

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

**Consolidated Financial Statements**

**With Independent Auditors' Report  
For the Years Ended December 31, 2018 and 2017**

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

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### **Representation Letter**

The entities that are required to be included in the combined financial statements of ELAN MICROELECTRONICS CORPORATION and its subsidiaries as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, ELAN MICROELECTRONICS CORPORATION and its subsidiaries do not prepare a separate set of combined financial statements.

Company name: ELAN MICROELECTRONICS CORPORATION

Chairman: Yeh, Yi-Hao

Date: March 12, 2019



安侯建業聯合會計師事務所

KPMG

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## Independent Auditors' Report

To the Board of Directors

ELAN MICROELECTRONICS CORPORATION:

### Opinion

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

In our opinion, base on our audits and the report of other auditors (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretation developed by International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“ISIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

### Other Matter

We did not audit the financial statements of Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp, which represented investment accounted for using the equity method of the Group. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp, is based solely on the report of another auditor. The investment in Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp accounted for using the equity method constituted 2.49% and 2.54% of the consolidated total assets at December 31, 2018 and 2017, respectively, and the related share of profit of associates and joint ventures accounted for using the equity method constituted (0.88)% and (0.74)% of the consolidated total income before tax for the years ended December 31, 2018 and 2017, respectively.

The Company has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion with emphasis of matter paragraph or other matter paragraph.

### **Key Audit Matters**

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

#### **1. Valuation of inventories**

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

##### **Key Audit Matter Explanation:**

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

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

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

#### **2. Revenue recognition**

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

##### **Key Audit Matter Explanation:**

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)

March 12, 2019

#### Notes to Readers

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

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**December 31, 2018 and 2017**  
**(Expressed in, New Taiwan Dollars)**

	December 31, 2018		December 31, 2017			December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Assets</b>					<b>Liabilities and Equity</b>				
<b>Current assets:</b>					<b>Current liabilities:</b>				
1100 Cash and cash equivalents (notes 6(a) and (t))	\$ 2,075,773	21	1,984,013	20	2100 Total short-term borrowings (notes 6(k) and (t))	\$ 243,000	2	240,000	2
1110 Current financial assets at fair value through profit or loss (note 6(b))	655,238	7	734,002	7	2170 Total accounts payable (notes 6(s) and (t))	975,578	10	895,974	9
1170 Accounts receivable, net (notes 6(c), (t) and 7)	1,104,734	11	937,773	9	2206 Employee bonus payable (notes 6(s) and (t))	255,000	3	175,000	2
1200 Other receivables, net (notes 6(c), (t) and 7)	658,085	7	539,467	5	2230 Current tax liabilities	269,983	3	154,292	2
1310 Inventories, manufacturing business, net (note 6(d))	1,156,253	12	1,153,803	11	2300 Total other current liabilities (note 6(t))	1,085,084	10	945,148	9
1410 Prepayments and other current assets	38,222	-	65,306	1		2,828,645	28	2,410,414	24
1476 Other current financial assets (notes 6(a) and (t))	1,759,480	18	2,539,200	25					
	7,447,785	76	7,953,564	78	<b>Non-Current liabilities:</b>				
<b>Non-current assets:</b>					2640 Net defined benefit liability, non-current (note 6(i))	378,819	4	396,206	4
1510 Non-current financial assets at fair value through profit or loss (note 6(b))	808,068	8	-	-	2645 Guarantee deposits received (note 6(i))	10,677	-	10,426	-
1517 Non-current financial assets at fair value through other comprehensive income (note 6(e))	252,100	3	-	-	2570 Total deferred tax liabilities (note 6(m))	2,248	-	2,296	-
1523 Non-current available-for-sale financial assets, net (note 6(f))	-	-	226,318	2		391,744	4	408,928	4
1551 Investments accounted for using equity method (note 6(g))	246,562	3	310,033	3		3,220,389	32	2,819,342	28
1543 Non-current financial assets at cost, net (note 6(h))	-	-	761,868	8	<b>Total liabilities</b>				
1600 Property, plant and equipment (note 6(i))	767,874	8	580,010	6	Equity attributable to owners of parent: (notes 6(n) and (o))				
1780 Intangible assets (note 6(j))	225,319	2	256,273	3	Total capital stock	3,038,804	31	4,341,148	43
1840 Deferred tax assets (note 6(m))	29,821	-	25,808	-	Total capital surplus	444,033	5	536,328	5
1900 Other non-current assets (note 6(t))	25,618	-	28,931	-	Retained earnings:				
	2,355,362	24	2,189,241	22	Legal reserve	1,419,965	14	1,312,585	13
					Total unappropriated retained earnings (accumulated deficit)	1,585,683	16	1,109,748	11
<b>Total assets</b>	<b>\$ 9,803,147</b>	<b>100</b>	<b>10,142,805</b>	<b>100</b>	3400 Total other equity interest	3,005,648	30	2,422,333	24
					3500 Treasury shares	172,023	2	147,779	1
					Total equity attributable to owners of parent:	(33,328)	-	(91,111)	(1)
					Non-controlling interests	6,627,180	68	7,356,477	72
					Total equity	(44,422)	-	(33,014)	-
					Total liabilities and equity	6,582,758	68	7,323,463	72
						<b>\$ 9,803,147</b>	<b>100</b>	<b>10,142,805</b>	<b>100</b>

See accompanying notes to financial statements.

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

**Consolidated Statements of Comprehensive Income**

**For the years ended December 31, 2018 and 2017**

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

	2018		2017	
	Amount	%	Amount	%
4000 Operating revenue (notes 6(p), (q) and 7, 14)	\$ 8,651,332	100	7,503,267	100
5000 Operating costs (notes 6(d) and (l))	<u>4,709,457</u>	<u>54</u>	<u>4,156,099</u>	<u>55</u>
Gross profit from operations	3,941,875	46	3,347,168	45
5920 Add: Realized profit on from sales	<u>2,302</u>	<u>-</u>	<u>652</u>	<u>-</u>
	<u>3,944,177</u>	<u>46</u>	<u>3,347,820</u>	<u>45</u>
Operating expenses: (notes 6(l) and 9, 12)				
6100 Total selling expenses	349,848	4	309,706	4
6200 Total administrative expenses	331,042	4	301,480	4
6300 Total research and development expenses	1,531,009	18	1,386,852	18
6450 Expected credit impairment loss	<u>1,990</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,213,889</u>	<u>26</u>	<u>1,998,038</u>	<u>26</u>
Income from operations	<u>1,730,288</u>	<u>20</u>	<u>1,349,782</u>	<u>19</u>
Non-operating income and expenses:				
7010 Total other income (notes 6(r))	71,152	1	88,448	1
7020 Other gains and losses, net (notes 6(h) and (r))	114,339	1	(127,016)	(1)
7050 Finance costs, net	(4,651)	-	(4,213)	-
7590 Miscellaneous disbursements	(1,674)	-	(5,248)	-
7770 Share of loss of associates and joint ventures accounted for using equity method (note 6(g))	<u>(39,386)</u>	<u>-</u>	<u>(39,492)</u>	<u>(1)</u>
	<u>139,780</u>	<u>2</u>	<u>(87,521)</u>	<u>(1)</u>
Income before income tax	1,870,068	22	1,262,261	18
8110 Income tax expenses (note 6(m))	<u>338,366</u>	<u>4</u>	<u>230,151</u>	<u>3</u>
Profit	<u>1,531,702</u>	<u>18</u>	<u>1,032,110</u>	<u>15</u>
8300 Other comprehensive income:				
8310 Components of other comprehensive income that will not be reclassified to profit or loss				
8311 Gains on remeasurements of defined benefit plans	4,904	-	36,252	-
8316 Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	25,782	-	-	-
8320 Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	(1,379)	-	-	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>29,307</u>	<u>-</u>	<u>36,252</u>	<u>-</u>
8360 Other components of other comprehensive income that will not be reclassified to profit or loss				
8361 Exchange differences on translation	(139)	-	(2,083)	-
8362 Unrealized losses on valuation of available-for-sale financial assets	-	-	(29,234)	-
8370 Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(20)	-	1,276	-
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Components of other comprehensive income that will be reclassified to profit or loss	<u>(159)</u>	<u>-</u>	<u>(30,041)</u>	<u>-</u>
8300 Other comprehensive income, net	<u>29,148</u>	<u>-</u>	<u>6,211</u>	<u>-</u>
Comprehensive income	<u>\$ 1,560,850</u>	<u>18</u>	<u>1,038,321</u>	<u>15</u>
Net income for the period attributable to:				
Owners of the parent	\$ 1,559,580	18	1,073,802	16
Non-controlling interests	<u>(27,878)</u>	<u>-</u>	<u>(41,692)</u>	<u>(1)</u>
	<u>\$ 1,531,702</u>	<u>18</u>	<u>1,032,110</u>	<u>15</u>
Total comprehensive income for the period attributable to:				
Owners of the parent	\$ 1,588,903	18	1,079,841	16
Non-controlling interests	<u>(28,053)</u>	<u>-</u>	<u>(41,520)</u>	<u>(1)</u>
	<u>\$ 1,560,850</u>	<u>18</u>	<u>1,038,321</u>	<u>15</u>
Earnings per share (note 6(o))				
Basic earnings per share	<u>\$ 4.16</u>		<u>2.58</u>	
Diluted earnings per share	<u>\$ 4.12</u>		<u>2.55</u>	

See accompanying notes to financial statements.

