

(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 Nine Months Ended September 30, 2018 and 2017**

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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.

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## 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 September 30, 2018 and 2017, the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2018 and 2017, as well as the changes in equity and cash flows for the nine months ended September 30, 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 \$294,889 thousand and \$263,517 thousand, constituting 2.73% and 2.66% of consolidated total assets as of September 30, 2018 and 2017, respectively, total liabilities amounting to \$244,103 thousand and \$292,742 thousand, constituting 5.29% and 10.27% of consolidated total liabilities as of September 30, 2018 and 2017, respectively, and total comprehensive income(loss) amounting to \$(39,117) thousand, \$(42,798) thousand, \$(114,886) thousand and \$(163,875) thousand, constituting (7.85)%, (10.55)%, (9.90)% and (20.40)% of consolidated total comprehensive income (loss) for the period ended July 1 to September 30, 2018 and 2017, respectively, and January 1 to September 30, 2018 and 2017.

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 \$274,015 thousand and \$315,413 thousand as of September 30, 2018 and 2017, respectively, and its equity in net earnings on these investee companies of \$(9,299) thousand, \$(3,394) thousand, \$(18,212) thousand and \$(32,634) thousand for the period ended April 1 to September 30, 2018 and 2017, respectively, and January 1 to September 30, 2018 and 2017, 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 September 30, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 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 reviews resulting in this independent auditors’ review report are Gau, Wey-Chuan and Tseng, May-Yu.

KPMG

Taipei, Taiwan (Republic of China)  
November 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 September 30, 2018 and 2017**

**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**September 30, 2018, December 31, 2017, and September 30, 2017**

(Expressed in, New Taiwan Dollars)

	September 30, 2018		December 31, 2017		September 30, 2017	
	Amount	%	Amount	%	Amount	%
<b>Assets</b>						
<b>Current assets:</b>						
1100 Cash and cash equivalents (note 6(a))	\$ 3,057,566	28	1,984,013	20	2,084,090	21
1110 Total current financial assets at fair value through profit or loss (note 6(b))	633,673	6	734,002	7	735,598	7
1170 Accounts receivable, net (notes 6(c) and 7)	1,299,360	12	937,773	9	1,475,054	15
1200 Other receivables, net (notes 6(c) and 7)	906,225	8	539,467	5	305,129	3
1310 Inventories, manufacturing business, net (note 6(d))	1,157,746	11	1,153,803	11	1,049,394	11
1410 Total prepayments	58,439	1	65,306	1	58,864	1
1476 Other current financial assets (note 6(a))	1,412,580	13	2,539,200	25	2,143,400	22
	<u>8,525,609</u>	<u>79</u>	<u>7,953,564</u>	<u>78</u>	<u>7,851,529</u>	<u>80</u>
<b>Non-current assets:</b>						
1510 Total non-current financial assets at fair value through profit or loss (note 6(b))	799,831	7	-	-	-	-
1517 Total non-current financial assets at fair value through other comprehensive income (note 6(e))	291,997	3	-	-	-	-
1523 Non-current available-for-sale financial assets, net (note 6(f))	-	-	226,318	2	235,235	2
1551 Investments accounted for using equity method (note 6(g))	274,015	3	310,033	3	315,413	3
1543 Non-current financial assets at cost, net (note 6(h))	-	-	761,868	8	583,048	6
1600 Total property, plant and equipment (note 6(i))	617,591	6	580,010	6	569,925	6
1780 Total intangible assets (note 6(i))	236,303	2	256,273	3	267,480	2
1840 Deferred tax assets	25,808	-	25,808	-	23,405	-
1900 Total other non-current assets	26,898	-	28,931	-	51,419	1
	<u>2,272,443</u>	<u>21</u>	<u>2,189,241</u>	<u>22</u>	<u>2,045,925</u>	<u>20</u>
<b>Total assets</b>	<u>\$ 10,798,052</u>	<u>100</u>	<u>10,142,805</u>	<u>100</u>	<u>9,897,454</u>	<u>100</u>
<b>Liabilities and Equity</b>						
<b>Current liabilities:</b>						
Total short-term borrowings (note 6(k))	\$ 218,000	2	240,000	2	250,000	3
Total accounts payable	1,129,126	10	895,974	9	927,634	9
Employee bonus payable (note 6(s))	341,575	3	175,000	2	136,457	1
Current tax liabilities	334,674	3	154,292	2	202,266	2
Total other current liabilities	2,195,067	20	945,148	9	889,678	9
	<u>4,218,442</u>	<u>38</u>	<u>2,410,414</u>	<u>24</u>	<u>2,406,035</u>	<u>24</u>
<b>Non-Current liabilities:</b>						
Net defined benefit liability, non-current	383,870	4	396,206	4	433,204	5
Guarantee deposits received	10,614	-	10,426	-	10,311	-
Total deferred tax liabilities	2,296	-	2,296	-	2,223	-
	<u>396,780</u>	<u>4</u>	<u>408,928</u>	<u>4</u>	<u>445,738</u>	<u>5</u>
	<u>4,615,222</u>	<u>42</u>	<u>2,819,342</u>	<u>28</u>	<u>2,851,773</u>	<u>29</u>
<b>Total liabilities</b>						
<b>Equity attributable to owners of parent: (notes 6(n) and (o))</b>						
Total capital stock	3,038,804	28	4,341,148	43	4,341,148	44
Total capital surplus	444,125	4	536,328	5	505,184	5
Retained earnings:						
Legal reserve	1,419,965	13	1,312,585	13	1,312,585	13
Total unappropriated retained earnings (accumulated deficit)	1,141,071	11	1,109,748	11	832,313	8
	<u>2,561,036</u>	<u>24</u>	<u>2,422,333</u>	<u>24</u>	<u>2,144,898</u>	<u>21</u>
	<u>211,915</u>	<u>2</u>	<u>147,779</u>	<u>1</u>	<u>186,481</u>	<u>2</u>
Total other equity interest	(32,879)	-	(91,111)	(1)	(91,111)	(1)
Treasury shares	6,223,001	58	7,356,477	72	7,086,600	71
<b>Total equity attributable to owners of parent:</b>	<u>(40,171)</u>	<u>-</u>	<u>(33,014)</u>	<u>-</u>	<u>(40,919)</u>	<u>-</u>
Non-controlling interests	6,182,830	58	7,323,463	72	7,045,681	71
<b>Total equity</b>	<u>\$ 10,798,052</u>	<u>100</u>	<u>10,142,805</u>	<u>100</u>	<u>9,897,454</u>	<u>100</u>
<b>Total liabilities and equity</b>						

See accompanying notes to financial statements.

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**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 and nine months ended September 30, 2018 and 2017**

