u>	<u>\$ 33,328</u>	<u>17,754</u>	<u>91,111</u>

Elan Investment Corp., a subsidiary of the Company, invested in Elantech before the Company acquired Elantech, and held the Company's stock after the Company's acquisition of Elantech. For the years ended December 31, 2018 and 2017, the information on the Company's stock held by Elan Investment Corp. was as follows:

	<u>For the years ended December 31</u>					
	<u>2018</u>			<u>2017</u>		
	<u>Shares (in thousands)</u>	<u>Acquisition cost</u>	<u>Total market value</u>	<u>Shares (in thousands)</u>	<u>Acquisition cost</u>	<u>Total market value</u>
Opening balance	17,754	\$ 91,111	818,450	17,754	101,268	615,169
Effects of valuation change	-	-	116,903	-	-	203,281
Shares buy-back of parent company share due to capital reduction on odd lots	10	449	-	-	-	-
Cash dividend from capital surplus	-	(4,971)	-	-	(10,157)	-
Capital reduction	(5,326)	(53,261)	-	-	-	-
Ending balance	<u>12,438</u>	<u>\$ 33,328</u>	<u>935,353</u>	<u>17,754</u>	<u>91,111</u>	<u>818,450</u>

The Company transferred cash dividend revenue received by Elan Investment Corp. amounting to \$40,834 thousand and \$17,718 thousand to capital surplus-treasury stock in 2018 and 2017, respectively.

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Notes to the Financial Statements

(iv) Other equity

Movements of other equity for the years ended December 31, 2018 and 2017 were as follows:

	Foreign exchange differences arising from foreign operation	Unrealized gains (losses) from available-for-sale investments	Total
Balance as of January 1	\$ (4,060)	151,839	147,779
Foreign exchange differences:			
The Company	400	-	400
Subsidiaries	(539)	-	(539)
Associates	(20)	-	(20)
Unrealized gains and losses from FVTPL			
The Company	-	29,727	29,727
Subsidiaries	-	(3,945)	(3,945)
Associates	-	(1,379)	(1,379)
Balance as of December 31	<u>\$ (4,219)</u>	<u>176,242</u>	<u>172,023</u>

	Foreign exchange differences arising from foreign operation	Unrealized gains (losses) from FVTPL	Total
Balance as of January 1	\$ (2,138)	179,660	177,522
Foreign exchange differences:			
The Company	(814)	-	(814)
Subsidiaries	(1,108)	-	(1,108)
Unrealized gains and losses from available-for-sale investment:			
The Company	-	(23,165)	(23,165)
Subsidiaries	-	6,267	6,267
Associates	-	1,413	1,413
Reclassification of available-for-sale financial assets:			
The Company	-	(12,336)	(12,336)
Balance as of December 31	<u>\$ (4,060)</u>	<u>151,839</u>	<u>147,779</u>

(n) Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2018 and 2017 were computed as follows:

(i) Basic earnings per share:

	For the years ended December 31	
	2018	2017
Net income	<u>\$ 1,559,580</u>	<u>1,073,802</u>
Weighted-average number of shares outstanding (thousands)	<u>374,723</u>	<u>416,360</u>
Earnings per share (New Taiwan dollars)	<u>\$ 4.16</u>	<u>2.58</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(ii) Diluted earnings per share:

Net income (used to calculate diluted earnings per share)	\$	<u>1,559,580</u>	<u>1,073,802</u>
Weighted-average number of shares outstanding (thousands)		374,723	416,360
Effect of dilutive potential common stock — employee emoluments		<u>3,882</u>	<u>4,104</u>
Weighted-average number of shares outstanding (thousands) used to calculate diluted earnings per share	\$	<u>378,605</u>	<u>420,464</u>
Diluted earnings per share	\$	<u>4.12</u>	<u>2.55</u>

(o) Revenue from contracts with customers

(i) Disaggregation of revenue

For details on revenue for the three months ended March 31, 2017, please refer to note 14.

		For the year ended December 31, 2018
Main markets:		
Taiwan	\$	976,870
Mainland China		1,658,520
Hong Kong		5,760,048
United States of America		9,321
Europe		510
Others		<u>27,727</u>
		<u>\$ 8,432,996</u>
Main products:		
Consumer Touch Control Integrated Circuit	\$	2,887,546
Laptop Input Device		5,509,739
Development and other income		<u>35,711</u>
		<u>\$ 8,432,996</u>

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

(ii) Contract balances

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

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(p) Revenue

The analysis of the Company's net revenue was as follows:

	For the year ended December 31, 2017
Net revenue from sale of goods	\$ 7,326,103
Other revenue	<u>15,061</u>
	<u>\$ 7,341,164</u>

(q) Non-operating income and expenses

(i) Other income

	For the years ended December 31	
	2018	2017
Interest income	\$ 43,172	39,033
Rental income	8,613	9,236
Dividend income	8,479	27,931
Government grant	6,300	6,300
Others	<u>4,801</u>	<u>4,803</u>
Total	<u>\$ 71,365</u>	<u>87,303</u>

(ii) Other gains and losses

	For the years ended December 31	
	2018	2017
Foreign exchange losses	\$ 35,202	(64,648)
Net losses on financial asset at fair value through profit or loss	(20,912)	(6,213)
Loss on disposal of property, plant and equipment	(388)	(309)
Gain on disposal of financial assets at cost	-	16,684
Gain on disposal of available-for-sale financial assets	-	13,036
Impairment loss	<u>(25,808)</u>	<u>(50,108)</u>
Net other gains and losses	<u>\$ (11,906)</u>	<u>(91,558)</u>

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

According to the Company's Articles of Incorporation, should the Company net a profit for the year, it shall allocate not more than 10% of the profit as employees' compensation and not more than 2% of the profit as directors' and supervisor's remuneration. Should the Company have accumulated losses, it shall first allocate its earnings to offset these losses.

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ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

For the year ended 2018 and 2017, the amounts of employees' bonuses were estimated at \$226,000 thousand and \$155,000 thousand, respectively. The amounts remuneration to directors and supervisors were estimated at \$29,000 thousand and \$20,000 thousand, respectively. The estimation basis shall be calculated as the amounts of net income before tax deducted employees', directors' and supervisors' bonuses, multiplied distributed percentage of employees' bonuses, directors' and supervisors' remuneration based on the Corporation's articles of incorporation. These bonuses and remuneration were expensed under operating costs or expenses for year 2018 and 2017. However, there were no differences between the distribution amounts of bonuses and remuneration decided by board mentioned above and the estimated amounts of the Company's Notes to the Financial Statements in 2018 and 2017.

(s) Financial instruments

(i) Credit risk

1) Credit risk exposure

The maximum exposure to credit risk for trade and other receivables as at December 31, 2018 and 2017, was as follow:

	December 31, 2018	December 31, 2017
Bank deposits	\$ 1,685,076	1,750,951
Notes, accounts receivable (including amount due from related party) and other receivables	1,706,470	1,416,111
Time deposits with maturity more than three months	1,724,850	2,539,200
Guarantee deposits (non-current)	4,200	4,870
	<u>\$ 5,120,596</u>	<u>5,711,132</u>

2) Concentration of credit risk

The major customers of the Company are centralized in the high tech computer industry. To minimize credit risk, the Company periodically evaluates the Company's financial positions and the possibility of collecting trade receivables. Where necessary, the Company will require the customers to provide guarantees or collateral against their debts.

Besides, the Company monitors and reviews the recoverable amount of the trade receivables to ensure the uncollectible amount is recognized appropriately as impairment loss.

As of December 31, 2018 and 2017, 75% and 76%, respectively, of accounts receivable were ten major customers. Thus, credit risk is significantly centralized.

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Notes to the Financial Statements

3) Receivables and debt securities

For credit risk exposure of note and trade receivables, please refer to note 6(c).

For the details on loss allowance for the year ended December 31, 2017 of other financial assets measured at amortized cost, including time deposits with maturities more than three months, and other receivables, please refer to note 6(a) and 6(c).

As the financial assets mentioned above are subject to lifetime ECL allowance, the impairment provision recognized during the period was measured using 12 months expected credit losses. The Company's assessment of low credit risk on financial instruments are described in note 4(c). Also, there were no provision made for expected losses for the year ended December 31, 2018.

(ii) Liquidity risk

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

	Carrying amount	Con-tract ual cash flows	Within 6 mths	6-12 mths	1-2 years	2-5 years	More than 5 years
December 31, 2018							
Non-derivative financial liabilities							
Notes and accounts payable	\$ 961,996	961,996	961,996	-	-	-	-
Other payables	649,921	649,921	649,921	-	-	-	-
	\$ 1,611,917	1,611,917	1,611,917	-	-	-	-
December 31, 2017							
Non-derivative financial liabilities							
Notes and accounts payable	\$ 890,919	890,919	890,919	-	-	-	-
Other payables	581,026	581,026	581,026	-	-	-	-
	\$ 1,471,945	1,471,945	1,471,945	-	-	-	-

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

(iii) Market risk

1) Exposure to foreign currency risk

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

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets:</u>						
<u>Monetary item</u>						
US dollar	\$ 68,846	30.71	2,114,261	69,159	29.79	2,060,343
<u>Financial liabilities:</u>						
<u>Monetary item</u>						
US dollar	26,983	30.71	828,648	42,336	30.12	1,275,184

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Notes to the Financial Statements

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the retranslation of foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, and trade and other payables that are denominated in foreign currency. A 5% of appreciation (depreciation) of the TWD against the USD as of December 31, 2018 and 2017 would have increased (decreased) the equity by \$51,364 thousand and \$32,543 thousand, respectively, for the years ended December 31, 2018 and 2017, assuming all other factors remained constant. The analysis is performed on the same basis in 2018 and 2017.

The foreign exchange gains or losses were disclosed on an aggregate basis as there were various types of functional currencies in the Company. The foreign exchange gains and losses (including realized and unrealized) amounted to \$35,202 thousand and \$64,648 thousand for the years ended December 31, 2018 and 2017, respectively.

(iv) Interest rate analysis

The Company's exposure to interest rate risk of financial assets and liabilities was disclosed under liquidity risk of the note.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on reporting date. For variable rates on assets and liabilities, the sensitivity analysis assumes the variable rates on assets and liabilities are outstanding for the whole year on the reporting date. The Company's internal department reported the increases/decreases in the interest rates and the exposure to changes in interest rates on 0.5% on behalf of the Company's key management so as to allow the key management to assess the reasonableness of the changes in the interest rates.

If the interest rate increases/decreases by 0.5%, the Company's net income will increase/decrease by \$1,899 thousand and \$3,777 thousand for the years ended December 31, 2018 and 2017, respectively, with all other variable factors that remain constant. This is mainly due to the Company's time deposits and borrowings in variable rates.

(v) Other market price risk

For the years ended December 31, 2018 and 2017, the sensitivity analyses for the changes in the securities prices at the reporting date were performed using the same basis for the profit and loss as illustrated below:

	For the years ended December 31			
	2018		2017	
	Other comprehensive income after tax		Other comprehensive income after tax	
Prices of securities at the reporting date		Net income		Net income
Increase 5%	\$ 8,050	317	6,563	483
Decrease 5%	\$ (8,050)	(317)	(6,563)	(483)

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(vi) Fair value of financial instruments

1) Fair value hierarchy

The fair value of financial assets and liabilities at fair value through profit or loss, financial instruments used for hedging, and financial assets at fair value through other comprehensive income (available for sale financial assets) is measured on a recurring basis. The carrying amount and fair value of the Company's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

	December 31, 2018				
	Book value	Fair Value			total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value through profit or loss (current and non-current)	\$ 1,009,837	257,757	168,488	583,592	1,009,837
Financial assets measured at fair value through other comprehensive income					
Stocks	160,994	149,961	-	11,033	160,994
Accounts receivable	641,575	-	-	-	-
Financial assets measured at amortized cost					
Cash and cash equivalents	1,685,150	-	-	-	-
Notes and trade receivables	440,457	-	-	-	-
Other receivables	661,640	-	-	-	-
Other financial assets-current	1,724,850	-	-	-	-
Guarantee deposits	4,200	-	-	-	-
Subtotal	4,516,297	-	-	-	-
Total	<u>\$ 6,328,703</u>	<u>407,718</u>	<u>168,488</u>	<u>594,625</u>	<u>1,170,831</u>
Financial liabilities measured at amortized cost					
Notes and trade payables	\$ 961,996	-	-	-	-
Other payables	1,286,125	-	-	-	-
Guarantee deposits	10,236	-	-	-	-
Total	<u>\$ 2,258,357</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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	December 31, 2017				
	Book value	Fair Value			total
		Level 1	Level 2	Level 3	
Financial assets at FVTPL					
Financial assets held for trade	\$ 536,276	383,871	152,405	-	536,276
Financial assets available for sale					
Emerging stocks	131,267	131,267	-	-	131,267
Financial assets measured at cost	632,920	-	-	-	-
Guarantee deposits (non-current)	4,870	-	-	-	-
Total	<u>\$ 1,305,333</u>	<u>515,138</u>	<u>152,405</u>	<u>-</u>	<u>667,543</u>
Financial liabilities measured at amortized costs					
Notes and trade payables	\$ 890,919	-	-	-	-
Other payables	1,089,113	-	-	-	-
Guarantee deposits (non-current)	9,984	-	-	-	-
Total	<u>\$ 1,990,016</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

2) Valuation techniques for financial instruments measured at fair value

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Company, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Measurements of fair value of financial instruments without an active market are based on valuation technique or quoted price from a competitor. Fair value, measured by using valuation technique that can be extrapolated from either similar financial instruments or discounted cash flow method or other valuation techniques, including models, is calculated based on available market data at the reporting date. (For example, over the counter yield curve and Reuters Primary CP Rate average prices.)

If the Company's financial instruments do not have an active market, their fair value classifications are determined to be equity instruments with no observable prices, and their fair values are estimated by comparing with competitors whose market prices are available. The main assumption used in this estimation is to calculate the product of the earnings before interest, tax, depreciation and amortization and the price to earnings ratio of listed companies on the stock market. This estimate is discounted by the fact that the equity is not readily available to be traded because there is no active market.

3) Transfers between Level 1 and Level 2

There were no transfers of financial instruments made between any levels in 2018 and 2017.

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Notes to the Financial Statements

4) Reconciliation of Level 3 fair values

	Non derivative mandatorily measured at fair value through profit or loss (held-for-trading financial assets)
Opening balance, January 1, 2018	\$ 629,266
Total gains and losses recognized:	
In profit or loss	(45,674)
Ending Balance, December 31, 2018	<u><u>\$ 583,592</u></u>

For the years ended December 31, 2018 and 2017, total gains and losses that were included in “other gains and losses” from financial assets fair value through other comprehensive income” were as follows:

	For the years ended December 31	
	2018	2017
Total gains and losses recognized:		
In profit or loss, and presented in “other gains and losses”	\$ (45,674)	-

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

The Company’s financial instruments that use Level 3 inputs to measure fair value include “financial assets measured at fair value through profit or loss – debt investments” and “available-for-sale financial assets – equity investments” .

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income (Available for sale financial assets) equity investments without an active market	Market Comparison Method	<ul style="list-style-type: none"> • Price to book ratio (December 31, 2018: 1.32% to 3.04%) • Non-liquid discount (December 31, 2018: 7% to 10%) • Price to earnings ratio (December 31, 2018: 1.37% to 2.40%) • Price to book assets ratio (December 31, 2018: 0.83% to 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • the price to book ratio were higher (lower); • the non-liquid discount were lower (higher).

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1.77%)

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Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through profit or loss - equity investments without an active market	Net Asset Value Method	Net Asset Value	Not applicable

- 6) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions by the following percentages to reflect reasonably possible alternative assumptions would have the following effects:

December 31, 2018	Favorable	Profit or loss Movement	Other comprehensive income	
			Favorable	Unfavorable
Financial assets at fair value through profit or loss				
Equity investments without an active market	Price to book ratio	Decrease by 10%	-	(9,930)
	Non-liquid discount	Decrease by 10%	(642)	-

(t) Financial risk management

(i) Nature and extent of risks arising from financial instruments

The Company was exposed to the following risks due to the use of financial instruments:

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

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

(ii) Risk Management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Company's finance department provides business services to meet other departments' requests and negotiate all necessary transactions on financial markets. In addition, all significant financial activities have to be examined and approved by the Board of Directors. The Company's financial activities must be in accordance with the overall financial risk management, segregation of duties, and other related policies of the Company. The Company's audit committee continues to review the amount of the risk exposure in accordance with the Company's policy and the risk management policies and procedures. The committee reports regularly to the Board of Directors on its activities.

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(iii) Credit risk

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

1) Accounts receivable and other receivables

The finance department has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company' s standard payment and delivery terms and conditions are offered. The Company' s review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the finance department. Customers that fail to meet the Company' s benchmark creditworthiness may transact with the Company only on a prepayment basis.

Trade and other receivables mainly relate to a wide range of customers from different industries and geographic regions. To minimize the credit risk, the Company continues to assess the financial condition and credit risk of its customers. Allowance for doubtful accounts is recognized if necessary.

The account of allowance for doubtful receivables was created by the Company in order to reflect the estimate of the losses had been incurred on accounts receivable and other receivables. The abovementioned account mainly consists of specific losses, relating to significant risk, which were measured individually and other unidentified losses which were measured by Companying similar assets together. The measurement of losses by Companying similar assets together was based on the statistical data of payment history of similar financial assets.

2) Investments

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Company' s finance department. As the Company deals with the banks and other external parties with good credit standing financial institutions, the management believes that the Company do not have any compliance issues, and therefore, there is no significant credit risk.

(iv) Liquidity risk

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

The Company manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Company' s management supervises the banking facilities and ensures in compliance with the terms of the loan agreements.

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(v) Market risk

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

1) Currency risk

The Company is exposed to currency risk on sales and purchase that are denominated in a currency other than the respective functional currencies of the Company' s entities, primarily US Dollars (USD). Natural hedge was adopted to minimize the Company' s currency risk. The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

2) Interest rate risk

Interest risk is the risk that changes in market interest rates will affect the fair value of the Company' s financial instruments. For detailed information of interest rate risk exposure, please refer to the liquidity risk management of the note.

3) Other market price risk

The Company is exposed to other market price risk due to investments of stocks from listed entities. These investments are classified as long-term strategic investment other than held-for-trading investments. The Company was not actively involved in trading these investments.

(u) Capital management

The Company meets its objectives to manage its capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders and interest of other related parties and to maintain an optimal capital structure to reduce the cost of capital.

The Board' s policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, and retained earnings of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

After being approved by the Board of Directors, the Company purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, the shares are intended to be used for issuing shares under the Company' s share option program. Buy-and-sell decisions are made on a specific transaction basis by the Board of Directors; the Company does not have a defined share buy-back plan.

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Notes to the Financial Statements

The Company's debt to equity ratios at the end of the reporting period as at December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Total liabilities	\$ 2,890,767	2,529,725
Less: cash and cash equivalents	(1,685,150)	(1,751,025)
Net debt	<u>\$ 1,205,617</u>	<u>778,700</u>
Total equity	<u>\$ 6,627,180</u>	<u>7,356,477</u>
Debt to equity ratio	<u>18.19%</u>	<u>10.59%</u>

(7) Related-party transactions:

(a) Names and relationship with related parties

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

Name of related party	Relationship with the Company
Elan Investment Corp.	A subsidiary
Metanoia Communications Inc.	A subsidiary
Avisonic Technology Corp.	A subsidiary
PiXORD Corporation	A subsidiary
JPUP Electron Co., Ltd	A subsidiary
Fong Yue Corporation	A subsidiary
Elan (H.K.)	A subsidiary
Elan Information Technology Group	A subsidiary
Power Asia Investment Corporation	A subsidiary
Elan Shanghai	A subsidiary
Elan Shenzhen	A subsidiary
Eminent Electronic Technology Corp. Ltd.	An associates
Finger Pro. Incorporation	An associates

(b) Significant related-parties transactions

(i) Sale of goods to related parties

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

	For the years ended December 31 2018	2017
Subsidiaries-Elan H.K.	\$ 497,368	576,638
Associates-Finger Pro.	445	387
	<u>\$ 497,813</u>	<u>577,025</u>

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Notes to the Financial Statements

The prices for sales to related parties were similar to those for general customers. The terms of collection were approximately 30-60 days.

(ii) Raw materials purchasing services and other operating income

	For the years ended December 31	
	2018	2017
Subsidiaries-Metanoia	\$ 659	1,180
Subsidiaries-Avisoic	372	424
Associates--Eminent	4,734	1,742
	\$ 5,765	3,346

(iii) Rental income

	For the years ended December 31	
	2018	2017
Subsidiaries-PiXORD	\$ 1,629	1,666
Subsidiaries-Avisoic	1,363	1,363
Subsidiaries-Metanoia	3,515	4,455
Associates-Eminent	2,092	1,752
	\$ 8,599	9,236

(iv) Purchase and Research expenses

The amounts of purchase from the Company to related parties and development expenses performed by related party on behalf of the Company were as follows:

	For the years ended December 31	
	2018	2017
Associates-Eminent	\$ 455	-
Subsidiaries-JPUP	12,182	11,902
Subsidiaries-PiXORD	242	-
	\$ 12,879	11,902

The Company's purchase prices from the Company above are not significantly different than the purchase terms with other third party suppliers. The payment terms are approximately 30~75 days, and this is also not significantly different with the payment terms with other third party suppliers.

(v) Commission expenses

The Company's related parties provide overseas marketing and after-sales services to their customers, and thus the Company makes commission payments based on the amount of sales made. The amount of commission expenses recognized in operating expenses (marketing expenses) during the year ended 2018 and 2017 were as follows:

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For the years ended December
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	2018	2017
Subsidiaries-H.K.	\$ 237,273	202,113

(vi) Receivable from related parties

Receivables from the related parties are as follows:

Accounts	Types of related parties	December 31, 2018	December 31, 2017
Accounts receivable	Subsidiaries-Elan H.K.	\$ 41,738	16,992
Accounts receivable	Associates-Eminent	1,134	495
Other receivables	Subsidiaries-Metanoia	10,464	15,019
Other receivables	Subsidiaries-Avisonic	1,857	3,141
Other receivables	Subsidiaries-PiXORD	418	459
Other receivables	Associates-Eminent	28,831	10,467
		<u>\$ 84,442</u>	<u>46,573</u>

(vii) Payables to related parties

The payables to related parties were as follows:

Accounts	Types of related parties	December 31, 2018	December 31, 2017
Accounts payable	Subsidiaries-JPUP	\$ 2,115	2,254
Accounts payable	Subsidiaries-Elan H.K.	20,614	14,034
Other payable	Subsidiaries-Elan H.K.	145	106
Other payable	Subsidiaries-Metanoia	10	9
		<u>\$ 22,884</u>	<u>16,403</u>

(viii) Property transactions

1) Purchases of property, plant and equipment

During the year ended 2018, the Company acquired equipment and other assets from its related company (PiXORD Corporation) amounting to \$1,177 thousand and \$35 thousand, respectively. These acquisitions were paid in full.