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

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										Non-controlling interests	Total equity
	Total other equity interest											
	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income											
	Ordinary shares	Capital surplus	Legal reserve	Retained earnings	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Treasury shares	Total equity attributable to owners of parent			
	\$											
Balance at January 1, 2017	4,341,148	735,781	1,264,428	481,567	(2,138)	-	179,660	(101,268)	6,899,178	(3,036)	6,896,142	
Profit	-	-	-	1,073,802	-	-	-	-	1,073,802	(41,692)	1,032,110	
Other comprehensive income	-	-	-	35,782	(1,922)	-	(27,821)	-	6,039	172	6,211	
Total comprehensive income	-	-	-	1,109,584	(1,922)	-	(27,821)	-	1,079,841	(41,520)	1,038,321	
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	48,157	(48,157)	-	-	-	-	-	-	-	
Cash dividends of ordinary share	-	-	-	(433,246)	-	-	-	-	(433,246)	-	(433,246)	
Other changes in capital surplus:												
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	17,718	-	-	-	-	-	10,157	27,875	-	27,875	
Cash dividends from capital surplus	-	(248,315)	-	-	-	-	-	-	(248,315)	-	(248,315)	
Issuance of shares for non-controlling interests	-	-	-	-	-	-	-	-	-	42,686	42,686	
Changes in non-controlling interests	-	31,144	-	-	-	-	-	-	31,144	(31,144)	-	
Balance at December 31, 2017	4,341,148	536,328	1,312,585	1,109,748	(4,060)	-	151,839	(91,111)	7,356,477	(33,014)	7,323,463	
Effects of retrospective application	-	-	-	17,120	-	-	(151,839)	-	17,120	-	17,120	
Equity at beginning of period after adjustments	4,341,148	536,328	1,312,585	1,126,868	(4,060)	-	151,839	(91,111)	7,373,597	(33,014)	7,340,583	
Profit	-	-	-	1,559,580	-	-	-	-	1,559,580	(27,878)	1,531,702	
Other comprehensive income	-	-	-	5,079	(159)	-	24,403	-	29,323	(175)	29,148	
Total comprehensive income	-	-	-	1,564,659	(159)	-	24,403	-	1,588,903	(28,053)	1,560,850	
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	107,380	(107,380)	-	-	-	-	-	-	-	
Cash dividends of ordinary share	-	-	-	(998,464)	-	-	-	-	(998,464)	-	(998,464)	
Other changes in capital surplus:												
Cash dividends from capital surplus	-	(121,552)	-	-	-	-	-	-	(121,552)	-	(121,552)	
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	40,834	-	-	-	-	-	4,971	45,805	-	45,805	
Capital reduction	(1,302,344)	-	-	-	-	-	-	52,812	(1,249,532)	-	(1,249,532)	
Issuance of shares for non-controlling interests	-	-	-	-	-	-	-	-	-	860	860	
Changes in non-controlling interests	-	(11,577)	-	-	-	-	-	-	(11,577)	15,785	4,208	
Balance at December 31, 2018	\$ 3,038,804	444,033	1,419,965	1,585,683	(4,219)	-	176,242	(33,328)	6,627,180	(44,422)	6,582,758	

See accompanying notes to financial statements.

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

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

	2018	2017
<b>Cash flows from operating activities:</b>		
Profit before tax	\$ 1,870,068	1,262,261
<b>Adjustments:</b>		
Adjustments to reconcile profit:		
Depreciation expense	46,353	45,507
Amortization expense	49,845	73,342
Expected credit loss / Provision (reversal of provision) for bad debt expense	1,990	265
Net loss (gain) on financial assets at fair value through profit or loss	(100,218)	853
Interest expense	4,651	4,213
Interest income	(43,857)	(39,276)
Dividend income	(11,434)	(33,886)
Share of loss of associates accounted for using equity method	39,386	39,492
Loss on disposal of property, plant and equipment	387	309
Impairment loss	25,808	85,420
Gain on disposal of non-current financial assets at cost	-	(16,684)
Gain on disposal of available-for-sale financial assets	-	(13,036)
Difference between net pension liability and actual appropriations	(12,483)	560
Impairment loss and disposal loss on inventory	93,385	92,965
Others	612	(1,908)
<b>Total adjustments to reconcile profit</b>	<b>94,425</b>	<b>238,136</b>
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in financial assets at fair value through profit or loss	77,168	(180)
Increase in notes and accounts receivable	(168,951)	170,029
Increase in inventories	(95,835)	(192,472)
Decrease (increase) in other operating assets	33,645	(33,475)
Increase in other receivable	(118,934)	(351,534)
Increase in notes and accounts payable	79,604	62,136
Increase in other payable	219,914	384,812
Cash inflow generated from operations	1,991,104	1,539,713
Interest received	44,173	39,036
Dividends received	11,443	47,806
Interest paid	(4,629)	(4,185)
Income taxes paid	(226,737)	(159,551)
<b>Net cash flows from operating activities</b>	<b>1,815,354</b>	<b>1,462,819</b>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of financial assets at amortized cost	-	(265,556)
Proceeds from disposal of financial assets at fair value through profit or loss	(37,989)	-
Acquisition of financial assets designated at fair value through profit or loss	62,647	-
Acquisition of available-for-sale financial assets	-	(30,800)
Proceeds from disposal of available-for-sale financial assets	-	18,421
Proceeds from capital reduction of financial assets at fair value through profit or loss	48,065	-
Proceeds from disposal of financial assets at cost	-	16,684
Proceeds from capital reduction of financial assets at cost	-	62,526
Acquisition of property, plant and equipment	(240,827)	(47,205)
Increase in refundable deposits	(518)	-
Acquisition of intangible assets	(18,891)	(79,097)
Decrease (increase) in other non-current assets	3,831	(5,261)
Decrease (increase) in time deposit with maturity longer than three months	779,720	(481,380)
<b>Net cash flows from (used in) investing activities</b>	<b>596,038</b>	<b>(811,668)</b>
<b>Cash flows used in financing activities:</b>		
Increase in short-term loans	373,000	440,000
Decrease in short-term loans	(370,000)	(340,000)
Increase (decrease) in guarantee deposits received	251	(31)
Cash dividends paid	(1,074,211)	(653,686)
Capital reduction	(1,249,532)	-
Change in non-controlling interests	860	42,686
<b>Net cash flows used in financing activities</b>	<b>(2,319,632)</b>	<b>(511,031)</b>
<b>Net increase in cash and cash equivalents</b>	<b>91,760</b>	<b>140,120</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>\$ 2,075,773</b>	<b>1,984,013</b>

See accompanying notes to financial statements.

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

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2018 and 2017**

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

**(1) Company history**

Elan Microelectronics Corp. (the “Company”) was incorporated on May 5, 1994, under the approval of Ministry of Economic Affairs, Republic of China (“ROC”). The Group is located in the Hsinchu Science-based Industrial Park. The major business activities of the Group are the manufacture and sale of neural network and fuzzy processors, digital signal processors, 8-bit RISC micro-controllers, and integrated circuits for special use. The Group also offers research and development services with respect to the products presented above. The Group’s common shares were listed on the Taiwan Stock Exchange on September 17, 2001. Pursuant to the resolution of the shareholders’ meeting held on June 13, 2008, the Group acquired Elantech Devices Corp. (Elantech). The Group is the surviving company, and Elantech was dissolved after the acquisition, and the effective date of the acquisition was on October 1, 2008. Elantech was incorporated on September 18, 2003 as a company limited by shares under the laws of Taiwan, the Republic of China (ROC). Elantech was located in Zhonghe District, New Taipei City. The major business activities of Elantech were the research, manufacture, and sale of wireless and wired communication equipment and electronics modules. Please refer to note 4(b) for the main operating activities for Elan Microelectronics Corp. and its subsidiaries (collectively as the “Group”).

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

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

**(3) New standards, amendments and interpretations adopted:**

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

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

<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

(Continued)

**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 year ended December 31, 2018 of the Group.

#### (ii) IFRS 9 “Financial Instruments”

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

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

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

#### 1) Classification of financial assets and financial liabilities

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

(Continued)

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

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

2) Impairment of financial assets

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

3) Transition

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

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

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

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

(Continued)

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

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
<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
<b>Fair value through profit or loss</b>						
Beginning balance of FVTPL (IAS 39)	\$ 734,002	-	-	-	-	-
Additions – equity instruments						
From financial assets measured at cost	-	761,868	17,120	-	17,120	-
<b>Total</b>	<b>\$ 734,002</b>	<b>761,868</b>	<b>17,120</b>	<b>1,512,990</b>	<b>17,120</b>	<b>-</b>
<b>Fair value through other comprehensive income</b>						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 226,318	(226,318)	-	-	-	-
Available for sale to FVOCI	-	226,318	-	-	-	-
<b>Total</b>	<b>\$ 226,318</b>	<b>-</b>	<b>-</b>	<b>226,318</b>	<b>-</b>	<b>-</b>

(Continued)

## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(iii) Amendments to IAS 7 “Disclosure Initiative”

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(w).

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

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

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

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

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

<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:

(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.

(Continued)

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

1) Determining whether an arrangement contains a lease

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

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

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

2) Transition

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

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

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

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

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

The Group chooses to elect the following practical expedients:

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

(Continued)

# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Group estimated that the right-of-use assets and the lease liabilities to both increase by \$208,326 thousand, and no impact on the retained earnings on January 1, 2019. No significant impact is expected for the Group's finance leases. Besides, The Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

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

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

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

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

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

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

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

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

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

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations” ) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

(b) Basis of preparation

(i) Basis of measurement

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

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

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements.

