

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

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Three Months Ended March 31, 2018 and 2017**

Address: No.12, Chuangxin 1nd Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)
Telephone: (03)563-9977

The independent auditors' review 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' review report and consolidated financial statements, the Chinese version shall prevail.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Report	3
4. Consolidated Balance Sheets	4
5. Consolidated Statements of Comprehensive Income	5
6. Consolidated Statements of Changes in Equity	6
7. Consolidated Statements of Cash Flows	7
8. Notes to the Consolidated Financial Statements	
(1) Company history	8
(2) Approval date and procedures of the consolidated financial statements	8
(3) New standards, amendments and interpretations adopted	8~14
(4) Summary of significant accounting policies	14~24
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	24~25
(6) Explanation of significant accounts	25~46
(7) Related-party transactions	46~47
(8) Pledged assets	47
(9) Commitments and contingencies	47~48
(10) Losses Due to Major Disasters	49
(11) Subsequent Events	49
(12) Other	49
(13) Other disclosures	
(a) Information on significant transactions	50~53
(b) Information on investees	54
(c) Information on investment in mainland China	54
(14) Segment information	55



安侯建業聯合會計師事務所
KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Review Report

To the Board of Directors
ELAN MICROELECTRONICS CORPORATION:

Introduction

We have reviewed the accompanying consolidated balance sheets of the ELAN MICROELECTRONICS CORPORATION and its subsidiaries of March 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards (“IASs”) 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, “Review of Financial Information Performed by the Independent Auditor of the Entity”. A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4(b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$321,212 thousand and \$294,929 thousand, constituting 3.14% and 3.19% of consolidated total assets as of March 31, 2018 and 2017, respectively, total liabilities amounting to \$269,617 thousand and \$264,566 thousand, constituting 10.19% and 11.98% of consolidated total liabilities as of March 31, 2018 and 2017, respectively, and total comprehensive income(loss) amounting to \$(30,154) thousand and \$(67,482) thousand, constituting (12.27)% and (52.09)% of consolidated total comprehensive income (loss) for the three months ended March 31, 2018 and 2017, respectively.

Furthermore, as stated in Note 6(g), the other equity accounted investments of the ELAN MICROELECTRONICS CORPORATION and its subsidiaries in its investee companies of \$288,025 thousand and \$356,307 thousand as of March 31, 2018 and 2017, respectively, and its equity in net earnings on these investee companies of \$(5,456) thousand and \$(6,309) thousand for the three months ended March 31, 2018 and 2017, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the ELAN MICROELECTRONICS CORPORATION and its subsidiaries as of March 31, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)
May 8, 2018

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors’ review 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’ review report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of March 31, 2018 and 2017

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2018, December 31, 2017, and March 31, 2017

(Expressed in, New Taiwan Dollars)

	March 31, 2018		December 31, 2017		March 31, 2017		March 31, 2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Assets								
Current assets:								
1100	Cash and cash equivalents (note 6(a))	\$	1,931,610	19	1,984,013	20	2,180,275	24
1110	Total current financial assets at fair value through profit or loss (note 6(b))		750,278	7	734,002	7	669,371	7
1170	Accounts receivable, net (notes 6(c) and 7)		885,562	9	937,773	9	1,027,791	11
1200	Other receivables, net (notes 6(c) and 7)		449,695	4	539,467	5	148,282	2
1310	Inventories, manufacturing business, net (note 6(d))		1,100,279	11	1,153,803	11	1,078,491	12
1410	Total prepayments		67,698	1	65,306	1	33,513	-
1476	Other current financial assets (note 6(a))		2,859,150	28	2,539,200	25	1,963,960	21
			8,044,272	79	7,953,564	78	7,101,683	77
Non-current assets:								
1510	Total non-current financial assets at fair value through profit or loss (note 6(e))		802,171	8	-	-	-	-
1517	Total non-current financial assets at fair value through other comprehensive income (note 6(f))		214,720	2	-	-	-	-
1523	Non-current available-for-sale financial assets, net (note 6(g))		-	-	226,318	2	235,701	3
1551	Investments accounted for using equity method (note 6(h))		288,025	3	310,033	3	356,307	4
1543	Non-current financial assets at cost, net (note 6(j))		-	-	761,868	8	630,513	7
1600	Total property, plant and equipment (note 6(m))		593,717	6	580,010	6	575,470	6
1780	Total intangible assets		250,606	2	256,273	3	288,008	3
1840	Deferred tax assets		25,808	-	25,808	-	23,405	-
1900	Total other non-current assets		27,305	-	28,931	-	22,390	-
			2,202,352	21	2,189,241	22	2,131,794	23
Total assets								
		\$	10,246,624	100	10,142,805	100	9,233,477	100
Liabilities and Equity								
Current liabilities:								
	Total short-term borrowings (note 6(k))	\$	250,000	2	240,000	2	210,000	2
	Total accounts payable		735,067	7	895,974	9	714,039	8
	Employee bonus payable (note 6(r))		217,796	2	175,000	2	105,302	1
	Current tax liabilities		223,042	2	154,292	2	114,707	1
	Total other current liabilities		832,382	9	945,148	9	617,293	7
			2,258,287	22	2,410,414	24	1,761,341	19
Non-Current liabilities:								
	Net defined benefit liability, non-current (note 6(l))		388,971	4	396,206	4	433,819	4
	Guarantee deposits received		10,736	-	10,426	-	10,392	-
	Total deferred tax liabilities (note 6(m))		2,296	-	2,296	-	2,223	-
			402,003	4	408,928	4	446,434	4
			2,660,290	26	2,819,342	28	2,207,775	23
Total liabilities								
Equity attributable to owners of parent: (notes 6(n) and (o))								
	Total capital stock		4,341,148	42	4,341,148	43	4,341,148	47
	Total capital surplus		536,328	5	536,328	5	735,781	8
Retained earnings:								
	Legal reserve		1,312,585	13	1,312,585	13	1,264,428	14
	Total unappropriated retained earnings (accumulated deficit)		1,391,238	14	1,109,748	11	621,881	7
			2,703,823	27	2,422,333	24	1,886,309	21
	Total other equity interest		134,835	1	147,779	1	182,497	2
	Treasury shares		(91,111)	(1)	(91,111)	(1)	(101,268)	(1)
Total equity attributable to owners of parent:								
	Non-controlling interests		7,625,023	74	7,356,477	72	7,044,467	77
			(38,689)	-	(33,014)	-	(18,765)	-
	Total equity		7,586,334	74	7,323,463	72	7,025,702	77
Total liabilities and equity								
		\$	10,246,624	100	10,142,805	100	9,233,477	100

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
**REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING
STANDARDS**