2) Disposal of property, plant and equipment

In January 2015, the Company has disposed its fixed assets to its related parties, with the selling price and the fixed asset cost amounting to \$4,856 thousand and \$9,154 thousand, respectively. The loss on disposal amounting to \$4,298 thousand, including the unrealized loss of \$1,942 thousand, is to be recognized over its benefit years of 5 years. As of December 31, 2018, the realized loss and deferred loss on disposal amounted to

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\$3,910 thousand and \$388 thousand, respectively.

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(c) Key management personnel compensation

	For the years ended December 31	
	2018	2017
Short-term employee benefits	\$ 59,762	42,210
Post-employment benefits	676	582
	\$ 60,438	42,792

The short-term employee benefits include emoluments to directors and employee bonuses. Please refer to Note (6)(r) for estimation methods.

(8) Pledged assets: None.

(9) Commitments and contingencies:

- (a) The Company re-signed a land lease agreement with the Administration of the Science-based Industrial Park, and the lease will terminate on December 31, 2026. For the years ended December 31, 2018 and 2017, the rental from the above agreement amounted to \$0 thousand and \$0 thousand, respectively. The rental will be reviewed annually and adjusted according to the government's annual land adjustment announcement. The Company is entitled to renew the lease agreement three months before its maturity by submitting a written application. Moreover, the rental payables of irrecoverable operating lease is shown as below:

	December 31, 2018	December 31, 2017
Within 1 years	\$ 9,988	9,938
1 to 5 years	30,905	33,132
Above 5 years	1,799	2,398
	\$ 42,692	45,468

- (b) The Company entered into performance guarantee agreements with financial institutions for the Company's obligation to pay for the goods purchased and the tax payable on bonded raw materials, commodities, fuel, and semi-finished products shipped outside the bond areas for domestic sales, demonstration, repair or testing. As of December 31, 2018 and 2017, the financial institutions had issued performance guarantees amounting to \$11,000 thousand and \$19,000 thousand, respectively.
- (c) As of December 31, 2018 and 2017, the refundable notes payable for short-term loans amounted to \$280,000 thousand and \$686,277 thousand, respectively.
- (d) The Company entered into non-infringement guarantee agreements with some customers (guarantees) to provide a guarantee regarding the selling of touchpad module products.

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(e) Government grant

To develop “Battery-less And Contactless Fingerprint Smart Card Solution”, the Company has signed a technology program contract with the Institute for Information Industry in order to receive a grant amounting to \$42,000 thousand. The period of this research plan is from January 1, 2017 to December 31, 2018. The Company is the exclusive owner of all of the know-how, technical skills and intellectual property derived from this development project. Nevertheless, the Company cannot use the intellectual property to manufacture products in a foreign country without a written consent from the Ministry of Economic Affairs within the two-year period starting from the date that this development project is finished. The Company recognizes income based on the progress made on the planned research and development projects. For the years ended December 31, 2018 and 2017, the Company has recognized income from government grant amounting to \$0 thousand within Other Income. The Company also received \$29,400 thousand in the form of subsidy grant, to which the Company has recognized as current liabilities at year end. These grants will be transferred to income after the relevant research project is completed.

(f) Royalty fee

The Company signed a software authorization contract with a software company. The contract can be terminated at anytime upon the request of either party. Pursuant to the contract, the Company shall pay a royalty fee based on the sales quantity or other agreed conditions when the Company produces and sells products using this software.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other:

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

	For the years ended December 31					
	2018			2017		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expenses						
Salaries and wages	\$ 242,185	1,199,190	1,441,375	216,524	1,060,006	1,276,530
Labor and health insurance	19,608	71,308	90,916	14,287	67,029	81,316
Pension expenses	7,395	49,447	56,842	7,147	46,720	53,867
Remuneration of directors	-	30,600	30,600	84	21,716	21,800
Others	14,830	32,100	46,930	12,750	30,066	42,816
Depreciation expenses	15,945	28,017	43,962	13,362	28,468	41,830
Amortization expenses	44	43,195	43,239	-	60,417	60,417

The average number of employees during the years ended 2018 and 2017 were 931 and 866, respectively. Amongst these were members of the board which were not employees of the Company, amounting to 4 and 5 persons in 2018 and 2017, respectively.

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Notes to Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

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

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

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Microelectronic Corporation	Harvatek Corporation	-	Current financial assets at fair value through profit or loss	491	6,336	- %	6,336	
Elan Microelectronic Corporation	Fubon China Money Market FUND-TWD	-	Current financial assets at fair value through profit or loss	2,770	28,939	- %	28,939	
Elan Microelectronic Corporation	PineBridge Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,209	30,193	- %	30,193	
Elan Microelectronic Corporation	Cathay Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,430	30,202	- %	30,202	
Elan Microelectronic Corporation	Paradigm Pion Money Market Fund	-	Current financial assets at fair value through profit or loss	2,000	23,074	- %	23,074	
Elan Microelectronic Corporation	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	1,960	19,953	- %	19,953	
Elan Microelectronic Corporation	KGI Victory Money Market Fund	-	Current financial assets at fair value through profit or loss	2,596	30,011	- %	30,011	
Elan Microelectronic Corporation	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	3,801	50,111	- %	50,111	
Elan Microelectronic Corporation	Diversified FX Trading Segregated Portfolio	-	Current financial assets at fair value through profit or loss	441	38,938	- %	38,938	
Elan Microelectronic Corporation	Global Strategic FX Arbitrage Note	-	Current financial assets at fair value through profit or loss	207	63,570	- %	63,570	
Elan Microelectronic Corporation	Multi-Manager FX Trading Note (M2)	-	Current financial assets at fair value through profit or loss	204	62,845	- %	62,845	
Elan Microelectronic Corporation	Global Strategic FX Arbitrage Note (USD)(SERIES II)	-	Current financial assets at fair value through profit or loss	137	42,073	- %	42,073	
Elan Microelectronic Corporation	Fitipower Integrated Technology Inc.	-	Non-current financial assets at FVOCI	4,064	149,961	2.50%	149,961	Note 3
Elan Microelectronic Corporation	ThroughTek Co., Ltd.		Non-current financial assets at FVOCI	1,100	11,033	4.23%	11,033	Note 3
Elan Microelectronic Corporation	Chino-Excel Technology Co., Ltd.	-	Non-current financial assets at FVTPL	823	-	1.48%	-	Note 1
Elan Microelectronic Corporation	Panther technology Co., Ltd.	-	Non-current financial assets at FVTPL	340	4,687	0.94%	4,687	Note 2
Elan Microelectronic Corporation	XINCE Co., Ltd	-	Non-current financial assets at FVTPL	2,866	-	9.24%	-	Note 1
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,739	14,348	17.39%	14,348	Note 2

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Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	784	7,866	7.00%	7,866	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,382	8,559	8.13%	8,559	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,130	10,161	2.17%	10,161	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	3,796	37,253	6.12%	37,253	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	8,333	74,366	4.17%	74,366	Note 2
Elan Microelectronic Corporation	Mida touch photoelectric Co., Ltd.	-	Non-current financial assets at FVTPL	2,500	9,000	12.31%	9,000	Note 2
Elan Microelectronic Corporation	TOP TAIWAN IX VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	5,000	51,231	6.25%	51,231	Note 2
Elan Microelectronic Corporation	InnoBridge Venture Capital	-	Non-current financial assets at FVTPL	800	4,158	11.35%	4,158	Note 1
Elan Microelectronic Corporation	Startech Engineering Corporation	-	Non-current financial assets at FVTPL	189	-	0.53%	-	Note 1
Elan Microelectronic Corporation	North Star Venture Capital	-	Non-current financial assets at FVTPL	3,000	32,660	10.00%	32,660	Note 1
Elan Microelectronic Corporation	TOP TAIWAN XI VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	5,000	47,792	6.25%	47,792	Note 2
Elan Microelectronic Corporation	Genius Digital Vision Inc.	-	Non-current financial assets at FVTPL	989	-	6.56%	-	Note 1
Elan Microelectronic Corporation	Lyra Semiconductor Co., Ltd.	-	Non-current financial assets at FVTPL	2,400	27,936	11.78%	27,936	Note 2
Elan Microelectronic Corporation	TOP TAIWAN XII VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	25,000	246,136	18.52%	246,136	Note 2
Elan Microelectronic Corporation	Chimei Motor Co., Ltd	-	Non-current financial assets at FVTPL	950	7,439	5.94%	7,439	Note 2
Elan Investment Corp.	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	176	31,350	- %	31,350	
Elan Investment Corp.	FSITC RMB HIGH YIELD BOND FUND-A-NTD	-	Current financial assets at fair value through profit or loss	1,613	15,125	- %	15,125	
Elan Investment Corp.	FSITC Global FinTech Fund-TWD	-	Current financial assets at fair value through profit or loss	500	5,886	- %	5,886	
Elan Investment Corp.	FSITC Global Utilities and Infrastructure Fund-A-TWD	-	Current financial assets at fair value through profit or loss	1,000	9,192	- %	9,192	
Elan Investment Corp.	FSITC AI Global Precision Medicine Fund-TWD	-	Current financial assets at fair value through profit or loss	1,000	8,640	- %	8,640	
Elan Investment Corp.	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	5,012	51,013	- %	51,013	
Elan Investment Corp.	Nomura Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,221	36,192	- %	36,192	
Elan Investment Corp.	Taishin Global Multi-asset Fund of Funds-TWD-A	-	Current financial assets at fair value through profit or loss	1,000	9,800	- %	9,800	

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Investment Corp.	Taishin Global Disruptive Innovation Fund	-	Current financial assets at fair value through profit or loss	1,500	13,425	- %	13,425	
Elan Investment Corp.	Taishin 1699 Money Market Fund		Current financial assets at fair value through profit or loss	3,336	45,067	- %	45,067	
Elan Investment Corp.	United Microelectronics Corporation		Current financial assets at fair value through profit or loss	294	3,303	- %	3,303	Note 3
Elan Investment Corp.	Elan Microelectronic Corporation	Subsidiary	Non-current available-for-sale at FVOCI	12,438	935,353	4.09%	935,353	Note 3
Elan Investment Corp.	Fitipower Integrated Technology Inc.		Non-current available-for-sale at FVOCI	941	34,706	0.58%	34,706	Note 3
Elan Investment Corp.	Rafael Microelectronics, Inc.	-	Non-current available-for-sale at FVOCI	400	56,400	1.62%	56,400	Note 3
Elan Investment Corp.	Panther technology Co., Ltd.	-	Non-current financial assets at FVTPL	1,396	19,232	3.88%	19,232	Note 2
Elan Investment Corp.	RISE Technology Com	-	Non-current financial assets at FVTPL	769	-	3.23%	-	Note 1
Elan Investment Corp.	FineMat Applied Materials Co., Ltd.	-	Non-current financial assets at cost, net	8,900	155,534	14.74%	155,534	Note 2
Elan Investment Corp.	Linkinwave – Preferred shares	-	Non-current financial assets at FVTPL	296	-	- %	-	Note 1
Elan Investment Corp.	Pica 8-Preferred shares	-	Non-current financial assets at FVTPL	342	4,733	4.48%	4,733	Note 2
Elan Investment Corp.	Arplannet Digital Technology Co., LTD-Preferred Shares	-	Non-current financial assets at FVTPL	114	1,018	4.69%	1,018	Note 1
Elan Investment Corp.	Arplannet Digital Technology Co., LTD.-Common Stock	-	Non-current financial assets at FVTPL	75	668	3.08%	668	Note 1
Elan Investment Corp.	INNOJOY TECHNOLOGY INC.-Preferred Shares	-	Non-current financial assets at FVTPL	143	-	10.00%	-	Note 1
Elan Investment Corp.	Yi Qin Communication Co., Ltd. Preferred shares	-	Non-current financial assets at FVTPL	1,000	12,030	5.00%	12,030	Note 2
Elan Investment Corp.	e-Formula Technologies, Inc.	-	Non-current financial assets at FVTPL	550	15,131	3.03%	15,131	Note 2
Elan Investment Corp.	ALGOLREALITY CO., LTD.	-	Non-current financial assets at FVTPL	100	-	13.04%	-	Note 1
Elan Investment Corp.	Vita Genomics, Inc.	-	Non-current financial assets at FVTPL	677	6,995	1.13%	6,995	Note 2
Elan Investment Corp.	MedicusTek International Inc.	-	Non-current financial assets at FVTPL	1,010	-	1.55%	-	Note 1
Elan Investment Corp.	Taiwan Cornet Co., Ltd. Preferred shares	-	Non-current financial assets at FVTPL	10,000	1,676	14.29%	1,676	Note 1
Elan Investment Corp.	Genius Digital Vision Inc.	-	Non-current financial assets at FVTPL	740	-	4.91%	-	Note 1
Fong Yue Corporation	Waltop Electronics Co., Ltd.	-	Non-current financial assets at FVTPL	1,000	7,460	6.77%	7,460	Note2

Note 1: These amounts are calculated based on the net assets derived from the latest unaudited financial statements of the investee.

Note 2: This balance is calculated based on the net assets amount obtained from the latest valuation report on the investee Company.

Note 3: These amounts are calculated based on the market prices (closing prices) of the investee company on December 28, 2018.

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to Consolidated Financial Statements

- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
Elan Microelectronic Corporation	Elan (HK)	Subsidiary	Sale	497,368	5.90%	Open Account 45 Days	-		41,738	3.86%	

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None

- (ix) Trading in derivative instruments: None

- (b) Information on investees:

The following is the information on investees for the years ended December 31, 2018 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value			
Elan Microelectronic Corporation	Elan Microelectronic Corporation	Hongkong, China	Sale and after-sales service	123,272	123,272	29,328	100.00%	217,550	66,079	66,079	Note
Elan Microelectronic Corporation	Elan Investment Corp.	Taipei, Taiwan	After-sales service and provide new informational skills	500,000	500,000	50,000	100.00%	669,334	121,163	121,163	Note
Elan Microelectronic Corporation	Elan Information Technology Group	California, U.S.A	Sale and after-sales service	22,822	22,822	65	100.00%	14,884	4,090	4,090	Note
Elan Microelectronic Corporation	PUP Electron Co., Ltd	New Taipei City, Taiwan	Wholesale and installation of electronic devices, data storage and equipment process	7,840	7,840	784	49.00%	3,814	(1,324)	(649)	Note
Elan Microelectronic Corporation	Metanoia Communications Inc.	Hsin-Chu, Taiwan	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	1,041,136	1,041,136	54,057	63.60%	(100,132)	(61,342)	(39,014)	Note
Elan Microelectronic Corporation	Avionic Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	266,333	218,177	26,633	74.93%	(561)	(32,775)	(24,753)	Note
Elan Microelectronic Corporation	Tong fu Investment Corp.	Hsin-Chu, Taiwan	Investment business	30,000	30,000	3,000	46.73%	-	-	-	
Elan Microelectronic Corporation	Lighting Device Technologies Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on LED chips	19,520	19,520	1,805	45.07%	-	-	-	
Elan Microelectronic Corporation	PiXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	376,024	412,631	33,871	96.78%	50,597	(30,446)	(29,386)	Note
Elan Microelectronic Corporation	EMINENT ELECTRONIC TECHNOLOGY CORP. LTD.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	38,381	71,029	3,351	29.89%	339	(70,465)	(21,679)	
Elan Microelectronic Corporation	TOP TAIWAN X VENTURE CAPITAL CO., LTD.	Taipei, Taiwan	Venture capital	240,000	240,000	24,000	30.00%	231,846	(37,907)	(8,505)	
Elan Microelectronic Corporation	Fong Yue Corporation	Taipei, Taiwan	Investment business	30,000	30,000	3,000	100.00%	27,300	(1,064)	(1,064)	Note
Elan Microelectronic Corporation	Uniband Electronic,	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	80,000	80,000	8,000	23.12%	11,955	(32,896)	(7,914)	
Elan Microelectronic Corporation	Finger Pro Incorporation?	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	6,000	6,000	600	23.08%	2,422	(5,541)	(1,288)	
Elan Investment Corp.	Avionic Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	21,543	135	2,154	6.06%	41	(32,775)	(1,494)	Note
Elan Investment Corp.	RONG CHENG Technology	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	77,706	77,706	8,000	38.46%	-	-	-	
Elan Investment Corp.	PiXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	2,659	3,361	174	0.50%	260	(30,446)	(167)	Note
Elan Investment Corp.	Metanoia Communications Inc.	Hsin-Chu, Taiwan	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	44,825	44,825	3,626	4.27%	9,608	(61,342)	(2,617)	Note
Elan (H.K.)	Power Asia Investment Corporation	Republic of Mauritius	Investment business	89,572	89,572	2,861	100.00%	24,219	455	455	Note

Note: Investments in subsidiaries whereby the Company has control over.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to Consolidated Financial Statements

(c) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
Elan Shanghai	Provide system design, information on applications expansion	52,095	(2)	52,095	-	-	52,095	1,571	100.00%	13,969	-	-
Elan Shenzhen	Provide system design, information on applications expansion	34,670	(2)	34,670	-	-	34,670	(1,143)	100.00%	9,772	-	-

Note: The investment income (losses) from investments in Elan Shanghai and Elan Shenzhen are calculated based on the reviewed financial statements of the same period.

(ii) Upper limit on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
86,765	98,333	3,976,308

Note: The investment limit was calculated based on the official document 09704604680 announced by the MOEAIC on August 29, 2008.

(iii) Significant transactions:

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

(14) Segment information:

Please refer to the consolidated financial report of 2018.

**5.Last Fiscal Year's Parent-Subsidiary Consolidated
Financial Statements and Independent Auditors' Report**

3

Representation Letter

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

Company name: ELAN MICROELECTRONICS CORPORATION
Chairman: Yeh, Yi-Hao
Date: March 12, 2019

Independent Auditors' Report

To the Board of Directors
ELAN MICROELECTRONICS CORPORATION:

Opinion

We have audited the consolidated financial statements of ELAN MICROELECTRONICS CORPORATION ("the Company"), and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as of December 31, 2018 and 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, base on our audits and the report of other auditors (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation developed by International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("ISIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Other Matter

We did not audit the financial statements of Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp, which represented investment accounted for using the equity method of the Group. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp, is based solely on the report of another auditor. The investment in Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp accounted for using the equity method constituted 2.49% and 2.54% of the consolidated total assets at December 31, 2018 and 2017, respectively, and the related share of profit of associates and joint ventures accounted for using the equity method constituted (0.88)% and (0.74)% of the consolidated total income before tax for the years ended December 31, 2018 and 2017, respectively.

The Company has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion with emphasis of matter paragraph or other matter paragraph.

Key Audit Matters

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

1. Valuation of inventories

Please refer to Notes 4(h) for accounting policy of inventory, Notes 5 for accounting estimations and assumption uncertainty of inventory valuation, and Notes 6(d) for the write-down of inventories to net realizable value.

Key Audit Matter Explanation:

The inventories are measured at the lower of cost and net realizable value. Due to the rapid changes in the economy and the environment, and the production technology update, the cost of inventories are in a risk that the inventory cost exceeds its net realizable value.

How the matter was addressed in our audit

For valuation of the inventories, we reviewed the inventory aging reports, analyzed the inventory turnovers and changes in its aging inventory for each period to assess the reasonableness of the Group's inventory provision rate, evaluated the accounting policy rationality, understood the sales price adopted by the management evaluation, reviewed the sales status and evaluation which was based on the net realizable value used to assess the appropriateness of the Group management's estimation on inventory provision.

2. Revenue recognition

Please refer to Note 4(p) for accounting policy of revenue recognition.

Key Audit Matter Explanation:

The major business activities of the Group are the manufacture and sale of integrated circuits. The Group also offers research and development services with respect to the products presented above. Test of revenue recognition is one of the key audit matters in our audit. Revenue is the key performance indicator to evaluate the performance by the investors and management, and thus, needs significant attention in our audit.

How the matter was addressed in our audit

We tested the effectiveness of the related controls surrounding revenue recognition, reviewed relevant sales documents to evaluate whether the revenue recognition is consistent with the accounting policy; performed trend analysis on the top ten customers and revenue by products, to assess significant exception, if any; tested the sales transactions before and after the end of the year and its relevant documents to evaluate the accuracy of the amount and period of the revenue recognized.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed 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 are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Tseng, May-Yu and Gau, Wey-Chuan.