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

	For the three months ended September 30				For the nine months ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
4000 <b>Total operating revenue</b> (notes 6(p), (q) and 7, 14)	\$ 2,484,233	100	2,159,855	100	6,367,377	100	5,615,942	100
5000 <b>Total operating costs</b> (notes 6(d) and (l))	<u>1,338,841</u>	<u>54</u>	<u>1,165,357</u>	<u>54</u>	<u>3,486,631</u>	<u>55</u>	<u>3,094,650</u>	<u>55</u>
<b>Gross profit from operations</b>	<u>1,145,392</u>	<u>46</u>	<u>994,498</u>	<u>46</u>	<u>2,880,746</u>	<u>45</u>	<u>2,521,292</u>	<u>45</u>
5920 Add: Realized profit (loss) on from sales	<u>1</u>	<u>-</u>	<u>(145)</u>	<u>-</u>	<u>2,962</u>	<u>-</u>	<u>363</u>	<u>-</u>
	<u>1,145,393</u>	<u>46</u>	<u>994,353</u>	<u>46</u>	<u>2,883,708</u>	<u>45</u>	<u>2,521,655</u>	<u>45</u>
<b>Operating expenses:</b> (notes 6(l) and 9, 12)								
6100 Total selling expenses	94,065	4	85,380	4	263,199	4	229,361	4
6200 Total administrative expenses	85,509	3	79,461	4	245,918	4	229,406	4
6300 Total research and development expenses	395,388	16	361,219	17	1,123,673	18	1,036,442	18
6450	<u>2,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,871</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>577,929</u>	<u>23</u>	<u>526,060</u>	<u>25</u>	<u>1,641,661</u>	<u>26</u>	<u>1,495,209</u>	<u>26</u>
<b>Income from operations</b>	<u>567,464</u>	<u>23</u>	<u>468,293</u>	<u>21</u>	<u>1,242,047</u>	<u>19</u>	<u>1,026,446</u>	<u>19</u>
<b>Non-operating income and expenses:</b>								
7010 Total other income (notes 6(r))	17,078	1	23,560	1	56,329	1	73,368	1
7020 Other gains and losses, net (notes 6(h) and (r))	17,360	1	(7,826)	-	104,614	2	(76,993)	(1)
7050 Finance costs, net	(1,186)	-	(1,141)	-	(3,405)	-	(2,871)	-
7590 Miscellaneous disbursements	-	-	(760)	-	(1,442)	-	(4,687)	-
7770 Share of loss of associates and joint ventures accounted for using equity method (note 6(g))	<u>(9,299)</u>	<u>-</u>	<u>(3,394)</u>	<u>-</u>	<u>(18,212)</u>	<u>-</u>	<u>(32,634)</u>	<u>(1)</u>
	<u>23,953</u>	<u>2</u>	<u>10,439</u>	<u>1</u>	<u>137,884</u>	<u>3</u>	<u>(43,817)</u>	<u>(1)</u>
<b>Income before income tax</b>	<u>591,417</u>	<u>25</u>	<u>478,732</u>	<u>22</u>	<u>1,379,931</u>	<u>22</u>	<u>982,629</u>	<u>18</u>
8110 Income tax expenses (note 6(m))	<u>119,290</u>	<u>5</u>	<u>88,907</u>	<u>4</u>	<u>283,628</u>	<u>4</u>	<u>188,066</u>	<u>3</u>
<b>Profit (loss)</b>	<u>472,127</u>	<u>20</u>	<u>389,825</u>	<u>18</u>	<u>1,096,303</u>	<u>18</u>	<u>794,563</u>	<u>15</u>
8300 <b>Other comprehensive income:</b>								
8310 <b>Components of other comprehensive income that will not be reclassified to profit or loss</b>								
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	26,408	1	-	-	65,679	1	-	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>26,408</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>65,679</u>	<u>1</u>	<u>-</u>	<u>-</u>
8360 <b>Other components of other comprehensive income that will not be reclassified to profit or loss</b>								
8361 Exchange differences on translation	(485)	-	17	-	(134)	-	(1,836)	-
8362 Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	15,394	1	-	-	10,483	-
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	<u>(42)</u>	<u>-</u>	<u>242</u>	<u>-</u>	<u>(1,409)</u>	<u>-</u>	<u>15</u>	<u>-</u>
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(527)</u>	<u>-</u>	<u>15,653</u>	<u>1</u>	<u>(1,543)</u>	<u>-</u>	<u>8,662</u>	<u>-</u>
8300 <b>Other comprehensive income, net</b>	<u>25,881</u>	<u>1</u>	<u>15,653</u>	<u>1</u>	<u>64,136</u>	<u>1</u>	<u>8,662</u>	<u>-</u>
<b>Comprehensive income</b>	<u>\$ 498,008</u>	<u>21</u>	<u>405,478</u>	<u>19</u>	<u>1,160,439</u>	<u>19</u>	<u>803,225</u>	<u>15</u>
<b>Net income for the period attributable to:</b>								
Owners of the parent	\$ 480,353	20	399,608	18	1,120,047	18	832,149	16
Non-controlling interests	<u>(8,226)</u>	<u>-</u>	<u>(9,783)</u>	<u>-</u>	<u>(23,744)</u>	<u>-</u>	<u>(37,586)</u>	<u>(1)</u>
	<u>\$ 472,127</u>	<u>20</u>	<u>389,825</u>	<u>18</u>	<u>1,096,303</u>	<u>18</u>	<u>794,563</u>	<u>15</u>
<b>Total comprehensive income for the period attributable to:</b>								
Owners of the parent	\$ 506,234	21	415,262	19	1,184,183	19	841,108	16
Non-controlling interests	<u>(8,226)</u>	<u>-</u>	<u>(9,784)</u>	<u>-</u>	<u>(23,744)</u>	<u>-</u>	<u>(37,883)</u>	<u>(1)</u>
	<u>\$ 498,008</u>	<u>21</u>	<u>405,478</u>	<u>19</u>	<u>1,160,439</u>	<u>19</u>	<u>803,225</u>	<u>15</u>
<b>Earnings per share</b> (note 6(o))								
Basic earnings per share	<u>\$ 1.28</u>		<u>0.96</u>		<u>2.78</u>		<u>2.00</u>	
Diluted earnings per share	<u>\$ 1.27</u>		<u>0.95</u>		<u>2.76</u>		<u>1.98</u>	

See accompanying notes to financial statements.

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Reviewed only, not audited in accordance with generally accepted auditing standards

**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**For the nine months ended September 30, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent										
	Total other equity interest									Non-controlling interests	Total equity
	Unrealized gains					Treasury shares	Total equity attributable to owners of parent				
	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	gains (losses) on available-for-sale financial assets							
Ordinary shares	Capital surplus	Legal reserve	Retained earnings	Unappropriate d retained earnings							
\$	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)	-	-	-	832,149	-	-	-	-	832,149	(37,586)	794,563
Other comprehensive income	-	-	-	-	(1,539)	-	10,498	-	8,959	(297)	8,662
Total comprehensive income	-	-	-	832,149	(1,539)	-	10,498	-	841,108	(37,883)	803,225
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	-	-	-	-	-
Other changes in capital surplus:	-	-	-	(48,157)	-	-	-	-	-	-	-
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	17,718	-	-	-	-	-	10,157	27,875	-	27,875
Cash dividends from capital surplus	-	(248,315)	-	-	-	-	-	-	(248,315)	-	(248,315)
Balance at September 30, 2017	\$ 4,341,148	505,184	1,312,585	832,313	(3,677)	-	190,158	(91,111)	7,086,600	(40,919)	7,045,681
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)	-	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)	-	-	-	1,120,047	-	-	-	-	1,120,047	(23,744)	1,096,303
Other comprehensive income	-	-	-	-	(164)	64,300	-	-	64,136	-	64,136
Total comprehensive income	-	-	-	1,120,047	(164)	64,300	-	-	1,184,183	(23,744)	1,160,439
Legal reserve appropriated	-	-	107,380	(107,380)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(998,464)	-	-	-	-	(998,464)	-	(998,464)
Cash dividends from capital surplus	-	(121,552)	-	-	-	-	-	-	(121,552)	-	(121,552)
Capital reduction	(1,302,344)	-	-	-	-	-	-	53,261	(1,249,083)	-	(1,249,083)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	40,834	-	-	-	-	-	4,971	45,805	-	45,805
Issuance of shares for non-controlling interests	-	-	-	-	-	-	-	-	-	860	860
Changes in non-controlling interests	-	(11,485)	-	-	-	-	-	-	(11,485)	15,727	4,242
Balance at September 30, 2018	\$ 3,038,804	444,125	1,419,965	1,141,071	(4,224)	216,139	-	(32,879)	6,223,001	(40,171)	6,182,830

See accompanying notes to financial statements.