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2018 and 2017

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

		For the three months ended March 31			
		2018		2017	
		Amount	%	Amount	%
4000	Total operating revenue (notes 6(p) and 7, 9)	\$ 1,779,238	100	1,589,240	100
5000	Total operating costs (notes 6(d), (j) and (l))	991,870	56	893,041	56
	Gross profit from operations	787,368	44	696,199	44
5920	Add: Realized profit (loss) on from sales	2,771	-	413	-
		790,139	44	696,612	44
	Operating expenses: (notes 6(j), (l) and 9)				
6100	Total selling expenses(note)	71,032	4	65,465	4
6200	Total administrative expenses	77,843	4	73,125	5
6300	Total research and development expenses	352,221	20	330,882	21
6450		1,346	-	-	-
		502,442	28	469,472	30
	Income from operations	287,697	16	227,140	14
	Non-operating income and expenses:				
7010	Total other income (notes 6(q) and 9)	12,710	1	9,174	1
7020	Other gains and losses, net (notes 6(f), (h) and (q))	35,769	2	(69,075)	(5)
7050	Finance costs, net	(1,119)	-	(698)	-
7590	Miscellaneous disbursements	(1,271)	-	(1,658)	-
7770	Share of loss of associates and joint ventures accounted for using equity method (note 6(g))	(5,456)	-	(6,309)	-
		40,633	3	(68,566)	(4)
	Income before income tax	328,330	19	158,574	10
8110	Income tax expenses (note 6(m))	69,635	4	33,691	2
	Profit (loss)	258,695	15	124,883	8
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(11,598)	(1)	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
		(11,598)	(1)	-	-
8360	Other components of other comprehensive income that will not be reclassified to profit or loss				
8361	Exchange differences on translation	4	-	(2,151)	-
8362	Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	6,559	-
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	(1,350)	-	269	-
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	(1,346)	-	4,677	-
8300	Other comprehensive income, net	(12,944)	(1)	4,677	-
	Comprehensive income	\$ 245,751	14	129,560	8
	Net income for the period attributable to:				
	Owners of the parent	\$ 264,370	15	140,314	9
	Non-controlling interests	(5,675)	-	(15,431)	(1)
		\$ 258,695	15	124,883	8
	Total comprehensive income for the period attributable to:				
	Owners of the parent	\$ 251,426	14	145,289	9
	Non-controlling interests	(5,675)	-	(15,729)	(1)
		\$ 245,751	14	129,560	8
	Earnings per share (note 6(o))				
	Basic earnings per share	\$ 0.63		0.34	
	Diluted earnings per share	\$ 0.63		0.33	

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										
	Total other equity interest										
	Unrealized										
	Share capital		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 (loss)	-	-	-	140,314	-	-	-	-	140,314	(15,431)	124,883
Other comprehensive income	-	-	-	-	(1,853)	-	6,828	-	4,975	(298)	4,677
Total comprehensive income	-	-	-	140,314	(1,853)	-	6,828	-	145,289	(15,729)	129,560
Balance at March 31, 2017	\$ 4,341,148	735,781	1,264,428	621,881	(3,991)	-	186,488	(101,268)	7,044,467	(18,765)	7,025,702
Balance at January 1, 2018	\$ 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 (loss)	-	-	-	264,370	-	-	-	-	264,370	(5,675)	258,695
Other comprehensive income	-	-	-	-	33	(12,977)	-	-	(12,944)	-	(12,944)
Total comprehensive income	-	-	-	264,370	33	(12,977)	-	-	251,426	(5,675)	245,751
Balance at March 31, 2018	\$ 4,341,148	536,328	1,312,585	1,391,238	(4,027)	138,862	-	(91,111)	7,625,023	(38,689)	7,586,334

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
**REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY
ACCEPTED AUDITING STANDARDS**

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	\$ 328,330	158,574
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	11,498	11,650
Amortization expense	12,658	21,883
Expected credit loss (gain) / Provision (reversal of provision) for bad debt expense	1,346	(911)
Net loss (gain) on financial assets at fair value through profit or loss	(19,691)	10,885
Interest expense	1,119	698
Interest income	(9,459)	(7,928)
Share of loss (profit) of associates and joint ventures accounted for using equity method	5,456	6,309
Loss (gain) on disposal of property, plant and equipment	97	23
Impairment loss	15,000	13,745
Loss (gain) on disposal of financial assets at fair value through profit or loss	(47,868)	-
Gain on disposal of non-current financial assets at cost	-	(10,002)
Gain on disposal of available-for-sale financial assets	-	(2,424)
Difference between net pension liability and actual appropriations	(7,235)	467
Impairment loss and disposal loss on inventory	10,396	24,746
Others	78	(1,761)
Total adjustments to reconcile profit (loss)	(26,605)	67,380
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	(120,000)	54,419
Decrease in notes receivable	50,865	81,187
Decrease (increase) in inventories	43,128	(48,941)
Increase in other current assets	(2,392)	(1,682)
Decrease in other receivable	89,778	39,439
Decrease in notes and accounts payable	(160,907)	(119,799)
Decrease in other current liabilities	(69,849)	(11,153)
Total adjustments	(195,982)	60,850
Cash inflow (outflow) generated from operations	132,348	219,424
Interest received	9,453	7,900
Interest paid	(1,240)	(806)
Income taxes paid	(886)	(346)
Net cash flows from (used in) operating activities	139,675	226,172
Cash flows from (used in) investing activities:		
Proceeds from disposal of financial assets at fair value through profit or loss	148,100	-
Proceeds from disposal of available-for-sale financial assets	-	3,419
Proceeds from disposal of financial assets at cost	-	10,002
Acquisition of property, plant and equipment	(25,174)	(8,900)
Acquisition of intangible assets	(6,990)	(59,386)
Decrease in other non-current assets	1,626	1,280
Decrease (increase) in time deposit with maturity longer than three months	(319,950)	93,860
Net cash flows from (used in) investing activities	(202,388)	40,275
Cash flows from (used in) financing activities:		
Increase in short-term loans	10,000	70,000
Increase (decrease) in guarantee deposits received	310	(65)
Net cash flows from (used in) financing activities	10,310	69,935
Net increase (decrease) in cash and cash equivalents	(52,403)	336,382
Cash and cash equivalents at beginning of period	1,984,013	1,843,893
Cash and cash equivalents at end of period	\$ 1,931,610	2,180,275

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 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 May 8, 2018.

(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
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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.

(Continued)

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 three months ended March 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(c).

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The adoption of IFRS 9 did not have any a 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(c).

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 Group had retrospectively applied the amendments, however, they did not have any impact on both the deferred tax assets and the retained earnings on January 1, March 31, and December 31, 2017. Also, there was no impact on the income tax expense, the basic and diluted earnings per share, and the cash flows for the three-month period ended March 31, 2017.

In addition, if the Group had applied its previous accounting policy, the deferred tax assets, other equity item and retained earnings would not be impacted on March 31, 2018. There was no material impact on the income tax expense, the basic and diluted earnings per share, and the cash flows for the three-month period ended March 31, 2018.

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

As of the date, the following IFRSs have been issued by the IASB, but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
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 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 “Leases”	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> · For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. · A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.
October 12, 2017	Amendments to IAS 28 “Long-term interests in associates and joint ventures”	The amendment to IAS 28, which addresses equity-accounted loss absorption by long-term interests, will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or ‘LTI’). It also involves the dual application of IAS 28 and IFRS 9 Financial Instruments.

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

(4) Summary of significant accounting policies:

(a) Statement of Compliance

The 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 consolidated financial statements, the Chinese version shall prevail.

These consolidated financial statements have been prepared in accordance with the preparation and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed and issued into effect by FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2017. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2017.