Changes in the Group’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(Continued)

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

(ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding		Note
			December 31, 2018	December 31, 2017	
The Company	Elan Investment Corp.	Investment holding	100.00 %	100.00 %	-
The Company	Fong Yue Corporation	Investment holding	100.00 %	100.00 %	-
The Company and Elan Investment Corp.	Metanoia 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 %	-
The Company and Elan Investment Corp.	Avisonic Technology Corp. (Avisonic)	Research, design, develop, manufacture and sale on digital image-process chips	81.00 %	76.49 %	-
The Company	JPUP Electron Co., Ltd. (JPUP)	Wholesale and installation of electronic devices, data storage and equipment process	49.00 %	49.00 %	The Company owns 3 out of 5 seats in the board, and has a control interest over JPUP
The Company and Elan Investment Corp.	Pixord Corporation (Pixord)	Research, design, develop, manufacture and sale on Webcam and server	97.27 %	96.96 %	-
The Company	Elan H.K.	Sale and after-sales service	100.00 %	100.00 %	-
The Company	Elan Information	After-sales service and provide new informational skills	100.00 %	100.00 %	-
Elan H.K.	Power Asia	Investment holding	100.00 %	100.00 %	-
Power Asia	Elan Shanghai	Provide system design, information on applications expansion	100.00 %	100.00 %	-
Power Asia	Elan Shenzhen	Provide system design, information on applications expansion	100.00 %	100.00 %	-

(d) Foreign currencies

(i) Foreign currency transactions

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

(Continued)

## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

(ii) Foreign operations

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

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

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

An entity shall classify an asset as current when:

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

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

An entity shall classify a liability as current when:

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or

(Continued)

## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

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

(f) Cash and cash equivalents

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

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

(g) Financial instruments

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

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

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

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

1) Financial assets measured at amortized cost

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

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

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

(Continued)

## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 2) Fair value through other comprehensive income (FVOCI )

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

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

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

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

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

#### 3) Fair value through profit or loss (FVTPL)

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

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

#### 4) Impairment of financial assets

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

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## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

#### 5) Derecognition of financial assets

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

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

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

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

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

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## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

#### 2) Available-for-sale financial assets

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

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

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

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

#### 3) Receivables

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

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## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

#### 4) Impairment of financial assets

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

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

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

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

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

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

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

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

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## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

#### 5) Derecognition of financial assets

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

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

#### (iii) Financial liabilities and equity instruments

##### 1) Classification of debt or equity

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

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

##### 2) Other financial liabilities

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

##### 3) Derecognition of financial liabilities

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

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

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## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 4) Offsetting of financial assets and liabilities

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

#### (h) Inventories

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

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

#### (i) Investments in associates

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

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

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

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

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

#### (j) Property, plant and equipment

##### (i) Recognition and measurement

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

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## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### (ii) Subsequent cost

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

#### (iii) Depreciation

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

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

- 1) Buildings: 7~50 years;
- 2) Machineries and equipments: 2~6 years;
- 3) Transportation and office equipment: 2~6 years.

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

#### (k) Leases

##### (i) Lessor

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

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## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(ii) Lessee

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

(I) Intangible assets

(i) Goodwill

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

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

(ii) Research and development

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

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

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

(iii) Other intangible assets

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

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## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(iv) Subsequent expenditure

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

(v) Amortization

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

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

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

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

(m) Impairment – non derivative financial assets

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

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

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the revocable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized.

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

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## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

(n) Provisions

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

(o) Treasury stock

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

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

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

(p) Revenue recognition

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

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

1) Sale of goods

The Group outsources its manufacturing process and subsequently sells its Integrated Circuits to customers. The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence

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## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

#### 2) Services

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

#### 3) Financing components

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

### (ii) Revenue recognition (applicable before January 1, 2018)

#### 1) Goods sold

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

#### 2) Services

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

#### 3) Grants from government

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

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

(q) Employee benefits

(i) Defined contribution plan

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

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

The Group that belongs to overseas firms (excluding Elan Information and Power Asia, which adopts the defined contribution pension plan) should contribute pension fund based on the local pension regulations and recognized the pension contributed as expense for that period. Subsidiaries in China should comply with the regulations of the Government in the People’s Republic of China. The corporate contributes retirement annuity funds based on the statutory rate on authorized employees payroll and the pension expenses are recognized in profit or loss for the year.

(ii) Defined benefit plan

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

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

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

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## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### (iii) Short-term employee benefits

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

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

#### (r) Income tax

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

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

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

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

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

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

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

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

(s) Business acquisition

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

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

(t) Earnings per share

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

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# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (u) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). The operating results of all operating segments are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment has its financial information.

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

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

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

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

#### Valuation of inventories

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

### (6) Explanation of significant accounts:

#### (a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Petty cash	\$ 620	647
Checking and demand deposits	1,036,803	750,692
Time deposits with maturities of three months or less	1,038,350	1,232,674
	<u>\$ 2,075,773</u>	<u>1,984,013</u>

As of December 31, 2018 and 2017, time deposits with maturities of more than three months held by the Group amounted to \$1,759,480 thousand and \$2,539,200 thousand, respectively, and were recorded as other current financial assets. The Group did not recognize impairment loss on other current financial assets for the years ended December 31, 2018. Other information relating to credit risk is provided in Note 6(t).

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Mandatorily measured at fair value through profit or loss:		
Current:		
Listed stocks	\$ 9,639	
Open-end certificates of beneficial interest	477,111	
Short-term commercial papers	168,488	
Non-current:		
Listed stocks	808,068	
Financial assets held for trading:		
Listed stocks	-	13,822
Open-end certificates of beneficial interest	-	567,775
Short-term commercial papers	-	152,405
Total	<u>\$ 1,463,306</u>	<u>734,002</u>

(c) Notes, accounts receivable and other receivables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable	\$ 16,165	25,302
Accounts receivable - fair value through other comprehensive income	726,785	-
Accounts receivable - measured at amortized cost	404,992	965,781
Less: Allowance for doubtful accounts	(43,208)	(41,218)
Sales return and allowance	-	(12,092)
	<u>\$ 1,104,734</u>	<u>937,773</u>

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

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

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 1,003,142	0.18%	1,777
1 to 30 days past due	47,978	2.94%	1,411
31 to 60 days past due	26,378	15.92%	4,199
61 to 90 days past due	7,223	34.59%	2,498
More than 90 days past due	63,221	50%~100%	33,323
	<u>\$ 1,147,942</u>		<u>43,208</u>

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

	<b>December 31, 2017</b>
Past due 1 to 30 days	\$ 76,240
Past due 31 to 120 days	27,809
Past due 121 to 365 days	2,446
	<u>\$ 106,495</u>

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

	<b>2018</b>	<b>2017</b>	
		<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>
Balance on January 1, 2018 and 2017 per IAS 39	\$ 41,218	30,069	10,884
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	41,218		
Impairment loss recognized	1,990	(726)	991
Balance on December 31, 2018 and 2017	<u>\$ 43,208</u>	<u>29,343</u>	<u>11,875</u>

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

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# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

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

### (d) Inventories

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Raw materials	\$ 423,928	294,252
Work in progress	503,874	542,914
Finished goods	<u>228,451</u>	<u>316,637</u>
	<u>\$ 1,156,253</u>	<u>1,153,803</u>

Inventories recognized as cost of goods sold and the related expense amounted to \$4,615,672 thousand and \$4,062,635 thousand, \$93,385 thousand and \$92,965 thousand were deducted from the cost of inventory due to write-down of inventory to its net realizable value; loss and gain due to inventory count and other related costs decreased by \$400 thousand and \$499 thousand for the years ended December 31, 2018 and 2017, respectively.

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

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

	<b>December 31, 2018</b>
Equity investments at fair value through other comprehensive income:	
Emerging stocks	\$ 11,033
Quoted shares	<u>241,067</u>
	<u><u>\$ 252,100</u></u>

Equity investments at fair value through other comprehensive income

- (i) On January 1, 2018, the Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets on December 31, 2017 and 2017.
- (ii) No strategic investments were disposed as of December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.
- (iii) For market risk, please refer to note 6(t).

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

	<b>December 31, 2017</b>
Emerging stocks	<u>\$ 226,318</u>

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

(g) Investments accounted for using equity method

Investments accounted for using the equity method were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Associate	<u>\$ 246,562</u>	<u>310,033</u>

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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The related information on the original cost investments of the associates was as follows:

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

(i) Associates

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

	2018	2017
The Group's share of gain of associates accounted for using equity method	\$ <u>(39,386)</u>	<u>4,499</u>

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

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

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

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(h) Non-current Financial assets at costs

	<b>December 31, 2017</b>
Domestic non-publicly traded common stocks	\$ 746,812
Foreign non-publicly traded common stocks	255
Foreign non-publicly traded common stocks	10,650
Foreign non-publicly traded preferred stocks	4,151
<b>Total</b>	<b>\$ 761,868</b>

- (i) Since there is a wide range of estimated fair values of the Group's investments in non-publicly traded stocks, the Group concludes that the fair value cannot be reliably measured and therefore should be measured at the cost less any impairment as of December 31, 2017. These investments were classified as financial assets at fair value through profit or loss on December 31, 2018.
- (ii) The Group periodically evaluates the financial assets carried at costs and recognized the impairment loss amounting to \$85,420 thousand for the year ended December 31, 2017, due to a permanent decline of investment value, and it was recorded as part of other gains and losses.