KPMG

Taipei, Taiwan (Republic of China)

March 12, 2019

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in, New Taiwan Dollars)

		December 31, 2018		December 31, 2017	
		Amount	%	Amount	%
Assets					
Current assets:					
1100	Cash and cash equivalents (notes 6(a) and (t))	\$ 2,075,773	21	1,984,013	20
1110	Current financial assets at fair value through profit or loss (note 6(b))	655,238	7	734,002	7
1170	Accounts receivable, net (notes 6(c), (t) and 7)	1,104,734	11	937,773	9
1200	Other receivables, net (notes 6(c), (t) and 7)	658,085	7	539,467	5
1310	Inventories, manufacturing business, net (note 6(d))	1,156,253	12	1,153,803	11
1410	Prepayments and other current assets	38,222	-	65,306	1
1476	Other current financial assets (notes 6(a) and (t))	1,759,480	18	2,539,200	25
		<u>7,447,785</u>	<u>76</u>	<u>7,953,564</u>	<u>78</u>
Non-current assets:					
1510	Non-current financial assets at fair value through profit or loss (note 6(b))	808,068	8	-	-
1517	Non-current financial assets at fair value through other comprehensive income (note 6(e))	252,100	3	-	-
1523	Non-current available-for-sale financial assets, net (note 6(f))	-	-	226,318	2
1551	Investments accounted for using equity method (note 6(g))	246,562	3	310,033	3
1543	Non-current financial assets at cost, net (note 6(h))	-	-	761,868	8
1600	Property, plant and equipment (note 6(i))	767,874	8	580,010	6
1780	Intangible assets (note 6(j))	225,319	2	256,273	3
1840	Deferred tax assets (note 6(m))	29,821	-	25,808	-
1900	Other non-current assets (note 6(t))	25,618	-	28,931	-
		<u>2,355,362</u>	<u>24</u>	<u>2,189,241</u>	<u>22</u>
Total assets		<u>\$ 9,803,147</u>	<u>100</u>	<u>10,142,805</u>	<u>100</u>
Liabilities and Equity					
Current liabilities:					
2100	Total short-term borrowings (notes 6(k) and (t))	\$ 243,000	2	240,000	2
2170	Total accounts payable (notes 6(s) and (t))	975,578	10	895,974	9
2206	Employee bonus payable (notes 6(s) and (t))	255,000	3	175,000	2
2230	Current tax liabilities	269,983	3	154,292	2
2300	Total other current liabilities (note 6(t))	1,085,084	10	945,148	9
		<u>2,828,645</u>	<u>28</u>	<u>2,410,414</u>	<u>24</u>
Non-Current liabilities:					
2640	Net defined benefit liability, non-current (note 6(l))	378,819	4	396,206	4
2645	Guarantee deposits received (note 6(t))	10,677	-	10,426	-
2570	Total deferred tax liabilities (note 6(m))	2,248	-	2,296	-
		<u>391,744</u>	<u>4</u>	<u>408,928</u>	<u>4</u>
	Total liabilities	<u>3,220,389</u>	<u>32</u>	<u>2,819,342</u>	<u>28</u>
Equity attributable to owners of parent: (notes 6(n) and (o))					
3100	Total capital stock	3,038,804	31	4,341,148	43
3200	Total capital surplus	444,033	5	536,328	5
	Retained earnings:				
3310	Legal reserve	1,419,965	14	1,312,585	13
3350	Total unappropriated retained earnings (accumulated deficit)	1,585,683	16	1,109,748	11
		<u>3,005,648</u>	<u>30</u>	<u>2,422,333</u>	<u>24</u>
3400	Total other equity interest	172,023	2	147,779	1
3500	Treasury shares	(33,328)	-	(91,111)	(1)
	Total equity attributable to owners of parent:	<u>6,627,180</u>	<u>68</u>	<u>7,356,477</u>	<u>72</u>
36XX	Non-controlling interests	(44,422)	-	(33,014)	-
	Total equity	<u>6,582,758</u>	<u>68</u>	<u>7,323,463</u>	<u>72</u>
Total liabilities and equity		<u>\$ 9,803,147</u>	<u>100</u>	<u>10,142,805</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

		2018		2017	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(p), (q) and 7, 14)	\$ 8,651,332	100	7,503,267	100
5000	Operating costs (notes 6(d) and (l))	4,709,457	54	4,156,099	55
	Gross profit from operations	3,941,875	46	3,347,168	45
5920	Add: Realized profit on from sales	2,302	-	652	-
		3,944,177	46	3,347,820	45
	Operating expenses: (notes 6(l) and 9, 12)				
6100	Total selling expenses	349,848	4	309,706	4
6200	Total administrative expenses	331,042	4	301,480	4
6300	Total research and development expenses	1,531,009	18	1,386,852	18
6450	Expected credit impairment loss	1,990	-	-	-
		2,213,889	26	1,998,038	26
	Income from operations	1,730,288	20	1,349,782	19
	Non-operating income and expenses:				
7010	Total other income (notes 6(r))	71,152	1	88,448	1
7020	Other gains and losses, net (notes 6(h) and (r))	114,339	1	(127,016)	(1)
7050	Finance costs, net	(4,651)	-	(4,213)	-
7590	Miscellaneous disbursements	(1,674)	-	(5,248)	-
7770	Share of loss of associates and joint ventures accounted for using equity method (note 6(g))	(39,386)	-	(39,492)	(1)
		139,780	2	(87,521)	(1)
	Income before income tax	1,870,068	22	1,262,261	18
8110	Income tax expenses (note 6(m))	338,366	4	230,151	3
	Profit	1,531,702	18	1,032,110	15
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Gains on remeasurements of defined benefit plans	4,904	-	36,252	-
8316	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	25,782	-	-	-
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	(1,379)	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
		29,307	-	36,252	-
8360	Other components of other comprehensive income that will not be reclassified to profit or loss				
8361	Exchange differences on translation	(139)	-	(2,083)	-
8362	Unrealized losses on valuation of available-for-sale financial assets	-	-	(29,234)	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(20)	-	1,276	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
	Components of other comprehensive income that will be reclassified to profit or loss	(159)	-	(30,041)	-
8300	Other comprehensive income, net	29,148	-	6,211	-
	Comprehensive income	\$ 1,560,850	18	1,038,321	15
	Net income for the period attributable to:				
	Owners of the parent	\$ 1,559,580	18	1,073,802	16
	Non-controlling interests	(27,878)	-	(41,692)	(1)
		\$ 1,531,702	18	1,032,110	15
	Total comprehensive income for the period attributable to:				
	Owners of the parent	\$ 1,588,903	18	1,079,841	16
	Non-controlling interests	(28,053)	-	(41,520)	(1)
		\$ 1,560,850	18	1,038,321	15
	Earnings per share (note 6(o))				
	Basic earnings per share	\$ 4.16		2.58	
	Diluted earnings per share	\$ 4.12		2.55	

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										
					Total other equity interest						
	Retained earnings				Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Treasury shares	Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Ordinary shares	Capital surplus	Legal reserve	Unappropriated retained earnings							
Balance at January 1, 2017	\$ 4,341,148	735,781	1,264,428	481,567	(2,138)	-	179,660	(101,268)	6,899,178	(3,036)	6,896,142
Profit	-	-	-	1,073,802	-	-	-	-	1,073,802	(41,692)	1,032,110
Other comprehensive income	-	-	-	35,782	(1,922)	-	(27,821)	-	6,039	172	6,211
Total comprehensive income	-	-	-	1,109,584	(1,922)	-	(27,821)	-	1,079,841	(41,520)	1,038,321
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	48,157	(48,157)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(433,246)	-	-	-	-	(433,246)	-	(433,246)
Other changes in capital surplus:											
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	17,718	-	-	-	-	-	10,157	27,875	-	27,875
Cash dividends from capital surplus	-	(248,315)	-	-	-	-	-	-	(248,315)	-	(248,315)
Issuance of shares for non-controlling interests	-	-	-	-	-	-	-	-	-	42,686	42,686
Changes in non-controlling interests	-	31,144	-	-	-	-	-	-	31,144	(31,144)	-
Balance at December 31, 2017	4,341,148	536,328	1,312,585	1,109,748	(4,060)	-	151,839	(91,111)	7,356,477	(33,014)	7,323,463
Effects of retrospective application	-	-	-	17,120	-	151,839	(151,839)	-	17,120	-	17,120
Equity at beginning of period after adjustments	4,341,148	536,328	1,312,585	1,126,868	(4,060)	151,839	-	(91,111)	7,373,597	(33,014)	7,340,583
Profit	-	-	-	1,559,580	-	-	-	-	1,559,580	(27,878)	1,531,702
Other comprehensive income	-	-	-	5,079	(159)	24,403	-	-	29,323	(175)	29,148
Total comprehensive income	-	-	-	1,564,659	(159)	24,403	-	-	1,588,903	(28,053)	1,560,850
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	107,380	(107,380)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(998,464)	-	-	-	-	(998,464)	-	(998,464)
Other changes in capital surplus:											
Cash dividends from capital surplus	-	(121,552)	-	-	-	-	-	-	(121,552)	-	(121,552)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	40,834	-	-	-	-	-	4,971	45,805	-	45,805
Capital reduction	(1,302,344)	-	-	-	-	-	-	52,812	(1,249,532)	-	(1,249,532)
Issuance of shares for non-controlling interests	-	-	-	-	-	-	-	-	-	860	860
Changes in non-controlling interests	-	(11,577)	-	-	-	-	-	-	(11,577)	15,785	4,208
Balance at December 31, 2018	\$ 3,038,804	444,033	1,419,965	1,585,683	(4,219)	176,242	-	(33,328)	6,627,180	(44,422)	6,582,758

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

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

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Profit before tax	\$ 1,870,068	1,262,261
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	46,353	45,507
Amortization expense	49,845	73,342
Expected credit loss / Provision (reversal of provision) for bad debt expense	1,990	265
Net loss (gain) on financial assets at fair value through profit or loss	(100,218)	853
Interest expense	4,651	4,213
Interest income	(43,857)	(39,276)
Dividend income	(11,434)	(33,886)
Share of loss of associates accounted for using equity method	39,386	39,492
Loss on disposal of property, plant and equipment	387	309
Impairment loss	25,808	85,420
Gain on disposal of non-current financial assets at cost	-	(16,684)
Gain on disposal of available-for-sale financial assets	-	(13,036)
Difference between net pension liability and actual appropriations	(12,483)	560
Impairment loss and disposal loss on inventory	93,385	92,965
Others	612	(1,908)
Total adjustments to reconcile profit	<u>94,425</u>	<u>238,136</u>
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	77,168	(180)
Increase in notes and accounts receivable	(168,951)	170,029
Increase in inventories	(95,835)	(192,472)
Decrease (increase) in other operating assets	33,645	(33,475)
Increase in other receivable	(118,934)	(351,534)
Increase in notes and accounts payable	79,604	62,136
Increase in other payable	<u>219,914</u>	<u>384,812</u>
Cash inflow generated from operations	1,991,104	1,539,713
Interest received	44,173	39,036
Dividends received	11,443	47,806
Interest paid	(4,629)	(4,185)
Income taxes paid	<u>(226,737)</u>	<u>(159,551)</u>
Net cash flows from operating activities	<u>1,815,354</u>	<u>1,462,819</u>
Cash flows from (used in) investing activities:		
Acquisition of financial assets at amortized cost	-	(265,556)
Proceeds from disposal of financial assets at fair value through profit or loss	(37,989)	-
Acquisition of financial assets designated at fair value through profit or loss	62,647	-
Acquisition of available-for-sale financial assets	-	(30,800)
Proceeds from disposal of available-for-sale financial assets	-	18,421
Proceeds from capital reduction of financial assets at fair value through profit of loss	48,065	-
Proceeds from disposal of financial assets at cost	-	16,684
Proceeds from capital reduction of financial assets at cost	-	62,526
Acquisition of property, plant and equipment	(240,827)	(47,205)
Increase in refundable deposits	(518)	-
Acquisition of intangible assets	(18,891)	(79,097)
Decrease (increase) in other non-current assets	3,831	(5,261)
Decrease (increase) in time deposit with maturity longer than three months	<u>779,720</u>	<u>(481,380)</u>
Net cash flows from (used in) investing activities	<u>596,038</u>	<u>(811,668)</u>
Cash flows used in financing activities:		
Increase in short-term loans	373,000	440,000
Decrease in short-term loans	(370,000)	(340,000)
Increase (decrease) in guarantee deposits received	251	(31)
Cash dividends paid	(1,074,211)	(653,686)
Capital reduction	(1,249,532)	-
Change in non-controlling interests	<u>860</u>	<u>42,686</u>
Net cash flows used in financing activities	<u>(2,319,632)</u>	<u>(511,031)</u>
Net increase in cash and cash equivalents	91,760	140,120
Cash and cash equivalents at beginning of period	1,984,013	1,843,893
Cash and cash equivalents at end of period	<u><u>\$ 2,075,773</u></u>	<u><u>1,984,013</u></u>

See accompanying notes to financial statements.

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

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

Elan Microelectronics Corp. (the “Company”) was incorporated on May 5, 1994, under the approval of Ministry of Economic Affairs, Republic of China (“ROC”). The Group is located in the Hsinchu Science-based Industrial Park. The major business activities of the Group are the manufacture and sale of neural network and fuzzy processors, digital signal processors, 8-bit RISC micro-controllers, and integrated circuits for special use. The Group also offers research and development services with respect to the products presented above. The Group’s common shares were listed on the Taiwan Stock Exchange on September 17, 2001. Pursuant to the resolution of the shareholders’ meeting held on June 13, 2008, the Group acquired Elantech Devices Corp. (Elantech). The Group is the surviving company, and Elantech was dissolved after the acquisition, and the effective date of the acquisition was on October 1, 2008. Elantech was incorporated on September 18, 2003 as a company limited by shares under the laws of Taiwan, the Republic of China (ROC). Elantech was located in Zhonghe District, New Taipei City. The major business activities of Elantech were the research, manufacture, and sale of wireless and wired communication equipment and electronics modules. Please refer to note 4(b) for the main operating activities for Elan Microelectronics Corp. and its subsidiaries (collectively as the “Group”).

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 12, 2019.

(3) New standards, amendments and interpretations adopted:

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

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

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

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

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

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

1) Sales of goods

For the sale of products, revenue is currently recognized when the goods are delivered to the customers’ premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Group assessed that the timing of revenue recognition between the current transfer of risks and rewards of ownership method and the IFRS 15 control of goods method are similar, hence, there are no significant impacts on initial application of this standard.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Rendering of services

The Group is involved in providing related services. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Revenue is currently recognized using the stage-of-completion method. Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Group sells the services in separate transactions. The Group assessed that the current relative fair value basis and the IFRS 15 stand-alone selling prices are similar, hence, there are no significant impacts on timing of revenue recognition on initial application of this standard.

3) Impacts on financial statements

The application of IFRS 15 does not have any impact on the consolidated financial statements for the year ended December 31, 2018 of the Group.

(ii) IFRS 9 “Financial Instruments”

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

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

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

1) Classification of financial assets and financial liabilities

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

2) Impairment of financial assets

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

3) Transition

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

- Comparative periods have been restated only for retrospective application of the cost of hedging approach for forward points. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on its asset will not increase significantly since its initial recognition.

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

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group’s financial assets as of January 1, 2018. (There are no changes in the measurement and classification of financial liabilities):

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and equivalents	Loans and receivables	1,984,013	Amortized cost	1,984,013
Equity instruments	Designated as at FVTPL (note 1)	734,002	Mandatorily at FVTPL	734,002
	Available-for-sale (note 2)	226,318	FVOCI	226,318
	Financial assets measured at cost	761,868	Mandatorily at FVTPL	778,988
Trade and other receivables	Loans and receivables (note 3)	937,773	Amortized cost	937,773
Other financial assets (other receivables, other current financial assets and guarantee deposits paid)	Loans and receivables	3,089,381	Amortized cost	3,089,381

Note 1: Under IAS 39, these equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

Note 2: These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI.

Note 3: Under IAS 39, these equity instruments were financial assets measured at cost. As these assets are managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

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

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 734,002	-	-	-	-	-
Additions – equity instruments						
From financial assets measured at cost	-	761,868	17,120	-	17,120	-
Total	<u>\$ 734,002</u>	<u>761,868</u>	<u>17,120</u>	<u>1,512,990</u>	<u>17,120</u>	<u>-</u>
Fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 226,318	(226,318)	-	-	-	-
Available for sale to FVOCI	-	226,318	-	-	-	-
Total	<u>\$ 226,318</u>	<u>-</u>	<u>-</u>	<u>226,318</u>	<u>-</u>	<u>-</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Amendments to IAS 7 “Disclosure Initiative”

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

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

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

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

The application of IAS 12 does not have any significant impact on the Group.

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

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

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

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

(i) IFRS 16 “Leases”

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

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

1) Determining whether an arrangement contains a lease

The Group has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of equipment under IFRIC 4. On transition to IFRS 16, the Group can choose whether to:

- apply the IFRS 16 definition of a lease to all its contracts; or
- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

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

2) Transition

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

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

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

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, there will be no restatement of comparative information.

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

The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Group estimated that the right-of-use assets and the lease liabilities to both increase by \$208,326 thousand, and no impact on the retained earnings on January 1, 2019. No significant impact is expected for the Group's finance leases. Besides, The Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

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

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

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

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

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

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

(4) Summary of significant accounting policies:

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(a) Statement of Compliance

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

(b) Basis of preparation

(i) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value;
- 2) Fair value through other comprehensive income (Available-for-sale financial assets)are measured at fair value;
- 3) The defined benefit asset is recognized as the fair value of the plan assets less the present value of the defined benefit obligation.
- 4) Available-for-sale financial assets are measured at fair value.

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

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

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

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding		Note
			December 31, 2018	December 31, 2017	
The Company	Elan Investment Corp.	Investment holding	100.00%	100.00%	-
The Company	Fong Yue Corporation	Investment holding	100.00%	100.00%	-
The Company and Elan Investment Corp.	Metanoia Inc.(MetaCom)	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	67.86%	67.86%	-
The Company and Elan Investment Corp.	Avisonic Technology Corp. (Avisonic)	Research, design, develop, manufacture and sale on digital image-process chips	81.00%	76.49%	-
The Company	JPUP Electron Co., Ltd. (JPUP)	Wholesale and installation of electronic devices, data storage and equipment process	49.00%	49.00%	The Company owns 3 out of 5 seats in the board, and has a control interest over JPUP
The Company and Elan Investment Corp.	Pixord Corporation (Pixord)	Research, design, develop, manufacture and sale on Webcam and server	97.27%	96.96%	-
The Company	Elan H.K.	Sale and after-sales service	100.00%	100.00%	-
The Company	Elan Information	After-sales service and provide new informational skills	100.00%	100.00%	-
Elan H.K.	Power Asia	Investment holding	100.00%	100.00%	-
Power Asia	Elan Shanghai	Provide system design, information on applications expansion	100.00%	100.00%	-
Power Asia	Elan Shenzhen	Provide system design, information on applications expansion	100.00%	100.00%	-

(d) Foreign currencies

(i) Foreign currency transactions

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group' s functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economics, are translated to the Group' s functional currency at average rate.

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

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

An entity shall classify an asset as current when:

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash and cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

An entity shall classify a liability as current when:

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

- (f) Cash and cash equivalents

Cash comprise cash balances and call deposits. Cash equivalents are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

A time deposit is qualified as cash equivalent and must be held for the purpose of short term cash commitments rather than for investment or other purposes.

- (g) Financial instruments

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

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

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

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

- 1) Financial assets measured at amortized cost

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

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

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Fair value through other comprehensive income (FVOCI)

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

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

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

3) Fair value through profit or loss (FVTPL)

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

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

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets measured at amortized costs, notes and accounts receivable, other receivable, leases receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI, accounts receivable measured at FVOCI and contract assets.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 360 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 360 days past due;

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- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

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

5) Derecognition of financial assets

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

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

On derecognition of a part of debt instrument in which the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

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

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss, available for sale financial assets and account receivables.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

1) Financial asset measured at fair value through profit or loss

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

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in other gains or losses under non-operating revenue and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

2) Available-for-sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available for sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income and dividend income are recognized in other comprehensive income and accumulated under unrealized gains (losses) on available for sale financial assets in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to non-operating revenue and expenses, and is included in other gains and losses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

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

Dividend income from equity investment is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is recognized as other income under non-operating revenue and expenses.

Interest income from investment in bond security is recognized as other income under non-operating revenue and expenses.

3) Receivables

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Interest income is recorded as other income under non-operating revenue and expenses.

4) Impairment of financial assets

Financial assets that are not measured at fair value through profit or loss evaluate impairments at every reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Receivables that are not individually impaired are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

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

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

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

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

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

Impairment losses recognized on available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then impairment loss is reversed against profit or loss.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The impairment loss of accounts receivable is recognized as selling expense, while the impairment loss and recovery of the remaining financial assets are recognized as other gains and losses under non-operating revenue and expenses.

5) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and recorded as other gains and losses in non-operating revenue and expenses.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

Equity instruments are contractual agreement that can manifest the Group's residual interest after assets, less, liabilities. Equity instruments issued are recognized based on amount of consideration received, less, the direct cost of issuing.

2) Other financial liabilities

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

3) Derecognition of financial liabilities

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

Upon derecognition, the difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is recorded as other gains and losses under non-operating revenue and expenses.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4) Offsetting of financial assets and liabilities

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

(h) Inventories

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

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

(i) Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

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

The consolidated financial reports include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases.

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

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(j) Property, plant and equipment

(i) Recognition and measurement

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

The rental asset is depreciated over the shorter of the lease term or its useful life. Land has an unlimited useful life, and therefore, it is not depreciated. The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- 1) Buildings: 7~50 years;
- 2) Machineries and equipments: 2~6 years;
- 3) Transportation and office equipment: 2~6 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If the expectation of useful life differs from the previous estimate, the changes are accounted for as changes in an accounting estimate.

(k) Leases

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

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Notes to the Consolidated Financial Statements

(ii) Lessee

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

(l) Intangible assets

(i) Goodwill

Goodwill is recognized when the purchase price exceeds the fair value of the identifiable assets under the acquisition method. Goodwill acquired through consolidation is not amortized. Impairment testing is performed on a regular basis and is measured at initial cost, less, any accumulated impairment loss.

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

(ii) Research and development

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

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

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

(iii) Other intangible assets

The other intangible assets acquired by the Group are recognized at cost, less, accumulated amortization and accumulated depreciation.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iv) Subsequent expenditure

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

(v) Amortization

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with all indefinite useful life, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Patents	1~3 years
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Computer software cost	1~3 years
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The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(m) Impairment – non derivative financial assets

The Group assesses non-derivative financial assets (other than inventories, deferred income tax assets and employee benefits for impairment) for impairment at every reporting date, and estimates its recoverable amount. If it is not possible to determine the recoverable amount (fair value, less, cost to sell and value in use) for individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less, costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the revocable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized.

The Group assesses the cash-generating unit of goodwill, intangible assets with uncertain useful life, and intangible assets not yet ready for use on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

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For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units (groups). If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss, and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

(n) Provisions

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

(o) Treasury stock

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares should be recognized under Capital Reserve – Treasury Share Transactions; Losses on disposal of treasury shares should be offset against any existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted average of different types of repurchase.

During the cancellation of treasury shares, Capital Reserve – Share Premiums and Share Capital should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; losses on cancellation of treasury shares should be offset against any existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

Shares that are owned by the Group's subsidiaries are seen as identical to shares repurchased.

(p) Revenue recognition

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

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

1) Sale of goods

The Group outsources its manufacturing process and subsequently sells its Integrated Circuits to customers. The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence

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and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group recognizes trade receivables upon the delivery of products, because the Group has unconditional rights to recovery of the consideration at that point in time.

2) Services

The Group provides product design and development services to its customers, and recognizes revenue during the reporting period when services are rendered. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is based on the percentage of actual cost incurred over the total costs.

3) Financing components

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

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

1) Goods sold

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

2) Services

The Group rendered product design and development. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is based on the percentage of actual cost incurred over the total costs.

3) Grants from government

Government grant income is recognized when the Group meets the related conditions and the government grant can be received. The Group recognizes revenues based on the actual cost incurred of the total cost as non-operating income.

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(q) Employee benefits

(i) Defined contribution plan

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

The Group that belongs to domestic firms should comply with the Labor Pension Act (hereinafter as “the Act”), which took effect on July 1, 2005. In accordance with the Act, the pension benefits of employees who elect to follow the Act and employees who are retired after the effective date of the Act adopt a defined contribution scheme, whereby the Group makes monthly contributions to the employees’ individual pension accounts of no less than 6% of the employees’ monthly wages. The amounts contributed are recognized as expense in the current period.