(b) Basis of consolidation

List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
The Company	Elan Investment Corp.	Investment holding	100.00 %	100.00 %	100.00 %	-
The Company	Fong Yue Corporation	Investment holding	100.00 %	100.00 %	100.00 %	Note
The Company and Elan Investment Corp.	Metanoia Communications 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 %	71.19 %	Note
The Company and Elan Investment Corp.	Avisonic Technology Corp. (Avisonic)	Research, design, develop, manufacture and sale on digital image-process chips	76.49 %	76.49 %	76.49 %	Note
The Company	JPUP Electron Co., Ltd. (JPUP)	Wholesale and installation of electronic devices, data storage and equipment process	49.00 %	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	96.96 %	96.96 %	96.96 %	Note
The Company	Elan H.K.	Sale and after-sales service	100.00 %	100.00 %	100.00 %	-
The Company	Elan Information	After-sales service and provide new informational skills	100.00 %	100.00 %	100.00 %	Note
Elan H.K.	Power Asia	Investment holding	100.00 %	100.00 %	100.00 %	-
Power Asia	Elan Shanghai	Provide system design, information on applications expansion	100.00 %	100.00 %	100.00 %	-
Power Asia	Elan Shenzhen	Provide system design, information on applications expansion	100.00 %	100.00 %	100.00 %	-

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note: The financial statements of non-significant subsidiaries were recognized solely on the financial statements prepared by those investee companies, and were not reviewed by independent auditors.

(c) 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.

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.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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 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.

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.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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 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;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

5) Derecognition of financial assets

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

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.

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.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated 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 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.

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.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 its 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 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.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated 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 (applicable before January 1, 2018)

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.

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.

(d) 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.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) 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 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.

(ii) 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.

(iii) 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.

(e) Revenue recognition (applicable before January 2018)

(i) 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.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) 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.

(iii) 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.

(f) Employee benefits

The pension benefits at the interim period was calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year, adjusted for major fluctuations in market prices, major liquidations, or major anomalies, if any.

(g) Income tax

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of International Financial Reporting Standards 34, Interim Reporting.

Income tax expenses for the period are calculated by multiplying pre-tax income for the interim reporting period by the effective annual tax rate as forecasted using management's best estimate. This should be recognized fully as tax expense for the current period.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

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

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 "Interim Financial Reporting" and 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.

Except for the following, the preparation of the consolidated interim financial statements, estimates and underlying assumptions are in conformity with the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to Note 5 of the consolidated financial statements for the year ended December 31, 2017.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The loss allowance of trade receivables

The Group has estimated the loss allowance of trade receivable based on the risk of a default occurring and the rate of expected credit loss. The Group has considered historical experience, current economic conditions and forward-looking information at the reporting date to determine the assumptions to be used in calculating the impairments and the selected inputs. The relevant assumptions and input values are disclosed in Note 6(c).

(6) Explanation of significant accounts:

Except as specifically disclosed below, the explanations of significant accounts in the consolidated interim financial statements are in conformity with the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to Note 6 of the consolidated financial statements for the year ended December 31, 2017.

(a) Cash and cash equivalents

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Petty cash	\$ 507	647	478
Checking and demand deposits	1,046,353	750,692	881,035
Time deposits with maturities of three months or less	<u>884,750</u>	<u>1,232,674</u>	<u>962,380</u>
	<u>\$ 1,931,610</u>	<u>1,984,013</u>	<u>1,843,893</u>

Refer to note 6(u) for the interest rate risk and fair value sensitivity analysis of the financial assets and liabilities of the Group.

As of March 31, 2018, December 31 and March 31, 2017, time deposits with maturities of more than three months held by the Group amounted to \$2,859,150 thousand, \$2,539,200 thousand, and \$1,963,960 thousand, respectively, and were recorded as other current financial assets. The Group did not recognize impairment loss on other current financial assets for the three months ended March 31, 2018. Other information relating to credit risk is provided in Note 6(t).

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Mandatorily measured at fair value through profit or loss:			
Current:			
Listed stocks	\$ 14,621		
Open-end certificates of beneficial interest	585,744		
Short-term commercial papers	149,913		
Non-current:			
Listed stocks	802,171		
Financial assets held for trading:			
Listed stocks	-	13,822	9,060
Open-end certificates of beneficial interest	-	567,775	504,000
Short-term commercial papers	-	152,405	156,311
Total	<u>\$ 1,552,449</u>	<u>734,002</u>	<u>669,371</u>

(c) Notes, accounts receivable and other receivables

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Notes receivable	\$ 19,074	25,302	27,829
Accounts receivable	909,052	965,781	1,048,707
Less: Allowance for doubtful accounts	(42,564)	(41,218)	(40,042)
Sales return and allowance	-	(12,092)	(8,703)
	<u>\$ 885,562</u>	<u>937,773</u>	<u>1,027,791</u>

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on March 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 March 31, 2018 was determined as follows:

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 772,561	0.5%	3,863
1 to 30 days past due	69,032	0.5%	345
31 to 60 days past due	16,430	0.5%	82
61 to 90 days past due	3,855	2%	77
More than 90 days past due	47,174	20%-100%	38,197
	<u>\$ 909,052</u>		<u>42,564</u>

As of December 31 and March 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	March 31, 2017
Past due 1 to 30 days	\$ 76,240	29,413
Past due 31 to 120 days	27,809	10,030
Past due 121 to 365 days	2,446	1,478
	<u>\$ 106,495</u>	<u>40,921</u>

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

	For the three months ended March 31, 2018	For the three months ended March 31, 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	1,346		(726)	(185)
Balance on March 31, 2018 and 2017	<u>\$ 42,564</u>		<u>29,343</u>	<u>10,699</u>

In order to reduce the credit risk from accounts receivable, the Group has entered into non-recourse factoring agreements with several banks. As of March 31, 2018, December 31 and March 31, 2017, the Group has reclassified these accounts receivables into other receivables, amounting to \$382,959 thousand, \$493,794 thousand, and \$91,807 thousand, respectively. The Group did not recognize impairment loss on other receivables for the three months ended March 31, 2018, and information on other credit risk is disclosed in Note 6(t). The related information on factoring is as follows:

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Purchaser</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>Assignment facility</u>		
			<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
KGI Commercial Bank	0.05%~0.13%	None	\$ 1,350,000	1,150,000	250,000
En Tie Commercial Bank	0.05%~0.30%	None	-	-	288,610
Taishin International Bank	0.05%~0.07%	None	250,000	250,000	300,000
			<u>\$ 1,600,000</u>	<u>1,400,000</u>	<u>838,610</u>

The important clauses of the above-mentioned contract are summarized as follows:

- (i) The purchase price of accounts receivable in the factoring agreement is calculated as the amount factored, reduced by sales returns and allowances and other related expenses relating to the Group's customer.
 - (ii) The banks is required to pay for each purchase of accounts receivable within 90 days from the respective customer's overdue payment date.
 - (iii) The Group is required to pay the banks a certain percentage of accounts receivable mentioned above as administration fee, as defined in respective agreements.
- (d) Inventories

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Raw materials	\$ 285,024	294,252	216,628
Work in progress	542,009	542,914	598,764
Finished goods	273,246	316,637	263,099
	<u>\$ 1,100,279</u>	<u>1,153,803</u>	<u>1,078,491</u>

Inventories recognized as cost of goods sold and the related expense amounted to \$981,081 thousand and \$868,294 thousand, \$10,396 thousand and \$24,746 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 \$393 thousand and \$1 thousand for the three months ended March 31, 2018 and 2017, respectively.