(i) Property, plant and equipment

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

	<b>Land</b>	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>Office and transportation equipment</b>	<b>Equipment awaiting examination</b>	<b>Total</b>
<b>Cost:</b>						
Balance as of January 1, 2018	\$ 118,813	1,027,131	440,080	147,002	14,833	1,747,859
Additions	111,977	56,749	31,668	5,286	35,147	240,827
Derecognized	-	-	(8,326)	(6,537)	-	(14,863)
Reclassification	-	534	9,818	-	(16,913)	(6,561)
Effect of exchange rate changes	-	-	(178)	(217)	-	(395)
Balance as of December 31, 2018	<u>\$ 230,790</u>	<u>1,084,414</u>	<u>473,062</u>	<u>145,534</u>	<u>33,067</u>	<u>1,966,867</u>
Balance as of January 1, 2017	\$ 118,813	1,025,687	416,654	170,442	5,872	1,737,468
Additions	-	1,444	18,809	5,781	21,171	47,205
Derecognized	-	-	(4,263)	(29,489)	-	(33,752)
Reclassification	-	-	8,969	376	(12,210)	(2,865)
Effect of exchange rate changes	-	-	(89)	(108)	-	(197)
Balance as of December 31, 2017	<u>\$ 118,813</u>	<u>1,027,131</u>	<u>440,080</u>	<u>147,002</u>	<u>14,833</u>	<u>1,747,859</u>
<b>Accumulated depreciation:</b>						
Balance as of January 1, 2018	\$ -	645,152	390,294	132,403	-	1,167,849
Depreciation	-	15,560	23,330	7,463	-	46,353
Derecognized	-	-	(8,326)	(6,537)	-	(14,863)
Effect of exchange rate changes	-	-	(158)	(188)	-	(346)
Balance as of December 31, 2018	<u>\$ -</u>	<u>660,712</u>	<u>405,140</u>	<u>133,141</u>	<u>-</u>	<u>1,198,993</u>

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office and transportation equipment</u>	<u>Equipment awaiting examination</u>	<u>Total</u>
Balance as of January 1, 2017	\$ -	629,843	373,470	152,711	-	1,156,024
Depreciation	-	15,309	21,165	9,033	-	45,507
Derecognized	-	-	(4,263)	(29,251)	-	(33,514)
Effect of exchange rate changes	-	-	(78)	(90)	-	(168)
Balance as of December 31, 2017	<u>\$ -</u>	<u>645,152</u>	<u>390,294</u>	<u>132,403</u>	<u>-</u>	<u>1,167,849</u>
Book value:						
Balance as of December 31, 2018	<u>\$ 230,790</u>	<u>423,702</u>	<u>67,922</u>	<u>12,393</u>	<u>33,067</u>	<u>767,874</u>
Balance as of December 31, 2017	<u>\$ 118,813</u>	<u>381,979</u>	<u>49,786</u>	<u>14,599</u>	<u>14,833</u>	<u>580,010</u>

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

(j) Intangible assets

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

	<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	11,037	18,891
Derecognized	-	(10,755)	(10,555)	(21,310)
Effects of exchange rate changes	-	-	(21)	(21)
Balance as of December 31, 2018	<u>\$ 176,838</u>	<u>91,504</u>	<u>146,195</u>	<u>414,537</u>
Balance as of January 1, 2017	\$ 176,838	200,857	150,431	528,126
Additions	-	1,127	77,970	79,097
Derecognized	-	(107,579)	(82,653)	(190,232)
Effects of exchange rate changes	-	-	(14)	(14)
Balance as of December 31, 2017	<u>\$ 176,838</u>	<u>94,405</u>	<u>145,734</u>	<u>416,977</u>
Accumulated amortization:				
Balance as of January 1, 2018	\$ -	77,309	83,395	160,704
Additions	-	16,308	33,537	49,845
Derecognized	-	(10,755)	(10,555)	(21,310)
Effects of exchange rate changes	-	-	(21)	(21)
Balance as of December 31, 2018	<u>\$ -</u>	<u>82,862</u>	<u>106,356</u>	<u>189,218</u>
Balance as of January 1, 2017	\$ -	144,858	132,749	277,607
Additions	-	40,030	33,312	73,342
Derecognized	-	(107,579)	(82,653)	(190,232)
Effects of exchange rate changes	-	-	(13)	(13)
Balance as of December 31, 2017	<u>\$ -</u>	<u>77,309</u>	<u>83,395</u>	<u>160,704</u>
Book value:				
Balance as of December 31, 2018	<u>\$ 176,838</u>	<u>8,642</u>	<u>39,839</u>	<u>225,319</u>
Balance as of December 31, 2017	<u>\$ 176,838</u>	<u>17,096</u>	<u>62,339</u>	<u>256,273</u>

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**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
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For the years ended December 31, 2018 and 2017, the Group did not recognize any impairment loss. Amortization expenses were recorded as follows:

	2018	2017
Operating cost	\$ <u>4,454</u>	<u>4,400</u>
Operating expense	\$ <u>45,391</u>	<u>68,942</u>

(k) Short-term borrowings

The short-term borrowings were summarized as follows:

	December 31, 2018	December 31, 2017
Unsecured bank loans	\$ <u>243,000</u>	<u>240,000</u>
Range of interest rate	<u>1.69%~2.50%</u>	<u>1.69%~2.45%</u>
Unused short-term credit lines	\$ <u>367,000</u>	<u>385,000</u>

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

(l) Employee benefits

(i) Defined benefit plans

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

	December 31, 2018	December 31, 2017
Present value of defined benefit obligation	\$ 457,216	486,993
Fair value of plan assets	<u>(78,397)</u>	<u>(90,787)</u>
Net defined benefit liabilities	\$ <u>378,819</u>	<u>396,206</u>

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

1) Composition of plan assets

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

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## Notes to the Consolidated Financial Statements

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$78,594 as of December 31, 2018. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

### 2) Movements in the present value of defined benefit obligation

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

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Defined benefit obligation at January 1	\$ 486,993	522,463
Current service cost and interest cost	9,321	9,085
Net remeasurements of defined benefit liability (asset)		
— Actuarial gains and losses arising from financial assumptions	15,906	(18,222)
— Actuarial gains and losses arising from experience adjustments	(18,704)	(18,420)
Past service credit	(699)	(1,179)
Benefits paid	(35,601)	(6,734)
Defined benefit obligation at December 31	<u>\$ 457,216</u>	<u>486,993</u>

### 3) Movements in fair value of plan assets

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

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Fair value of plan assets, January 1	\$ 90,786	89,111
Interests revenue	1,493	1,247
Net remeasurements of defined benefit liability (asset)		
— Return on plan assets (interest income for the year not included)	2,106	(390)
Contributions	5,941	6,100
Benefits paid	(21,929)	(5,282)
Fair value of plan assets at December 31	<u>\$ 78,397</u>	<u>90,786</u>

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## **Notes to the Consolidated Financial Statements**

### 4) Expenses recognized in profit or loss

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

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Current service costs	\$ 1,441	1,921
Net interest on defined benefit liabilities	6,387	5,917
Curtailment or settlement gains	(699)	(1,179)
	<u>\$ 7,129</u>	<u>6,659</u>
<b>For the years ended December 31</b>		
	<b>2018</b>	<b>2017</b>
Operating cost	\$ 676	722
Selling expense	488	228
Administrative expense	532	495
Research and development expense	5,433	5,214
	<u>\$ 7,129</u>	<u>6,659</u>

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

The remeasurement values of the defined benefit liabilities (assets) recognized in other comprehensive income of the Group were as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Cumulative amount at January 1	\$ 1,087	37,339
Recognized during the period	(4,904)	(36,252)
Cumulative amount at December 31	<u>\$ (3,817)</u>	<u>1,087</u>

### 6) Actuarial assumptions

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Discount rate	1.125%~1.375%	1.625 %
Expected rate of increase in future salaries	1.00%~ 5.00%	2.00%~ 5.00%

The expected allocation payment to be made by the Group to the defined benefit plans within a year after the end of the reporting date is \$5,877 thousand.

(Continued)

# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

### 7) Sensitivity analysis

Calculations of the present value of the defined benefit obligation were based on the judgements and estimates made on the actuarial assumptions as of the balance sheet date, including discount rate, employee turnover rate and future salary changes. Any possible changes in the actuarial assumptions would affect the defined benefit obligation at the reporting date.

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

	<b>Defined benefit obligation</b>	
	<b>Increase by 0.25%</b>	<b>Decrease by 0.25%</b>
December 31, 2018		
Discount rate	\$ (15,978)	16,716
Expected rate of increase in future salaries	15,784	(15,189)
December 31, 2017		
Discount rate	(17,399)	18,222
Expected rate of increase in future salaries	17,235	(16,587)

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

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

### (ii) Defined contribution plans

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

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Operating cost	\$ 7,380	7,232
Selling expense	5,454	5,021
Administrative expense	8,100	7,887
Research and development expense	42,432	40,882
	<b>\$ 63,366</b>	<b>61,022</b>

(Continued)

# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (m) Income taxes

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

<u>Group</u>	<u>Year</u>	<u>Tax exemption products</u>	<u>Tax exemption period</u>
Parent Group-the Company	2009	to produce and sell high-level integrated circuits	The Company was granted approval from the Industrial Development Bureau, MOEA, on December 16, 2009. The Company had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to December 31, 2020.
Subsidiary-MetaCom	2009	to produce and sell high-level integrated circuits	MetaCom was granted approval from the Industrial Development Bureau, MOEA, on October 5, 2009. MetaCom had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to December 31, 2020.
Subsidiary-Avisonic	2007	to produce and sell high-level integrated circuits	Avisonic was granted approval from the Industrial Development Bureau, MOEA, on January 29, 2008. Avisonic had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to November 30, 2018.
Subsidiary-Avisonic	2009	to produce and sell high-level integrated circuits	Avisonic was granted approval from the Industrial Development Bureau, MOEA, on December 17, 2009. Avisonic had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to December 31, 2020.

- (ii) According to the amendments to the “Income Tax Act” enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018. The Group is subject to Taiwan income tax at rates of 17% and 20% for 2018 and 2017, respectively, and also adopted the “Income Basic Tax Act” to calculate the tax. Elan Information is registered in California, United States of America. The company is subject to a Federal corporate income tax rate of 34%. Elan Hong Kong is subject to an income tax rate of 16.5%. The income tax rate of Elan Shanghai and Elan Shenzhen is 25%. Power Asia is registered in Mauritius where international group entities, under local provisions, are exempted from corporate income tax.