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**REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY  
ACCEPTED AUDITING STANDARDS**

**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the nine months ended September 30, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

	For the nine months ended September 30	
	2018	2017
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 1,379,931	982,629
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	34,652	34,495
Amortization expense	37,634	59,873
Expected credit loss / Provision (reversal of provision) for bad debt expense	8,871	2,062
Net gain on financial assets at fair value through profit or loss	(48,782)	(610)
Interest expense	3,405	2,871
Interest income	(32,069)	(27,113)
Dividend income	(11,434)	(33,886)
Share of loss of associates and joint ventures accounted for using equity method	18,212	32,634
Loss on disposal of property, plant and equipment	290	217
Impairment loss	20,404	50,575
Gain on disposal of financial assets at fair value through profit or loss	(50,286)	-
Gain on disposal of non-current financial assets at cost	-	(14,909)
Gain on disposal of available-for-sale financial assets	-	(13,036)
Difference between net pension liability and actual appropriations	(12,336)	(148)
Impairment loss and disposal loss on inventory	70,750	51,413
Others	(132)	(1,344)
<b>Total adjustments to reconcile profit (loss)</b>	<b>39,179</b>	<b>143,094</b>
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in financial assets at fair value through profit or loss	107,179	(313)
Increase in notes and accounts receivable	(370,458)	(369,049)
Increase in inventories	(74,693)	(46,511)
Decrease (increase) in other operating assets	7,123	(27,033)
Increase in other receivable	(246,254)	(117,404)
Increase in notes and accounts payable	233,152	93,796
Increase in other payable	167,536	292,387
Cash inflow generated from operations	1,242,695	951,596
Interest received	32,306	27,081
Dividends received	11,443	47,806
Interest paid	(3,530)	(2,979)
Income taxes paid	(223,987)	(67,161)
<b>Net cash flows from (used in) operating activities</b>	<b>1,058,927</b>	<b>956,343</b>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of financial assets at amortized cost	-	(46,356)
Proceeds from disposal of financial assets at fair value through profit or loss	47,692	-
Acquisition of financial assets designated at fair value through profit or loss	(8,539)	-
Proceeds from disposal of available-for-sale financial assets	-	18,421
Proceeds from capital reduction of financial assets at fair value through profit or loss	32,222	-
Proceeds from disposal of financial assets at cost	-	14,909
Proceeds from capital reduction of financial assets at cost	-	56,991
Acquisition of property, plant and equipment	(72,573)	(26,114)
Acquisition of intangible assets	(17,666)	(76,836)
Decrease (increase) in other non-current assets	2,033	(27,749)
Decrease in time deposit with maturity longer than three months	1,126,620	(85,580)
<b>Net cash flows from (used in) investing activities</b>	<b>1,109,789</b>	<b>(172,314)</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	322,000	350,000
Decrease in short-term loans	(344,000)	(240,000)
Increase (decrease) in guarantee deposits received	188	(146)
Cash dividends paid	(1,074,211)	(653,686)
Change in non-controlling interests	860	-
<b>Net cash flows from (used in) financing activities</b>	<b>(1,095,163)</b>	<b>(543,832)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,073,553</b>	<b>240,197</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,984,013</b>	<b>1,843,893</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,057,566</b>	<b>2,084,090</b>

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**

**September 30, 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 November 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.

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

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

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

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

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

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

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

1) Sales of goods

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

(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 nine months ended September 30, 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):

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
<b>Financial Assets</b>				
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, September 30, 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 nine-month period ended September 30, 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 September 30, 2018. There was no material impact on the income tax expense, the basic and diluted earnings per share, and the cash flows for the nine-month period ended September 30, 2018.

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

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

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

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

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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(i) IFRS 16“Leases”

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

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

The Group has completed an initial assessment of the potential impact on its consolidated financial statements, wherein the detailed assessment has yet to be completed. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group’s discounting rate, the composition of the Group’s lease portfolio at that date, the Group’s latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for its operating leases of offices, warehouse and factory facilities. No significant impact is expected for the Group’s finance leases. Besides, The Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

1) Determining whether an arrangement contains a lease

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

- apply the IFRS 16 definition of a lease to all its contracts; or
- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

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

2) Transition

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

- retrospective approach; or

(Continued)

**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- modified retrospective approach with optional practical expedients.

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

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

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

The Group is not required to make any adjustments for leases in which the Group is the lessor except where the Group is the intermediate lessor in a sub-lease.

(ii) **IFRIC 23 Uncertainty over Income Tax Treatments**

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the most significant impact identified is that the Group will have to recognize the new income tax liabilities and income tax expense for its uncertainty over income tax treatments.

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

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

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

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	<p>The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p>

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

**(4) Summary of significant accounting policies:**

**(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.

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.

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(b) Basis of consolidation

List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding			Note
			September 30, 2018	December 31, 2017	September 30, 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	81.00 %	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	97.27 %	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 %	-

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.

(Continued)

**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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.

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**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.

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

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

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

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

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

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

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 360 days past due;
- 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.

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

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

5) Derecognition of financial assets

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

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

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

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

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

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.

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

2) Available-for-sale financial assets

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

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

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

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

3) Receivables

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

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

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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4) Impairment of financial assets

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

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

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

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

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

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

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

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

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

5) Derecognition of financial assets

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

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

(iii) Financial liabilities and equity instruments (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.

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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.

(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.

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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.

(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.

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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**(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.

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**

	September 30, 2018	December 31, 2017	September 30, 2017
Petty cash	\$ 526	647	611
Checking and demand deposits	1,445,860	750,692	862,749
Time deposits with maturities of three months or less	1,611,180	1,232,674	1,220,730
	<u>\$ 3,057,566</u>	<u>1,984,013</u>	<u>2,084,090</u>

As of September 30, 2018, December 31 and September 30, 2017, time deposits with maturities of more than three months held by the Group amounted to \$1,412,580 thousand, \$2,539,200 thousand, and \$2,143,400 thousand, respectively, and were recorded as other current financial assets. The Group did not recognize impairment loss on other current financial assets for the nine months ended September 30, 2018. Other information relating to credit risk is provided in Note 6(t).

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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(b) Financial assets current at fair value through profit or loss

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Mandatorily measured at fair value through profit or loss:			
Current:			
Listed stocks	\$ 11,914		
Open-end certificates of beneficial interest	453,320		
Short-term commercial papers	168,439		
Non-current:			
Listed stocks	799,831		
Financial assets held for trading:			
Listed stocks	-	13,822	12,583
Open-end certificates of beneficial interest	-	567,775	566,635
Short-term commercial papers	-	152,405	156,380
Total	<u>\$ 1,433,504</u>	<u>734,002</u>	<u>735,598</u>

(c) Notes, accounts receivable and other receivables

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Notes receivable	\$ 12,914	25,302	21,125
Accounts receivable	1,336,535	965,781	1,511,037
Less: Allowance for doubtful accounts	(50,089)	(41,218)	(43,015)
Sales return and allowance	-	(12,092)	(14,093)
	<u>\$ 1,299,360</u>	<u>937,773</u>	<u>1,475,054</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 September 30, 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 September 30, 2018 was determined as follows:

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	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 1,229,811	0.19%	2,337
1 to 30 days past due	37,493	3.12%	1,170
31 to 60 days past due	19,914	16.95%	3,375
61 to 90 days past due	4,691	37.05%	1,738
More than 90 days past due	44,626	50%~100%	41,469
	<u>\$ 1,336,535</u>		<u>50,089</u>

As of December 31 and September 30, 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	September 30, 2017
Past due 1 to 30 days	\$ 76,240	87,559
Past due 31 to 120 days	27,809	22,325
Past due 121 to 365 days	2,446	2,782
	<u>\$ 106,495</u>	<u>112,666</u>

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

	For the nine months ended September 30, 2018	For the nine months ended September 30, 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	8,871	(726)	2,788
Balance on September 30, 2018 and 2017	<u>\$ 50,089</u>	<u>29,343</u>	<u>13,672</u>

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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In order to reduce the credit risk from accounts receivable, the Group has entered into non-recourse factoring agreements with several banks. As of September 30, 2018, December 31 and September 30, 2017, the Group has reclassified these accounts receivables into other receivables, amounting to \$706,085 thousand, \$493,794 thousand, and \$262,735 thousand, respectively. The Group did not recognize impairment loss on other receivables for the nine months ended September 30, 2018, and information on other credit risk is disclosed in Note 6(t). The related information on factoring is as follows:

<u>Purchaser</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>Assignment facility</u>		
			<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
KGI Commercial Bank	0.05%~0.12%	None	\$ 490,000	1,150,000	800,000
Taishin International Bank	0.05%~0.15%	None	250,000	250,000	300,000
			<u>\$ 740,000</u>	<u>1,400,000</u>	<u>1,100,000</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>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Raw materials	\$ 496,171	294,252	230,704
Work in progress	454,899	542,914	533,126
Finished goods	206,676	316,637	285,564
	<u>\$ 1,157,746</u>	<u>1,153,803</u>	<u>1,049,394</u>

Inventories recognized as cost of goods sold and the related expense amounted to \$1,313,461 thousand, \$1,153,815 thousand, \$3,415,433 thousand and \$3,042,707 thousand, \$25,292 thousand, \$11,056 thousand, \$70,750 thousand and \$51,413 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 \$88 thousand, \$486 thousand, \$448 thousand and \$530 thousand for the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017, respectively.

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**Notes to the Consolidated Financial Statements**

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

	<u>September 30, 2018</u>
Equity investments at fair value through other comprehensive income:	
Emerging stocks	\$ <u>291,997</u>
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 September 30, 2017.