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

	<u>March 31, 2018</u>
Equity investments at fair value through other comprehensive income:	
Emerging stocks	<u>\$ 214,720</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Equity investments at fair value through other comprehensive income

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 March 31, 2017.

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

	December 31, 2017	March 31, 2017
Emerging stocks	\$ <u>226,318</u>	<u>235,701</u>

- (i) Except for above, these investments were classified as financial assets at fair value through other comprehensive income on March 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:

	March 31, 2018	December 31, 2017	March 31, 2017
Associate	\$ <u>288,025</u>	<u>310,033</u>	<u>356,307</u>

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

	Nature of the relationship	Principal country	March 31, 2018		December 31, 2017		March 31, 2017	
			Amount	Share- holding (%)	Amount	Share- holding (%)	Amount	Share- holding (%)
Tong Fu Investment Corporation	Investment holding	R.O.C.	\$ 30,000	46.73	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.	71,029	29.89	71,029	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	240,000	30.00
Uniband Electronic Corp	Manufactures and sells electronic devices	R.O.C.	80,000	24.62	80,000	24.62	80,000	24.62
Finger Pro. Incorporation	Manufactures and sells electronic devices	R.O.C.	6,000	23.08	6,000	23.08	6,000	23.08
			<u>\$ 427,029</u>		<u>427,029</u>		<u>427,029</u>	

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the three months ended March 31	
	2018	2017
Attributable to the Group:		
Loss from continuing operations	\$ (5,456)	(6,309)
Other comprehensive (loss) income	(1,488)	269
Comprehensive income	<u><u>\$ (6,944)</u></u>	<u><u>(6,040)</u></u>

Investments were accounted for by the equity method, and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been reviewed.

(h) Non-current Financial assets at costs

	December 31, 2017	March 31, 2017
Domestic non-publicly traded common stocks	746,812	604,482
Foreign non-publicly traded common stocks	255	4,026
Foreign non-publicly traded common stocks	10,650	14,075
Foreign non-publicly traded preferred stocks	4,151	7,930
Total	<u><u>761,868</u></u>	<u><u>630,513</u></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 and March 31, 2017. These investments were classified as financial assets at fair value through profit or loss on March 31, 2017.
- (ii) The Group periodically evaluates the financial assets carried at costs and recognized the impairment loss amounting to \$13,745 thousand for the three months ended March 31, 2017, due to a permanent decline of investment value, and it was recorded as part of other gains and losses.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Property, plant and equipment

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

	<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>
Cost:						
Balance as of January 1, 2018	\$ 118,813	1,027,131	440,080	147,002	14,833	1,747,859
Additions	-	135	2,816	843	21,380	25,174
Derecognized	-	-	(1,831)	(3,487)	-	(5,318)
Reclassification	-	1,215	4,999	-	(6,214)	-
Effect of exchange rate changes	-	-	107	129	-	236
Balance as of March 31, 2018	<u>\$ 118,813</u>	<u>1,028,481</u>	<u>446,171</u>	<u>144,487</u>	<u>29,999</u>	<u>1,767,951</u>
Balance as of January 1, 2017	\$ 118,813	1,025,687	416,654	170,442	5,872	1,737,468
Additions	-	-	5,593	675	2,632	8,900
Derecognized	-	-	(2,689)	(26,522)	-	(29,211)
Reclassification	-	-	997	376	(4,240)	(2,867)
Effect of exchange rate changes	-	-	(372)	(449)	-	(821)
Balance as of March 31, 2017	<u>\$ 118,813</u>	<u>1,025,687</u>	<u>420,183</u>	<u>144,522</u>	<u>4,264</u>	<u>1,713,469</u>
Accumulated depreciation:						
Balance as of January 1, 2018	\$ -	645,152	390,294	132,403	-	1,167,849
Depreciation	-	3,837	5,602	2,059	-	11,498
Derecognized	-	-	(1,831)	(3,487)	-	(5,318)
Effect of exchange rate changes	-	-	94	111	-	205
Balance as of March 31, 2018	<u>\$ -</u>	<u>648,989</u>	<u>394,159</u>	<u>131,086</u>	<u>-</u>	<u>1,174,234</u>
Balance as of January 1, 2017	\$ -	629,843	373,470	152,711	-	1,156,024
Depreciation	-	3,848	5,495	2,307	-	11,650
Derecognized	-	-	(2,689)	(26,284)	-	(28,973)
Effect of exchange rate changes	-	-	(327)	(375)	-	(702)
Balance as of March 31, 2017	<u>\$ -</u>	<u>633,691</u>	<u>375,949</u>	<u>128,359</u>	<u>-</u>	<u>1,137,999</u>
Book value:						
Balance as of January 1, 2018	<u>\$ 118,813</u>	<u>381,979</u>	<u>49,786</u>	<u>14,599</u>	<u>14,833</u>	<u>580,010</u>
Balance as of March 31, 2018	<u>\$ 118,813</u>	<u>379,492</u>	<u>52,012</u>	<u>13,401</u>	<u>29,999</u>	<u>593,717</u>
Balance as of March 31, 2017	<u>\$ 118,813</u>	<u>391,996</u>	<u>44,234</u>	<u>16,163</u>	<u>4,264</u>	<u>575,470</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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	\$ 176,838	94,405	145,734	416,977
Additions	-	1,430	5,560	6,990
Derecognized	-	(313)	(4,985)	(5,298)
Effects of exchange rate changes	-	-	13	13
Balance as of March 31, 2018	<u>\$ 176,838</u>	<u>95,522</u>	<u>146,322</u>	<u>418,682</u>
Balance as of January 1, 2017	\$ 176,838	200,857	150,431	528,126
Additions	-	-	59,386	59,386
Derecognized	-	-	(70,630)	(70,630)
Effects of exchange rate changes	-	-	(61)	(61)
Balance as of March 31, 2017	<u>\$ 176,838</u>	<u>200,857</u>	<u>139,126</u>	<u>516,821</u>
Accumulated amortization:				
Balance as of January 1, 2018	\$ -	77,309	83,395	160,704
Additions	-	4,198	8,460	12,658
Derecognized	-	(313)	(4,985)	(5,298)
Effects of exchange rate changes	-	-	12	12
Balance as of March 31, 2018	<u>\$ -</u>	<u>81,194</u>	<u>86,882</u>	<u>168,076</u>
Balance as of January 1, 2017	\$ -	144,858	132,749	277,607
Additions	-	13,290	8,593	21,883
Derecognized	-	-	(70,630)	(70,630)
Effects of exchange rate changes	-	-	(47)	(47)
Balance as of March 31, 2017	<u>\$ -</u>	<u>158,148</u>	<u>70,665</u>	<u>228,813</u>
Book value:				
Balance as of January 1, 2018	<u>\$ 176,838</u>	<u>17,096</u>	<u>62,339</u>	<u>256,273</u>
Balance as of March 31, 2018	<u>\$ 176,838</u>	<u>14,328</u>	<u>59,440</u>	<u>250,606</u>
Balance as of March 31, 2017	<u>\$ 176,838</u>	<u>42,709</u>	<u>68,461</u>	<u>288,008</u>

(k) Short-term borrowings

The short-term borrowings were summarized as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Unsecured bank loans	<u>\$ 250,000</u>	<u>240,000</u>	<u>210,000</u>
Range of interest rate	<u>1.69%~2.45%</u>	<u>1.69%~2.45%</u>	<u>1.69%~2.45%</u>
Unused short-tem credit lines	<u>\$ 375,000</u>	<u>385,000</u>	<u>1,205,130</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) Employee benefits

(i) Defined benefit plans

Management believes that there was no material volatility of the market, no material reimbursement and settlement or other material one time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2017 and 2016.