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# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The Group's income tax expenses were as follow:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Current income tax expense	\$ 342,427	232,481
Deferred income tax expense	(4,061)	(2,330)
Income tax expense	<u>\$ 338,366</u>	<u>230,151</u>

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

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Income before income tax	<u>\$ 1,870,068</u>	<u>1,262,261</u>
Income tax computed at statutory tax rate	\$ 374,014	214,584
Effect of tax rates in foreign jurisdiction	16,587	(19,340)
Investment tax credit	(33,694)	(48,963)
Suspension of tax-exempt gain on disposal of domestic securities	(317)	(4,816)
Tax-exempt gain on dividend revenue of domestic securities	(2,286)	(5,761)
Tax-exempt income	(831)	(4,680)
Change in unrecognized temporary differences	(29,602)	(38,372)
Prior year's income tax adjustment	(2,991)	32,863
Adjustment in tax rate	(4,149)	-
The amount of expired loss carry forward	31,123	104,855
Others	(9,488)	(219)
Income tax expense	<u>\$ 338,366</u>	<u>230,151</u>

(iii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

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

(Continued)

# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

	December 31, 2018	December 31, 2017
Realized valuation losses on long-term investment	\$ 559,355	481,919
Tax-deductible loss	399,254	354,935
Unfunded pension expense	97,905	86,999
Provision for decline in value of inventories	28,571	26,231
Others	8,295	7,977
	<u>\$ 1,093,380</u>	<u>958,061</u>

Regarding the deductible temporary differences from investment tax credit, the deferred tax assets have not been recognized in respect of these items because it is not probable that the future taxable gain on disposal of securities will be available against which the Group can utilize the benefits therefrom. The ROC Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. Deferred tax assets were not recognized, as management determined that it is not probable that there will be sufficient taxable gains in the future.

As of December 31, 2018 the net losses that have not been recognized as deferred tax assets and the expiration years were as follows:

a) Domestic consolidated entities

Year of loss	Year of expiry	Unused amount
2009	2019	\$ 128,206
2010	2020	133,532
2011	2021	143,053
2012	2022	217,892
2013	2023	233,882
2014	2024	263,203
2015	2025	255,813
2016	2026	270,443
2017	2027	192,406
2018	2028	133,604
		<u>\$ 1,972,034</u>

b) Foreign consolidated entities

	Applicable years	Unused amount
Elan Information	2019-2031	\$ <u>14,576</u>

(Continued)

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

2) Recognized deferred income tax assets and liabilities

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

Deferred Tax Liabilities:

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

Deferred Tax Assets:

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

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

(n) Capital and other equity

(i) Ordinary share

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

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

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

(ii) Capital surplus

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

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

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

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

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

(iii) Retained earnings

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

1) Legal reserve

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

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# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### 2) Special reserve

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

### 3) Earnings distribution

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

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

### (iv) Treasury stock

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

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

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

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

(Continued)

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

(v) Other equity

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

	For the years ended December 31, 2018		
	Foreign exchange differences arising from foreign operation	Unrealized gains (losses) from available- for-sale investments	Total
Balance as of January 1	\$ (4,060)	151,839	147,779
Foreign exchange differences:			
The Group	(139)	-	(139)
Associates	(20)	-	(20)
Unrealized gains and losses from available- for-sale investment:			
The Group	-	25,782	25,782
Associates	-	(1,379)	(1,379)
Balance as of December 31	<u>\$ (4,219)</u>	<u>176,242</u>	<u>172,023</u>
	For the years ended December 31, 2017		
	Foreign exchange differences arising from foreign operation	Unrealized gains (losses) from available- for-sale investments	Total
Balance as of January 1	\$ (2,138)	179,660	177,522
Foreign exchange differences:			
The Group	(1,922)	-	(1,922)
Unrealized gains and losses from available- for-sale investment:			
The Group	-	(16,898)	(16,898)
Associates	-	1,413	1,413
Reclassification of available-for-sale financial assets:			
The Group	-	(12,336)	(12,336)
Balance as of December 31	<u>\$ (4,060)</u>	<u>151,839</u>	<u>147,779</u>

(o) Earnings per share

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

(i) Basic earnings per share:

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

(Continued)

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

(ii) Diluted earnings per share:

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

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the year ended December 31, 2018
Taiwan	\$ 933,868
Mainland China	1,842,851
Hong Kong	5,792,145
United States of America	45,552
Europe	3,296
Other	<u>33,620</u>
	<u>\$ 8,651,332</u>

For details on revenue for the years ended December 31, 2018, please refer to note (14).

(ii) Contract balances

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

(q) Revenue

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

	For the year ended December 31, 2017
Net revenue from sale of goods	\$ 7,469,975
Other revenue	<u>33,292</u>
	<u>\$ 7,503,267</u>

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

(r) Non-operating income and expenses

(i) Other income

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Interest income	\$ 43,857	39,276
Rental income	2,106	1,752
Dividend income	11,434	33,886
Government grant	6,300	6,300
Others	7,455	7,234
<b>Total</b>	<b>\$ 71,152</b>	<b>88,448</b>

(ii) Other gains and losses

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Foreign exchange losses	\$ 40,316	(70,154)
Net losses on financial asset at fair value through profit or loss	100,218	(853)
Loss on disposal of property, plant and equipment	(387)	(309)
Gain on disposal of financial assets at cost	-	16,684
Gain on disposal of available-for-sale financial assets	-	13,036
Impairment loss	(25,808)	(85,420)
	<b>\$ 114,339</b>	<b>(127,016)</b>

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

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

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

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

(t) Financial instruments

(i) Credit risk

1) Credit risk exposure

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

	December 31, 2018	December 31, 2017
Bank deposits	\$ 2,075,153	1,983,366
Notes, accounts receivable and other receivables	1,762,819	1,477,240
Time deposits with maturity more than three months	1,759,480	2,539,200
Guarantee deposits (non-current)	11,231	10,714
	<u>\$ 5,608,683</u>	<u>6,010,520</u>

2) Concentration of credit risk

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

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

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

3) Receivables and debt securities

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

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

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

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# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (ii) Liquidity risk

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

	Carrying amount	Con- tractual cash flows	Within 6 mths	6-12 mths	1-2 years	2-5 years	More than 5 years
<b>December 31, 2018</b>							
Non-derivative financial liabilities							
Short-term borrowings	\$ 243,000	244,739	194,552	50,187	-	-	-
Notes and accounts payable	975,578	975,578	975,578	-	-	-	-
Other payables	<u>1,316,133</u>	<u>1,316,133</u>	<u>1,316,133</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,534,711</u>	<u>2,536,450</u>	<u>2,486,263</u>	<u>50,187</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>December 31, 2017</b>							
Non-derivative financial liabilities							
Short-term loans	\$ 240,000	240,190	240,190	-	-	-	-
Notes and accounts payable	895,974	895,974	895,974	-	-	-	-
Other payables	<u>591,391</u>	<u>591,391</u>	<u>591,391</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,727,365</u>	<u>1,727,555</u>	<u>1,727,555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

### (iii) Market risk

#### 1) Exposure to foreign currency risk

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

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<b>Financial assets:</b>						
<u>Monetary item</u>						
US dollar	\$ 79,460	30.71	2,440,229	76,092	29.82	2,268,786
<b>Financial liabilities:</b>						
<u>Monetary item</u>						
US dollar	29,696	30.71	911,961	44,394	30.11	1,336,796

#### 2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the retranslation of foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, and trade and other payables that are denominated in foreign currency. A 5% of appreciation (depreciation) of the TWD against the USD as of December 31, 2018 and 2017 would have increased (decreased) the equity by \$61,131 thousand and \$38,678 thousand, respectively, for the years ended December 31, 2018 and 2017, assuming all other factors remained constant. The analysis is performed on the same basis in 2018 and 2017.

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# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The foreign exchange gains or losses were disclosed on an aggregate basis as there were various types of functional currencies in the Group. The foreign exchange gains and losses (including realized and unrealized) amounted to \$40,316 thousand and \$70,154 thousand for the years ended December 31, 2018 and 2017, respectively.

### (iv) Interest rate analysis

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

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

If the interest rate increases/decreases by 0.5%, the Group's net income will increase/decrease by \$1,603 and \$3,397 for the years ended December 31, 2018 and 2017, respectively, with all other variable factors that remain constant. This is mainly due to the Group's time deposits and borrowings in variable rates.

### (v) Other market price risk

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

	For the years ended December 31			
	2018		2017	
	Other comprehensive income after tax	Net income	Other comprehensive income after tax	Net income
<b>Prices of securities at the reporting date</b>				
<b>Increase 5%</b>	<u>\$ 9,785</u>	<u>482</u>	<u>434</u>	<u>-</u>
<b>Decrease 5%</b>	<u>\$ (9,785)</u>	<u>(482)</u>	<u>(434)</u>	<u>-</u>

### (vi) Fair value of financial instruments

#### 1) Fair value hierarchy

The fair value of financial assets and liabilities at fair value through profit or loss, financial instruments used for hedging, and financial assets at fair value through other comprehensive income (available for sale financial assets) is measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair

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# **ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

	December 31, 2018				
	Book value	Fair Value			total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value through profit or loss (current and non-current)	\$ 1,463,306	486,750	168,488	808,068	1,463,306
Financial assets measured at fair value through other comprehensive income					
Stocks	252,100	241,067	-	11,033	252,100
Accounts receivable	641,575	-	-	-	-
Financial assets measured at amortized cost					
Cash and cash equivalents	2,075,773	-	-	-	-
Notes and trade receivables	490,202	-	-	-	-
Other receivables	658,085	-	-	-	-
Other financial assets-current	1,759,480	-	-	-	-
Guarantee deposits	11,231	-	-	-	-
Subtotal	4,994,771	-	-	-	-
Total	\$ 7,351,752	727,817	168,488	819,101	1,715,406
Financial liabilities measured at amortized cost					
Bank loans	\$ 243,000	-	-	-	-
Notes and trade payables	975,578	-	-	-	-
Other payables	1,340,084	-	-	-	-
Guarantee deposits	10,677	-	-	-	-
Total	\$ 2,569,339	-	-	-	-
	December 31, 2017				
	Book value	Fair Value			total
		Level 1	Level 2	Level 3	
Financial assets at FVTPL					
Financial assets held for trade	\$ 734,002	581,597	152,405	-	734,002
Financial assets available for sale					
Emerging stocks	226,318	226,318	-	-	226,318
Financial assets measured at cost	761,868	-	-	-	-
Guarantee deposits (non-current)	10,714	-	-	-	-
Total	\$ 1,732,902	807,915	152,405	-	960,320
Financial liabilities measured at amortized costs					
Bank loan	\$ 240,000	-	-	-	-
Notes and trade payables	895,974	-	-	-	-
Other payables	1,120,148	-	-	-	-
Guarantee deposits (non-current)	10,426	-	-	-	-
Total	\$ 2,266,548	-	-	-	-