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

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Emerging stocks	\$ <u>226,318</u>	<u>235,235</u>

- (i) Except for above, these investments were classified as financial assets at fair value through other comprehensive income on September 30, 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:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Associate	\$ <u>274,015</u>	<u>310,033</u>	<u>315,413</u>

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

	Nature of the relationship	Principal country	<u>September 30, 2018</u>		<u>December 31, 2017</u>		<u>September 30, 2017</u>	
			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.	38,381	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	23.12	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>\$ 394,381</u>		<u>427,029</u>		<u>427,029</u>	

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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 September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Attributable to the Group:				
Loss from continuing operations	\$ (9,299)	(3,394)	(18,212)	(32,634)
Other comprehensive (loss) income	(42)	242	(1,409)	15
Comprehensive income	<u>\$ (9,341)</u>	<u>(3,152)</u>	<u>(19,621)</u>	<u>(32,619)</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.

The Group recognized \$0 thousand and \$15,000 thousand in impairment losses against Eminent Electronic Technology Crop. Ltd. and \$5,404 thousand and \$5,404 thousand in impairment losses against Tong Fu Investment Corporation for the three months and the nine months ended September 30, 2018, respectively.

(h) Non-current Financial assets at costs

	December 31, 2017	September 30, 2017
Domestic non-publicly traded common stocks	\$ 746,812	562,983
Foreign non-publicly traded common stocks	255	1,793
Foreign non-publicly traded common stocks	10,650	12,910
Foreign non-publicly traded preferred stocks	4,151	5,362
Total	<u>\$ 761,868</u>	<u>583,048</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 September 30, 2017. These investments were classified as financial assets at fair value through profit or loss on September 30, 2018.
- (ii) The Group periodically evaluates the financial assets carried at costs and recognized the impairment loss amounting to \$20,284 thousand and \$50,575 thousand for the three months and nine months ended September 30, 2017, due to a permanent decline of investment value, and it was recorded as part of other gains and losses.

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(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	-	502	20,395	3,422	48,254	72,573
Derecognized	-	-	(7,950)	(6,331)	-	(14,281)
Reclassification	-	1,708	14,228	-	(16,212)	(276)
Effect of exchange rate changes	-	-	(231)	(280)	-	(511)
Balance as of September 30, 2018	<u>\$ 118,813</u>	<u>1,029,341</u>	<u>466,522</u>	<u>143,813</u>	<u>46,875</u>	<u>1,805,364</u>
Balance as of January 1, 2017	\$ 118,813	1,025,687	416,654	170,442	5,872	1,737,468
Additions	-	1,149	11,652	2,493	10,820	26,114
Derecognized	-	-	(3,997)	(26,773)	-	(30,770)
Reclassification	-	-	4,731	376	(7,974)	(2,867)
Effect of exchange rate changes	-	-	(107)	(128)	-	(235)
Balance as of September 30, 2017	<u>\$ 118,813</u>	<u>1,026,836</u>	<u>428,933</u>	<u>146,410</u>	<u>8,718</u>	<u>1,729,710</u>
Accumulated depreciation:						
Balance as of January 1, 2018	\$ -	645,152	390,294	132,403	-	1,167,849
Depreciation	-	11,570	17,225	5,857	-	34,652
Derecognized	-	-	(7,950)	(6,331)	-	(14,281)
Effect of exchange rate changes	-	-	(205)	(242)	-	(447)
Balance as of September 30, 2018	<u>\$ -</u>	<u>656,722</u>	<u>399,364</u>	<u>131,687</u>	<u>-</u>	<u>1,187,773</u>
Balance as of January 1, 2017	\$ -	629,843	373,470	152,711	-	1,156,024
Depreciation	-	11,497	16,198	6,800	-	34,495
Derecognized	-	-	(3,997)	(26,535)	-	(30,532)
Effect of exchange rate changes	-	-	(94)	(108)	-	(202)
Balance as of September 30, 2017	<u>\$ -</u>	<u>641,340</u>	<u>385,577</u>	<u>132,868</u>	<u>-</u>	<u>1,159,785</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 September 30, 2018	<u>\$ 118,813</u>	<u>372,619</u>	<u>67,158</u>	<u>12,126</u>	<u>46,875</u>	<u>617,591</u>
Balance as of September 30, 2017	<u>\$ 118,813</u>	<u>385,496</u>	<u>43,356</u>	<u>13,542</u>	<u>8,718</u>	<u>569,925</u>

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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(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	-	7,854	9,812	17,666
Derecognized	-	(10,755)	(10,800)	(21,555)
Effects of exchange rate changes	-	-	(14)	(14)
Balance as of September 30, 2018	<u>\$ 176,838</u>	<u>91,504</u>	<u>144,732</u>	<u>413,074</u>
Balance as of January 1, 2017	\$ 176,838	200,857	150,431	528,126
Additions	-	886	75,950	76,836
Derecognized	-	(92,000)	(76,281)	(168,281)
Effects of exchange rate changes	-	-	(17)	(17)
Balance as of September 30, 2017	<u>\$ 176,838</u>	<u>109,743</u>	<u>150,083</u>	<u>436,664</u>
Accumulated amortization:				
Balance as of January 1, 2018	\$ -	77,309	83,395	160,704
Additions	-	12,492	25,142	37,634
Derecognized	-	(10,755)	(10,800)	(21,555)
Effects of exchange rate changes	-	-	(12)	(12)
Balance as of September 30, 2018	<u>\$ -</u>	<u>79,046</u>	<u>97,725</u>	<u>176,771</u>
Balance as of January 1, 2017	\$ -	144,858	132,749	277,607
Additions	-	34,771	25,102	59,873
Derecognized	-	(92,000)	(76,281)	(168,281)
Effects of exchange rate changes	-	-	(15)	(15)
Balance as of September 30, 2017	<u>\$ -</u>	<u>87,629</u>	<u>81,555</u>	<u>169,184</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 September 30, 2018	<u>\$ 176,838</u>	<u>12,458</u>	<u>47,007</u>	<u>236,303</u>
Balance as of September 30, 2017	<u>\$ 176,838</u>	<u>22,114</u>	<u>68,528</u>	<u>267,480</u>

(k) Short-term borrowings

The short-term borrowings were summarized as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Unsecured bank loans	<u>\$ 218,000</u>	<u>240,000</u>	<u>250,000</u>
Range of interest rate	<u>1.69%~2.11%</u>	<u>1.69%~2.45%</u>	<u>1.69%~2.45%</u>
Unused short-term credit lines	<u>\$ 367,000</u>	<u>385,000</u>	<u>415,000</u>

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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(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:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Operating cost	\$ 169	181	507	542
Selling expense	188	196	568	577
Administrative expense	214	203	641	661
Research and development expense	<u>1,386</u>	<u>1,329</u>	<u>4,156</u>	<u>4,048</u>
	<u><b>\$ 1,957</b></u>	<u><b>1,909</b></u>	<u><b>5,872</b></u>	<u><b>5,828</b></u>

(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 September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017 were as follows:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Operating cost	\$ 1,818	1,786	5,497	5,382
Selling expense	1,231	1,219	3,782	3,726
Administrative expense	1,969	2,012	5,952	5,994
Research and development expense	<u>10,563</u>	<u>10,009</u>	<u>31,933</u>	<u>30,381</u>
	<u><b>\$ 15,581</b></u>	<u><b>15,026</b></u>	<u><b>47,164</b></u>	<u><b>45,483</b></u>

(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:

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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<b>Group</b>	<b>Year</b>	<b>Tax exemption products</b>	<b>Tax exemption period</b>
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 Company's effective tax rate in respect of continuing operations for the nine months ended September 30, 2018. According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018. The group spreads the effect of the change in the tax rate by an adjustment to the estimated annual effective income tax rate.

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The Group's income tax expenses were as follow:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>
Current income tax expense	<u>\$ 119,290</u>	<u>88,907</u>	<u>283,628</u>	<u>188,066</u>

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

(n) Capital and other equity

(i) Ordinary share

As of September 30, 2018, December 31 and September 30, 2017, the authorized capital of the Company amounted to \$4,800,000 thousand, which was divided into 303,880 thousand shares, 434,115 thousand shares and 434,115 thousand shares, respectively, each at a par value of 10 New Taiwan Dollars on common stock. The issued capital was composed of common stocks only and have been fully paid-up.