The Group that belongs to overseas firms (excluding Elan Information and Power Asia, which adopts the defined contribution pension plan) should contribute pension fund based on the local pension regulations and recognized the pension contributed as expense for that period. Subsidiaries in China should comply with the regulations of the Government in the People’s Republic of China. The corporate contributes retirement annuity funds based on the statutory rate on authorized employees payroll and the pension expenses are recognized in profit or loss for the year.

(ii) Defined benefit plan

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

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

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Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period. The Group recognizes the remeasurement amount in other comprehensive income and immediately transfers it to retained earnings.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed when the related services are provided.

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

(r) Income tax

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

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

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

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

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

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

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

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

(s) Business acquisition

For those acquisitions occurring after 1 January 2013 (inclusive), goodwill is measured using ROC GAAP.

The Group measured the acquisition cost of acquiring Elantech in accordance with the Statement of Financial Accounting Standards No. 25 “Business Combinations” and the Accounting Research and Development Foundation Interpretations 97 (075) and 91 (187). The stock issued by the Group is traded in an active market; therefore, the fair value of the stock issued by the Group should be used to determine the fair value of the net assets of the acquired corporation. The acquisition cost was measured in two ways. For stock acquired from non-affiliated companies, accounting was determined by using the purchase method; for stock acquired from affiliated companies, the purchase price was determined by the book value of the affiliated companies' investment in Elantech. The Group recognized the difference between the acquisition cost and the fair value of tangible assets and identifiable intangible assets, less, the liabilities, and recorded it as goodwill.

(t) Earnings per share

The Group discloses the Group's basic and diluted earnings per share attributable to ordinary equity holders. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Group, divided by, the weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Group, divided by, the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as employee stock options and employee bonus settled using shares that have yet to be approved by the shareholders' meeting.

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(u) Operating segments

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

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

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

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

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

Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the sales price. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to note 6(d) for further description of the valuation of inventories.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Petty cash	\$ 620	647
Checking and demand deposits	1,036,803	750,692
Time deposits with maturities of three months or less	1,038,350	1,232,674
	<u><u>\$ 2,075,773</u></u>	<u><u>1,984,013</u></u>

As of December 31, 2018 and 2017, time deposits with maturities of more than three months held by the Group amounted to \$1,759,480 thousand and \$2,539,200 thousand, respectively, and were recorded as other current financial assets. The Group did not recognize impairment loss on other current financial assets for the years ended December 31, 2018. Other information relating to credit risk is provided in Note 6(t).

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

	December 31, 2018	December 31, 2017
Mandatorily measured at fair value through profit or loss:		
Current:		
Listed stocks	\$ 9,639	
Open-end certificates of beneficial interest	477,111	
Short-term commercial papers	168,488	
Non-current:		
Listed stocks	808,068	
Financial assets held for trading:		
Listed stocks	-	13,822
Open-end certificates of beneficial interest	-	567,775
Short-term commercial papers	-	152,405
Total	<u>\$ 1,463,306</u>	<u>734,002</u>

(c) Notes, accounts receivable and other receivables

	December 31, 2018	December 31, 2017
Notes receivable	\$ 16,165	25,302
Accounts receivable - fair value through other comprehensive income	726,785	-
Accounts receivable - measured at amortized cost	404,992	965,781
Less: Allowance for doubtful accounts	(43,208)	(41,218)
Sales return and allowance	-	(12,092)
	<u>\$ 1,104,734</u>	<u>937,773</u>

The Group has assessed a portion of its trade receivables that was held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; therefore, such trade receivables were measured at fair value through other comprehensive income on January 1, 2018.

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

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	Gross carrying amount	Weighted-averag e loss rate	Loss allowance provision
Current	\$ 1,003,142	0.18%	1,777
1 to 30 days past due	47,978	2.94%	1,411
31 to 60 days past due	26,378	15.92%	4,199
61 to 90 days past due	7,223	34.59%	2,498
More than 90 days past due	63,221	50%~100%	33,323
	<u>\$ 1,147,942</u>		<u>43,208</u>

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

	December 31, 2017
Past due 1 to 30 days	\$ 76,240
Past due 31 to 120 days	27,809
Past due 121 to 365 days	2,446
	<u>\$ 106,495</u>

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

	2018	2017	
		Individually assessed impairment	Collectively assessed impairment
Balance on January 1, 2018 and 2017 per IAS 39	\$ 41,218	30,069	10,884
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	41,218		
Impairment loss recognized	1,990	(726)	991
Balance on December 31, 2018 and 2017	<u>\$ 43,208</u>	<u>29,343</u>	<u>11,875</u>

The average credit period of sales of goods was from 30 to 90 days. The Group applied the incurred loss model to consider the allowance of its notes and trade receivables as of December 31, 2017. The allowance for doubtful receivables was assessed by reference to collectability of notes and trade receivables. The Group considered any changes in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables over 365 days due to historical experience showing that such receivables are uncollectible. Allowance for impairment loss was recognized against trade receivables within 365 days based on the estimated irrecoverable amounts

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determined by reference to past default experience of the counterparties and an analysis of their current financial position.

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The Group has entered into non-recourse factoring agreements with financial institutions. According to the agreements, the Group does not have to bear the risk that the accounts receivable cannot be collected, and therefore it meets the condition of disposal of financial assets. As of December 31, 2018 and 2017, the accounts receivable which had not expired were as follows:

December 31, 2018					
Purchaser	Accounts derecognized	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral
Financial Institution	<u>\$ 588,039</u>	<u>2,000,000</u>	<u>-</u>	<u>0.05%~0.12%</u>	None

December 31, 2017					
Purchaser	Accounts derecognized	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral
Financial Institution	<u>\$ 493,794</u>	<u>1,400,000</u>	<u>-</u>	<u>0.05%~0.13%</u>	None

The Group has deducted the advanced amount from the accounts receivable in accordance with the condition of derecognition as of December 31, 2018 and 2017. The remaining amount has been reclassified into other receivable. The Group did not recognize impairment loss on other receivable for the year ended December 31, 2018, and information on other credit risk is disclosed in Note 6(t).

(d) Inventories

	December 31, 2018	December 31, 2017
Raw materials	\$ 423,928	294,252
Work in progress	503,874	542,914
Finished goods	228,451	316,637
	<u>\$ 1,156,253</u>	<u>1,153,803</u>

Inventories recognized as cost of goods sold and the related expense amounted to \$4,615,672 thousand and \$4,062,635 thousand, \$93,385 thousand and \$92,965 thousand were deducted from the cost of inventory due to write-down of inventory to its net realizable value; loss and gain due to inventory count and other related costs decreased by \$400 thousand and \$499 thousand for the years ended December 31, 2018 and 2017, respectively.

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- (e) Financial assets at fair value through other comprehensive income

	December 31, 2018
Equity investments at fair value through other comprehensive income:	
Emerging stocks	\$ 11,033
Quoted shares	<u>241,067</u>
	<u>\$ 252,100</u>

Equity investments at fair value through other comprehensive income

- (i) On January 1, 2018, the Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets on December 31, 2017 and 2018.
- (ii) No strategic investments were disposed as of December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.
- (iii) For market risk, please refer to note 6(t).
- (f) Non-current available-for-sale financial assets

	December 31, 2017
Emerging stocks	<u>\$ 226,318</u>

- (i) Except for above, these investments were classified as financial assets at fair value through other comprehensive income on December 31, 2018; please refer to note 6(e).
- (ii) For credit risk and market risk, please refer to note 6(t).
- (g) Investments accounted for using equity method

Investments accounted for using the equity method were as follows:

	December 31, 2018	December 31, 2017
Associate	<u>\$ 246,562</u>	<u>310,033</u>

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The related information on the original cost investments of the associates was as follows:

	Nature of the relationship	Principal country	December 31, 2018		December 31, 2017	
			Amount	Share-holding (%)	Amount	Share-holding (%)
Tong Fu Investment Corporation	Investment holding	R.O.C.	\$ 30,000	46.73	30,000	46.73
Eminent Electronic Technology Corp. Ltd.	Manufactures and sells electronic devices, computer and its related products, and manufactures optical instruments	R.O.C.	38,381	29.89	71,029	29.89
Top Taiwan X Venture Capital Co. Ltd	Venture capital	R.O.C.	240,000	30.00	240,000	30.00
Uniband Electronic Corp	Manufactures and sells electronic devices	R.O.C.	80,000	23.12	80,000	24.62
Finger Pro. Incorporation	Manufactures and sells electronic devices	R.O.C.	6,000	23.08	6,000	23.08
Lighting Device Technologies Crop.	Research, design, develop, manufacture and sale on LED chips		19,520	45.07	19,520	45.07
			<u>\$ 413,901</u>		<u>446,549</u>	

(i) Associates

A summary of the Group' s financial information for equity-accounted investees at the reporting date is as follows:

	2018	2017
The Group' s share of gain of associates accounted for using equity method	<u>\$ (39,386)</u>	<u>4,499</u>

The Group' s financial information for investments accounted for using the equity method that are individually insignificant were as follows:

	For the years ended December 31	
	2018	2017
Attributable to the Group:		
Loss from continuing operations	\$ (39,386)	(39,492)
Other comprehensive (loss) income	(1,399)	1,276
Comprehensive income	<u>\$ (40,785)</u>	<u>(38,216)</u>

The Group recognized \$15,000 thousand and \$10,808 thousand in impairment losses against Eminent Electronic Technology Crop. Ltd. and Tong Fu Investment Corporation for the year ended December 31, 2018, respectively.

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(h) Non-current Financial assets at costs

	December 31, 2017
Domestic non-publicly traded common stocks	\$ 746,812
Foreign non-publicly traded common stocks	255
Foreign non-publicly traded common stocks	10,650
Foreign non-publicly traded preferred stocks	4,151
Total	<u>\$ 761,868</u>

(i) 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 should be measured at the cost less any impairment as of December 31, 2017. These investments were classified as financial assets at fair value through profit or loss on December 31, 2018.

(ii) The Group periodically evaluates the financial assets carried at costs and recognized the impairment loss amounting to \$85,420 thousand for the year ended December 31, 2017, due to a permanent decline of investment value, and it was recorded as part of other gains and losses.

(i) Property, plant and equipment

The movements of cost and accumulated depreciation of property, plant and equipment were as follows:

	Land	Buildings	Machinery and equipment	Office and transportation equipment	Equipment awaiting examination	Total
Cost:						
Balance as of January 1, 2018	\$ 118,813	1,027,131	440,080	147,002	14,833	1,747,859
Additions	111,977	56,749	31,668	5,286	35,147	240,827
Derecognized	-	-	(8,326)	(6,537)	-	(14,863)
Reclassification	-	534	9,818	-	(16,913)	(6,561)
Effect of exchange rate changes	-	-	(178)	(217)	-	(395)
Balance as of December 31, 2018	<u>\$ 230,790</u>	<u>1,084,414</u>	<u>473,062</u>	<u>145,534</u>	<u>33,067</u>	<u>1,966,867</u>
Balance as of January 1, 2017	\$ 118,813	1,025,687	416,654	170,442	5,872	1,737,468
Additions	-	1,444	18,809	5,781	21,171	47,205
Derecognized	-	-	(4,263)	(29,489)	-	(33,752)
Reclassification	-	-	8,969	376	(12,210)	(2,865)
Effect of exchange rate changes	-	-	(89)	(108)	-	(197)
Balance as of December 31, 2017	<u>\$ 118,813</u>	<u>1,027,131</u>	<u>440,080</u>	<u>147,002</u>	<u>14,833</u>	<u>1,747,859</u>
Accumulated depreciation:						
Balance as of January 1, 2018	\$ -	645,152	390,294	132,403	-	1,167,849
Depreciation	-	15,560	23,330	7,463	-	46,353
Derecognized	-	-	(8,326)	(6,537)	-	(14,863)
Effect of exchange rate changes	-	-	(158)	(188)	-	(346)
Balance as of December 31, 2018	<u>\$ -</u>	<u>660,712</u>	<u>405,140</u>	<u>133,141</u>	<u>-</u>	<u>1,198,993</u>

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	Land	Buildings	Machinery and equipment	Office and transportation equipment	Equipment awaiting examination	Total
Balance as of January 1, 2017	\$ -	629,843	373,470	152,711	-	1,156,024
Depreciation	-	15,309	21,165	9,033	-	45,507
Derecognized	-	-	(4,263)	(29,251)	-	(33,514)
Effect of exchange rate changes	-	-	(78)	(90)	-	(168)
Balance as of December 31, 2017	\$ -	645,152	390,294	132,403	-	1,167,849
Book value:						
Balance as of December 31, 2018	\$ 230,790	423,702	67,922	12,393	33,067	767,874
Balance as of December 31, 2017	\$ 118,813	381,979	49,786	14,599	14,833	580,010

As of December 31, 2018 and 2017, none of the Group's properties, plant and equipments were pledged.

(j) Intangible assets

The movements of cost and accumulated amortization of intangible assets were as follows:

	Goodwill	Technical Know-how	Computer software	Total
Cost:				
Balance as of January 1, 2018	\$ 176,838	94,405	145,734	416,977
Additions	-	7,854	11,037	18,891
Derecognized	-	(10,755)	(10,555)	(21,310)
Effects of exchange rate changes	-	-	(21)	(21)
Balance as of December 31, 2018	\$ 176,838	91,504	146,195	414,537
Balance as of January 1, 2017	\$ 176,838	200,857	150,431	528,126
Additions	-	1,127	77,970	79,097
Derecognized	-	(107,579)	(82,653)	(190,232)
Effects of exchange rate changes	-	-	(14)	(14)
Balance as of December 31, 2017	\$ 176,838	94,405	145,734	416,977
Accumulated amortization:				
Balance as of January 1, 2018	\$ -	77,309	83,395	160,704
Additions	-	16,308	33,537	49,845
Derecognized	-	(10,755)	(10,555)	(21,310)
Effects of exchange rate changes	-	-	(21)	(21)
Balance as of December 31, 2018	\$ -	82,862	106,356	189,218
Balance as of January 1, 2017	\$ -	144,858	132,749	277,607
Additions	-	40,030	33,312	73,342
Derecognized	-	(107,579)	(82,653)	(190,232)
Effects of exchange rate changes	-	-	(13)	(13)
Balance as of December 31, 2017	\$ -	77,309	83,395	160,704
Book value:				
Balance as of December 31, 2018	\$ 176,838	8,642	39,839	225,319
Balance as of December 31, 2017	\$ 176,838	17,096	62,339	256,273

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017, the Group did not recognize any impairment loss. Amortization expenses were recorded as follows:

	2018	2017
Operating cost	<u>\$ 4,454</u>	<u>4,400</u>
Operating expense	<u>\$ 45,391</u>	<u>68,942</u>

(k) Short-term borrowings

The short-term borrowings were summarized as follows:

	December 31, 2018	December 31, 2017
Unsecured bank loans	<u>\$ 243,000</u>	<u>240,000</u>
Range of interest rate	<u>1.69%~2.50%</u>	<u>1.69%~2.45%</u>
Unused short-term credit lines	<u>\$ 367,000</u>	<u>385,000</u>

Refer to notes(t) for the interest rate risk and fair value sensitivity analysis of the financial assets and liabilities of the Group.

(l) Employee benefits

(i) Defined benefit plans

The reconciliations of defined benefit obligations and plan assets as of December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligation	\$ 457,216	486,993
Fair value of plan assets	(78,397)	(90,787)
Net defined benefit liabilities	<u>\$ 378,819</u>	<u>396,206</u>

The Group makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group' s Bank of Taiwan labor pension reserve account balance amounted to \$78,594 as of December 31, 2018. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Movements in the present value of defined benefit obligation

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

	For the years ended December 31	
	2018	2017
Defined benefit obligation at January 1	\$ 486,993	522,463
Current service cost and interest cost	9,321	9,085
Net remeasurements of defined benefit liability (asset)		
— Actuarial gains and losses arising from financial assumptions	15,906	(18,222)
— Actuarial gains and losses arising from experience adjustments	(18,704)	(18,420)
Past service credit	(699)	(1,179)
Benefits paid	(35,601)	(6,734)
Defined benefit obligation at December 31	\$ 457,216	486,993

3) Movements in fair value of plan assets

The movements in the fair value of plan assets of the Group were as follows:

	For the years ended December 31	
	2018	2017
Fair value of plan assets, January 1	\$ 90,786	89,111
Interests revenue	1,493	1,247
Net remeasurements of defined benefit liability (asset)		
— Return on plan assets (interest income for the year not included)	2,106	(390)
Contributions	5,941	6,100
Benefits paid	(21,929)	(5,282)
Fair value of plan assets at December 31	\$ 78,397	90,786

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4) Expenses recognized in profit or loss

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

	For the years ended December 31	
	2018	2017
Current service costs	\$ 1,441	1,921
Net interest on defined benefit liabilities	6,387	5,917
Curtailment or settlement gains	(699)	(1,179)
	\$ 7,129	6,659
For the years ended December 31		
	2018	2017
Operating cost	\$ 676	722
Selling expense	488	228
Administrative expense	532	495
Research and development expense	5,433	5,214
	\$ 7,129	6,659

5) Remeasurement values of the defined benefit liabilities (assets) recognized in other comprehensive income

The remeasurement values of the defined benefit liabilities (assets) recognized in other comprehensive income of the Group were as follows:

	For the years ended December 31	
	2018	2017
Cumulative amount at January 1	\$ 1,087	37,339
Recognized during the period	(4,904)	(36,252)
Cumulative amount at December 31	\$ (3,817)	1,087

6) Actuarial assumptions

Principal actuarial assumptions at the end of the reporting period were as follows:

	December 31, 2018	December 31, 2017
Discount rate	1.125%~1.375%	1.625%
Expected rate of increase in future salaries	1.00%~5.00%	2.00%~5.00%

The expected allocation payment to be made by the Group to the defined benefit plans within a year after the end of the reporting date is \$5,877 thousand.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017, the weighted-average duration of the defined benefit obligation was 17.25 and 17.85 years.

7) Sensitivity analysis

Calculations of the present value of the defined benefit obligation were based on the judgements and estimates made on the actuarial assumptions as of the balance sheet date, including discount rate, employee turnover rate and future salary changes. Any possible changes in the actuarial assumptions would affect the defined benefit obligation at the reporting date.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Defined benefit obligation	
	Increase by 0.25%	Decrease by 0.25%
December 31, 2018		
Discount rate	\$ (15,978)	16,716
Expected rate of increase in future salaries	15,784	(15,189)
December 31, 2017		
Discount rate	(17,399)	18,222
Expected rate of increase in future salaries	17,235	(16,587)

In practice, many changes in assumptions are realted. The sensitivity analysis was consistent with the calculation of the net pension as of balance sheet date.

The calculation and assumptions used in the sensitivity analysis during the year were consistent with prior year.

(ii) Defined contribution plans

The Group' s pension costs under the defined contribution method to the Bureau of Labor Insurance for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Operating cost	\$ 7,380	7,232
Selling expense	5,454	5,021
Administrative expense	8,100	7,887
Research and development expense	42,432	40,882
	\$ 63,366	61,022

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(m) Income taxes

- (i) The Group is able to avail itself of tax exemptions from its committed capital for expansion in the following years through the proceeds from common stock issuance that conform to the prescribed criteria under the “Statute for Upgrading Industries” as follows:

<u>Group</u>	<u>Year</u>	<u>Tax exemption products</u>	<u>Tax exemption period</u>
Parent Group- the Company	2009	to produce and sell high-level integrated circuits	The Company was granted approval from the Industrial Development Bureau, MOEA, on December 16, 2009. The Company had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to December 31, 2020.
Subsidiary- MetaCom	2009	to produce and sell high-level integrated circuits	MetaCom was granted approval from the Industrial Development Bureau, MOEA, on October 5, 2009. MetaCom had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to December 31, 2020.
Subsidiary- Avisonic	2007	to produce and sell high-level integrated circuits	Avisonic was granted approval from the Industrial Development Bureau, MOEA, on January 29, 2008. Avisonic had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to November 30, 2018.
Subsidiary- Avisonic	2009	to produce and sell high-level integrated circuits	Avisonic was granted approval from the Industrial Development Bureau, MOEA, on December 17, 2009. Avisonic had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to December 31, 2020.

- (ii) According to the amendments to the “Income Tax Act” enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018. The Group is subject to Taiwan income tax at rates of 17% and 20% for 2018 and 2017, respectively, and also adopted the “Income Basic Tax Act” to calculate the tax. Elan Information is registered in California, United States of America. The company is subject to a Federal corporate income tax rate of 34%. Elan Hong Kong is subject to an income tax rate of 16.5%. The income tax rate of Elan Shanghai and Elan Shenzhen is 25%. Power Asia is registered in Mauritius where international group entities, under local provisions, are exempted from corporate income tax.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group's income tax expenses were as follow:

	For the years ended December 31	
	2018	2017
Current income tax expense	\$ 342,427	232,481
Deferred income tax expense	(4,061)	(2,330)
Income tax expense	\$ 338,366	230,151

The reconciliation of the differences between the income tax computed at the statutory income tax rate and the income tax expense for the years ended December 31, 2018 and 2017 is summarized as follows:

	For the years ended December 31	
	2018	2017
Income before income tax	\$ 1,870,068	1,262,261
Income tax computed at statutory tax rate	\$ 374,014	214,584
Effect of tax rates in foreign jurisdiction	16,587	(19,340)
Investment tax credit	(33,694)	(48,963)
Suspension of tax-exempt gain on disposal of domestic securities	(317)	(4,816)
Tax-exempt gain on dividend revenue of domestic securities	(2,286)	(5,761)
Tax-exempt income	(831)	(4,680)
Change in unrecognized temporary differences	(29,602)	(38,372)
Prior year's income tax adjustment	(2,991)	32,863
Adjustment in tax rate	(4,149)	-
The amount of expired loss carry forward	31,123	104,855
Others	(9,488)	(219)
Income tax expense	\$ 338,366	230,151

(iii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

The Group's unrecognized deferred income tax assets were composed of the following items:

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 31, 2018	December 31, 2017
Realized valuation losses on long-term investment	\$ 559,355	481,919
Tax-deductible loss	399,254	354,935
Unfunded pension expense	97,905	86,999
Provision for decline in value of inventories	28,571	26,231
Others	8,295	7,977
	<u>\$ 1,093,380</u>	<u>958,061</u>

Regarding the deductible temporary differences from investment tax credit, the deferred tax assets have not been recognized in respect of these items because it is not probable that the future taxable gain on disposal of securities will be available against which the Group can utilize the benefits therefrom. The ROC Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. Deferred tax assets were not recognized, as management determined that it is not probable that there will be sufficient taxable gains in the future.