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

	For the three months ended March 31	
	2018	2017
Operating cost	\$ 169	180
Selling expense	190	187
Administrative expense	213	204
Research and development expense	1,385	1,389
	\$ 1,957	1,960

(ii) Defined contribution plans

The Group's pension costs under the defined contribution method to the Bureau of Labor Insurance for the three months ended March 31, 2018 and 2017 were as follows:

	For the three months ended March 31	
	2018	2017
Operating cost	\$ 1,823	1,811
Selling expense	1,291	1,291
Administrative expense	1,987	2,420
Research and development expense	10,828	9,971
	\$ 15,929	15,493

(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:

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Group	Year	Tax exemption products	Tax exemption period
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	2005	to produce and sell high-level integrated circuits	MetaCom was granted approval from the Industrial Development Bureau, MOEA, on December 27, 2005. MetaCom had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2013, to December 31, 2017.
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	2005	to produce and sell high-level integrated circuits	Avisonic was granted approval from the Industrial Development Bureau, MOEA, on November 25, 2005. Avisonic had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2013, to December 31, 2017.
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) The Group's income tax expenses were as follow:

	For the three months ended March 31	
	2017	2017
Current income tax expense	\$ 69,635	33,691

(iii) The tax authorities have examined the Company's income tax returns through 2014.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Capital and other equity

As of March 31, 2018, December 31 and March 31, 2017, the authorized capital of the Company amounted to \$4,800,000 thousand, which was divided into 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.

(i) Capital surplus

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

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Additional paid-in capital	\$ 458,961	458,961	479,563
Treasury stock	46,223	46,223	232,229
Expired employee stock options	-	-	23,989
Difference arising from subsidiary's share price and its carrying value	31,144	31,144	-
	<u>\$ 536,328</u>	<u>536,328</u>	<u>735,781</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.

(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.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

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 March 8, 2018 and June 20, 2017, the Company's board of directors resolved to appropriate the 2017 and 2016 earnings via cash dividend. The Company declared a cash dividend of \$2.300 and \$0.998 New Taiwan Dollars per share, amounting to \$998,464 thousand and \$433,246 thousand, respectively, for the year 2017 and 2016.

(iii) Treasury stock

	<u>March 31, 2018</u>		<u>December 31, 2017</u>		<u>March 31, 2017</u>	
	<u>Shares (in thousands)</u>	<u>Amounts</u>	<u>Shares (in thousands)</u>	<u>Amounts</u>	<u>Shares (in thousands)</u>	<u>Amounts</u>
The Company's shares held by subsidiaries	<u>17,754</u>	<u>\$ 91,111</u>	<u>17,754</u>	<u>91,111</u>	<u>17,754</u>	<u>101,268</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 three months ended March 31, 2018 and 2017, the information on the Company's stock held by Elan Investment Corp. was as follows:

	<u>For the three months ended March 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	-	-	(32,845)	-	-	71,903
Ending balance	<u>17,754</u>	<u>\$ 91,111</u>	<u>785,605</u>	<u>17,754</u>	<u>101,268</u>	<u>687,072</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Other equity

Movements of other equity for the three months ended March 31, 2018 and 2017 were as follows:

For the three months ended March 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	33	-	33
Unrealized gains and losses from available- for-sale investment:			
The Group	-	(11,598)	(11,598)
Associates	-	(1,379)	(1,379)
Balance as of December 31	<u>\$ (4,027)</u>	<u>138,862</u>	<u>134,835</u>
For the three months ended March 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	(1,853)	-	(1,853)
Unrealized gains and losses from available- for-sale investment:			
The Group	-	6,559	6,559
Associates	-	269	269
Balance as of December 31	<u>\$ (3,991)</u>	<u>186,488</u>	<u>182,497</u>

(o) Earnings per share

Basic and diluted earnings per share for the three months ended March 31, 2018 and 2017 were computed as follows:

(i) Basic earnings per share:

For the three months ended March 31		
	2018	2017
Net income	<u>\$ 264,370</u>	<u>140,314</u>
Weighted-average number of shares outstanding (thousands)	<u>416,360</u>	<u>416,360</u>
Earnings per share (New Taiwan dollars)	<u>\$ 0.63</u>	<u>0.34</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Diluted earnings per share:

	For the three months ended March 31	
	2018	2017
Net income (used to calculate diluted earnings per share)	\$ 264,370	140,314
Weighted-average number of shares outstanding (thousands)	416,360	416,360
Effect of dilutive potential common stock		
— employee emoluments	4,367	3,487
Weighted-average number of shares outstanding (thousands) used to calculate diluted earnings per share	420,727	419,847
Diluted earnings per share	\$ 0.63	0.33

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended March 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	Total
Taiwan	\$ 220,501	14,583	8,682	16,604	3,394	-	-	-	263,764
Mainland China	19,387	315,770	3,339	-	-	-	34,913	-	373,409
Hong Kong	296,124	749,759	4,087	2,145	-	-	62,964	-	1,115,079
United States of America	1,253	-	16,003	-	-	-	-	-	17,256
Korea	-	510	171	-	-	-	-	-	681
Other	4,018	4,404	584	-	43	-	-	-	9,049
	\$ 541,283	1,085,026	32,866	18,749	3,437	-	97,877	-	1,779,238

For details on revenue for the three months ended March 31, 2017, 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 three months ended March 31 2017
Net revenue from sale of goods	\$ 1,584,524
Other revenue	4,716
	\$ 1,589,240

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Non-operating income and expenses

(i) Other income

	For the three months ended March 31	
	2018	2017
Interest income	\$ 9,459	7,928
Rental income	556	320
Others	2,695	926
	\$ 12,710	9,174

(ii) Other gains and losses

	For the three months ended March 31	
	2018	2017
Foreign exchange losses	\$ (16,693)	(56,848)
Net gains (losses) on financial asset at fair value through profit or loss	19,691	(10,885)
Loss on disposal of property, plant and equipment	(97)	(23)
Impairment loss	(15,000)	(13,745)
Gain on disposal of financial assets at cost	-	10,002
Gain on disposal of available-for-sale financial assets	-	2,424
Gain on disposal of financial assets at fair value through profit or loss	47,868	-
	\$ 35,769	(69,075)

(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 three months ended March 31, 2018 and 2017, the estimated compensation allocated to employees and remuneration allocated to directors and supervisors were calculated using the Company's profit before tax, excluding the compensation and remunerations allocated for each period, multiplied by the proposed percentage which was stated under the Company's Articles of Incorporation. These remuneration were recognized as cost of sales and operating expenses for each period. Should the actual compensation paid differ from the estimated allocated amount, the differences will be recognized as a movement in estimates and will be reflected in profit or loss in the following year.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The estimated employees' compensation and directors' and supervisors' remuneration are as follows:

	For the three months ended March 31	
	2018	2017
Employees' remuneration	\$ 38,039	20,022
Directors' and supervisors' remuneration	4,757	2,800
	\$ 42,796	22,822

For the year ended 2017 and 2016, the amounts of employees' compensation were estimated at \$155,000 thousand and \$73,000 thousand respectively, whereas, the amount of remuneration to directors and supervisors were estimated at \$20,000 thousand and \$9,500 thousand respectively. The estimated amounts mentioned above is consistent with the content as per the board of directors minutes of meetings, to which information can be found on the Market Observation Post System.