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

(ii) Capital surplus

The balances of capital surplus as of September 30, 2018, December 31 and September 30, 2017 were as follows:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Additional paid-in capital	\$ 337,409	458,961	458,961
Treasury stock	87,057	46,223	46,223
Difference arising from subsidiary's share price and its carrying value	<u>19,659</u>	<u>31,144</u>	<u>-</u>
	<u>\$ 444,125</u>	<u>536,328</u>	<u>505,184</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.

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

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

(iii) Retained earnings

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

1) Legal reserve

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

2) Special reserve

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

3) Earnings distribution

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

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iv) Treasury stock

	<u>September 30, 2018</u>		<u>December 31, 2017</u>		<u>September 30, 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>12,428</u>	<u>\$ 32,879</u>	<u>17,754</u>	<u>91,111</u>	<u>17,754</u>	<u>91,111</u>

Elan Investment Corp., a subsidiary of the Company, invested in Elantech before the Company acquired Elantech, and held the Company's stock after the Company's acquisition of Elantech. For the nine months ended September 30, 2018 and 2017, the information on the Company's stock held by Elan Investment Corp. was as follows:

	<u>For the nine months ended September 30</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	-	-	31,850	-	-	135,816
Cash dividend from capital surplus	-	(4,971)	-	-	(10,157)	-
Capital reduction	(5,326)	(53,261)	-	-	-	-
Ending balance	<u>12,428</u>	<u>\$ 32,879</u>	<u>850,300</u>	<u>17,754</u>	<u>91,111</u>	<u>750,985</u>

(v) Other equity

Movements of other equity for the nine months ended September 30, 2018 and 2017 were as follows:

	<u>For the nine months ended September 30, 2018</u>		
	<u>Foreign exchange differences arising from foreign operation</u>	<u>Unrealized gains (losses) from available-for-sale investments</u>	<u>Total</u>
Balance as of January 1	\$ (4,060)	151,839	147,779
Foreign exchange differences:			
The Group	(134)	-	(134)
Associates	(30)	-	(30)
Unrealized gains and losses from available-for-sale investment:			
The Group	-	65,679	65,679
Associates	-	(1,379)	(1,379)
Balance as of December 31	<u>\$ (4,224)</u>	<u>216,139</u>	<u>211,915</u>

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	For the nine months ended September 30, 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	(1,539)	-	(1,539)
Unrealized gains and losses from available- for-sale investment:			
The Group	-	23,519	23,519
Associates	-	15	15
Reclassification of available-for-sale financial assets:			
The Group	-	(13,036)	(13,036)
Balance as of December 31	<u>\$ (3,677)</u>	<u>190,158</u>	<u>186,481</u>

(o) Earnings per share

Basic and diluted earnings per share for the nine months ended September 30, 2018 and 2017 were computed as follows:

(i) Basic earnings per share:

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Net income	<u>\$ 480,353</u>	<u>399,608</u>	<u>1,120,047</u>	<u>832,149</u>
Weighted-average number of shares outstanding (thousands)	<u>374,725</u>	<u>416,360</u>	<u>402,482</u>	<u>416,360</u>
Earnings per share (New Taiwan dollars)	<u>\$ 1.28</u>	<u>0.96</u>	<u>2.78</u>	<u>2.00</u>

(ii) Diluted earnings per share:

Net income (used to calculate diluted earnings per share)	<u>\$ 480,353</u>	<u>399,608</u>	<u>1,120,047</u>	<u>832,149</u>
Weighted-average number of shares outstanding (thousands)	374,725	416,360	402,482	416,360
Effect of dilutive potential common stock				
— employee emoluments	<u>2,382</u>	<u>842</u>	<u>3,595</u>	<u>3,840</u>
Weighted-average number of shares outstanding (thousands) used to calculate diluted earnings per share	<u>\$ 377,107</u>	<u>417,202</u>	<u>406,077</u>	<u>420,200</u>
Diluted earnings per share	<u>\$ 1.27</u>	<u>0.95</u>	<u>2.76</u>	<u>1.98</u>

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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(p) Revenue from contracts with customers

(i) Disaggregation of revenue

	<b>For the three months ended September 30, 2018</b>
Taiwan	\$ 274,372
Mainland China	542,648
Hong Kong	1,652,631
United States of America	4,021
Korea	1,860
Other	8,701
	<u><u>\$ 2,484,233</u></u>
	<b>For the nine months ended September 30, 2018</b>
Taiwan	\$ 716,260
Mainland China	1,361,090
Hong Kong	4,236,017
United States of America	25,951
Korea	3,226
Other	24,833
	<u><u>\$ 6,367,377</u></u>

For details on revenue for the nine months ended September 30, 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:

	<b>For the three months ended June 30 2017</b>	<b>For the nine months ended September 30 2017</b>
Net revenue from sale of goods	\$ 2,156,671	5,600,568
Other revenue	3,184	15,374
	<u><u>\$ 2,159,855</u></u>	<u><u>5,615,942</u></u>

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(r) Non-operating income and expenses

(i) Other income

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Interest income	\$ 9,717	8,844	32,069	27,113
Dividend income	5,470	10,834	11,434	33,886
Rental income	503	556	1,615	1,195
Others	1,388	3,326	11,211	11,174
	<u>\$ 17,078</u>	<u>23,560</u>	<u>56,329</u>	<u>73,368</u>

(ii) Other gains and losses

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Foreign exchange losses	\$ 4,618	(3,006)	26,240	(54,756)
Net gains (losses) on financial asset at fair value through profit or loss	16,269	7,236	48,782	610
Loss on disposal of property, plant and equipment	(96)	(97)	(290)	(217)
Gain on disposal of financial assets at cost	-	2,901	-	14,909
Gain on disposal of available- for-sale financial assets	-	5,424	-	13,036
Gain on disposal of financial assets at fair value through profit or loss	1,973	-	50,286	-
Impairment loss	(5,404)	(20,284)	(20,404)	(50,575)
	<u>\$ 17,360</u>	<u>(7,826)</u>	<u>104,614</u>	<u>(76,993)</u>

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

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

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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For the nine months ended September 30, 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.

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

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Employees' remuneration	\$ 71,760	56,584	166,010	120,565
Directors' and supervisors' remuneration	8,881	7,366	20,565	15,892
	<b>\$ 80,641</b>	<b>63,950</b>	<b>186,575</b>	<b>136,457</b>

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

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note 6(s) of the consolidated financial statements for the year ended December 31, 2017.

(i) Credit risk

1) Credit risk exposure

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

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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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 nine month ended September 30, 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 nine month ended September 30, 2018.

(ii) Market risk

Currency risk

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

	September 30, 2018			December 31, 2017			September 30, 2017			
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	
Financial assets:										
Monetary item										
US dollar	\$	90,036	30.52	2,748,220	76,092	29.82	2,268,786	87,697	30.16	2,644,904
Financial liabilities:										
Monetary item										
US dollar		50.272	30.38	1,527,200	44,394	30.11	1,336,796	46,219	30.23	1,397,155

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 September 30, 2018 and 2017 would have increased (decreased) the equity by \$48,575 thousand and \$52,123 thousand, respectively, for the nine months ended September 30, 2018 and 2017, assuming all other factors remained constant. The analysis is performed on the same basis in 2018 and 2017.

The foreign exchange gains or losses were disclosed on an aggregate basis as there were various types of functional currencies in the Group. The foreign exchange gains and losses (including realized and unrealized) amounted to \$26,240 thousand and \$(54,756) thousand for the nine months ended September 30, 2018 and 2017, respectively.