As of December 31, 2018 the net losses that have not been recognized as deferred tax assets and the expiration years were as follows:

a) Domestic consolidated entities

Year of loss	Year of expiry	Unused amount
2009	2019	\$ 128,206
2010	2020	133,532
2011	2021	143,053
2012	2022	217,892
2013	2023	233,882
2014	2024	263,203
2015	2025	255,813
2016	2026	270,443
2017	2027	192,406
2018	2028	133,604
		<u>\$ 1,972,034</u>

b) Foreign consolidated entities

	Applicable years	Unused amount
Elan Information	2019-2031	<u>\$ 14,576</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Recognized deferred income tax assets and liabilities

Movements of recognized deferred income tax assets and liabilities for the years ended December 31, 2018 and 2017 were as follows:

Deferred Tax Liabilities:

	Unrealized Foreign Exchange Gains	Fair Value Gains	Total
Balance at Jan 1, 2018	\$ (840)	(1,456)	(2,296)
Recognized in profit or loss	840	(792)	48
Balance at December 31, 2018	<u>\$ -</u>	<u>(2,248)</u>	<u>(2,248)</u>
Balance at Jan 1, 2017	\$ (421)	(1,802)	(2,223)
Recognized in profit or loss	(419)	346	(73)
Balance at December 31, 2017	<u>\$ (840)</u>	<u>(1,456)</u>	<u>(2,296)</u>

Deferred Tax Assets:

	Decline in Value of Inventories	Others	Total
Balance at Jan 1, 2018	\$ 22,164	3,644	25,808
Recognized in profit or loss	1,949	2,064	4,013
Balance at December 31, 2018	<u>\$ 24,113</u>	<u>5,708</u>	<u>29,821</u>
Balance at Jan 1, 2017	\$ 20,971	2,434	23,405
Recognized in profit or loss	1,193	1,210	2,403
Balance at December 31, 2017	<u>\$ 22,164</u>	<u>3,644</u>	<u>25,808</u>

(iv) The tax authorities have examined the Company's income tax returns through 2015.

(n) Capital and other equity

(i) Ordinary share

As of December 31, 2018 and 2017, the authorized capital of the Company amounted to \$4,800,000 thousand, which was divided into 303,880 thousand shares, thousand shares and 434,115 thousand shares, respectively, each at a par value of 10 New Taiwan Dollars on common stock. The issued capital was composed of common stocks only and have been fully paid-up.

The Company held a shareholders' meeting on June 11, 2018 to approve a capital reduction through cash return to its shareholders amounting to \$1,302,344 thousand, which represented a cancellation of 130,234 thousand shares (30% of common shares), for the purposes of adjusting the Company's capital structure and to increase the return on equity. This capital reduction was approved by the FSC on August 10, 2018. The Company's Board of Directors approved the effective cash return date as August 27, 2018. The Company had registered this capital reduction with MOEA and the actual cash distribution date was on October 24, 2018.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Capital surplus

The balances of capital surplus as of December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Additional paid-in capital	\$ 337,409	458,961
Treasury stock	87,057	46,223
Difference arising from subsidiary' s share price and its carrying value	19,567	31,144
	<u><u>\$ 444,033</u></u>	<u><u>536,328</u></u>

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

In pursuant to the resolution of annual shareholders meeting held on June 20, 2017, the Company declared a cash dividend of \$0.572 New Taiwan dollars per share, amounting to \$248,315 thousand from capital surplus, distributed via \$20,602 thousand from additional paid-in capital, \$203,724 thousand from treasury stock, and \$23,989 thousand from expired employee stock options.

In pursuant to the resolution of annual shareholders meeting held on June 11, 2018, the Company declared a cash dividend of \$0.28 New Taiwan dollars per share, amounting to \$121,552 thousand from capital surplus, distributed via \$121,552 thousand from additional paid-in capital.

(iii) Retained earnings

According to the Company' s articles of incorporation, annual earnings after income tax shall be first used to offset any deficit, then be appropriated 10% as legal reserve, and subsequently appropriate for special reserve. The surplus to be distributed for the current year shall not be lower than 50% of accumulated attributable retained earnings. Cash dividends shall not be lower than 10% of total dividends.

1) Legal reserve

In accordance with the Companies Act, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the meeting of shareholders shall decide on the distribution of the statutory earnings reserve, either by new shares or by cash of up to 25 percent of the actual capital.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Special reserve

In accordance with Ruling No. 1010012865 as issued by the Financial Supervisory Commission on 6 April 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the current-period total net reduction of other shareholders' equity. Such special reserve will be available for dividend distribution only after the related shareholders' equity reduction has been reversed by the approval of the shareholders' meeting.

3) Earnings distribution

On June 11, 2018 and June 20, 2017, the shareholder's meetings resolved to distribute the 2017 and 2016 earnings via cash dividend. The Company declared a cash dividend of \$2.3 and \$0.998 New Taiwan Dollars per share, amounting to \$998,464 thousand and \$433,246 thousand, respectively, for the year 2017 and 2016.

There was no difference between the actual distribution and estimation in the financial statements of 2017 and 2016.

(iv) Treasury stock

	December 31, 2018		December 31, 2017	
	Shares (in thousands)	Amounts	Shares (in thousands)	Amounts
The Company's shares held by subsidiaries	12,438	\$ 33,328	17,754	91,111

Elan Investment Corp., a subsidiary of the Company, invested in Elantech before the Company acquired Elantech, and held the Company's stock after the Company's acquisition of Elantech. For the years ended December 31, 2018 and 2017, the information on the Company's stock held by Elan Investment Corp. was as follows:

	For the years ended December 31					
	2018			2017		
	Shares (in thousands)	Acquisition cost	Total market value	Shares (in thousands)	Acquisition cost	Total market value
Opening balance	17,754	\$ 91,111	818,450	17,754	101,268	615,169
Effects of valuation change	-	-	116,903	-	-	203,281
Shares buy-back of parent company share due to capital reduction on odd lots	10	449	-	-	-	-
Cash dividend from capital surplus	-	(4,971)	-	-	(10,157)	-
Capital reduction	(5,326)	(53,261)	-	-	-	-
Ending balance	12,438	\$ 33,328	935,353	17,754	91,111	818,450

The Company transferred cash dividend revenue received by Elan Investment Corp. amounting to \$40,834 and \$17,718 to capital surplus-treasury stock in 2018 and 2017, respectively.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(v) Other equity

Movements of other equity for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31, 2018		
	Foreign exchange differences arising from foreign operation	Unrealized gains (losses) from available-for-sale investments	Total
Balance as of January 1	\$ (4,060)	151,839	147,779
Foreign exchange differences:			
The Group	(139)	-	(139)
Associates	(20)	-	(20)
Unrealized gains and losses from available-for-sale investment:			
The Group	-	25,782	25,782
Associates	-	(1,379)	(1,379)
Balance as of December 31	<u>\$ (4,219)</u>	<u>176,242</u>	<u>172,023</u>

	For the years ended December 31, 2017		
	Foreign exchange differences arising from foreign operation	Unrealized gains (losses) from available-for-sale investments	Total
Balance as of January 1	\$ (2,138)	179,660	177,522
Foreign exchange differences:			
The Group	(1,922)	-	(1,922)
Unrealized gains and losses from available-for-sale investment:			
The Group	-	(16,898)	(16,898)
Associates	-	1,413	1,413
Reclassification of available-for-sale financial assets:			
The Group	-	(12,336)	(12,336)
Balance as of December 31	<u>\$ (4,060)</u>	<u>151,839</u>	<u>147,779</u>

(o) Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2018 and 2017 were computed as follows:

(i) Basic earnings per share:

	For the years ended December 31	
	2018	2017
Net income	<u>\$ 1,559,580</u>	<u>1,073,802</u>
Weighted-average number of shares outstanding (thousands)	<u>374,723</u>	<u>416,360</u>
Earnings per share (New Taiwan dollars)	<u>\$ 4.16</u>	<u>2.58</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Diluted earnings per share:

Net income (used to calculate diluted earnings per share)	<u>\$</u>	<u>1,559,580</u>	<u>1,073,802</u>
Weighted-average number of shares outstanding (thousands)		374,723	416,360
Effect of dilutive potential common stock			
— employee emoluments		3,882	4,104
Weighted-average number of shares outstanding (thousands)			
used to calculate diluted earnings per share		<u>378,605</u>	<u>420,464</u>
Diluted earnings per share	<u>\$</u>	<u>4.12</u>	<u>2.55</u>

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the year ended December 31, 2018
Taiwan	\$ 933,868
Mainland China	1,842,851
Hong Kong	5,792,145
United States of America	45,552
Europe	3,296
Other	33,620
	<u>\$ 8,651,332</u>

For details on revenue for the years ended December 31, 2018, please refer to note (14).

(ii) Contract balances

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

(q) Revenue

The analysis of the Group's net revenue was as follows:

	For the year ended December 31, 2017
Net revenue from sale of goods	\$ 7,469,975
Other revenue	33,292
	<u>\$ 7,503,267</u>

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Non-operating income and expenses

(i) Other income

	For the years ended December 31	
	2018	2017
Interest income	\$ 43,857	39,276
Rental income	2,106	1,752
Dividend income	11,434	33,886
Government grant	6,300	6,300
Others	7,455	7,234
Total	<u>\$ 71,152</u>	<u>88,448</u>

(ii) Other gains and losses

	For the years ended December 31	
	2018	2017
Foreign exchange losses	\$ 40,316	(70,154)
Net losses on financial asset at fair value through profit or loss	100,218	(853)
Loss on disposal of property, plant and equipment	(387)	(309)
Gain on disposal of financial assets at cost	-	16,684
Gain on disposal of available-for-sale financial assets	-	13,036
Impairment loss	(25,808)	(85,420)
	<u>\$ 114,339</u>	<u>(127,016)</u>

(s) Employees' compensation and directors' and supervisors' remuneration

According to the Company's Articles of Incorporation, should the Company net a profit for the year, it shall allocate not more than 10% of the profit as employees' compensation and not more than 2% of the profit as directors' and supervisor's remuneration. Should the Company have accumulated losses, it shall first allocate its earnings to offset these losses.

For the year ended 2018 and 2017, the amounts of employees' bonuses were estimated at \$226,000 and \$155,000 respectively. The amounts remuneration to directors and supervisors were estimated at \$29,000 and \$20,000 respectively. The estimation basis shall be calculated as the amounts of net income before tax deducted employees', directors' and supervisors' bonuses, multiplied distributed percentage of employees' bonuses, directors' and supervisors' remuneration based on the Corporation's articles of incorporation. These bonuses and remuneration were expensed under operating costs or expenses for year 2018 and 2017. However, there were no differences between the distribution amounts of bonuses and remuneration decided by board mentioned above and the estimated amounts of the Company's Notes to the Consolidated Financial Statements in 2018 and 2017.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(t) Financial instruments

(i) Credit risk

1) Credit risk exposure

The maximum exposure to credit risk for trade and other receivables as at December 31, 2018 and 2017, was as follow:

	December 31, 2018	December 31, 2017
Bank deposits	\$ 2,075,153	1,983,366
Notes, accounts receivable and other receivables	1,762,819	1,477,240
Time deposits with maturity more than three months	1,759,480	2,539,200
Guarantee deposits (non-current)	11,231	10,714
	<u>\$ 5,608,683</u>	<u>6,010,520</u>

2) Concentration of credit risk

The major customers of the Group are centralized in the high tech computer industry. To minimize credit risk, the Company periodically evaluates the Company' s financial positions and the possibility of collecting trade receivables. Where necessary, the Group will require the customers to provide guarantees or collateral against their debts.

Besides, the Consolidated Company monitors and reviews the recoverable amount of the trade receivables to ensure the uncollectible amount is recognized appropriately as impairment loss.

As of December 31, 2018 and 2017, 75% and 76%, respectively, of accounts receivable were ten major customers. Thus, credit risk is significantly centralized.

3) Receivables and debt securities

For credit risk exposure of note and trade receivables, please refer to note 6(c).

For the details on loss allowance for the year ended December 31, 2017 of other financial assets measured at amortized cost, including time deposits with maturities more than three months, and other receivables, please refer to note 6(a) and 6(c).

As the financial assets mentioned above are subject to lifetime ECL allowance, the impairment provision recognized during the period was measured using 12 months expected credit losses. The Group' s assessment of low credit risk on financial instruments are described in note 4(c). Also, there were no provision made for expected losses for the year ended December 31, 2018.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Liquidity risk

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

	Carrying amount	Con-tract ual cash flows	Within 6 mths	6-12 mths	1-2 years	2-5 years	More than 5 years
December 31, 2018							
Non-derivative financial liabilities							
Short-term borrowings	\$ 243,000	244,739	194,552	50,187	-	-	-
Notes and accounts payable	975,578	975,578	975,578	-	-	-	-
Other payables	1,316,133	1,316,133	1,316,133	-	-	-	-
	\$ 2,534,711	2,536,450	2,486,263	50,187	-	-	-
December 31, 2017							
Non-derivative financial liabilities							
Short-term loans	\$ 240,000	240,190	240,190	-	-	-	-
Notes and accounts payable	895,974	895,974	895,974	-	-	-	-
Other payables	591,391	591,391	591,391	-	-	-	-
	\$ 1,727,365	1,727,555	1,727,555	-	-	-	-

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

(iii) Market risk

1) Exposure to foreign currency risk

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

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets:						
<u>Monetary item</u>						
US dollar	\$ 79,460	30.71	2,440,229	76,092	29.82	2,268,786
Financial liabilities:						
<u>Monetary item</u>						
US dollar	29,696	30.71	911,961	44,394	30.11	1,336,796

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the retranslation of foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, and trade and other payables that are denominated in foreign currency. A 5% of appreciation (depreciation) of the TWD against the USD as of December 31, 2018 and 2017 would have increased (decreased) the equity by \$61,131 thousand and \$38,678 thousand, respectively, for the years ended December 31, 2018 and 2017, assuming all other factors remained constant. The analysis is performed on the same basis in 2018 and 2017.

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The foreign exchange gains or losses were disclosed on an aggregate basis as there were various types of functional currencies in the Group. The foreign exchange gains and losses (including realized and unrealized) amounted to \$40,316 thousand and \$70,154 thousand for the years ended December 31, 2018 and 2017, respectively.

(iv) Interest rate analysis

The Group's exposure to interest rate risk of financial assets and liabilities was disclosed under liquidity risk of the note.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on reporting date. For variable rates on assets and liabilities, the sensitivity analysis assumes the variable rates on assets and liabilities are outstanding for the whole year on the reporting date. The Group's internal department reported the increases/decreases in the interest rates and the exposure to changes in interest rates on 0.5% on behalf of the Group's key management so as to allow the key management to assess the reasonableness of the changes in the interest rates.

If the interest rate increases/decreases by 0.5%, the Group's net income will increase/decrease by \$1,603 and \$3,397 for the years ended December 31, 2018 and 2017, respectively, with all other variable factors that remain constant. This is mainly due to the Group's time deposits and borrowings in variable rates.

(v) Other market price risk

For the years ended December 31, 2018 and 2017, the sensitivity analyses for the changes in the securities prices at the reporting date were performed using the same basis for the profit and loss as illustrated below:

	For the years ended December 31			
	2018		2017	
	Other comprehensive income after tax		Other comprehensive income after tax	
	Prices of securities at the reporting date	Net income	Prices of securities at the reporting date	Net income
Increase 5%	\$ 9,785	482	434	-
Decrease 5%	\$ (9,785)	(482)	(434)	-

(vi) Fair value of financial instruments

1) Fair value hierarchy

The fair value of financial assets and liabilities at fair value through profit or loss, financial instruments used for hedging, and financial assets at fair value through other comprehensive income (available for sale financial assets) is measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair

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value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

	December 31, 2018				
	Book value	Fair Value			total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value through profit or loss (current and non-current)	\$ 1,463,306	486,750	168,488	808,068	1,463,306
Financial assets measured at fair value through other comprehensive income					
Stocks	252,100	241,067	-	11,033	252,100
Accounts receivable	641,575	-	-	-	-
Financial assets measured at amortized cost					
Cash and cash equivalents	2,075,773	-	-	-	-
Notes and trade receivables	490,202	-	-	-	-
Other receivables	658,085	-	-	-	-
Other financial assets-current	1,759,480	-	-	-	-
Guarantee deposits	11,231	-	-	-	-
Subtotal	4,994,771	-	-	-	-
Total	\$ 7,351,752	727,817	168,488	819,101	1,715,406
Financial liabilities measured at amortized cost					
Bank loans	\$ 243,000	-	-	-	-
Notes and trade payables	975,578	-	-	-	-
Other payables	1,340,084	-	-	-	-
Guarantee deposits	10,677	-	-	-	-
Total	\$ 2,569,339	-	-	-	-
	December 31, 2017				
	Book value	Fair Value			total
		Level 1	Level 2	Level 3	
Financial assets at FVTPL					
Financial assets held for trade	\$ 734,002	581,597	152,405	-	734,002
Financial assets available for sale					
Emerging stocks	226,318	226,318	-	-	226,318
Financial assets measured at cost	761,868	-	-	-	-
Guarantee deposits (non-current)	10,714	-	-	-	-
Total	\$ 1,732,902	807,915	152,405	-	960,320
Financial liabilities measured at amortized costs					
Bank loan	\$ 240,000	-	-	-	-
Notes and trade payables	895,974	-	-	-	-
Other payables	1,120,148	-	-	-	-
Guarantee deposits (non-current)	10,426	-	-	-	-
Total	\$ 2,266,548	-	-	-	-

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2) Valuation techniques for financial instruments measured at fair value

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Measurements of fair value of financial instruments without an active market are based on valuation technique or quoted price from a competitor. Fair value, measured by using valuation technique that can be extrapolated from either similar financial instruments or discounted cash flow method or other valuation techniques, including models, is calculated based on available market data at the reporting date. (For example, over the counter yield curve and Reuters Primary CP Rate average prices.)

If the Group's financial instruments do not have an active market, their fair value classifications are determined to be equity instruments with no observable prices, and their fair values are estimated by comparing with competitors whose market prices are available. The main assumption used in this estimation is to calculate the product of the earnings before interest, tax, depreciation and amortization and the price to earnings ratio of listed companies on the stock market. This estimate is discounted by the fact that the equity is not readily available to be traded because there is no active market.

3) Transfers between Level 1 and Level 2

There were no transfers of financial instruments made between any levels in 2018 and 2017.

4) Reconciliation of Level 3 fair values

	Non derivative mandatorily measured at fair value through profit or loss (held-for-trading financial assets)
Opening balance, January 1, 2018	\$ 778,988
Total gains and losses recognized:	
In profit or loss	29,080
Ending Balance, December 31, 2018	<u><u>\$ 808,068</u></u>

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For the years ended December 31, 2018 and 2017, total gains and losses that were included in “other gains and losses” from financial assets fair value through other comprehensive income” were as follows:

	For the years ended December 31	
	2018	2017
Total gains and losses recognized:		
In profit or loss, and presented in “other gains and losses”	29,080	-

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

The Group’s financial instruments that use Level 3 inputs to measure fair value include “financial assets measured at fair value through profit or loss – debt investments” and “available-for-sale financial assets – equity investments” .

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income (Available for sale financial assets) equity investments without an active market	Market Comparison Method	<ul style="list-style-type: none"> • Price to book ratio (December 31, 2018: 1.30% to 3.04%) • Non-liquid discount (December 31, 2018: 7% to 10%) • Price to earnings ratio (December 31, 2018: 0.41% to 4.57%) • Price to book assets ratio (December 31, 2018: 0.46% to 2.74%) 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • the price to book ratio were higher (lower); • the non-liquid discount were lower (higher).
Financial assets at fair value through profit or loss - equity investments without an active market	Net Asset Value Method	Net Asset Value	Not applicable

- 6) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions by the following percentages to reflect reasonably possible alternative assumptions would have the following effects:

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Favorable	Profit or loss Movement	Other comprehensive income	
				Favorable	Unfavorable
December 31, 2018					
Financial assets at fair value through profit or loss					
Equity investments without an active market	Price to book ratio		Decrease by 10%	-	(33,863)
	Non-liquid discount		Decrease by 10%	(308)	-

(u) Financial risk management

(i) Nature and extent of risks arising from financial instruments

The Group was exposed to the following risks due to the use of financial instruments:

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

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

(ii) Risk Management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Group' s finance department provides business services to meet other departments' requests and negotiate all necessary transactions on financial markets. In addition, all significant financial activities have to be examined and approved by the Board of Directors. The Group' s financial activities must be in accordance with the overall financial risk management, segregation of duties, and other related policies of the Group. The Group' s audit committee continues to review the amount of the risk exposure in accordance with the Group' s policy and the risk management policies and procedures. The committee reports regularly to the Board of Directors on its activities.

(iii) Credit risk

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

1) Accounts receivable and other receivables

The finance department has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group' s standard payment and delivery terms and conditions are offered. The Group' s review includes external ratings, when available, and in some cases bank references. Purchase limits are established for

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**Notes to the Consolidated Financial Statements**

each customer, which represent the maximum open amount without requiring approval from the finance department. Customers that fail to meet the Group' s benchmark creditworthiness may transact with the Group only on a prepayment basis.

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Notes to the Consolidated Financial Statements

Trade and other receivables mainly relate to a wide range of customers from different industries and geographic regions. To minimize the credit risk, the Group continues to assess the financial condition and credit risk of its customers. Allowance for doubtful accounts is recognized if necessary.

The account of allowance for doubtful receivables was created by the Group in order to reflect the estimate of the losses had been incurred on accounts receivable and other receivables. The abovementioned account mainly consists of specific losses, relating to significant risk, which were measured individually and other unidentified losses which were measured by grouping similar assets together. The measurement of losses by grouping similar assets together was based on the statistical data of payment history of similar financial assets.

2) Investments

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. As the Group deals with the banks and other external parties with good credit standing financial institutions, the management believes that the Group do not have any compliance issues, and therefore, there is no significant credit risk.

(iv) Liquidity risk

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

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements.

(v) Market risk

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

1) Currency risk

The Group is exposed to currency risk on sales and purchase that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily US Dollars (USD). Natural hedge was adopted to minimize the Group's currency risk. The Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

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Notes to the Consolidated Financial Statements

2) Interest rate risk

Interest risk is the risk that changes in market interest rates will affect the fair value of the Group's financial instruments. For detailed information of interest rate risk exposure, please refer to the liquidity risk management of the note.