(Continued)

# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### 2) Valuation techniques for financial instruments measured at fair value

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

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

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

### 3) Transfers between Level 1 and Level 2

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

### 4) Reconciliation of Level 3 fair values

	Non derivative mandatorily measured at fair value through profit or loss (held-for-trading financial assets)
Opening balance, January 1, 2018	\$ 778,988
Total gains and losses recognized:	
In profit or loss	29,080
Ending Balance, December 31, 2018	<u>\$ 808,068</u>

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# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

		<b>For the years ended December 31</b>	
		<b>2018</b>	<b>2017</b>
Total gains and losses recognized:			
In profit or loss, and presented in “other gains and losses”		29,080	-
5)	Quantified information on significant unobservable inputs (Level 3) used in fair value measurement		

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

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income (Available for sale financial assets) equity investments without an active market	Market Comparison Method	<ul style="list-style-type: none"> <li>Price to book ratio (December 31, 2018: 1.30% to 3.04%)</li> <li>Non-liquid discount (December 31, 2018: 7% to 10%)</li> <li>Price to earnings ratio (December 31, 2018: 0.41% to 4.57%)</li> <li>Price to book assets ratio (December 31, 2018: 0.46% to 2.74%)</li> </ul>	The estimated fair value would increase (decrease) if: <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>
Financial assets at fair value through profit or loss - equity investments without an active market	Net Asset Value Method	Net Asset Value	Not applicable

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

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

(Continued)

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

December 31, 2018	<u>Favorable</u>	<u>Profit or loss Movement</u>	<u>Other comprehensive income</u>	
Financial assets at fair value through profit or loss			<u>Favorable</u>	<u>Unfavorable</u>
Equity investments without an active market	Price to book ratio	Decrease by 10%	-	(33,863)
	Non-liquid discount	Decrease by 10%	(308)	-

(u) Financial risk management

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

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

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

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

(ii) Risk Management framework

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

(iii) Credit risk

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

1) Accounts receivable and other receivables

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

(Continued)

## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### 2) Investments

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

#### (iv) Liquidity risk

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

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

#### (v) Market risk

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

#### 1) Currency risk

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

(Continued)

## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 2) Interest rate risk

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

#### 3) Other market price risk

The Group is exposed to other market price risk due to investments of stocks from listed entities. These investments are classified as long-term strategic investment other than held-for-trading investments. The Group was not actively involved in trading these investments.

#### (v) Capital management

The Group meets its objectives to manage its capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders and interest of other related parties and to maintain an optimal capital structure to reduce the cost of capital.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, and retained earnings of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

After being approved by the Board of Directors, the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, the shares are intended to be used for issuing shares under the Group's share option program. Buy-and-sell decisions are made on a specific transaction basis by the Board of Directors; the Group does not have a defined share buy-back plan.

The Group's debt to equity ratios at the end of the reporting period as at December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Total liabilities	\$ 3,220,389	2,819,342
Less: cash and cash equivalents	<u>(2,075,773)</u>	<u>(1,984,013)</u>
Net debt	<u>\$ 1,144,616</u>	<u>835,329</u>
Total equity	<u>\$ 6,627,180</u>	<u>7,356,477</u>
Debt to equity ratio	<u>17.27 %</u>	<u>11.36 %</u>

(Continued)

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

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

	January 1, 2018	Cash flows	Non-cash changes		December 31, 2018
			Foreign exchange movement	Fair value changes	
Short-term borrowings	\$ <u>240,000</u>	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>243,000</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:

	For the years ended December 31	
	2018	2017
Associates-Finger Pro.	\$ <u>445</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.

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

	For the years ended December 31	
	2018	2017
Associates-Eminent	\$ <u>4,734</u>	<u>1,742</u>

- (iii) Rental income

	For the years ended December 31	
	2018	2017
Associates-Eminent	\$ <u>2,092</u>	<u>1,752</u>

(Continued)

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

(iv) Purchase

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

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Associates-Eminent	<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>December 31, 2018</b>	<b>December 31, 2017</b>
Accounts receivable	Associates-Eminent	\$ 1,134	495
Other receivables	Associates-Eminent	28,831	10,467
		<u>\$ 29,965</u>	<u>10,962</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 December 31, 2018, the realized loss and deferred loss on disposal amounted to \$3,910 thousand and \$388 thousand, respectively.

(c) Key management personnel compensation

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Short-term employee benefits	\$ 67,947	49,914
Post-employment benefits	802	708
	<u>\$ 68,749</u>	<u>50,622</u>

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

(Continued)

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

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

(9) **Commitments and contingencies:**

- (a) The Company re-signed a land lease agreement with the Administration of the Science-based Industrial Park, and the lease will terminate on December 31, 2026. For the years ended December 31, 2018 and 2017, the rental from the above agreement amounted to \$7,145 thousand and \$6,704 thousand, respectively. The rental will be reviewed annually and adjusted according to the government's annual land adjustment announcement. The Group is entitled to renew the lease agreement three months before its maturity by submitting a written application. Moreover, the rental payables of irrevocable operating lease is shown as below:

	December 31, 2018	December 31, 2017
Within 1 years	\$ 24,122	29,869
1 to 5 years	33,324	41,784
Above 5 years	1,799	2,398
	<u>\$ 59,245</u>	<u>74,051</u>

- (b) The Company entered into performance guarantee agreements with financial institutions for the Company's obligation to pay for the goods purchased and the tax payable on bonded raw materials, commodities, fuel, and semi-finished products shipped outside the bond areas for domestic sales, demonstration, repair or testing. As of December 31, 2018 and 2017, the financial institutions had issued performance guarantees amounting to \$11,000 thousand and thousand, respectively.
- (c) As of December 31, 2018 and 2017, the refundable notes payable for short-term loans amounted to \$585,000 thousand and \$635,000 thousand, respectively.
- (d) The Company entered into non-infringement guarantee agreements with some customers (guarantees) to provide a guarantee regarding the selling of touchpad module products.
- (e) Government grant

To develop "Battery-less And Contactless Fingerprint Smart Card Solution", the Company has signed a technology program contract with the Institute for Information Industry in order to receive a grant amounting to \$42,000 thousand. The period of this research plan is from January 1, 2017 to December 31, 2018. The Company is the exclusive owner of all of the know-how, technical skills and intellectual property derived from this development project. Nevertheless, the Company cannot use the intellectual property to manufacture products in a foreign country without a written consent from the Ministry of Economic Affairs within the two-year period starting from the date that this development project is finished. The Company recognizes income based on the progress made on the planned research and development projects. For the years ended December 31, 2018 and 2017, the Company has recognized income from government grant amounting to \$6,300 thousand within Other Income. The Company also received \$29,400 thousand in the form of subsidy grant, to which the Company has recognized as current liabilities at year end. These grants will be transferred to income after the relevant research project is completed.

(Continued)

**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 \$2,100 thousand and \$4,200 thousand for the years ended December 31, 2018 and 2017, and were recognized under administrative expenses. In the contract, both parties have agreed to pay investment performance bonuses based on the investment gains received whenever He Xie Company conducts an assessment on each investment and development opportunity and provide an analysis on the related investment portfolio and advisory services. As of December 31, 2018 and 2017, no performance bonuses were paid under the contract.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other:

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

	For the years ended December 31					
	2018			2017		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expenses						
Salaries and wages	\$ 255,373	1,438,744	1,694,117	231,784	1,295,730	1,527,514
Labor and health insurance	20,599	83,757	104,356	15,462	80,854	96,316
Pension expenses	8,056	62,439	70,495	7,954	59,727	67,681
Remuneration of directors	-	30,600	30,600	84	21,716	21,800
Others	15,583	41,187	56,770	13,581	39,647	53,228
Depreciation expenses	16,841	29,512	46,353	15,103	30,404	45,507
Amortization expenses	4,454	45,391	49,845	4,400	68,942	73,342

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# **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 December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Shares/Units (thousands)	Ending balance		Fair value	Highest Percentage of ownership (%)	Note
					Carrying value	Percentage of ownership (%)			
Elan Microelectronic Corporation	Harvatek Corporation	-	Current financial assets at fair value through profit or loss	491	6,336	- %	6,336	- %	
Elan Microelectronic Corporation	Pubon China Money Market FUND-TWD	-	Current financial assets at fair value through profit or loss	2,770	28,939	- %	28,939	- %	
Elan Microelectronic Corporation	PineBridge Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,209	30,193	- %	30,193	- %	
Elan Microelectronic Corporation	Cathay Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,430	30,202	- %	30,202	- %	
Elan Microelectronic Corporation	Paradigm Pion Money Market Fund	-	Current financial assets at fair value through profit or loss	2,000	23,074	- %	23,074	- %	
Elan Microelectronic Corporation	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	1,960	19,953	- %	19,953	- %	
Elan Microelectronic Corporation	KGI Victory Money Market Fund	-	Current financial assets at fair value through profit or loss	2,596	30,011	- %	30,011	- %	
Elan Microelectronic Corporation	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	3,801	50,111	- %	50,111	- %	
Elan Microelectronic Corporation	Diversified FX Trading Segregated Portfolio	-	Current financial assets at fair value through profit or loss	441	38,938	- %	38,938	- %	
Elan Microelectronic Corporation	Global Strategic FX Arbitrage Note	-	Current financial assets at fair value through profit or loss	207	63,570	- %	63,570	- %	
Elan Microelectronic Corporation	Multi-Manager FX Trading Note (M2)	-	Current financial assets at fair value through profit or loss	204	62,845	- %	62,845	- %	
Elan Microelectronic Corporation	Global Strategic FX Arbitrage Note (USD)(SERIES II)	-	Current financial assets at fair value through profit or loss	137	42,073	- %	42,073	- %	
Elan Microelectronic Corporation	Fitipower Integrated Technology Inc.	-	Non-current financial assets at FVOCI	4,064	149,961	2.50 %	149,961	2.50 %	Note 3
Elan Microelectronic Corporation	ThroughTek Co., Ltd.	-	Non-current financial assets at FVOCI	1,100	11,033	4.23 %	11,033	4.23 %	Note 3