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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:

		September 30, 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)	\$ 1,433,504	465,234	168,439	799,831	1,433,504
Financial assets measured at fair value through other comprehensive income					
Emerging stocks	291,997	291,997	-	-	291,997
Financial assets measured at amortized cost					
Cash and cash equivalents	3,057,566	-	-	-	-
Notes and trade receivables	1,299,360	-	-	-	-
Other receivables	906,225	-	-	-	-
Guarantee deposits	10,938	-	-	-	-
Subtotal	5,274,089	-	-	-	-
Total	\$ 6,999,590	757,231	168,439	799,831	1,725,501
Financial liabilities measured at amortized cost					
Bank loans	\$ 218,000	-	-	-	-
Notes and trade payables	1,129,126	-	-	-	-
Other payables	2,536,642	-	-	-	-
Guarantee deposits	10,614	-	-	-	-
Total	\$ 3,894,382	-	-	-	-
		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

(Continued)

**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

		<b>December 31, 2017</b>			
		<b>Fair Value</b>			
	<b>Book value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>total</b>
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	<b>\$ 2,266,521</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
		<b>September 30, 2017</b>			
		<b>Fair Value</b>			
	<b>Book value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>total</b>
Financial assets at FVTPL					
Financial assets held for trade	\$ 735,598	579,218	156,380	-	735,598
Financial assets available for sale					
Emerging stocks	235,235	235,235	-	-	235,235
Financial assets measured at cost	583,048	-	-	-	-
Guarantee deposits (non-current)	9,543	-	-	-	-
Total	<b>\$ 1,563,424</b>	<b>814,453</b>	<b>156,380</b>	<b>-</b>	<b>970,833</b>
Financial liabilities measured at amortized costs					
Bank loan	\$ 250,000	-	-	-	-
Notes and trade payables	927,634	-	-	-	-
Other payables	1,026,135	-	-	-	-
Guarantee deposits (non-current)	10,311	-	-	-	-
Total	<b>\$ 2,214,080</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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.

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

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

3) Reconciliation of Level 3 fair values

	<b>Non derivative mandatorily measured at fair value through profit or loss (held-for-trading financial assets)</b>
Opening balance, January 1, 2018	\$ 778,988
Total gains and losses recognized:	
In profit or loss	20,843
Ending Balance, September 30, 2018	<u>\$ 799,831</u>

For the nine months ended September 30, 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:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Total gains and losses recognized:				
In profit or loss, and presented in "other gains and losses"	\$ 10,719	-	20,843	-

(Continued)



**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- 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:

<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"> <li>Price to book ratio (September 30, 2018: 1.31% to 2.75%)</li> <li>Non-liquid discount (September 30, 2018: 7% to 10%)</li> <li>Price to earnings ratio (September 30, 2018: 0.63% to 4.24%)</li> <li>Price to book assets ratio (September 30, 2018: 0.58% to 2.45%)</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>the price to book ratio were higher (lower);</li> <li>the non-liquid discount were lower (higher).</li> </ul>

- 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>Other comprehensive income</u>	
			<u>Favorable</u>	<u>Unfavorable</u>
<b>September 30, 2018</b>				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Price to book ratio	Decrease by 10%	-	(23,259)
	Non-liquid discount	Decrease by 10%	4,640	-

- (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.

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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.

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

			<u>Non-cash changes</u>			
	<u>January 1, 2018</u>	<u>Cash flows</u>	<u>Capital reduction</u>	<u>Foreign exchange movement</u>	<u>Fair value changes</u>	<u>September 30, 2018</u>
Short-term borrowings	\$ 240,000	(22,000)	-	-	-	218,000
	<u>945,148</u>	<u>(52,425)</u>	<u>1,302,344</u>	<u>-</u>	<u>-</u>	<u>2,195,067</u>
Total liabilities from financial activities	<u>\$ 1,185,148</u>	<u>(74,425)</u>	<u>1,302,344</u>	<u>-</u>	<u>-</u>	<u>2,413,067</u>

**(7) Related-party transactions:**

(a) Names and relationship with related parties

The following are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<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 September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Associates-Finger Pro.	\$ <u>153</u>	<u>387</u>	<u>185</u>	<u>387</u>

The prices for sales to related parties were similar to those for general customers. The normal sales credits were collected within a month. No receivables — related parties were pledged as collaterals and provision for bad debt is not required.

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Associates-Eminent	<u>\$ 8,986</u>	<u>348</u>	<u>8,207</u>	<u>1,477</u>

- (iii) Rental income

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Associates-Eminent	<u>\$ 503</u>	<u>557</u>	<u>1,615</u>	<u>1,669</u>

- (iv) Purchase

The amounts of purchase from the Group to related parties were as follows:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Associates-Eminent	<u>\$ 45</u>	<u>-</u>	<u>455</u>	<u>-</u>

The Group's purchase prices from the Company above are not significantly different than the purchase terms with other third party suppliers. The payment terms are within 30 days, and this is also not significantly different with the payment terms with other third party suppliers.

- (v) Receivable from related parties

Receivables from the related parties are as follows:

<b>Accounts</b>	<b>Types of related parties</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Accounts receivable	Associates-Eminent	\$ 2,466	495	238
Other receivables	Associates-Eminent	62,156	10,467	5,486
		<u>\$ 64,622</u>	<u>10,962</u>	<u>5,724</u>

- (vi) In January 2015, the Company has disposed its fixed assets to its related parties, with the selling price and the fixed asset cost amounting to \$4,856 thousand, and \$9,154 thousand, respectively. The loss on disposal amounting to \$4,298 thousand, including the unrealized loss of \$1,942 thousand, is to be recognized over its benefit years of 5 years. As of September 30, 2018, the realized loss and deferred loss on disposal amounted to \$3,813 thousand, and \$485 thousand, respectively.

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(c) Key management personnel compensation

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Short-term employee benefits	\$ 18,949	14,987	45,242	36,926
Post-employment benefits	191	141	611	514
	<u>\$ 19,140</u>	<u>15,128</u>	<u>45,853</u>	<u>37,440</u>

The short-term employee benefits include emoluments to directors and employee bonuses. Please refer to Note (6)(s) for estimation methods.

**(8) Pledged assets: None.**

**(9) Commitments and contingencies:**

- (a) For the nine months ended September 30, 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 September 30, 2018, December 31 and September 30, 2017, the financial institutions had issued performance guarantees amounting to \$7,000 thousand, \$19,000 thousand, and \$12,000 thousand, respectively.
- (c) As of September 30, 2018, December 31 and September 30, 2017, the refundable notes payable for short-term loans amounted to \$585,000 thousand, \$635,000 thousand and \$665,000 thousand, respectively.
- (d) The Company entered into non-infringement guarantee agreements with some customers (guarantees) to provide a guarantee regarding the selling of touchpad module products.
- (e) Government grant

To develop "Battery-less And Contactless Fingerprint Smart Card Solution", the Company has signed a technology program contract with the Institute for Information Industry in order to receive a grant amounting to \$42,000 thousand. The period of this research plan is from January 1, 2017 to December 31, 2018. The Company is the exclusive owner of all of the know-how, technical skills and intellectual property derived from this development project. Nevertheless, the Company cannot use the intellectual property to manufacture products in a foreign country without a written consent from the Ministry of Economic Affairs within the two-year period starting from the date that this development project is finished. The Company recognizes income based on the progress made on the planned research and development projects. During the period from January 1 to September 30, 2018 and 2017, the Company has recognized income from government grant amounting to \$6,300 thousand within Other Income.

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# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(f) Royalty fee

The Company signed a software authorization contract with a software company. The contract can be terminated at anytime upon the request of either party. Pursuant to the contract, the Company shall pay a royalty fee based on the sales quantity or other agreed conditions when the Company produces and sells products using this software.

(g) Management service contract

Elan Investment has signed a management service contract with He Xie Innovative Co., Ltd (He Xie Company) in August 2012, entrusting He Xie Company to provide assessments, suggestions, negotiations, contracts and management service on investments. The Group's prepaid management fees are on a quarterly basis. The management fees were \$0 thousand, \$1,050 thousand, \$2,100 thousand and \$3,150 thousand for the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017, and were recognized under administrative expenses. In the contract, both parties have agreed to pay investment performance bonuses based on the investment gains received whenever He Xie Company conducts an assessment on each investment and development opportunity and provide an analysis on the related investment portfolio and advisory services. As of September 30, 2018 and 2017, no performance bonuses were paid under the contract.