3) Other market price risk

The Group is exposed to other market price risk due to investments of stocks from listed entities. These investments are classified as long-term strategic investment other than held-for-trading investments. The Group was not actively involved in trading these investments.

(v) Capital management

The Group meets its objectives to manage its capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders and interest of other related parties and to maintain an optimal capital structure to reduce the cost of capital.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, and retained earnings of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

After being approved by the Board of Directors, the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, the shares are intended to be used for issuing shares under the Group's share option program. Buy-and-sell decisions are made on a specific transaction basis by the Board of Directors; the Group does not have a defined share buy-back plan.

The Group's debt to equity ratios at the end of the reporting period as at December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Total liabilities	\$ 3,220,389	2,819,342
Less: cash and cash equivalents	(2,075,773)	(1,984,013)
Net debt	\$ 1,144,616	835,329
Total equity	\$ 6,627,180	7,356,477
Debt to equity ratio	17.27%	11.36%

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Notes to the Consolidated Financial Statements

- (w) Investing and financing activities not affecting current cash flow

	January 1, 2018	Cash flows	Non-cash changes		December 31, 2018
			Foreign exchange movement	Fair value changes	
Short-term borrowings	\$ 240,000	3,000	-	-	243,000

(7) Related-party transactions:

- (a) Names and relationship with related parties

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

<u>Name of related party</u>	<u>Relationship with the Group</u>
Eminent Electronic Technology Corp. Ltd.	An associate
Finger Pro. Incorporation	An associate

- (b) Significant related-parties transactions

- (i) Sale of goods to related parties

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

	For the years ended December 31	
	2018	2017
Associates-Finger Pro.	\$ 445	387

The prices for sales to related parties were similar to those for general customers. The normal sales credits were collected within a month.

- (ii) Raw materials purchasing services and other operating income

	For the years ended December 31	
	2018	2017
Associates-Eminent	\$ 4,734	1,742

- (iii) Rental income

	For the years ended December 31	
	2018	2017
Associates-Eminent	\$ 2,092	1,752

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(iv) Purchase

The amounts of purchase from the Group to related parties were as follows:

	For the years ended December 31	
	2018	2017
Associates-Eminent	\$ 455	-

The Group's purchase prices from the Company above are not significantly different than the purchase terms with other third party suppliers. The payment terms are within 30 days, and this is also not significantly different with the payment terms with other third party suppliers.

(v) Receivable from related parties

Receivables from the related parties are as follows:

Accounts	Types of related parties	December 31, 2018	December 31, 2017
Accounts receivable	Associates-Eminent	\$ 1,134	495
Other receivables	Associates-Eminent	28,831	10,467
		\$ 29,965	10,962

- (vi) In January 2015, the Company has disposed its fixed assets to its related parties, with the selling price and the fixed asset cost amounting to \$4,856 thousand and \$9,154 thousand, respectively. The loss on disposal amounting to \$4,298 thousand, including the unrealized loss of \$1,942 thousand, is to be recognized over its benefit years of 5 years. As of December 31, 2018, the realized loss and deferred loss on disposal amounted to \$3,910 thousand and \$388 thousand, respectively.

(c) Key management personnel compensation

	For the years ended December 31	
	2018	2017
Short-term employee benefits	\$ 67,947	49,914
Post-employment benefits	802	708
	\$ 68,749	50,622

The short-term employee benefits include emoluments to directors and employee bonuses. Please refer to Note (6)(s) for estimation methods.

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Notes to the Consolidated Financial Statements

(8) **Pledged assets: None.**

(9) **Commitments and contingencies:**

- (a) The Company re-signed a land lease agreement with the Administration of the Science-based Industrial Park, and the lease will terminate on December 31, 2026. For the years ended December 31, 2018 and 2017, the rental from the above agreement amounted to \$7,145 thousand and \$6,704 thousand, respectively. The rental will be reviewed annually and adjusted according to the government's annual land adjustment announcement. The Group is entitled to renew the lease agreement three months before its maturity by submitting a written application. Moreover, the rental payables of irrecoverable operating lease is shown as below:

	December 31, 2018	December 31, 2017
Within 1 years	\$ 24,122	29,869
1 to 5 years	33,324	41,784
Above 5 years	1,799	2,398
	<u>\$ 59,245</u>	<u>74,051</u>

- (b) The Company entered into performance guarantee agreements with financial institutions for the Company's obligation to pay for the goods purchased and the tax payable on bonded raw materials, commodities, fuel, and semi-finished products shipped outside the bond areas for domestic sales, demonstration, repair or testing. As of December 31, 2018 and 2017, the financial institutions had issued performance guarantees amounting to \$11,000 thousand and thousand, respectively.
- (c) As of December 31, 2018 and 2017, the refundable notes payable for short-term loans amounted to \$585,000 thousand and \$635,000 thousand, respectively.
- (d) The Company entered into non-infringement guarantee agreements with some customers (guarantees) to provide a guarantee regarding the selling of touchpad module products.
- (e) Government grant

To develop "Battery-less And Contactless Fingerprint Smart Card Solution", the Company has signed a technology program contract with the Institute for Information Industry in order to receive a grant amounting to \$42,000 thousand. The period of this research plan is from January 1, 2017 to December 31, 2018. The Company is the exclusive owner of all of the know-how, technical skills and intellectual property derived from this development project. Nevertheless, the Company cannot use the intellectual property to manufacture products in a foreign country without a written consent from the Ministry of Economic Affairs within the two-year period starting from the date that this development project is finished. The Company recognizes income based on the progress made on the planned research and development projects. For the years ended December 31, 2018 and 2017, the Company has recognized income from government grant amounting to \$6,300 thousand within Other Income. The Company also received \$29,400 thousand in the form of subsidy grant, to which the Company has recognized as current liabilities at year end. These grants will be transferred to income after the relevant research project is completed.

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(f) Royalty fee

The Company signed a software authorization contract with a software company. The contract can be terminated at anytime upon the request of either party. Pursuant to the contract, the Company shall pay a royalty fee based on the sales quantity or other agreed conditions when the Company produces and sells products using this software.

(g) Management service contract

Elan Investment has signed a management service contract with He Xie Innovative Co., Ltd (He Xie Company) in August 2012, entrusting He Xie Company to provide assessments, suggestions, negotiations, contracts and management service on investments. The Group's prepaid management fees are on a quarterly basis. The management fees were \$2,100 thousand and \$4,200 thousand for the years ended December 31, 2018 and 2017, and were recognized under administrative expenses. In the contract, both parties have agreed to pay investment performance bonuses based on the investment gains received whenever He Xie Company conducts an assessment on each investment and development opportunity and provide an analysis on the related investment portfolio and advisory services. As of December 31, 2018 and 2017, no performance bonuses were paid under the contract.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other:

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

	For the years ended December 31					
	2018			2017		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expenses						
Salaries and wages	\$ 255,373	1,438,744	1,694,117	231,784	1,295,730	1,527,514
Labor and health insurance	20,599	83,757	104,356	15,462	80,854	96,316
Pension expenses	8,056	62,439	70,495	7,954	59,727	67,681
Remuneration of directors	-	30,600	30,600	84	21,716	21,800
Others	15,583	41,187	56,770	13,581	39,647	53,228
Depreciation expenses	16,841	29,512	46,353	15,103	30,404	45,507
Amortization expenses	4,454	45,391	49,845	4,400	68,942	73,342

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Notes to Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

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

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

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
Elan Microelectronic Corporation	Harvatek Corporation	-	Current financial assets at fair value through profit or loss	491	6,336	- %	6,336	- %	
Elan Microelectronic Corporation	Fubon China Money Market FUND-TWD	-	Current financial assets at fair value through profit or loss	2,770	28,939	- %	28,939	- %	
Elan Microelectronic Corporation	PineBridge Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,209	30,193	- %	30,193	- %	
Elan Microelectronic Corporation	Cathay Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,430	30,202	- %	30,202	- %	
Elan Microelectronic Corporation	Paradigm Pion Money Market Fund	-	Current financial assets at fair value through profit or loss	2,000	23,074	- %	23,074	- %	
Elan Microelectronic Corporation	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	1,960	19,953	- %	19,953	- %	
Elan Microelectronic Corporation	KGI Victory Money Market Fund	-	Current financial assets at fair value through profit or loss	2,596	30,011	- %	30,011	- %	
Elan Microelectronic Corporation	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	3,801	50,111	- %	50,111	- %	
Elan Microelectronic Corporation	Diversified FX Trading Segregated Portfolio	-	Current financial assets at fair value through profit or loss	441	38,938	- %	38,938	- %	
Elan Microelectronic Corporation	Global Strategic FX Arbitrage Note	-	Current financial assets at fair value through profit or loss	207	63,570	- %	63,570	- %	
Elan Microelectronic Corporation	Multi-Manager FX Trading Note (M2)	-	Current financial assets at fair value through profit or loss	204	62,845	- %	62,845	- %	
Elan Microelectronic Corporation	Global Strategic FX Arbitrage Note (USD)(SERIES II)	-	Current financial assets at fair value through profit or loss	137	42,073	- %	42,073	- %	
Elan Microelectronic Corporation	Fitipower Integrated Technology Inc.	-	Non-current financial assets at FVOCI	4,064	149,961	2.50%	149,961	2.50%	Note 3
Elan Microelectronic Corporation	ThroughTek Co., Ltd.	-	Non-current financial assets at FVOCI	1,100	11,033	4.23%	11,033	4.23%	Note 3

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Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
Elan Microelectronic Corporation	Chino-Excel Technology Co., Ltd.	-	Non-current financial assets at FVTPL	823	-	1.48%	-	1.48%	Note 1
Elan Microelectronic Corporation	Panther technology Co., Ltd.	-	Non-current financial assets at FVTPL	340	4,687	0.94%	4,687	0.94%	Note 2
Elan Microelectronic Corporation	XINCE Co., Ltd	-	Non-current financial assets at FVTPL	2,866	-	9.24%	-	9.24%	Note 1
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,739	14,348	17.39%	14,348	17.39%	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	784	7,866	7.00%	7,866	7.00%	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,382	8,559	8.13%	8,559	8.13%	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,130	10,161	2.17%	10,161	2.17%	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	3,796	37,253	6.12%	37,253	6.12%	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	8,333	74,366	4.17%	74,366	4.17%	Note 2
Elan Microelectronic Corporation	Mida touch photoelectric Co., Ltd.	-	Non-current financial assets at FVTPL	2,500	9,000	12.31%	9,000	12.31%	Note 2
Elan Microelectronic Corporation	TOP TAIWAN IX VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	5,000	51,231	6.25%	51,231	6.25%	Note 2
Elan Microelectronic Corporation	InnoBridge Venture Capital	-	Non-current financial assets at FVTPL	800	4,158	11.35%	4,158	11.35%	Note 1
Elan Microelectronic Corporation	Startech Engineering Corporation	-	Non-current financial assets at FVTPL	189	-	0.53%	-	0.53%	Note 1
Elan Microelectronic Corporation	North Star Venture Capital	-	Non-current financial assets at FVTPL	3,000	32,660	10.00%	32,660	10.00%	Note 1
Elan Microelectronic Corporation	TOP TAIWAN XI VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	5,000	47,792	6.25%	47,792	6.25%	Note 2
Elan Microelectronic Corporation	Genius Digital Vision Inc.	-	Non-current financial assets at FVTPL	989	-	6.56%	-	6.56%	Note 1
Elan Microelectronic Corporation	Lyra Semiconductor Co., Ltd.	-	Non-current financial assets at FVTPL	2,400	27,936	11.78%	27,936	16.03%	Note 2
Elan Microelectronic Corporation	TOP TAIWAN XII VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	25,000	246,136	18.52%	246,136	18.52%	Note 2
Elan Microelectronic Corporation	Chimei Motor Co., Ltd	-	Non-current financial assets at FVTPL	950	7,439	5.94%	7,439	5.94%	Note 2
Elan Investment Corp.	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	176	31,350	- %	31,350	- %	

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
Elan Investment Corp.	FSITC RMB HIGH YIELD BOND FUND-A-NTD	-	Current financial assets at fair value through profit or loss	1,613	15,125	- %	15,125	- %	
Elan Investment Corp.	FSITC Global FinTech Fund-TWD	-	Current financial assets at fair value through profit or loss	500	5,886	- %	5,886	- %	
Elan Investment Corp.	FSITC Global Utilities and Infrastructure Fund-A-TWD		Current financial assets at fair value through profit or loss	1,000	9,192	- %	9,192	- %	
Elan Investment Corp.	FSITC AI Global Precision Medicine Fund-TWD	-	Current financial assets at fair value through profit or loss	1,000	8,640	- %	8,640	- %	
Elan Investment Corp.	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	5,012	51,013	- %	51,013	- %	
Elan Investment Corp.	Nomura Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,221	36,192	- %	36,192	- %	
Elan Investment Corp.	Taishin Global Multi-asset Fund of Funds-TWD-A	-	Current financial assets at fair value through profit or loss	1,000	9,800	- %	9,800	- %	
Elan Investment Corp.	Taishin Global Disruptive Innovation Fund	-	Current financial assets at fair value through profit or loss	1,500	13,425	- %	13,425	- %	
Elan Investment Corp.	Taishin 1699 Money Market Fund		Current financial assets at fair value through profit or loss	3,336	45,067	- %	45,067	- %	
Elan Investment Corp.	United Microelectronics Corporation		Current financial assets at fair value through profit or loss	294	3,303	- %	3,303	- %	Note 3
Elan Investment Corp.	Elan Microelectronic Corporation	Subsidiary	Non-current available-for-sale at FVOCI	12,438	935,353	4.09%	935,353	4.26%	Note 3
Elan Investment Corp.	Fitipower Integrated Technology Inc.		Non-current available-for-sale at FVOCI	941	34,706	0.58%	34,706	0.69%	Note 3
Elan Investment Corp.	Rafael Microelectronics, Inc.	-	Non-current available-for-sale at FVOCI	400	56,400	1.62%	56,400	1.78%	Note 3
Elan Investment Corp.	Panther technology Co., Ltd.	-	Non-current financial assets at FVTPL	1,396	19,232	3.88%	19,232	3.88%	Note 2
Elan Investment Corp.	RISE Technology Com	-	Non-current financial assets at FVTPL	769	-	3.23%	-	3.23%	Note 1
Elan Investment Corp.	FineMat Applied Materials Co., Ltd.	-	Non-current financial assets at cost, net	8,900	155,534	14.74%	155,534	18.09%	Note 2
Elan Investment Corp.	Linkinwave—Preferred shares	-	Non-current financial assets at FVTPL	296	-	- %	-	- %	Note 1
Elan Investment Corp.	Pica 8-Preferred shares	-	Non-current financial assets at FVTPL	342	4,733	4.48%	4,733	4.48%	Note 2
Elan Investment Corp.	Arplannet Digital Technology Co., LTD-Preferred Shares	-	Non-current financial assets at FVTPL	114	1,018	4.69%	1,018	5.61%	Note 1

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
Elan Investment Corp.	Arplannet Digital Technology Co., LTD.-Common Stock	-	Non-current financial assets at FVTPL	75	668	3.08%	668	3.68%	Note 1
Elan Investment Corp.	INNOJOY TECHNOLOGY INC.-Preferred Shares	-	Non-current financial assets at FVTPL	143	-	10.00%	-	10.00%	Note 1
Elan Investment Corp.	Yi Qin Communication Co., Ltd. Preferred shares	-	Non-current financial assets at FVTPL	1,000	12,030	5.00%	12,030	5.00%	Note 2
Elan Investment Corp.	e-Formula Technologies, Inc.	-	Non-current financial assets at FVTPL	550	15,131	3.03%	15,131	3.03%	Note 2
Elan Investment Corp.	ALGOLREALITY CO., LTD.	-	Non-current financial assets at FVTPL	100	-	13.04%	-	13.04%	Note 1
Elan Investment Corp.	Vita Genomics, Inc.	-	Non-current financial assets at FVTPL	677	6,995	1.13%	6,995	1.13%	Note 2
Elan Investment Corp.	MedicusTek International Inc.	-	Non-current financial assets at FVTPL	1,010	-	1.55%	-	1.83%	Note 1
Elan Investment Corp.	Taiwan Cornet Co., Ltd. Preferred shares	-	Non-current financial assets at FVTPL	10,000	1,676	14.29%	1,676	14.29%	Note 1
Elan Investment Corp.	Genius Digital Vision Inc.	-	Non-current financial assets at FVTPL	740	-	4.91%	-	4.91%	Note 1
Fong Yue Corporation	Waltop Electronics Co., Ltd.	-	Non-current financial assets at FVTPL	1,000	7,460	6.77%	7,460	6.77%	Note2

Note 1: These amounts are calculated based on the net assets derived from the latest unaudited financial statements of the investee.

Note 2: This balance is calculated based on the net assets amount obtained from the latest valuation report on the investee Company.

Note 3: These amounts are calculated based on the market prices (closing prices) of the investee company on December 28, 2018.

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
Elan Microelectronic Corporation	Elan (HK)	Subsidiary	Sale	497,368	5.75%	Open Account 45 Days	-		41,738	3.64%	

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None

(ix) Trading in derivative instruments: None

(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	Elan Microelectronic Corporation	Elan H. K.	1	Operating revenue	497,368	Open Account 45 Days	5.75%
0	Elan Microelectronic Corporation	Elan H. K.	1	Receivables	41,738	Open Account 45 Days	0.43%
1	Elan H. K.	Elan Microelectronic Corporation	2	Commission revenue	237,273	Monthly settlement	2.74%

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2018 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018				Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value	Percentage of ownership				
Elan Microelectronic Corporation	Elan Microelectronic Corporation	Hongkong, China	Sale and after-sales service	123,272	123,272	29,328	100.00%	217,550	100.00		66,079	66,079	Note
Elan Microelectronic Corporation	Elan Investment Corp.	Taipei, Taiwan	After-sales service and provide new informational skills	500,000	500,000	50,000	100.00%	669,334	100.00		121,163	121,163	Note
Elan Microelectronic Corporation	Elan Information Technology Group	California, U.S.A	Sale and after-sales service	22,822	22,822	65	100.00%	14,884	100.00		4,090	4,090	Note
Elan Microelectronic Corporation	JPUP Electron Co., Ltd	New Taipei City, Taiwan	Wholesale and installation of electronic devices, data storage and equipment process	7,840	7,840	784	49.00%	3,814	49.00		(1,324)	(649)	Note
Elan Microelectronic Corporation	Metanoia Communications Inc.	Hsin-Chu, Taiwan	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	1,041,136	1,041,136	54,057	63.60%	(100,132)	66.66		(61,342)	(39,014)	Note
Elan Microelectronic Corporation	Avisonic Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	266,333	218,177	26,633	74.93%	(561)	76.44		(32,775)	(24,753)	Note
Elan Microelectronic Corporation	Tong fu Investment Corp.	Hsin-Chu, Taiwan	Investment business	30,000	30,000	3,000	46.73%	-	46.73		-	-	
Elan Microelectronic Corporation	Lighting Device Technologies Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on LED chips	19,520	19,520	1,805	45.07%	-	45.07		-	-	
Elan Microelectronic Corporation	PiXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	376,024	412,631	33,871	96.78%	50,597	96.78		(30,446)	(29,386)	Note
Elan Microelectronic Corporation	EMINENT ELECTRONIC TECHNOLOGY CORP. LTD.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	38,381	71,029	3,351	29.89%	339	29.89		(70,465)	(21,679)	
Elan Microelectronic Corporation	TOP TAIWAN X VENTURE CAPITAL CO., LTD.	Taipei, Taiwan	Venture capital	240,000	240,000	24,000	30.00%	231,846	30.00		(37,907)	(8,505)	
Elan Microelectronic	Fong Yue	Taipei, Taiwan	Investment business	30,000	30,000	3,000	100.00%	27,300	100.00		(1,064)	(1,064)	Note

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Corporation	Corporation											
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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value				
Elan Microelectronic Corporation	Uniband Electronic, Corporation	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	80,000	80,000	8,000	23.12%	11,955	24.62	(32,896)	(7,914)	
Elan Microelectronic Corporation	Finger Pro. Incorporation?	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	6,000	6,000	600	23.08%	2,422	23.08	(5,541)	(1,288)	
Elan Investment Corp.	Avisonic Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	21,543	135	2,154	6.06%	41	6.06	(32,775)	(1,494)	Note
Elan Investment Corp.	RONG CHENG Technology	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	77,706	77,706	8,000	38.46%	-	38.46	-	-	
Elan Investment Corp.	PIXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	2,659	3,361	174	0.50%	260	0.58	(30,446)	(167)	Note
Elan Investment Corp.	Metanoia Communications Inc.	Hsin-Chu, Taiwan	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	44,825	44,825	3,626	4.27%	9,608	4.27	(61,342)	(2,617)	Note
Elan (H.K.)	Power Asia Investment Corporation	Republic of Mauritius	Investment business	89,572	89,572	2,861	100.00%	24,219	100.00	455	455	Note

Note: Investments in subsidiaries whereby the Company has control over has been eliminated at the Group level from long term investments.

(c) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (losses) of the investee	Percentage of ownership	Highest Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow							
Elan Shanghai	Provide system design, information on applications expansion	52,095	(2)	52,095	-	-	52,095	1,571	100.00%	100	1,571	13,969	-
Elan Shenzhen	Provide system design, information on applications expansion	34,670	(2)	34,670	-	-	34,670	(1,143)	100.00%	100	(1,143)	9,772	-

Note: The investment income (losses) from investments in Elan Shanghai and Elan Shenzhen are calculated based on the reviewed financial statements of the same period.

(ii) Upper limit on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
86,765	98,333	3,976,308

Note: The investment limit was calculated based on the official document 09704604680 announced by the MOEAIC on August 29, 2008.

(iii) Significant transactions:

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(14) Segment information:

(a) General information

The Group has seven reportable segments: Consumer Touch Control Business Unit, Laptop Input Device Business Unit, Network Communication Business Unit, Image Processing Design Business Unit, Product Safety Surveillance Business Unit, Investment Business Unit, Sales Department and other departments. The main operations of Consumer Touch Control Business Unit are microprocessor, digital signal processor, application on specific integrated circuit and model. The Group also provides research and development service on the related products. Laptop Input Device Business Unit engages in research, sales, produce and manufacture of laptop input devices. The main operations of Network Communication Business Unit include research, develop and design network communication chips. Image Processing Design Business Unit engages in image processing and design of multi-media compressed chips. Product Safety Surveillance Business Unit involves the manufacturing and the development of safety surveillance systems. Investment Business Unit engages in the management of investee. Sales Department provides sales product services. Other departments engage in design and manufacture of electronic devices.

The reportable segments are the Group' s strategic divisions. They offer different products and services, and are managed separately because they require different technology and marketing strategies. Most of the strategic divisions were acquired separately. The management of the acquired divisions remains employed by the Group.