(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			Fair value	Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)			
Elan Microelectronic Corporation	Chino-Excel Technology Co., Ltd.	-	Non-current financial assets at FVTPL	823	-	1.48 %	-	1.48 %	Note 1
Elan Microelectronic Corporation	Panther technology Co., Ltd.	-	Non-current financial assets at FVTPL	340	4,687	0.94 %	4,687	0.94 %	Note 2
Elan Microelectronic Corporation	XINCE Co., Ltd.	-	Non-current financial assets at FVTPL	2,866	-	9.24 %	-	9.24 %	Note 1
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,739	14,348	17.39 %	14,348	17.39 %	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	784	7,866	7.00 %	7,866	7.00 %	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,382	8,559	8.13 %	8,559	8.13 %	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	1,130	10,161	2.17 %	10,161	2.17 %	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	3,796	37,253	6.12 %	37,253	6.12 %	Note 2
Elan Microelectronic Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	8,333	74,366	4.17 %	74,366	4.17 %	Note 2
Elan Microelectronic Corporation	Mida touch photoelectric Co., Ltd.	-	Non-current financial assets at FVTPL	2,500	9,000	12.31 %	9,000	12.31 %	Note 2
Elan Microelectronic Corporation	TOP TAIWAN IX VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	5,000	51,231	6.25 %	51,231	6.25 %	Note 2
Elan Microelectronic Corporation	InnoBridge Venture Capital	-	Non-current financial assets at FVTPL	800	4,158	11.35 %	4,158	11.35 %	Note 1
Elan Microelectronic Corporation	Startech Engineering Corporation	-	Non-current financial assets at FVTPL	189	-	0.53 %	-	0.53 %	Note 1
Elan Microelectronic Corporation	North Star Venture Capital	-	Non-current financial assets at FVTPL	3,000	32,660	10.00 %	32,660	10.00 %	Note 1
Elan Microelectronic Corporation	TOP TAIWAN XI VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	5,000	47,792	6.25 %	47,792	6.25 %	Note 2
Elan Microelectronic Corporation	Genius Digital Vision Inc.	-	Non-current financial assets at FVTPL	989	-	6.56 %	-	6.56 %	Note 1
Elan Microelectronic Corporation	Lyra Semiconductor Co., Ltd.	-	Non-current financial assets at FVTPL	2,400	27,936	11.78 %	27,936	16.03 %	Note 2
Elan Microelectronic Corporation	TOP TAIWAN XII VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at FVTPL	25,000	246,136	18.52 %	246,136	18.52 %	Note 2
Elan Microelectronic Corporation	Chimei Motor Co., Ltd.	-	Non-current financial assets at FVTPL	950	7,439	5.94 %	7,439	5.94 %	Note 2
Elan Investment Corp.	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	176	31,350	- %	31,350	- %	

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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			Fair value	Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)			
Elan Investment Corp.	FSITC RMB HIGH YIELD BOND FUND-A-NTD	-	Current financial assets at fair value through profit or loss	1,613	15,125	- %	15,125	- %	
Elan Investment Corp.	FSITC Global FinTech Fund-TWD	-	Current financial assets at fair value through profit or loss	500	5,886	- %	5,886	- %	
Elan Investment Corp.	FSITC Global Utilities and Infrastructure Fund-A-TWD	-	Current financial assets at fair value through profit or loss	1,000	9,192	- %	9,192	- %	
Elan Investment Corp.	FSITC AI Global Precision Medicine Fund-TWD	-	Current financial assets at fair value through profit or loss	1,000	8,640	- %	8,640	- %	
Elan Investment Corp.	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	5,012	51,013	- %	51,013	- %	
Elan Investment Corp.	Nomura Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,221	36,192	- %	36,192	- %	
Elan Investment Corp.	Taishin Global Multi-asset Fund of Funds-TWD-A	-	Current financial assets at fair value through profit or loss	1,000	9,800	- %	9,800	- %	
Elan Investment Corp.	Taishin Global Disruptive Innovation Fund	-	Current financial assets at fair value through profit or loss	1,500	13,425	- %	13,425	- %	
Elan Investment Corp.	Taishin 1699 Money Market Fund	-	Current financial assets at fair value through profit or loss	3,336	45,067	- %	45,067	- %	
Elan Investment Corp.	United Microelectronics Corporation	-	Current financial assets at fair value through profit or loss	294	3,303	- %	3,303	- %	Note 3
Elan Investment Corp.	Elan Microelectronic Corporation	Subsidiary	Non-current available-for-sale at FVOCI	12,438	935,353	4.09 %	935,353	4.26 %	Note 3
Elan Investment Corp.	Fidipower Integrated Technology Inc.	-	Non-current available-for-sale at FVOCI	941	34,706	0.58 %	34,706	0.69 %	Note 3
Elan Investment Corp.	Rafael Microelectronics, Inc.	-	Non-current available-for-sale at FVOCI	400	56,400	1.62 %	56,400	1.78 %	Note 3
Elan Investment Corp.	Panther technology Co., Ltd.	-	Non-current financial assets at FVTPL	1,396	19,232	3.88 %	19,232	3.88 %	Note 2
Elan Investment Corp.	RISE Technology Com	-	Non-current financial assets at FVTPL	769	-	3.23 %	-	3.23 %	Note 1
Elan Investment Corp.	FineMat Applied Materials Co., Ltd.	-	Non-current financial assets at cost, net	8,900	155,534	14.74 %	155,534	18.09 %	Note 2
Elan Investment Corp.	Linkinwave—Preferred shares	-	Non-current financial assets at FVTPL	296	-	- %	-	- %	Note 1
Elan Investment Corp.	Pica 8-Preferred shares	-	Non-current financial assets at FVTPL	342	4,733	4.48 %	4,733	4.48 %	Note 2
Elan Investment Corp.	Arplanet Digital Technology Co., LTD-Preferred Shares	-	Non-current financial assets at FVTPL	114	1,018	4.69 %	1,018	5.61 %	Note 1

(Continued)

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

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
Elan Investment Corp.	Arplanet Digital Technology Co., LTD.-Common Stock	-	Non-current financial assets at FVTPL	75	668	3.08 %	668	3.68 %	Note 1
Elan Investment Corp.	INNOJOY TECHNOLOGY INC.-Preferred Shares	-	Non-current financial assets at FVTPL	143	-	10.00 %	-	10.00 %	Note 1
Elan Investment Corp.	Yi Qin Communication Co., Ltd. Preferred shares	-	Non-current financial assets at FVTPL	1,000	12,030	5.00 %	12,030	5.00 %	Note 2
Elan Investment Corp.	e-Formula Technologies, Inc.	-	Non-current financial assets at FVTPL	550	15,131	3.03 %	15,131	3.03 %	Note 2
Elan Investment Corp.	ALGOLREALITY CO., LTD.	-	Non-current financial assets at FVTPL	100	-	13.04 %	-	13.04 %	Note 1
Elan Investment Corp.	Vita Genomics, Inc.	-	Non-current financial assets at FVTPL	677	6,995	1.13 %	6,995	1.13 %	Note 2
Elan Investment Corp.	MedicusTek International Inc.	-	Non-current financial assets at FVTPL	1,010	-	1.55 %	-	1.83 %	Note 1
Elan Investment Corp.	Taiwan Cornet Co., Ltd. Preferred shares	-	Non-current financial assets at FVTPL	10,000	1,676	14.29 %	1,676	14.29 %	Note 1
Elan Investment Corp.	Genius Digital Vision Inc.	-	Non-current financial assets at FVTPL	740	-	4.91 %	-	4.91 %	Note 1
Fong Yue Corporation	Waltop Electronics Co., Ltd.	-	Non-current financial assets at FVTPL	1,000	7,460	6.77 %	7,460	6.77 %	Note2

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

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

Note 3: These amounts are calculated based on the market prices (closing prices) of the investee company on December 28, 2018.

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

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
Elan Microelectronic Corporation	Elan (HK)	Subsidiary	Sale	497,368	5.75 %	Open Account 45 Days	-		41,738	3.64%	

(Continued)

## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None

(ix) Trading in derivative instruments: None

(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	Elan Microelectronic Corporation	Elan H. K.	1	Operating revenue	497,368	Open Account 45 Days	5.75%
0	Elan Microelectronic Corporation	Elan H. K.	1	Receivables	41,738	Open Account 45 Days	0.43%
1	Elan H. K.	Elan Microelectronic Corporation	2	Commission revenue	237,273	Monthly settlement	2.74%

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2018 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value				
Elan Microelectronic Corporation	Elan Microelectronic Corporation	Hongkong, China	Sale and after-sales service	123,272	123,272	29,328	100.00 %	217,550	100.00	66,079	66,079	Note
Elan Microelectronic Corporation	Elan Investment Corp.	Taipei, Taiwan	After-sales service and provide new informational skills	500,000	500,000	50,000	100.00 %	669,334	100.00	121,163	121,163	Note
Elan Microelectronic Corporation	Elan Information Technology Group	California, U.S.A	Sale and after-sales service	22,822	22,822	65	100.00 %	14,884	100.00	4,090	4,090	Note
Elan Microelectronic Corporation	JPUP Electron Co., Ltd	New Taipei City, Taiwan	Wholesale and installation of electronic devices, data storage and equipment process	7,840	7,840	784	49.00 %	3,814	49.00	(1,324)	(649)	Note
Elan Microelectronic Corporation	Metanoia Communications Inc.	Hsin-Chu, Taiwan	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	1,041,136	1,041,136	54,057	63.60 %	(100,132)	66.66	(61,342)	(39,014)	Note
Elan Microelectronic Corporation	Avionic Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	266,333	218,177	26,633	74.93 %	(561)	76.44	(32,775)	(24,753)	Note
Elan Microelectronic Corporation	Tong fu Investment Corp.	Hsin-Chu, Taiwan	Investment business	30,000	30,000	3,000	46.73 %	-	46.73	-	-	
Elan Microelectronic Corporation	Lighting Device Technologies Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on LED chips	19,520	19,520	1,805	45.07 %	-	45.07	-	-	
Elan Microelectronic Corporation	PIXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	376,024	412,631	33,871	96.78 %	50,597	96.78	(30,446)	(29,386)	Note
Elan Microelectronic Corporation	EMINENT ELECTRONIC TECHNOLOGY CORP. LTD.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	38,381	71,029	3,351	29.89 %	339	29.89	(70,465)	(21,679)	
Elan Microelectronic Corporation	TOP TAIWAN X VENTURE CAPITAL CO., LTD.	Taipei, Taiwan	Venture capital	240,000	240,000	24,000	30.00 %	231,846	30.00	(37,907)	(8,505)	
Elan Microelectronic Corporation	Fong Yue Corporation	Taipei, Taiwan	Investment business	30,000	30,000	3,000	100.00 %	27,300	100.00	(1,064)	(1,064)	Note