**(10) Losses Due to Major Disasters: None.**

**(11) Subsequent Events: None.**

**(12) Other:**

- (a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

	For the three months ended September 30					
	2018			2017		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expenses						
Salaries and wages	\$ 66,737	380,299	447,036	57,548	336,301	393,849
Labor and health insurance	5,042	19,572	24,614	3,955	20,899	24,854
Pension expenses	1,988	15,550	17,538	1,967	14,968	16,935
Remuneration of directors	-	9,331	9,331	19	7,798	7,817
Others	4,476	11,698	16,174	3,761	10,931	14,692
Depreciation expenses	4,326	7,281	11,607	3,680	7,581	11,261
Amortization expenses	1,143	11,060	12,203	1,083	15,376	16,459

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	For the nine months ended September 30					
	2018			2017		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expenses						
Salaries and wages	\$ 187,459	1,068,189	1,255,648	166,727	955,704	1,122,431
Labor and health insurance	15,039	61,281	76,320	11,386	61,105	72,491
Pension expenses	6,005	47,031	53,036	5,924	45,387	51,311
Remuneration of directors	-	21,765	21,765	84	17,008	17,092
Others	11,631	30,960	42,591	9,941	29,707	39,648
Depreciation expenses	12,237	22,415	34,652	11,745	22,750	34,495
Amortization expenses	3,309	34,325	37,634	3,266	56,607	59,873

(b) Seasonality of operations

The Group's performance in the third quarter is significantly higher as compared to the second quarter in the year, mainly due to growth in a customer's business (a top-tier brand manufacturer), alongside product distribution to new customers. Also, the Group has increased sales in the laptop market, including touchscreen monitors and touchscreen-based products. Other than that, there was double-digit growth in the sales of pointer-based product parts. Moreover, the Group's touchscreen chip sales has significantly obtained market share, whereby the Group's sales units in the third quarter is more than the units sold in the entire first-half of 2018. Overall, the Group's third quarter sales and operating income have increased as compared to the second quarter.

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## 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 September 30, 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	7,172	- %	7,172	
Elan Microelectronic Corporation	Fubon China Money Market FUND-TWD	-	Current financial assets at fair value through profit or loss	2,770	28,560	- %	28,560	
Elan Microelectronic Corporation	PineBridge Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,209	30,166	- %	30,166	
Elan Microelectronic Corporation	Cathay Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,430	30,172	- %	30,172	
Elan Microelectronic Corporation	Paradigm Pion Money Market Fund	-	Current financial assets at fair value through profit or loss	2,000	23,049	- %	23,049	
Elan Microelectronic Corporation	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	1,960	20,290	- %	20,290	
Elan Microelectronic Corporation	Union Money Market Fund	-	Current financial assets at fair value through profit or loss	3,801	50,054	- %	50,054	
Elan Microelectronic Corporation	Diversified FX Trading Segregated Portfolio	-	Current financial assets at fair value through profit or loss	441	37,840	- %	37,840	
Elan Microelectronic Corporation	Global Strategic FX Arbitrage Note	-	Current financial assets at fair value through profit or loss	207	63,176	- %	63,176	
Elan Microelectronic Corporation	Multi-Manager FX Trading Note (M2)	-	Current financial assets at fair value through profit or loss	204	63,377	- %	63,377	
Elan Microelectronic Corporation	Global Strategic FX Arbitrage Note (USD)(SERIES II)	-	Current financial assets at fair value through profit or loss	137	41,886	- %	41,886	
Elan Microelectronic Corporation	Fitipower Integrated Technology Inc.	-	Non-current financial assets at FVOCI	4,064	181,010	2.88 %	181,010	Note 3
Elan Microelectronic Corporation	ThroughTek Co., Ltd.	-	Non-current financial assets at FVOCI	1,100	16,896	4.23 %	16,896	Note 3
Elan Microelectronic Corporation	Chino-Excel Technology Co., Ltd.	-	Non-current financial assets at FVTPL	823	-	1.48 %	-	Note 1
Elan Microelectronic Corporation	Panther technology Co., Ltd.	-	Non-current financial assets at FVTPL	340	4,701	0.94 %	4,701	Note 2
Elan Microelectronic Corporation	XINCE Co., Ltd	-	Non-current financial assets at FVTPL	2,866	-	9.24 %	-	Note 1
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,739	13,722	17.39 %	13,722	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	784	8,653	7.00 %	8,653	Note 2

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**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	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,382	10,030	8.13 %	10,030	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,674	12,593	2.17 %	12,593	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	4,837	45,081	6.12 %	45,081	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	8,333	79,577	4.17 %	79,577	Note 2
Elan Microelectronic Corporation	Mida touch photoelectric Co., Ltd.	-	Non-current financial assets at FVTPL	2,500	9,600	12.31 %	9,600	Note 2
Elan Microelectronic Corporation	TOP TAIWAN IX VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	5,000	57,021	6.25 %	57,021	Note 2
Elan Microelectronic Corporation	InnoBridge Venture Capital	-	Non-current financial assets at FVTPL	800	3,920	11.35 %	3,920	Note 1
Elan Microelectronic Corporation	Startech Engineering Corporation	-	Non-current financial assets at FVTPL	189	-	0.53 %	-	Note 1
Elan Microelectronic Corporation	North Star Venture Capital	-	Non-current financial assets at FVTPL	3,000	32,660	10.00 %	32,660	Note 1
Elan Microelectronic Corporation	TOP TAIWAN XI VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	5,000	46,232	6.25 %	46,232	Note 2
Elan Microelectronic Corporation	Genius Digital Vision Inc.	-	Non-current financial assets at FVTPL	989	-	6.56 %	-	Note 1
Elan Microelectronic Corporation	Lyra Semiconductor	-	Non-current financial assets at FVTPL	2,400	26,832	11.78 %	26,832	Note 2
Elan Microelectronic Corporation	TOP TAIWAN XII VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	25,000	251,707	18.52 %	251,707	Note 2
Elan Investment Corp.	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	176	31,314	- %	31,314	
Elan Investment Corp.	FSITC RMB HIGH YIELD BOND FUND-A-NTD	-	Current financial assets at fair value through profit or loss	1,613	14,993	- %	14,993	
Elan Investment Corp.	FSITC Global FinTech Fund-TWD	-	Current financial assets at fair value through profit or loss	500	7,006	- %	7,006	
Elan Investment Corp.	FSITC Global Utilities and Infrastructure Fund-A-TWD	-	Current financial assets at fair value through profit or loss	1,000	9,292	- %	9,292	
Elan Investment Corp.	FSITC AI Global Precision Medicine Fund-TWD	-	Current financial assets at fair value through profit or loss	1,000	10,520	- %	10,520	
Elan Investment Corp.	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	5,012	51,874	- %	51,874	
Elan Investment Corp.	Nomura Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,221	36,150	- %	36,150	
Elan Investment Corp.	Taishin Global Multi-asset Fund of Funds-TWD-A	-	Current financial assets at fair value through profit or loss	1,000	10,650	- %	10,650	
Elan Investment Corp.	Taishin Global Disruptive Innovation Fund	-	Current financial assets at fair value through profit or loss	1,500	16,380	- %	16,380	

(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.	Taishin 1699 Money Market Fund		Current financial assets at fair value through profit or loss	3,336	45,010	- %	45,010	
Elan Investment Corp.	United Microelectronics Corporation		Current financial assets at fair value through profit or loss	294	4,742	- %	4,742	
Elan Investment Corp.	Elan Microelectronic Corporation	Subsidiary	Non-current available-for-sale at FVOCI	12,428	850,230	4.26 %	850,230	
Elan Investment Corp.	Fitipower Integrated Technology Inc.	-	Non-current available-for-sale at FVOCI	941	41,891	0.69 %	41,891	Note 3
Elan Investment Corp.	Rafael Microelectronics, Inc.	-	Non-current financial assets at FVOCI	400	52,200	1.78 %	52,200	Note 3
Elan Investment Corp.	Panther technology Co., Ltd.	-	Non-current financial assets at FVTPL	1,396	19,291	3.88 %	19,291	Note 2
Elan Investment Corp.	RISE Technology Com	-	Non-current financial assets at FVTPL	769	-	3.23 %	-	Note 1
Elan Investment Corp.	Fine Mat Applied Materials Co., Ltd	-	Non-current financial assets at FVTPL	9,500	128,725	15.74 %	128,725	Note 2
Elan Investment Corp.	Linkinwave – Preferred shares	-	Non-current financial assets at FVTPL	296	-	- %	-	Note 1
Elan Investment Corp.	Pica 8-Preferred shares	-	Non-current financial assets at FVTPL	343	5,020	4.48 %	5,020	Note 2
Elan Investment Corp.	Arplanet Digital Technology Co., LTD-Preferred Shares	-	Non-current financial assets at FVTPL	114	495	5.61 %	495	Note 1
Elan Investment Corp.	Arplanet Digital Technology Co., LTD.-Common Stock	-	Non-current financial assets at FVTPL	75	325	3.68 %	325	Note 1
Elan Investment Corp.	INNOJOY TECHNOLOGY INC.-Preferred Shares	-	Non-current financial assets at FVTPL	143	-	10.00 %	-	Note 1
Elan Investment Corp.	Yi Qin Communication Co., Ltd. Preferred shares	-	Non-current financial assets at FVTPL	1,000	12,220	5.00 %	12,220	Note 2
Elan Investment Corp.	e-Formula Technologies, Inc.	-	Non-current financial assets at FVTPL	550	14,845	3.03 %	14,845	Note 2
Elan Investment Corp.	ALGOLREALITY CO., LTD.	-	Non-current financial assets at FVTPL	100	-	13.04 %	-	Note 1
Elan Investment Corp.	Vita Genomics, Inc.	-	Non-current financial assets at FVTPL	677	7,577	1.13 %	7,577	Note 2
Elan Investment Corp.	MedicusTek International Inc.	-	Non-current financial assets at FVTPL	1,010	-	1.83 %	-	Note 1
Elan Investment Corp.	Taiwan Cornet Co., Ltd. Preferred shares	-	Non-current financial assets at FVTPL	10,000	1,764	14.29 %	1,764	Note 1
Elan Investment Corp.	Genius Digital Vision Inc.	-	Non-current financial assets at FVTPL	740	-	4.91 %	-	Note 1
Elan Investment Corp.	Waltop Electronics Co., Ltd.	-	Non-current financial assets at FVTPL	1,000	7,240	6.77 %	7,240	Note 2