(b) Reportable information of segments profit or loss (includes reportable segment revenue and expenses), segment assets, segment liabilities, and their measurement and reconciliations:

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, but not including any extraordinary activity and foreign exchange gain or losses, because the taxation, extraordinary activity and foreign exchange gain or losses are managed on a group basis, and hence, they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that of the report used by the chief operating decision maker. The operating segment accounting policies are similar to the ones described in note (4) "Significant accounting policies" .

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

For the year then ended December 31, 2018										
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Revenue										
Revenue from external customers	\$ 2,420,130	5,516,229	108,562	64,561	40,620	-	503,275	24	(2,069)	8,651,332
Net revenue from sales among intersegments	496,637	-	565	22	1,454	-	237,273	30,257	(766,208)	-
Interest revenue	36,503	6,669	23	116	68	169	309	-	-	43,857
Total revenue	\$ 2,953,270	5,522,898	109,150	64,699	42,142	169	740,857	30,281	(768,277)	8,695,189

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year then ended December 31, 2018										
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Interest expenses	\$ -	8	2,746	1,710	187	-	-	-	-	4,651
Depreciation and amortization	68,556	18,645	1,049	6,026	1,574	-	345	3	-	96,198
Share of profit of equity-accounted investees (associates, and jointly controlled entities)	(57,080)	-	-	-	-	4,278	-	-	92,188	39,386
Other material non-cash items										
Impairment of assets	25,808	-	-	-	-	-	-	-	-	25,808
Reportable segment profit or loss	<u>\$ 1,769,577</u>	<u>1,781,908</u>	<u>(58,129)</u>	<u>(31,871)</u>	<u>(30,577)</u>	<u>(2,336)</u>	<u>74,335</u>	<u>2,790</u>	<u>(1,775,409)</u>	<u>1,730,288</u>
Assets										
Equity-accounted investees	\$ 1,129,348	-	-	-	-	9,909	-	-	(892,695)	246,562
Capital expenditure	37,121	216,970	530	3,049	592	-	135	-	-	258,397
Reportable segment profit or loss	<u>\$ 6,757,250</u>	<u>2,760,697</u>	<u>49,640</u>	<u>87,467</u>	<u>83,496</u>	<u>1,604,776</u>	<u>309,493</u>	<u>23,080</u>	<u>(1,882,792)</u>	<u>9,793,107</u>
For the year then ended December 31, 2017										
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Revenue										
Revenue from external customers	\$ 2,334,639	4,427,178	67,077	69,999	32,055	-	570,107	-	2,212	7,503,267
Net revenue from sales among intersegments	579,348	-	1,388	-	-	-	202,113	22,450	(805,299)	-
Interest revenue	30,319	8,715	23	28	67	1	123	-	-	39,276
Total revenue	<u>\$ 2,944,306</u>	<u>4,435,893</u>	<u>68,488</u>	<u>70,027</u>	<u>32,122</u>	<u>1</u>	<u>772,343</u>	<u>22,450</u>	<u>(803,087)</u>	<u>7,542,543</u>
Interest expenses	\$ 8	-	2,521	1,681	3	-	-	-	-	4,213
Depreciation and amortization	87,069	15,177	7,382	5,899	2,610	-	690	22	-	118,849
Share of profit of equity-accounted investees (associates, and jointly controlled entities)	157,646	-	-	-	-	4,956	-	-	(123,110)	39,492
Other material non-cash items										
Impairment of assets	50,108	-	-	-	-	35,312	-	-	-	85,420
Reportable segment profit or loss	<u>\$ 1,463,417</u>	<u>1,487,537</u>	<u>(102,549)</u>	<u>(36,909)</u>	<u>(30,846)</u>	<u>(4,392)</u>	<u>53,703</u>	<u>(410)</u>	<u>(1,479,769)</u>	<u>1,349,782</u>
Assets										
Equity-accounted investees	\$ 898,656	-	-	-	-	12,422	-	-	(601,045)	310,033
Capital expenditure	93,160	24,946	530	3,923	292	-	135	-	-	122,986
Reportable segment profit or loss	<u>\$ 7,550,170</u>	<u>2,484,542</u>	<u>88,152</u>	<u>81,514</u>	<u>42,415</u>	<u>1,270,909</u>	<u>207,357</u>	<u>19,946</u>	<u>(1,602,200)</u>	<u>10,142,805</u>

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(i) Information about products and services

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

<u>Products and services</u>	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Consumer Touch Control Integrated Circuit	\$ 2,921,360	2,906,958
Laptop Input Device	5,516,229	4,427,178
Network Communication Integrated Circuit	108,562	67,077
Image Processing Integrated Circuit	64,561	69,999
Security Monitoring Model	40,620	32,055
Total	<u>\$ 8,651,332</u>	<u>7,503,267</u>

(ii) Geographical information

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

<u>Geographical information</u>	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Revenue from external customers:		
Taiwan	\$ 1,107,829	1,266,700
China	1,847,316	1,484,219
Hong Kong	5,613,718	4,653,405
Other countries (less than 5%)	82,469	98,943
	<u>\$ 8,651,332</u>	<u>7,503,267</u>

<u>Geographical information</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
Non-current assets:		
Taiwan	\$ 1,003,837	851,729
China	3,363	2,411
Hong Kong	178	228
	<u>\$ 1,007,378</u>	<u>854,368</u>

Non-current assets include property, plant and equipment, intangible assets, and other assets, not including financial instruments, deferred tax assets, assets of post-employment benefits and rights arising from an insurance contract (non-current).

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Information about major customers

	For the years ended December 31	
	2018	2017
Customer A (Laptop Input Device Model)	\$ 2,382,325	2,362,976
Customer A (Consumer Touch Control Integrated Circuit Model)	639,137	743,669
Customer B (Laptop Input Device Model)	1,526,346	764,265
Customer B (Consumer Touch Control Integrated Circuit Model)	417,924	217,287
	\$ 4,965,732	4,088,197

6. Financial Difficulties of the Company and its Affiliates During the Last Fiscal Year and Until the Publishing date of the Annual Report : N/A

VII. Review of Financial Status, Operating Results, and Risk Management

1. Financial Status

Comparative Statement of Financial Position

Unit: NT\$'000

item \ Year	2018	2017	differences	
			amount	%
current assets	7,447,785	7,953,564	(505,779)	(6.36)
property, plants and equipments	767,874	580,010	187,864	32.39
intangible assets	225,319	256,273	(30,954)	(12.08)
other assets	55,439	54,739	700	1.28
total assets	9,803,147	10,142,805	(339,658)	(3.35)
current liabilities	2,828,645	2,410,414	418,231	17.35
non-current liabilities	391,744	408,928	(17,184)	(4.20)
total liabilities	3,220,389	2,819,342	401,047	14.22
equity attributable to owner(s) of the parent company	6,627,180	7,356,477	(729,297)	(9.91)
capital stock	3,038,804	4,341,148	(1,302,344)	(30.00)
capital surplus	444,033	536,328	(92,295)	(17.21)
retained earnings	3,005,648	2,422,333	583,315	24.08
other equity	172,023	147,779	24,244	16.41
treasury shares	33,328	91,111	(57,783)	(63.42)
non-controlling interest	(44,422)	(33,014)	(11,408)	34.56
total shareholders' equity	6,582,758	7,323,463	(740,705)	(10.11)

Explanation:

- (1) Where the percentage of changes in the Company's consolidated assets, liabilities, and shareholders' equity in the past two years was more than 20% and the amount of changes reached NT\$10 million, the impact and future countermeasures:
1. Property, plants and equipments: This period was higher than that of last year, mainly due to the purchase of factory and equipment to increase production capacity in response to PO demands.
 2. Capital stock: The decrease in the current period compared with that of last year was mainly due to capital reduction in the current year.
 3. Retained earnings: This period was higher than that of last year, mainly due to the increase in profit of the period.
 4. Treasury stocks: The decrease in the current period compared with that of last year was mainly due to capital reduction and capital surplus distribution in the current period, which resulted in the decrease in the cost of subsidiaries' holdings of the Company's treasury shares.
 5. Non-controlling interest: This period was less than that of last year mainly due to some of the consolidated subsidiaries were not profitable in this period.
- (2) Future countermeasures: N/A.

2. Operating Results

(1) Operating results comparison analysis table:

Unit: NTS' 000

items \ year	2018	2017	increase (decrease) amount	percentage of changes %
operating income	8,651,332	7,503,267	1,148,065	15.30
gross income	3,944,177	3,347,820	596,357	17.81
income (loss)	1,730,288	1,349,782	380,506	28.19
non-operating income and expenses	139,780	(87,521)	227,301	(259.71)
net profit before tax	1,870,068	1,262,261	607,807	48.15
net going concern profit of the period	1,531,702	1,032,110	499,592	48.40
net profit of the period	1,531,702	1,032,110	499,592	48.40
other comprehensive income (loss) of the period	29,148	6,211	22,937	369.30
total comprehensive income (loss) of the period	1,560,850	1,038,321	522,529	50.32
net profit attributable to owner(s) of the parent company	1,559,580	1,073,802	485,778	45.24
net profit attributable to non-controlling interest	(27,878)	(41,692)	13,814	(33.13)
total comprehensive income (loss) attributable to owner(s) of the parent company	1,588,903	1,079,841	509,062	47.14
total comprehensive income (loss) attributable to non-controlling interest	(28,053)	(41,520)	13,467	(32.43)

(2) Major reasons for material changes in consolidated operating income, net operating income, and net profit before tax in the past two years; the possible impact on the Company's future finance and business from the expected sales volume (include its basis) and the countermeasures therefor: (please provide analysis and explanation when the percentage of change is more than 20%, and the amount is more than 10 million)

1. Increase in net operating profit:
Mainly due to the revenue growth and increase in gross margin of the period, resulting in an increase in net operating profit over the previous period.
2. Increase in non-operating income and expenses:
Mainly because appraisal value of financial assets and exchange benefits are higher in the current period compare to the previous period.
2. Increase in net profit before tax of the period:
Mainly due to revenue growth and increase in gross margin of the period, which resulted in an increase in net operating profit over the previous period, plus the input from non-operating income, which resulted in an increase in net profit before tax of the period over the previous period.

(3) The possible impact on the Company's future finance and business from the expected sales volume (include its basis) and the countermeasures therefor:

Due to the impact of US-China trade war, overall economic uncertainty, high penetration rate of smart phones reaching its saturation point, and conservative trend in consumer behavior, the demand in emerging markets has slowed down. According to IDC's latest research survey, the global smart phone shipments has reached 1,400,000,000pcs in 2018 with an annual decline of 4.1%. As for TrendForce's notebook shipment report, the total number of notebooks shipped has reached 121,000,000pcs during the first three quarters of 2018 and is expected to be slightly declined by 1.9% during the fourth quarter due to the impact of CPU shortage; therefore, notebook shipment is expected to be 162,900,000pcs in 2018 with an annual decline of 0.13%. In addition, according to Strategy Analytics' latest

research survey, global shipments in tablet market has reached 173,800,000pcs in 2018 with an annual decline of 6.15%.

As the world's major mobile device products such as smart phones, notebooks and tablets are showing annual decline, in addition to high market saturation, market growing to maturity, insufficient innovation, and increasing consumer demand all add to the difficulty for manufacturers to supply goods. If there is no way to continuously increase the added value of products and understand the consumers needs, it is not easy to continue to grow.

Personal privacy and online information security is also an important development trend. Mobile payment has becoming a major usage habit allowing users to complete transactions easily through mobile devices, such as smart phones, notebooks, tablets, smart cards, PC peripherals, etc. However, the actual penetration rate of mobile payment usage is still low. The security and reliability in making payment and reasonable fee of using mobile payment, etc., are still the most concerned issues of the consumers. Although biometric IC are now used as a key component for smart phones, the real use of smart phones in the payment is still limited to specific markets and not fully popularized.

Although biometric ICs have shifted from capacitive to optical or ultrasonic waves capable, the new ICs are adapting changes in materials such as changing from TFT LCD to OLED panel, etc., and all the required characteristics are different, but after various APPs are provided on each platform, the means to protect the privacy of consumers and the security in Internet usage to avoid hacking is very important for consumers; therefore, encrypted ICs are thus born. This product facilitates the provision of differentiated competing energy and improvement in operations.

The means to unleash the competitive advantage of the Company is a top priority. The Company works closely with the world-renowned Pen Protocol specification makers to provide terminal customers with the specification makers' latest and best solutions for smart phones, notebooks, tablets and other products. Due to the increasing size of smart phone screens and the availability of flexible and foldable phones, the potential for future development of pen-based touch control IC is anticipated.

In the meanwhile, smart card products with biometric function (including credit card, ATM card, Easy Card, ID card, NHI card, etc.) are the application products with the most long-term potential. Many cards are not limited to one personal use, therefore, the market opportunity is optimistic. Other the other hand, smart cards adopting device with biometric function can effectively prevent the spread of fake cards and reduce credit cards incidents and disputes between banks and users arising from lost of credit cards and unauthorized use of credit cards; which, in addition to ensuring the security of the personal property, it also maintains goodwill of the vendors. The biggest difference is that the consumers have long been issued with the cards free of cost without purchasing. The means to reduce the cost of the smart card product with biometric function is also a key task. At present, biometric vendors are actively striving for market opportunities in this field.

In addition, the Company has long been engaged in the development and

application of touch technology, and has patents in the United States, Japan, China and Taiwan. In general, the application of the successfully mass produced touch control ICs that the Company researched and developed covers touch panel of various large, medium and small sizes, and coupled with complete terminal pre-sales and after-sales services for smart phones, tablets and stylus notebooks. The Company will continue to provide customers with a total solution that is more competitive in the international market.

While facing the global competition from peers of the touch control IC industry, the Company is still maintaining its leading position; of which the touch screen notebook ICs account for more than 60% of the world market share, while the touch pad modules also account for more than 40% of the world market share and is moving toward a 50% market share. At present, the competitors include many domestic and foreign IC design companies, such as American manufacturers Synaptics and Microchip, Japanese manufacturer Alps and China manufacturer Goodix. On the other hand, due to the increasingly fierce competition, IC prices also dropped; therefore, effectively improving the performance of ICs, reducing IC production costs, establishing differentiated product characteristics, competitive technology thresholds and sales channels are the goals of the Company's continued efforts in 2019.

The most important applications in the touch control industry are smart phones, notebooks and tablets. As competitors have accelerated their investment in recent years, the number of manufacturers have increased and their production capacities have expanded. As a result, competition among the entire supply chain has intensified, and manufacturers that cannot maintain strong competitiveness cannot profit or are forced to withdraw from the competition.

The Company is a professional IC design company with a full range of integrated solutions. It has a strong R & D team and invests more than 15% in R & D each year. It is a IC design company that focuses on research and development of new products. The quality of products developed by the Company is recognized by the customers; the proportion of revenue from global tier-one manufacturer customers accounted for more than half of the total revenue. The touch control notebook ICs accounted for nearly half of the world's market share. At present, the Company has three products that ranks first in the world, namely stylus notebook screen IC, touch pad module and pointing stick.

3. Cash Flow

(1) Analysis on changes in the consolidated cash flow for the last fiscal year (2018):

Unit: NT\$'000

beginning cash balance (1)	net cash flows from operating activities of the year (2)	cash outflows of the year (3)	cash balance (short) (1) + (2) - (3)	remedy measures for cash shortage	
				investment plan	investment plan
1,984,013	1,815,354	(1,723,594)	2,075,773	—	—

1. Analysis on changes in the consolidated cash flow of the year:
(1) Operating activities: net cash inflow from operating activities has increased by NT\$352,535,000 from the previous year, which was mainly due to the increase in net profit before tax in this year.
(2) Investment activities: Net cash outflows from investment activities has increased by NT\$1,407,706,000 from the previous year, which was mainly due to the decrease in the number of fixed deposit with maturity longer than 3 months and the acquisition of financial assets carried at cost.
(3) Financing activities: Net cash outflows from financing activities increased by NT\$1,808,601,000 from the previous year, which was mainly due to cash capital reduction and the increase in cash dividends payment.
2. Expected remedy measures for cash shortage and liquidity analysis: N/A.

(2) Cash liquidity analysis for the coming year

Unit: NT\$'000

beginning cash balance (1)	expected net cash flows from operating activities of the year (2)	expected cash outflows of the year (3)	expected cash balance (short) (1) + (2) - (3)	expected remedy measures for cash shortage	
				investment plan	investment plan
2,075,773	1,732,209	(2,177,717)	1,630,265	—	—
1. Analysis on changes in the cash flow of the year:					
(1) The Company expects its operating income to grow, in addition to the original notebook touch control solution, from the development of products combining single-chip solution with capacitive stylus pen function and LCD driver IC (TDDI) solution. It is expected to see net cash inflow from operating activities.					
(2) Investment activities: It is expected to see net cash outflows from investment activities, which mainly covers the procurement of software and fixed assets.					
(3) Financing activities: It is expected to see cash outflows from financing activities, which mainly covers the decrease in investment and return of stock subscription price, as well as payment of shareholders' cash dividends.					
2. Expected remedy measures for cash shortage and liquidity analysis: N/A.					

4. Impact of Major Capital Expenditures on the Financial Operations during the Last Fiscal Year:

- (1) The use of major capital expenditures and sources of funding:
The Company has no capital expenditure in recent years that has major impact on its finance.
- (2) Expected benefits: N/A.

5. The last fiscal year joint venture policies, main reasons for the profit or loss and the improvement plan thereof and the investment plan for the coming year:

items explain	investment policies	investment profit or loss recognized for the period	reason for the profit (loss)	improvement plan	other future investment plan
Elan Investment Corporation	general investment business	121,163	There are benefits from investment disposal and financial asset appraisal in the current period.	—	—
Metanoia Communications Co., Ltd.	manufacture cable and wireless communication machinery and equipment, electronic components, wholesale and retail telecommunication equipment	(39,014)	The revenue increased in 2018 from that of in 2017, which mainly due to the continued stable sales of existing products, and the additional revenue from NXP development reduced the amount of losses from that of in 2017. Since the continuous investment in the development of new telecommunications products and the certification of telecommunications companies all require a long period of time, therefore, there was still losses in 2018.	Suntel Networks' products have been recognized by foreign telecommunications companies such as Swisscom and British Telecom, and are preparing for related certifications and testing. At the same time, they are working with NXP to develop high-end routers and introduce IoT and smart home network solutions. The above is expected to contribute to revenue in 2019.	—
Avisonic Technology Corporation	research, design, manufacture and sale of multimedia video compression and impact processing ICs	(24,753)	Due to the impact of delay in the development of customer product, adjustment of mass production schedule and changes in important customers' product lines, the revenue has declined in 2018 compared with that of in 2017; since it is optimistic about the growth of smart image recognition application market, it continues to invest in the development of software and hardware technologies for image-related products and result in losses in 2018.	Development of image visual processing (ISP / fisheye calibration) and three-in-one analog high-definition transmission single-chip image ICs to optimize image quality; strategic cooperation with key component manufacturers for smart devices will help improve profitability.	—
PiXORD Corporation	export manufacturing, data storage and processing equipment, wireless communication machinery and equipment manufacturing	(29,386)	In 2018, it transformed into smart system integration and AI projects, which resulted in the increase in revenue compared with that of in 2017, but incurred loss due to poor profit margins of the current projects.	Utilizing the technological advantages of artificial intelligence and fisheye lens to promote the entire solution of "Smart Traffic Flow" and traffic technology related law enforcement and propose a sales portfolio with diversified AI application solutions to increase revenue.	—
Eminent Electronic Technology Co., Ltd.	electronic component manufacturing, computer and peripheral equipment manufacturing, optical instrument manufacturing	(21,679)	Due to active destocking, both sales revenue and gross margin decreased in 2018 compared with that of in 2017. Loss incurred in 2018 due to the continuous development of new products.	It planned to launch a new series of small and highly sensitive light-sensing products, while actively develop quasi-3D (2.5D) depth image sensors for facial recognition and gesture human-machine interface solutions to create revenue.	—

Note: Analysis on investment losses and profits of more than NT\$10 million only.

6. Risk Analysis and Assessment

- (1) The impact of interest rate, exchange rate changes and inflation on the profit or loss of the Company in the last fiscal year and the future countermeasures therefor:

Unit: NT\$'000

item	year	2018
net operating income		8,651,332
net profit before tax		1,870,068
net exchange (loss) profit		40,316
net exchange (loss) profit to net income ratio		0.47%
net exchange (loss) profit to net profit before tax ratio		2.16%
interest revenues		43,857
interest revenues accounted for net income ratio		0.51%
interest revenues accounted for net profit before tax ratio		2.35%
interest expenses		4,651
interest expenses accounted for net income ratio		0.05%
interest expenses accounted for net profit before tax ratio		0.25%

1. Interest Rate: The net interest income (expenses) accounted for 0.46% of net income in 2018. The Company has sufficient funds and does not have any financial borrowing; and given the economic recovery is still over-shadowed, safety is a major consideration in the use of funds. Therefore, the funds were allocated to the stable targets in order to obtain steady amount of interest income.
 2. Exchange rate: In order to avoid exchange rate fluctuations, the Company offsets regular sales amount with purchase amount to achieve the natural hedge effect on exchange rate changes. In 2018, the overall exchange loss was NT\$40,316,000. The Company's financial personnel pay close attention and duly response to exchange rate fluctuations at all time to reduce the impact of exchange rate changes on the Company's profit and loss.
 3. Inflation: The Company has long-term cooperation with raw materials suppliers, so the source and price of the raw materials are quite stable; therefore, inflation has no significant impact on the Company's profit and loss. The Company will pay close attention to the changes in the relevant economic environment and the market to avoid adverse effect on the Company caused by inflation.
- (2) Policies on high risk, high leverage investment, capital lending to others, endorsement and trading of derivative commodities, main reasons for profit or loss therefrom and future countermeasures therefor:
- The Company did not engage in high risk, high leverage investment, nor capital lending to others, endorsement or trading of derivative commodities. The company has set operating procedures of lending funds to others, endorsing, acquiring or disposing of assets as basis for related operations.
- (3) Future R & D plans and expected R & D expenses:
1. Future R & D plans:

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The most important applications in the touch control industry are smart phones, notebooks and tablets. As competitors have accelerated their investment in recent years, the number of manufacturers have increased and their production capacities have expanded. As a result, competition among the entire supply chain has intensified, and manufacturers that cannot maintain strong competitiveness cannot profit or are forced to withdraw from the competition.