(t) Financial instruments

(i) Credit risk

1) Credit risk exposure

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

2) Concentration of credit risk

Trade and other receivables mainly relate to a wide range of customers from different geographic regions. The Group continued to assess the financial condition and credit risk of its customers.

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 three months ended March 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 considered to have low credit risk, 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 three months ended March 31, 2018.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Market risk

Currency risk

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

	March 31, 2018				December 31, 2017			March 31, 2017		
	Foreign currency	Exchange rate	NTD		Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets:										
Monetary item										
US dollar	\$	64,500	29.45	1,899,791	76,092	29.82	2,268,786	71,958	30.45	2,191,446
Financial liabilities:										
Monetary item										
US dollar		41,153	29.50	1,213,964	44,394	30.11	1,336,796	31,230	31.09	970,882

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 March 31, 2018 and 2017 would have increased (decreased) the equity by \$28,301 thousand and \$51,349 thousand, respectively, for the three months period ended March 31, 2018 and March 31, 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 Group. The foreign exchange gains and losses (including realized and unrealized) amounted to \$(16,693) thousand and \$(56,848) thousand for the three months ended March 31, 2018 and 2017, respectively.

(iii) Fair value information

- 1) The fair value of the Group's current financial assets and liabilities, including cash and cash equivalents, notes and account receivable, other receivables, notes and accounts payable, and other payables, are assessed by the carrying amounts on the reporting date. As the maturities of current financial assets and liabilities are relatively short, the carrying amount can be a reasonable approximation for estimating the fair value. Except for the financial assets and liabilities as abovementioned, the remaining financial assets of the Group were as follows:

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

		March 31, 2018			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	total
Financial assets measured at fair value through profit or loss (current and non-current)	\$ 1,552,449	600,365	149,913	802,171	1,552,449
Financial assets measured at fair value through other comprehensive income					
Emerging stocks	214,720	214,720	-	-	214,720
Financial assets measured at amortized cost					
Cash and cash equivalents	1,931,610	-	-	-	-
Notes and trade receivables	870,032	-	-	-	-
Other receivables	449,695	-	-	-	-
Guarantee deposits	11,079	-	-	-	-
Subtotal	3,262,416	-	-	-	-
Total	\$ 5,029,585	815,085	149,913	802,171	1,767,169
Financial liabilities measured at amortized cost					
Bank loans	\$ 250,000	-	-	-	-
Notes and trade payables	735,067	-	-	-	-
Other payables	1,034,648	-	-	-	-
Guarantee deposits	10,736	-	-	-	-
Total	\$ 2,030,451	-	-	-	-
		December 31, 2017			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	total
Financial assets at FVTPL					
Financial assets held for trading	\$ 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	895,947	-	-	-	-
Other payables	1,120,148	-	-	-	-
Guarantee deposits (non-current)	10,426	-	-	-	-
Total	\$ 2,266,521	-	-	-	-

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	March 31, 2017				
	Book value	Fair Value			total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss	\$ 669,371	513,060	156,311	-	669,371
Financial assets available for sale					
Emerging stocks	235,701	235,701	-	-	235,701
Financial assets measured at cost	630,513	-	-	-	-
Guarantee deposits (non-current)	9,711	-	-	-	-
Total	<u><u>\$ 1,545,296</u></u>	<u><u>748,761</u></u>	<u><u>156,311</u></u>	<u><u>-</u></u>	<u><u>905,072</u></u>
Financial liabilities measured at amortized costs					
Bank loan	\$ 210,000	-	-	-	-
Notes and trade payables	714,039	-	-	-	-
Other payables	722,595	-	-	-	-
Guarantee deposits (non-current)	10,392	-	-	-	-
Total	<u><u>\$ 1,657,026</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

2) Valuation techniques for financial instruments measured at fair value

The Group's valuation techniques and assumptions used for financial instruments not measured at fair value are as follows:

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.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) 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	23,183
Ending Balance, March 31, 2018	<u>\$ 802,171</u>

For the three months ended March 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:

	<u>For the three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Total gains and losses recognized:		
In profit or loss, and presented in “other gains and losses”	\$ 23,183	-

4) 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:

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
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 (March 31, 2018: 1.34 to 2.71) Non-liquid discount (March 31, 2018: 7% to 10%) Price to earnings ratio (March 31, 2018: 1.08 to 3.34) Price to book assets ratio (March 31, 2018: 0.62 to 2.33) 	<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).

- 5) 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:

	<u>Favorable</u>	<u>Profit or loss Movement</u>	<u>Other comprehensive income</u>	
			<u>Favorable</u>	<u>Unfavorable</u>
March 31, 2018				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Price to book ratio	Decrease by 10%	-	(19,500)
	Non-liquid discount	Decrease by 10%	2,655	-

(u) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in Note 6(t) of the consolidated financial statements for the year ended December 31, 2017.

(v) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2017. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2017. Please refer to Note 6(u) of the consolidated financial statements for the year ended December 31, 2017 for further details.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (w) Investing and financing activities not affecting current cash flow

	January 1, 2018	Cash flows	Non-cash changes			March 31, 2018
			Acquisition	Foreign exchange movement	Fair value changes	
Long-term borrowings	\$ 240,000	10,000	-	-	-	250,000

(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:

	<u>For the three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Associates-Finger Pro.	\$ 32	-

The prices for sales to related parties were similar to those for general customers. The terms of collection were approximately 30-60 days, while the normal sales credits were collected within a month. No related party receivables were pledged as collaterals and provision for bad debt is not required.

- (ii) Raw materials purchasing services and other operating income

	<u>For the three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Associates-Eminent	\$ 1,202	12,591

- (iii) Rental income

	<u>For the three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Associates-Eminent	\$ 556	2,373

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Receivable from related parties

Receivables from the related parties are as follows:

<u>Accounts</u>	<u>Types of related parties</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Accounts receivable	Associates-Eminent	\$ 1,264	495	328
Other receivables	Associates-Eminent	25,870	10,467	7,172
		<u>\$ 27,134</u>	<u>10,962</u>	<u>7,500</u>

- (v) 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, 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 \$3,618 thousand, and \$680 thousand, respectively.

(c) Key management personnel compensation

	<u>For the three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 13,319	37,527
Post-employment benefits	230	1,324
	<u>\$ 13,549</u>	<u>38,851</u>

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) For the three months ended March 31, 2018 and 2017, there were no significant additions to operating leases of the Group. Please refer to Note 9(a) of the consolidated financial statements for the year ended December 31, 2017 for further details.
- (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 March 31, 2018, December 31 and March 31, 2017, the financial institutions had issued performance guarantees amounting to \$19,000 thousand, \$19,000 thousand, and \$13,000 thousand, respectively.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (c) As of March 31, 2018, December 31 and March 31, 2017, the refundable notes payable for short-term loans amounted to \$635,000 thousand, \$635,000 thousand and \$1,045,130 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 \$12,600 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. In accordance with the progress of the project, the revenue is recognized over time as other income.