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

Note 2: This balance is calculated based on the net assets amount obtained from the latest valuation report on the investee Company.

Note 3: These amounts are calculated based on the market prices (closing prices) of the investee company on June 29, 2018.

(Continued)

## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
Elan Microelectronic Corporation	Elan (HK)	Subsidiary	Sale	373,646	5.87 %	Open Account 45 Days	-	-	43,537	3.23%	

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None
- (ix) Trading in derivative instruments: None
- (x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	Elan Microelectronic Corporation	Elan H. K.	1	Operating revenue	373,646	Open Account 45 Days	5.87%
0	Elan Microelectronic Corporation	Elan H. K.	1	Receivables	43,537	Open Account 45 Days	0.40%
1	Elan H. K.	Elan Microelectronic Corporation	2	Commission revenue	172,354	Monthly settlement	2.71%

(b) Information on investees:

The following is the information on investees for the nine months ended September 30, 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 September 30, 2018			Net income (losses) of investee	Share of profits/losses of investee	Note
				September 30, 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 %	187,464	40,203	40,203	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 %	638,595	86,889	86,889	Note
Elan Microelectronic Corporation	Elan Information Technology Group	California, U.S.A	Sale and after-sales service	22,822	22,822	65	100.00 %	13,902	3,207	3,207	Note
Elan Microelectronic Corporation	JPUP Electron Co., Ltd	New Taipei City, Taiwan	Wholesale and installation of electronic devices, data storage and equipment process	7,840	7,840	784	49.00 %	3,949	(1,047)	(513)	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 %	(96,516)	(56,935)	(36,203)	Note
Elan Microelectronic Corporation	Avionic Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	266,333	218,177	26,633	74.93 %	8,523	(20,626)	(15,731)	Note
Elan Microelectronic Corporation	Tong fu Investment Corp.	Hsin-Chu, Taiwan	Investment business	30,000	30,000	3,000	46.73 %	5,404	-	-	
Elan Microelectronic Corporation	Lighting Device Technologies Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on LED chips	19,520	19,520	1,805	45.07 %	-	-	-	
Elan Microelectronic Corporation	PIXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	376,024	412,631	33,871	96.78 %	58,026	(22,769)	(21,957)	Note

(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 September 30, 2018			Net income (losses) of investee	Share of profits/losses of investee	Note
				September 30, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value			
Elan Microelectronic Corporation	EMINENT ELECTRONIC TECHNOLOGY CORP. LTD.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	38,381	71,029	3,351	29.89 %	5,306	(56,696)	(17,563)	
Elan Microelectronic Corporation	TOP TAIWAN X VENTURE CAPITAL CO., LTD.	Taipei, Taiwan	Venture capital	240,000	240,000	24,000	30.00 %	247,890	25,128	7,538	
Elan Microelectronic Corporation	Fong Yue Corporation	Taipei, Taiwan	Investment business	30,000	30,000	3,000	100.00 %	27,090	(1,274)	(1,274)	Note
Elan Microelectronic Corporation	Uniband Electronic,	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	80,000	80,000	8,000	23.12 %	13,271	(27,173)	(6,621)	
Elan Microelectronic Corporation	Finger Pro Incorporation?	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	6,000	6,000	600	23.08 %	2,144	(6,745)	(1,566)	
Elan Investment Corp.	Avionic Technology Corp	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	21,543	135	2,154	6.06 %	773	(20,626)	(837)	Note
Elan Investment Corp.	RONG CHENG Technology	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	77,706	77,706	8,000	38.46 %	-	-	-	
Elan Investment Corp	PIXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	2,659	3,361	174	0.50 %	298	(22,769)	(129)	Note
Elan Investment Corp	Metanoia Communications Inc.	Hsin-Chu, Taiwan	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	44,825	44,825	3,626	4.27 %	9,822	(56,935)	(2,429)	Note
Elan (H.K.)	Power Asia Investment Corporation	Republic of Mauritius	Investment business	89,572	89,572	2,861	100.00 %	6,149	(7,719)	(17,719)	Note

Note: Investments in subsidiaries whereby the Company has control over has been eliminated at the Group level from long term investments.

(c) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 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	(3,791)	100.00%	(3,791)	8,603	-
Elan Shenzhen	Provide system design, information on applications expansion	34,670	( 2 )	34,670	-	-	34,670	(13,951)	100.00%	(13,951)	(2,926)	-

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 September 30, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
86,765	98,333	3,733,801

Note: The investment limit was calculated based on the official document 09704604680 announced by the MOEAIC on August 29, 2008.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".

(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 September 30, 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	\$ 720,883	1,571,430	20,517	15,562	13,604	-	148,199	16	(5,978)	2,484,233
Net revenue from sales among intersegments	138,222	-	-	-	-	-	69,181	7,579	(214,982)	-
Total revenue	\$ 859,105	1,571,430	20,517	15,562	13,604	-	217,380	7,595	(220,960)	2,484,233
Reportable segment profit or loss	\$ 135,433	509,957	(20,002)	(6,507)	(7,466)	(7)	27,730	805	(72,479)	567,464
For the three months ended September 30, 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	\$ 666,673	1,297,515	8,703	24,512	11,515	-	152,096	-	(1,159)	2,159,855
Net revenue from sales among intersegments	154,621	-	283	-	4	-	59,427	6,009	(220,336)	8
Total revenue	\$ 821,294	1,297,515	8,986	24,512	11,519	-	211,523	6,009	(221,495)	2,159,863
Reportable segment profit or loss	\$ 1,009,863	398,042	(26,666)	(6,664)	(6,125)	(1,056)	23,289	251	(922,641)	468,293
For the nine months ended September 30, 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	\$ 1,843,969	4,013,037	65,709	51,255	22,665	-	373,467	24	(2,749)	6,367,377
Net revenue from sales among intersegments	373,789	-	279	-	-	-	172,354	22,762	(569,184)	-
Total revenue	\$ 2,217,758	4,013,037	65,988	51,255	22,665	-	545,821	22,786	(571,933)	6,367,377
Reportable segment profit or loss	\$ 194,927	1,294,131	(55,033)	(19,941)	(22,658)	(2,136)	50,132	2,159	(199,534)	1,242,047
For the nine months ended September 30, 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	\$ 1,779,333	3,273,356	37,040	50,825	24,801	-	451,346	-	(759)	5,615,942
Net revenue from sales among intersegments	461,084	-	1,105	-	-	-	154,259	16,495	(632,993)	(50)
Total revenue	\$ 2,240,417	3,273,356	38,145	50,825	24,801	-	605,605	16,495	(633,752)	5,615,892
Reportable segment profit or loss	\$ 1,127,700	924,194	(98,951)	(28,003)	(23,031)	(3,162)	46,152	(363)	(918,090)	1,026,446