(Continued)

## ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value				
Elan Microelectronic Corporation	Uniband Electronic Corporation	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	80,000	80,000	8,000	23.12 %	11,955	24.62	(32,896)	(7,914)	
Elan Microelectronic Corporation	Finger Pro. Incorporation?	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	6,000	6,000	600	23.08 %	2,422	23.08	(5,541)	(1,288)	
Elan Investment Corp.	Avisionic Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	21,543	135	2,154	6.06 %	41	6.06	(32,775)	(1,494)	Note
Elan Investment Corp.	RONG CHENG Technology	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	77,706	77,706	8,000	38.46 %	-	38.46	-	-	
Elan Investment Corp.	PIXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	2,659	3,361	174	0.50 %	260	0.58	(30,446)	(167)	Note
Elan Investment Corp.	Metanoia Communications Inc.	Hsin-Chu, Taiwan	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	44,825	44,825	3,626	4.27 %	9,608	4.27	(61,342)	(2,617)	Note
Elan (H.K.)	Power Asia Investment Corporation	Republic of Mauritius	Investment business	89,572	89,572	2,861	100.00 %	24,219	100.00	455	455	Note

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

(c) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (losses) of the investee	Percentage of ownership	Highest Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow							
Elan Shanghai	Provide system design, information on applications expansion	52,095	(2)	52,095	-	-	52,095	1,571	100.00%	100	1,571	13,969	-
Elan Shenzhen	Provide system design, information on applications expansion	34,670	(2)	34,670	-	-	34,670	(1,143)	100.00%	100	(1,143)	9,772	-

Note: The investment income (losses) from investments in Elan Shanghai and Elan Shenzhen are calculated based on the reviewed financial statements of the same period.

(ii) Upper limit on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
86,765	98,333	3,976,308

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

(iii) Significant transactions:

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

(Continued)

# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (14) Segment information:

#### (a) General information

The Group has seven reportable segments: Consumer Touch Control Business Unit, Laptop Input Device Business Unit, Network Communication Business Unit, Image Processing Design Business Unit, Product Safety Surveillance Business Unit, Investment Business Unit, Sales Department and other departments. The main operations of Consumer Touch Control Business Unit are microprocessor, digital signal processor, application on specific integrated circuit and model. The Group also provides research and development service on the related products. Laptop Input Device Business Unit engages in research, sales, produce and manufacture of laptop input devices. The main operations of Network Communication Business Unit include research, develop and design network communication chips. Image Processing Design Business Unit engages in image processing and design of multi-media compressed chips. Product Safety Surveillance Business Unit involves the manufacturing and the development of safety surveillance systems. Investment Business Unit engages in the management of investee. Sales Department provides sales product services. Other departments engage in design and manufacture of electronic devices.

The reportable segments are the Group's strategic divisions. They offer different products and services, and are managed separately because they require different technology and marketing strategies. Most of the strategic divisions were acquired separately. The management of the acquired divisions remains employed by the Group.

#### (b) Reportable information of segments profit or loss (includes reportable segment revenue and expenses), segment assets, segment liabilities, and their measurement and reconciliations:

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, but not including any extraordinary activity and foreign exchange gain or losses, because the taxation, extraordinary activity and foreign exchange gain or losses are managed on a group basis, and hence, they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that of the report used by the chief operating decision maker. The operating segment accounting policies are similar to the ones described in note (4) "Significant accounting policies".

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

For the year then ended December 31, 2018										
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Revenue										
Revenue from external customers	\$ 2,420,130	5,516,229	108,562	64,561	40,620	-	503,275	24	(2,069)	8,651,332
Net revenue from sales among intersegments	496,637	-	565	22	1,454	-	237,273	30,257	(766,208)	-
Interest revenue	36,503	6,669	23	116	68	169	309	-	-	43,857
Total revenue	\$ 2,953,270	5,522,898	109,150	64,699	42,142	169	740,857	30,281	(768,277)	8,695,189

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

	For the year then ended December 31, 2018									
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Interest expenses	\$ -	8	2,746	1,710	187	-	-	-	-	4,651
Depreciation and amortization	68,556	18,645	1,049	6,026	1,574	-	345	3	-	96,198
Share of profit of equity-accounted investees (associates, and jointly controlled entities)	(57,080)	-	-	-	-	4,278	-	-	92,188	39,386
Other material non-cash items										
Impairment of assets	25,808	-	-	-	-	-	-	-	-	25,808
Reportable segment profit or loss	<u>\$ 1,769,577</u>	<u>1,781,908</u>	<u>(58,129)</u>	<u>(31,871)</u>	<u>(30,577)</u>	<u>(2,336)</u>	<u>74,335</u>	<u>2,790</u>	<u>(1,775,409)</u>	<u>1,730,288</u>
Assets										
Equity-accounted investees	\$ 1,129,348	-	-	-	-	9,909	-	-	(892,695)	246,562
Capital expenditure	37,121	216,970	530	3,049	592	-	135	-	-	258,397
Reportable segment profit or loss	<u>\$ 6,757,250</u>	<u>2,760,697</u>	<u>49,640</u>	<u>87,467</u>	<u>83,496</u>	<u>1,604,776</u>	<u>309,493</u>	<u>23,080</u>	<u>(1,882,792)</u>	<u>9,793,107</u>
	For the year then ended December 31, 2017									
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Revenue										
Revenue from external customers	\$ 2,334,639	4,427,178	67,077	69,999	32,055	-	570,107	-	2,212	7,503,267
Net revenue from sales among intersegments	579,348	-	1,388	-	-	-	202,113	22,450	(805,299)	-
Interest revenue	30,319	8,715	23	28	67	1	123	-	-	39,276
Total revenue	<u>\$ 2,944,306</u>	<u>4,435,893</u>	<u>68,488</u>	<u>70,027</u>	<u>32,122</u>	<u>1</u>	<u>772,343</u>	<u>22,450</u>	<u>(803,087)</u>	<u>7,542,543</u>
Interest expenses	\$ 8	-	2,521	1,681	3	-	-	-	-	4,213
Depreciation and amortization	87,069	15,177	7,382	5,899	2,610	-	690	22	-	118,849
Share of profit of equity-accounted investees (associates, and jointly controlled entities)	157,646	-	-	-	-	4,956	-	-	(123,110)	39,492
Other material non-cash items										
Impairment of assets	50,108	-	-	-	-	35,312	-	-	-	85,420
Reportable segment profit or loss	<u>\$ 1,463,417</u>	<u>1,487,537</u>	<u>(102,549)</u>	<u>(36,909)</u>	<u>(30,846)</u>	<u>(4,392)</u>	<u>53,703</u>	<u>(410)</u>	<u>(1,479,769)</u>	<u>1,349,782</u>
Assets										
Equity-accounted investees	\$ 898,656	-	-	-	-	12,422	-	-	(601,045)	310,033
Capital expenditure	93,160	24,946	530	3,923	292	-	135	-	-	122,986
Reportable segment profit or loss	<u>\$ 7,550,170</u>	<u>2,484,542</u>	<u>88,152</u>	<u>81,514</u>	<u>42,415</u>	<u>1,270,909</u>	<u>207,357</u>	<u>19,946</u>	<u>(1,602,200)</u>	<u>10,142,805</u>

(Continued)

# ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (i) Information about products and services

Revenue from the external customers of the Group was as follows:

<u>Products and services</u>	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Consumer Touch Control Integrated Circuit	\$ 2,921,360	2,906,958
Laptop Input Device	5,516,229	4,427,178
Network Communication Integrated Circuit	108,562	67,077
Image Processing Integrated Circuit	64,561	69,999
Security Monitoring Model	40,620	32,055
Total	<u>\$ 8,651,332</u>	<u>7,503,267</u>

### (ii) Geographical information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

<u>Geographical information</u>	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Revenue from external customers:		
Taiwan	\$ 1,107,829	1,266,700
China	1,847,316	1,484,219
Hong Kong	5,613,718	4,653,405
Other countries (less than 5%)	82,469	98,943
	<u>\$ 8,651,332</u>	<u>7,503,267</u>

<u>Geographical information</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
Non-current assets:		
Taiwan	\$ 1,003,837	851,729
China	3,363	2,411
Hong Kong	178	228
	<u>\$ 1,007,378</u>	<u>854,368</u>

Non-current assets include property, plant and equipment, intangible assets, and other assets, not including financial instruments, deferred tax assets, assets of post-employment benefits and rights arising from an insurance contract (non-current).

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

(iii) Information about major customers

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Customer A (Laptop Input Device Model)	\$ 2,382,325	2,362,976
Customer A (Consumer Touch Control Integrated Circuit Model)	639,137	743,669
Customer B (Laptop Input Device Model)	1,526,346	764,265
Customer B (Consumer Touch Control Integrated Circuit Model)	417,924	217,287
	<u><b>\$ 4,965,732</b></u>	<u><b>4,088,197</b></u>