- (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. As of March 31, 2018 and 2017, the management fees were both \$1,050 thousand, 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.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 three months ended March 31					
	2018			2017		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expenses						
Salaries and wages	\$ 59,148	338,096	397,244	52,939	307,193	360,132
Labor and health insurance	4,567	20,755	25,322	3,554	19,173	22,727
Pension expenses	1,992	15,894	17,886	1,992	15,461	17,453
Others	3,434	9,704	13,138	2,995	9,484	12,479
Depreciation expenses	3,874	7,624	11,498	4,069	7,581	11,650
Amortization expenses	1,098	11,560	12,658	1,109	20,774	21,883

- (b) Seasonality of operations

The Group's sales are generally affected by Chinese New Year due to the low number of working days during that period, and the first quarter of the year is also the off-season for the electronics market. However, the overall performance of the Group has exceeded expectations, primarily due to the higher than expected sales of touchpad laptops and touchscreen chips. As such, the Group's first quarter sales and operating profits are higher as compared to the same period in the prior year. Moreover, the first quarter profit before tax in the current year is better as compared to the fourth quarter in the prior year due to gain on disposal of investments.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

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 March 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	10,070	- %	10,070	
Elan Microelectronic Corporation	Taishin 1699 Money Market Fund	-	Current financial assets at fair value through profit or loss	3,700	49,807	- %	49,807	
Elan Microelectronic Corporation	Mirae Asset Solomon Money Market Fund	-	Current financial assets at fair value through profit or loss	3,192	40,054	- %	40,054	
Elan Microelectronic Corporation	Fubon China Money Market FUND-TWD	-	Current financial assets at fair value through profit or loss	2,770	29,401	- %	29,401	
Elan Microelectronic Corporation	PineBridge Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,209	30,118	- %	30,118	
Elan Microelectronic Corporation	Cathay Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,430	30,120	- %	30,120	
Elan Microelectronic Corporation	Paradigm Pion Money Market Fund	-	Current financial assets at fair value through profit or loss	2,615	30,070	- %	30,070	
Elan Microelectronic Corporation	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	1,960	20,389	- %	20,389	
Elan Microelectronic Corporation	KGI Victory Money Market Fund	-	Current financial assets at fair value through profit or loss	2,134	24,593	- %	24,593	
Elan Microelectronic Corporation	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	198	35,122	- %	35,122	
Elan Microelectronic Corporation	Yuanta De-Li Money Market Fund	-	Current financial assets at fair value through profit or loss	3,083	50,021	- %	50,021	
Elan Microelectronic Corporation	Prudential Financial Money Market Fund	-	Current financial assets at fair value through profit or loss	1,290	20,029	- %	20,029	
Elan Microelectronic Corporation	Diversified FX Trading Segregated Portfolio	-	Current financial assets at fair value through profit or loss	441	34,647	- %	34,647	
Elan Microelectronic Corporation	Global Strategic FX Arbitrage Note	-	Current financial assets at fair value through profit or loss	207	60,237	- %	60,237	
Elan Microelectronic Corporation	Multi-Manager FX Trading Note (M2)	-	Current financial assets at fair value through profit or loss	204	60,576	- %	60,576	
Elan Microelectronic Corporation	Global Strategic FX Arbitrage Note (USD)(SERIES II)	-	Current financial assets at fair value through profit or loss	100	29,100	- %	29,100	
Elan Microelectronic Corporation	Fitipower Integrated Technology Inc.	-	Non-current financial assets at FVOCI	4,064	102,412	2.88 %	102,412	Note2
Elan Microelectronic Corporation	ThroughTek Co., Ltd.	-	Non-current financial assets at FVOCI	1,100	19,206	4.23 %	19,206	Note2
Elan Microelectronic Corporation	Chino-Excel Technology Co., Ltd.	-	Non-current financial assets at FVTPL	823	-	1.48 %	-	Note1
Elan Microelectronic Corporation	Panther technology Co., Ltd.	-	Non-current financial assets at FVTPL	340	4,464	0.94 %	4,464	Note1

(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				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Microelectronic Corporation	XINCE Co., Ltd	-	Non-current financial assets at FVTPL	2,866	-	9.24 %	-	Note1
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	4,348	22,232	17.39 %	22,232	Note1
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,400	14,766	7.00 %	15,025	Note1
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,626	13,328	8.13 %	13,328	Note1
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,674	17,470	2.17 %	17,470	Note1
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	4,837	43,920	6.12 %	43,920	Note1
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	10,000	98,468	4.17 %	98,468	Note1
Elan Microelectronic Corporation	Mida touch photoelectric Co., Ltd.	-	Non-current financial assets at FVTPL	2,500	9,600	12.31 %	9,600	Note1
Elan Microelectronic Corporation	TOP TAIWAN IX VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	5,000	55,177	6.25 %	55,177	Note1
Elan Microelectronic Corporation	InnoBridge Venture Capital	-	Non-current financial assets at FVTPL	800	3,923	11.35 %	3,923	Note1
Elan Microelectronic Corporation	Startech Engineering Corporation	-	Non-current financial assets at FVTPL	189	-	0.53 %	-	Note1
Elan Microelectronic Corporation	North Star Venture Capital	-	Non-current financial assets at FVTPL	3,000	34,295	10.00 %	34,295	Note1
Elan Microelectronic Corporation	TOP TAIWAN XI VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	5,000	46,812	6.25 %	46,812	Note1
Elan Microelectronic Corporation	Genius Digital Vision Inc.	-	Non-current financial assets at FVTPL	989	998	6.56 %	998	Note1
Elan Microelectronic Corporation	Lyra Semiconductor	-	Non-current financial assets at FVTPL	2,400	14,692	13.10 %	14,692	Note1
Elan Microelectronic Corporation	TOP TAIWAN XII VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	25,000	249,005	18.52 %	249,005	Note1
Elan Investment Corp.	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	266	47,241	- %	47,241	
Elan Investment Corp.	FSITC RMB HIGH YIELD BOND FUND-A-NTD	-	Current financial assets at fair value through profit or loss	1,613	15,297	- %	15,297	
Elan Investment Corp.	FSITC Global FinTech Fund-TWD	-	Current financial assets at fair value through profit or loss	500	6,121	- %	6,121	
Elan Investment Corp.	FSITC Global Utilities and Infrastructure Fund-A-TWD	-	Current financial assets at fair value through profit or loss	1,000	9,122	- %	9,122	
Elan Investment Corp.	Nomura Asia Pacific High Yield Bond Fund Accumulate	-	Current financial assets at fair value through profit or loss	824	11,122	- %	11,122	
Elan Investment Corp.	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	5,012	52,127	- %	52,127	