As for the pointing stick products for notebooks, the Company currently ranks first in the world in terms of market share. The Company mainly supplies to the world's largest notebook manufacturers. The Company has successfully developed high anti-noise and anti-RFI interference pointing stick sensor ICs and is gradually expanding to compete for new customers.

As for the MCUs, the Company will continue to develop lower power consumption IC platforms to provide customers with the best solutions, while strengthening the collaboration with solution companies in mainland China

and providing the best cost-effective control ICs.

2. The R & D expenses is expected to be approximately NT\$1.4 billion.

- (4) The impact of important policies and legal changes at home and abroad on the Company's finance and business and the countermeasures therefor:

The Company has a legal department responsible for the research and collection of information related to intellectual property, laws, and important policies at home and abroad to truly understand the impact of this on the Company's finance and business and provide timely countermeasures therefor.

Recent changes in major policies and laws at home and abroad have no material adverse impact on the company's finance and business.

- (5) The impact of technological changes and industrial changes on the Company's finance and business and the countermeasures therefor:

The Company's diversified product lines can meet the needs of customers. The diversified product lines make the Company less subjective to technological changes than single product line or minority players. In recent years, the Company has actively sought multiple sources of production and has effectively controlled costs.

In addition, in terms of financial operations, the Company actively strengthened the management of cash flows and maintained a good financial structure to maintain the stable operation of the Company and diversify the operating risks. Therefore, technological changes have no significant impact on the finance and business of the Company.

- (6) The impact of corporate image change on corporate crisis management and the countermeasures therefor: N/A.

- (7) Expected benefits and possible risks from merger and acquisition and the countermeasures therefor: N/A.

- (8) Expected benefits and possible risks from the expansion of factory building and the countermeasures therefor: N/A.

- (9) Risks from concentration of incoming goods or sales and the countermeasures therefor:

The Company's customers and suppliers are quite dispersed, therefore, there will be no overconcentration of incoming and outgoing of goods.

- (10) The impact and risks on the Company when the Directors, supervisors or large shareholders holding more than 10% of shares transfer or replace a large number of shares:

There was no transfer or replacement of a large number of shares by the Directors, supervisors or large shareholders holding more than 10% of shares.

- (11) The impact and risks on the Company from the changes in the right to operate and the countermeasures therefor:

The Company has no significant changes in the Board of Directors in 2017, therefore, there will not be any changes in the right to operate.

- (12) Litigation or non-litigation events:

May 23, 2019

case	description	result
ELAN Microelectronics had filed a patent infringement litigation against eGalax_eMPIA Technology Inc. in Taiwan's Intellectual	The Company filed a patent infringement litigation against eGalax_eMPIA Technology Inc. in Taiwan Intellectual Property Court on June 23, 2015. The Company claimed that the touch controller products for touch control panel produced and sold by EETI has infringed the Company's patent rights. Therefore, the Company has petitioned the court to prohibit the aforementioned defendant from using and manufacturing the products in question and pay liquidated damages. On July 22, 2016, the court made an interim verdict and found that No. 14 of the claims was valid for the patent claimed by the Company. The Company and EETI had formally reached a settlement in the Intellectual Property Court on September 29, 2017. The agreement mainly addressed that both parties should consider focusing on the promotion of their respective products and strengthen global marketing strategies to achieve coexistence	Both parties signed a settlement agreement and ended the case.

case	description	result
Property Court on June 23, 2015	and co-prosperity. Both parties signed a settlement agreement and ended the case. The litigation had no significant impact on the Company's finance and business.	

(13) Other significant risks and countermeasures: N/A.

The Company regularly evaluates information risk identification and related risk reduction measures every year, as follows

Name of the work/process	Identified risk and consequences	Risk reduction measures adopted
Software and hardware maintenance / data storage / information system operation	The tapes were not properly stored, causing tape damages and untraceable loss of the company's important information.	Purchase moisture-proof box to place the tapes and perform random inspection on tapes of less than 1-year old; the tapes shall be divided into groups for off-site storage.
Software and hardware maintenance / data storage / information system operation	Computer viruses, hacking, and malicious programs (trojans, viruses) causing system errors that affect company operations.	Perform anti-virus scans on a regular basis every week. Set and update firewall server information from time to time. Update anti-virus and download system repair from time to time.
Software and hardware maintenance / data storage / information system operation	Transmit copied files out of the company, causing leakage of confidential information.	Regularly check file copy log every month; control and register internally shared USB flash drives; check email related records regularly.
Information Management System / Electronic Document System / Internal and External Websites	System programs and data were executed, queried and/or modified without approval.	1. Users shall fill out the MIS request form and send it to the Management Information System Division for processing after obtaining sign and approval from the authorized supervisor. 2. For the authority to add, modify, query, print, etc., users shall fill out the MIS request form to apply and send it to the Management Information System Division for processing after obtaining sign and approval from the authorized supervisor.

7. Other Important Matters : N/A.

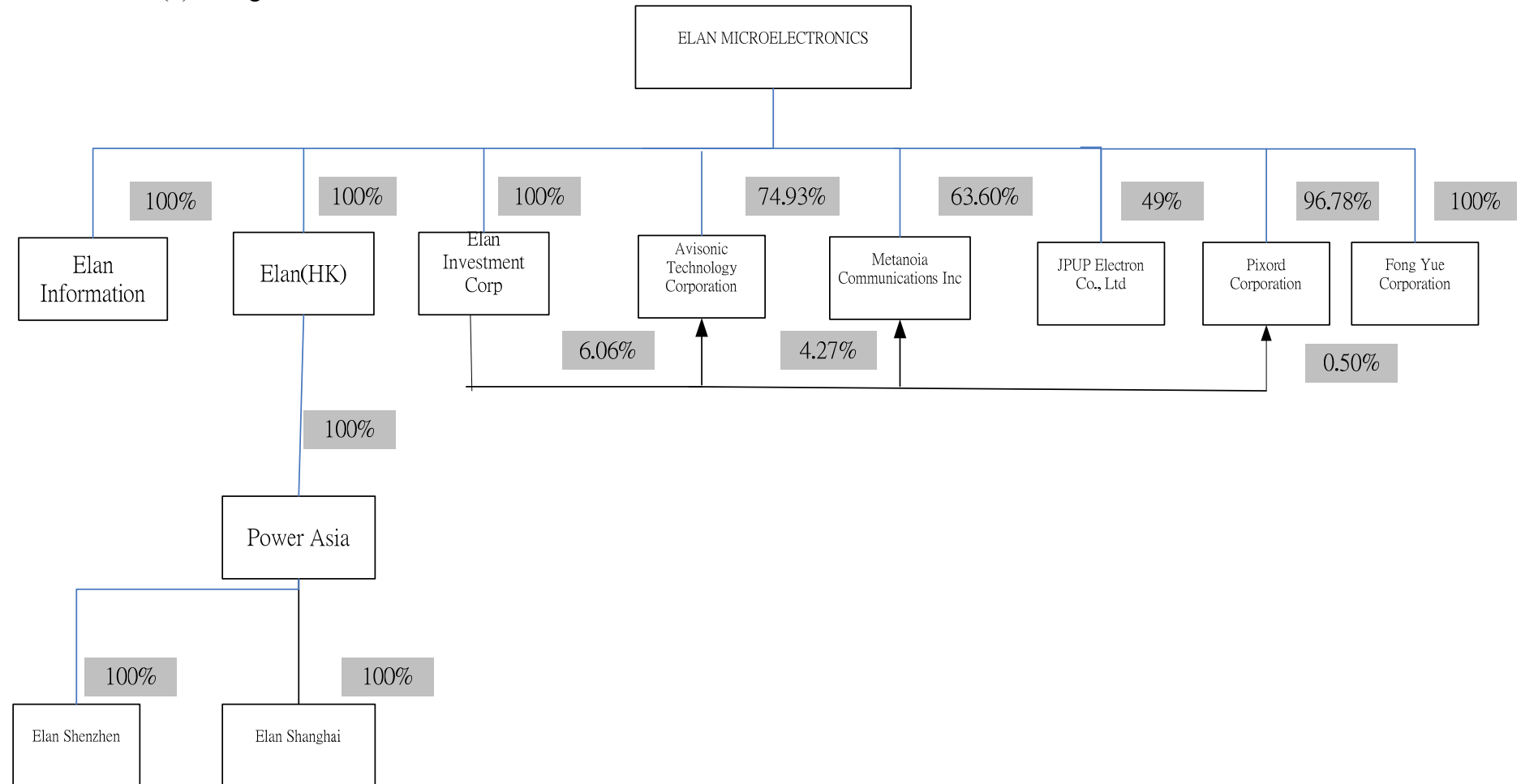
VIII. Special Disclosure

1. Summary of Affiliated Companies

(1) Consolidated business report of the affiliates

1. Overview of the affiliates

(1) Organizational chart of the affiliates:



Note: Fong Yue was liquidated in January 2019.

(2) Basic information of each affiliate:

company name	date of incorporation	address	paid-up capital	main business or production items
Elan H.K Micro electronics Corp.	May 15, 1997	Flat A, 19/F., World Tech Centre, 95 How Ming Street, Kwun Tong, Kowloon, Hong Kong	HKD 29,328,003	sales the Company's products, provide after-sales services, establish sales outlets
Elan Investment Corporation	May 31, 2000	Room#1, 5/F, No. 306, Section 1, Dunhua South Road, Taipei City	NTD 500,000,000	general investment business
Elan Information	Jan. 11, 2002	10062 MILLER AVE. SUITE 100, CUPERTINO CA95014	USD 650,000	provide after-sales services, obtain product information and technologies
Power Asia Investment Corp.	Jun. 6, 2002	2nd Floor, Felix House, 24 Dr. Joseph Riviere Street, Port Louis, Republic of Mauritius.	USD 2,861,000	general investment business
Elan Shanghai Co., Ltd.	Aug. 6, 2002	Room 703, No. 3, Lane 88, Shengrong Road, Pudong New Area, Shanghai	USD 1,500,000	information supply services
Elan Shenzhen Co., Ltd.	Jun. 6, 2003	8A Floor, Microprofit Building, Gaoxin South Road 6, Shenzhen Hi-Tech Industrial Park, South Area, Shenzhen	USD 1,000,000	information supply services
Metanoia Communications Inc.	Dec. 1, 2003	3/F, No. 12, Chuangxin 1st Road, Hsinchu Science Park	NTD 850,000,000	manufacture cable and wireless communication machinery and equipment, electronic components, wholesale and retail telecommunication equipment
Avisonic Technology Corporation	Dec. 22, 2003	7/F, No.12, Innovation 1st Rd., HsinChu Science Park	NTD 355,420,000	research, design, manufacture and sale of multimedia video compression and impact processing ICs
JPUP Electron Co., Ltd.	Dec. 26, 2002	Room#13, 21/F, No. 1, Section 1, Zhongshan Road, Banqiao District, New Taipei City	NTD 16,000,000	manufacture data storage and processing equipment, manufacture and wholesale of electronic components
PiXORD Corporation	Aug. 10, 2000	5/F, No. 12, Chuangxin 1st Road, Hsinchu Science Park	NTD 350,000,000	export manufacturing, data storage and processing equipment, wireless communication machinery and equipment manufacturing

- (3) Information on party presumed to be related to be controlling and subsidiary company: N/A.
- (4) If the industries covered by the affiliates are related to each other in terms of business operations, the division of work shall be explained:

company name	main business or production items	division of work
Elan H.K Micro electronics Corp.	sales the Company's products, provide after-sales services, establish sales outlets	the Company's Asia-Pacific sales outlet
Elan Investment Corporation	general investment business	not applicable
Elan Information Technology Group	provide after-sales services, obtain product information and technologies	the Company's customer services outlet in North America
Power Asia Investment Corp.	general investment business	not applicable
Elan Shanghai Co., Ltd.	information supply services	the Company's development and customer service outlet in Eastern China market
Elan Shenzhen Co., Ltd.	information supply services	the Company's development and customer services outlet in Southern China market
Metanoia Communications Inc.	manufacture cable and wireless communication machinery and equipment, electronic components, wholesale and retail telecommunication equipment	not applicable
Avisonic Technology Corporation	research, design, manufacture and sale of multimedia video compression and impact processing ICs	not applicable
JPUP Electron Co., Ltd.	manufacture data storage and processing equipment, manufacture and wholesale of electronic components	the Company's foundry
PiXORD Corporation	export manufacturing, data storage and processing equipment, wireless communication machinery and equipment manufacturing	not applicable

(5) Name of the Directors, Supervisors and President of each affiliate and their shareholding status:

company name	job title	name or representative	Shares held	
			number of shares	Shareholding %
Elan H.K Microelectronics Corp.	Director	ELAN Microelectronics Corporation representative: YEH, I-HAU	29,328,000	100%
	Director	ELAN Microelectronics Corporation representative: YEH, I-MING	29,328,000	100%
	Director	ELAN Microelectronics Corporation representative: TSENG, WEN-YA	29,328,000	100%
Elan Investment Corporation	Chairman	ELAN Microelectronics Corporation representative: YEH, I-MING	50,000,000	100%
Elan Information Technology Group	Director and President	ELAN Microelectronics Corporation representative: JOE T. YEH	65,000	100%
Power Asia Investment Corp.	Director	Elan H.K Microelectronics Corp. representative: YEH, I-HAU	2,861,000	100%
	Director	Elan H.K Microelectronics Corp. representative: WU, CHIA-MIAO	2,861,000	100%
Elan Shanghai Co., Ltd.	Chairman	Power Asia Investment Corp. representative: LI, I-CHING	—	100%
	Director	Power Asia Investment Corp. representative: WENG, CHING-HSIUNG	—	100%
	Director	Power Asia Investment Corp. representative: YEH, I-MING	—	100%
Elan Shenzhen Co., Ltd.	Chairman	Power Asia Investment Corp. representative: LI, I-CHING	—	100%
	Director	Power Asia Investment Corp. representative: WENG, CHING-HSIUNG	—	100%
	Director	Power Asia Investment Corp. representative: YEH, I-MING	—	100%
Metanoia Communications Inc.	Chairman	ELAN Microelectronics Corporation representative: YEH, I-HAU	54,056,862	63.60%
	Director	ELAN Microelectronics Corporation representative: YEN, KUO-LUNG	54,056,862	63.60%
	Director	ELAN Microelectronics Corporation representative: LIU, TAI-MING	54,056,862	63.60%
	Supervisor	Elan Investment Corporation representative: LIN, YUNG-JEN	3,625,990	4.27%
Avisonic Technology Corporation	Chairman	ELAN Microelectronics Corporation representative: YEH, I-HAU	26,633,303	74.93%
	Director	ELAN Microelectronics Corporation representative: LIU, TAI-MING	26,633,303	74.93%
	Director	ELAN Microelectronics Corporation representative: YEN, KUO-LUNG	26,633,303	74.93%
	Director	ELAN Microelectronics Corporation representative: TAO, I-HSIN	26,633,303	74.93%
	Director	ELAN Microelectronics Corporation representative: LIN, MENG-CHUN	26,633,303	74.93%
	Supervisor	Elan Investment Co., Ltd. representative: LIN, YUNG-JEN	2,154,285	6.06%
	Supervisor	Elan Investment Co., Ltd. representative: TSENG, WEN-YA	2,154,285	6.06%
JPUP Electron Co., Ltd.	Director	ELAN Microelectronics Corporation representative: WU, TSUNG-HSIAO	784,000	49.00%
	Director	ELAN Microelectronics Corporation representative: TSAI, WEN-CHENG	784,000	49.00%
	Director	ELAN Microelectronics Corporation representative: HSIEH, WEN-YU	784,000	49.00%
	Director	ELAN Microelectronics Corporation representative: TSAI, CHIEN-WEN	784,000	49.00%
PiXORD Corporation	Chairman	ELAN Microelectronics Corporation representative: YEH, I-HAU	33,871,283	96.78%
	Director	ELAN Microelectronics Corporation representative: LIN, MENG-CHUN	33,871,283	96.78%
	Director	ELAN Microelectronics Corporation representative: LIEN, CHUNG-CHI	33,871,283	96.78%
	Supervisor	Elan Investment Co., Ltd. representative: LIN, YUNG-JEN	173,835	0.50%
	Supervisor	Elan Investment Co., Ltd. representative: TSENG, WEN-YA	173,835	0.50%

2. Operating Highlights:

Operating Highlights of Each Affiliates

Unit: NT\$'000

company name	capital	total assets	total liabilities	net worth	operating income	operating profit	profit or loss of the period (post-tax)	earnings per share (post-tax)
Elan H.K	123,272	295,331	70,451	224,880	740,691	74,467	66,079	2.25
ELAN Investment	500,000	1,604,776	90	1,604,686	0	(2,336)	121,163	2.42
Elan Information	22,822	14,949	65	14,884	18,074	4,114	4,090	62.92
Metanoia Communications	850,000	49,640	205,052	(155,412)	109,127	(58,129)	(61,342)	(0.72)
Avisonic Technology	355,420	87,467	86,789	678	64,584	(31,871)	(32,775)	(0.97)
JPUP Electron	16,000	8,131	348	7,783	12,206	(1,324)	(1,324)	(0.83)
PiXORD	350,000	83,496	31,213	52,283	42,074	(30,577)	(30,446)	(0.83)
Fong Yue	30,000	27,318	18	27,300	0	(76)	(1,064)	(0.35)
Power Asia	98,368	24,219	0	24,219	0	(2)	455	0.16
Elan Shanghai	52,095	18,853	4,885	13,968	49,732	1,562	1,571	-
Elan Shenzhen	34,670	19,050	9,277	9,773	74,898	(1,692)	(1,143)	-

Note: Assets and liabilities categories adopted foreign currency exchange rates on the date of Dec. 31, 2018: [US\$1 : NT\$30.71], [HK\$1 : NT\$3.92], [RMB1 : NT\$4.47].

Profit and loss categories adopted average exchange rate of the year 2018: [US\$1 : NT\$30.124], [HK\$1 : NT\$3.844], [RMB1 : NT\$4.542].

(2) Consolidated financial statements of the affiliates:

Statement of the Consolidated Financial Statements of the Affiliates

The companies that the Company shall include in the 2018 (from January 1, 2018 to December 31, 2018) consolidated financial statements of the affiliates pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as the companies that shall be included in parent-subsidary consolidated financial statements pursuant to IFRS 10 adopted by Financial Supervisory Commission, and the relevant information that shall be disclosed in the consolidated financial statements of the affiliates has been disclosed in the parent-subsidary consolidated financial statements; therefore, the Company hereby declare that a separate consolidated financial statements of the affiliates will not be prepared.

Company name: ELAN Microelectronics Corporation

Responsible person: YEH, I-HAU

Date: March 12, 2019

2. **Private Placement Securities During the Last Fiscal Year and Until the Publishing date of the Annual Report: N/A.**
3. **The Shares in the Company Held or Disposed of by Subsidiaries During the Last Fiscal Year and Until the Publishing date of the Annual Report:**

Unit: NT\$; share; %

name of the subsidiary (Note 1)	paid-up capital	source of fund	the Company shareholding percentage	acquisition or disposal date	acquired number of shares and amount (Note 2)	disposed number of shares and amount (Note 2)	investment profit or loss	number of shares held and amount as of the publishing date of the annual reports (Note 3)	creation of pledge	amount endorsed by the Company for the subsidiary	amount the subsidiary borrowed from the Company
ELAN Investment	500,000	self- funding	100%	Oct. 1, 2008	17,573,679 shares; NT\$154,477,318	0	0	0	0	0	0
				as of the publishing date of the annual reports	12,438,199 shares; NT\$33,329,034	0	0	0	0 (Note 4)	0	0

Note 1: Please list the subsidiaries by type.

Note 2: "Amount" referred to actual acquisition or disposal amount.

Note 3: List the status of possession and disposal separately.

Note 4: Explains its impact on the Company's operation results and financial status: no impact.

4. **Other Necessary Supplementary Explanations: N/A.**

IX. Any matter that has material effect on the shareholders' equity or the price of securities as set out in sub-paragraph 2, paragraph 2, Article 36 of the Company Act during the last fiscal year and until the publishing date of the annual report: N/A.

Public Company's Statement on Internal Control
Represents the effectiveness of both the design and execution
(This statement is applicable when all laws and ordinances are complied herewith)

ELAN Microelectronics Corporation
Statement on Internal Control

Date: December 31, 2018

The Company hereby undertakes the 2018 internal control system based on the results of the self-assessment as follows:

1. The Company acknowledges that establishing, implementing and maintaining the internal control system is the responsibility of the Board of Directors and managers of the company, and the Company has established such system. Its purpose is to reasonably assure the effectiveness and efficiency of operations (including profitability, performance, and protection of asset safety, etc.), reporting reliability, timeliness, transparency and compliance with relevant laws and regulations.
2. The internal control system has its inherent limitations. No matter how perfect the design is, an effective internal control system can only provide reasonable assurance for the achievement of the above three goals. Moreover, due to changes in the environment and conditions, the effectiveness of the internal control system may change. However, the Company's internal control system has a self-monitoring mechanism. Once the deficiency is identified, the Company will take immediate corrective action.
3. The Company determines the effectiveness of the design and implementation of the internal control system based on the internal control system identifiers set out in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as the "Regulations"). The internal control system identifiers adopted in the "Regulations" divided the internal control system into five items based on management control processes: (1) Control environment; (2) Risk assessment; (3) Control operations; (4) Information and communicate; and (5) Supervision. Each component includes several sub-items. Please refer to the provisions of the "Regulations" for details of the aforementioned items.
4. The Company has adopted the above-mentioned internal control system identifiers to assess the effectiveness of the design and implementation of the internal control system.
5. Based on the results of the foregoing evaluation, the Company believes that the Company's design and implementation of the internal control system (including the supervision and management of its subsidiaries) as of December 31, 2018^{Note2}, includes understanding the effectiveness of the operation, degree of achieving the goals, reliable reports, timeliness, transparency and compliance with relevant laws and regulations, are effective, and the abovementioned goals can be reasonably assured of achievement.
6. This statement will become a major part of the Company's annual report and public statement, and will be disclosed to the public. If any of the above disclosed content is false or hidden, it will be subject to legal obligations under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
7. This statement was adopted by the Board of Directors of the Company on March 12, 2019. Of the 6 attending Directors, 0 opposed, and all of them agree with the contents of this statement.

ELAN Microelectronics Corporation

Chairman: YEH, I-HAU (sign & seal)

PRESIDENT: YEH, I-HAU (sign & seal)

Note 1: If there are major deficiencies found in the design and implementation of the public company's internal control system during the year, the company shall add list and explanation for the major deficiencies found via self-assessment, and the Company's improvement actions taken before the balance sheet date and improvement status following the fourth item in the Statement on Internal Control.

Note 2: Date of the statement is "end of the fiscal year".