(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				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Investment Corp.	Nomura Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	1,566	25,423	- %	25,423	
Elan Investment Corp.	Tashin Global Multi-asset Fund of Funds-A	-	Current financial assets at fair value through profit or loss	1,000	10,250	- %	10,250	
Elan Investment Corp.	Taishin Global Disruptive Innovation Fund	-	Current financial assets at fair value through profit or loss	1,500	14,670	- %	14,670	
Elan Investment Corp.	United Microelectronics Corporation?		Current financial assets at fair value through profit or loss	294	4,551	- %	4,552	
Elan Investment Corp.	Elan Microelectronic Corporation	Subsidiary	Non-current available-for-sale at FVOCI	17,754	785,605	4.26 %	785,605	
Elan Investment Corp.	Fitipower Integrated Technology Inc.	-	Non-current available-for-sale at FVOCI	941	23,702	0.69 %	23,702	Note2
Elan Investment Corp.	Rafael Microelectronics, Inc.	-	Non-current financial assets at FVOCI	400	69,400	1.78 %	69,400	Note2
Elan Investment Corp.	Taiwan i Connect Co., Ltd.-Preferred shares	-	Non-current financial assets at FVTPL	10,000	2,315	14.29 %	2,315	Note1
Elan Investment Corp.	Panther technology Co., Ltd.	-	Non-current financial assets at FVTPL	1,396	18,330	3.88 %	18,330	Note1
Elan Investment Corp.	RISE Technology Com	-	Non-current financial assets at FVTPL	769	-	3.23 %	-	Note1
Elan Investment Corp.	Fine Mat Applied Materials Co., Ltd	-	Non-current financial assets at FVTPL	8,931	107,713	16.74 %	107,713	Note1
Elan Investment Corp.	Linkinwave—Preferred shares	-	Non-current financial assets at FVTPL	296	-	- %	-	Note1
Elan Investment Corp.	Pica 8-Preferred shares	-	Non-current financial assets at FVTPL	343	5,602	4.48 %	5,602	Note1
Elan Investment Corp.	Arplannet Digital Technology Co., LTD-Preferred Shares	-	Non-current financial assets at FVTPL	114	485	5.61 %	485	Note1
Elan Investment Corp.	Arplannet Digital Technology Co., LTD.-Common Stock	-	Non-current financial assets at FVTPL	75	318	3.68 %	318	Note1
Elan Investment Corp.	INNOJOY TECHNOLOGY INC.-Preferred Shares	-	Non-current financial assets at FVTPL	143	-	10.00 %	-	Note1
Elan Investment Corp.	Yi Qin Communication Co., Ltd. Preferred shares	-	Non-current financial assets at FVTPL	1,000	8,410	5.00 %	8,410	Note1
Elan Investment Corp.	e-Formula Technologies, Inc	-	Non-current financial assets at FVTPL	550	12,375	3.03 %	12,375	Note1
Elan Investment Corp.	ALGOLREALITY CO., LTD.	-	Non-current financial assets at FVTPL	100	-	13.04 %	-	Note1
Elan Investment Corp.	Vita Genomics, Inc	-	Non-current financial assets at FVTPL	677	7,787	1.13 %	7,787	Note1
Elan Investment Corp.	MedicusTek International Inc.	-	Non-current financial assets at FVTPL	1,010	-	1.83 %	-	Note1
Elan Investment Corp.	Genius Digital Vision Inc.	-	Non-current financial assets at FVTPL	740	747	4.91 %	747	Note1
Fong Yue Corporation	Waltop Electronics Co., Ltd.	-	Non-current financial assets at FVTPL	1,000	8,680	6.77 %	8,680	Note1

Note 1: These amounts are calculated based on the net assets derived from the latest unaudited financial statements of the investee.

Note 2: These amounts are calculated based on the market prices (closing prices) of the investee company on March 31, 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

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (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	105,663	5.94 %	Open Account 45 Days	-		41,177	4.44%	

- (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				Percentage of the consolidated net revenue or total assets
				Account name	Amount	Trading terms		
0	Elan Microelectronic Corporation	Elan H. K.	1	Operating revenue	105,663	Open Account 45 Days		5.94%
0	Elan Microelectronic Corporation	Elan H. K.	1	Receivables	41,177	Open Account 45 Days		0.40%
1	Elan H. K.	Elan Microelectronic Corporation	2	Commission revenue	45,481	Monthly settlement		2.56%

- (b) Information on investees:

The following is the information on investees for the three months ended March 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 March 31, 2018			Net income (losses) of investee	Share of profits/losses of investee	Note
				March 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 %	149,771	1,956	1,956	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 %	538,371	67,178	67,178	Note
Elan Microelectronic Corporation	Elan Information Technology Group	California, U.S.A	Sale and after-sales service	22,822	22,822	65	100.00 %	11,400	1,221	1,221	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 %	4,462	(987)	(484)	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 %	(66,707)	(10,180)	(6,476)	Note
Elan Microelectronic Corporation	Avionic Technology Corp	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	218,177	218,177	21,818	76.44 %	(34,422)	(7,046)	(5,582)	Note
Elan Microelectronic Corporation	Tong fu Investment Corp.	Hsin-Chu, Taiwan	Investment business	30,000	30,000	3,000	46.73 %	10,808	-	-	
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	PXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	412,631	412,631	36,547	96.38 %	23,812	(8,022)	(7,732)	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	71,029	71,029	6,202	29.89 %	15,072	(24,136)	(7,831)	
Elan Microelectronic Corporation	TOP TAIWAN X VENTURE CAPITAL CO., LTD.	Taipei, Taiwan	Venture capital	240,000	240,000	24,000	30.00 %	246,165	19,376	5,813	
Elan Microelectronic Corporation	Fong Yue Corporation	Taipei, Taiwan	Investment business	30,000	30,000	3,000	100.00 %	26,041	(2,323)	(2,323)	Note
Elan Microelectronic Corporation	Uniband Electronic,	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	80,000	80,000	8,000	24.62 %	13,126	(10,490)	(2,582)	

(Continued)

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 March 31, 2018			Net income (losses) of investee	Share of profits/losses of investee	Note
				March 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value			
Elan Microelectronic Corporation	Finger Pro. Incorporation?	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	6,000	6,000	600	23.08 %	2,854	(3,670)	(856)	
Elan Investment Corp.	Avisonic Technology Corp	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	135	135	14	0.05 %	(21)	(7,046)	(3)	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	3,361	3,361	220	0.58 %	143	(8,022)	(46)	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 %	11,816	(10,180)	(434)	Note
Elan (H.K.)	Power Asia Investment Corporation	Republic of Mauritius	Investment business	89,572	89,572	2,861	100.00 %	9,136	(15,386)	(15,386)	Note

(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 March 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	(5,733)	100.00%	(5,733)	7,097	-
Elan Shenzhen	Provide system design, information on applications expansion	34,670	(2)	34,670	-	-	34,670	(9,636)	100.00%	(9,636)	1,588	-

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 March 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
86,765	98,333	4,575,014

Note:

(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".

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information:

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

For the three months ended March 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	\$ 541,058	1,085,026	32,866	18,749	3,437	-	97,877	-	225	1,779,238
Net revenue from sales among intersegments	106,049	-	-	-	-	-	45,481	7,059	(158,589)	-
Total revenue	\$ 647,107	1,085,026	32,866	18,749	3,437	-	143,358	7,059	(158,364)	1,779,238
Reportable segment profit or loss	\$ 303,354	343,833	(9,384)	(6,119)	(7,984)	(1,053)	7,183	(987)	(341,146)	287,697
For the three months ended March 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	\$ 482,994	917,721	14,161	12,333	5,796	-	156,757	66	(588)	1,589,240
Net revenue from sales among intersegments	156,154	-	365	-	-	-	40,878	4,624	(202,021)	-
Total revenue	\$ 639,148	917,721	14,526	12,333	5,796	-	197,635	4,690	(202,609)	1,589,240
Reportable segment profit or loss	\$ 34,216	298,926	(39,494)	(11,338)	(10,297)	(1,050)	6,482	(1,187)	(49,118)	227,140