

**ELAN MICROELECTRONICS CORPORATION
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Six Months Ended June 30, 2019 and 2018**

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

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Independent Auditors' Review Report

To the Board of Directors of
ELAN MICROELECTRONICS CORPORATION:

Introduction

We have reviewed the accompanying consolidated balance sheets of ELAN MICROELECTRONICS CORPORATION and its subsidiaries as of June 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2019 and 2018, as well as the changes in equity and cash flows for the three months and six months ended June 30, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Basis for Qualified Conclusion

As stated in Note 4(b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$202,619 thousand and \$270,955 thousand, constituting 1.84% and 2.44% of consolidated total assets as of June 30, 2019 and 2018, respectively, total liabilities amounting to \$326,527 thousand and \$252,651 thousand, constituting 6.41% and 5.99% of consolidated total liabilities as of June 30, 2019 and 2018, respectively, and total comprehensive income(loss) amounting to \$(42,579) thousand, \$(45,615) thousand, \$(92,461) thousand and \$(75,769) thousand, constituting (10.75)%, (10.95)%, (11.13)% and (11.44)% of consolidated total comprehensive income (loss) for the three months and six months ended June 30, 2019 and 2018, respectively.

Furthermore, as stated in Note 6(f), the other equity accounted investments of ELAN MICROELECTRONICS CORPORATION and its subsidiaries in its investee companies of \$257,824 thousand and \$284,615 thousand as of June 30, 2019 and 2018, respectively, and its equity in net earnings on these investee companies of \$938 thousand, \$(3,457) thousand, \$12,183 thousand and \$(8,913) thousand for the three months and six months ended June 30, 2019 and 2018, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of ELAN MICROELECTRONICS CORPORATION and its subsidiaries as of June 30, 2019 and 2018, and of its consolidated financial performance for the three months and six months ended June 30, 2019 and 2018, as well as its consolidated cash flows for the six months ended June 30, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors’ review report are Chou, Pao-Lian and Tseng, May-Yu.

KPMG

Taipei, Taiwan (Republic of China)
August 13, 2019

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of June 30, 2019 and 2018

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2019, December 31, 2018, and June 30, 2018
 (Expressed in Thousands of New Taiwan Dollars)

	June 30, 2019		December 31, 2018		June 30, 2018	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (notes 6(a) and (s))	\$ 2,222,882	20	2,075,773	21	3,034,351	27
1110 Current financial assets at fair value through profit or loss (note 6(b))	667,743	6	655,238	7	783,819	7
1170 Notes and accounts receivable, net (notes 6(c), (s) and 7)	1,088,106	10	1,104,734	11	1,132,237	10
1200 Other receivables (notes 6(c), (s) and 7)	708,447	7	658,085	7	605,284	5
1310 Inventories (note 6(d))	1,326,718	12	1,156,253	12	1,156,401	11
1410 Prepayments and other current assets	29,003	-	38,222	-	72,193	1
1476 Other current financial assets (notes 6(a) and (s))	2,295,450	21	1,759,480	18	2,071,580	20
	<u>8,338,349</u>	<u>76</u>	<u>7,447,785</u>	<u>76</u>	<u>8,855,865</u>	<u>81</u>
Non-current assets:						
1510 Non-current financial assets at fair value through profit or loss (note 6(b))	883,736	8	808,068	8	789,112	7
1517 Non-current financial assets at fair value through other comprehensive income (note 6(e))	273,770	3	252,100	3	265,589	2
1551 Investments accounted for using equity method (note 6(f))	257,824	2	246,562	3	284,615	3
1600 Property, plant and equipment (notes 6(g) and 7)	764,240	7	767,874	8	607,015	5
1755 Right-of-use assets (note 6(h))	202,102	2	-	-	-	-
1780 Intangible assets (note 6(i))	217,655	2	225,319	2	244,943	2
1840 Deferred tax assets	29,821	-	29,821	-	25,808	-
1900 Other non-current assets (note 6(s))	24,097	-	25,618	-	26,387	-
	<u>2,653,245</u>	<u>24</u>	<u>2,355,362</u>	<u>24</u>	<u>2,243,469</u>	<u>19</u>
Total assets	<u>\$ 10,991,594</u>	<u>100</u>	<u>9,803,147</u>	<u>100</u>	<u>11,099,334</u>	<u>100</u>
Liabilities and Equity						
Current liabilities:						
2100 Short-term borrowings (notes 6(j) and (s))	\$ 271,000	2	243,000	2	228,000	2
2170 Accounts payable (notes 6(s) and 7)	1,073,002	10	975,578	10	1,036,504	9
2206 Employee bonus payable (notes 6(r) and (s))	393,304	4	255,000	3	280,934	3
2216 Dividends payable	1,519,402	14	-	-	1,120,016	10
2230 Current tax liabilities	305,476	3	269,983	3	220,030	2
2280 Current lease liabilities (note 6(s))	17,060	-	-	-	-	-
2300 Other current liabilities (note 6(s))	940,286	8	1,085,084	10	933,930	8
	<u>4,519,530</u>	<u>41</u>	<u>2,828,645</u>	<u>28</u>	<u>3,819,414</u>	<u>34</u>
Non-Current liabilities:						
2570 Deferred tax liabilities	2,248	-	2,248	-	2,296	-
2580 Non-current lease liabilities (note 6(k))	185,883	2	-	-	-	-
2640 Net defined benefit liability, non-current	379,360	3	378,819	4	383,458	3
2645 Guarantee deposits received (note 6(s))	10,708	-	10,677	-	10,733	-
	<u>578,199</u>	<u>5</u>	<u>391,744</u>	<u>4</u>	<u>396,487</u>	<u>3</u>
	<u>5,097,729</u>	<u>46</u>	<u>3,220,389</u>	<u>32</u>	<u>4,215,901</u>	<u>37</u>
Total liabilities	<u>3,038,804</u>	<u>28</u>	<u>3,038,804</u>	<u>31</u>	<u>4,341,148</u>	<u>39</u>
Equity attributable to owners of parent: (notes 6(n) and (o))	<u>337,675</u>	<u>3</u>	<u>444,033</u>	<u>5</u>	<u>399,934</u>	<u>4</u>
Capital stock	1,575,923	14	1,419,965	14	1,419,965	13
Capital surplus	846,062	8	1,585,683	16	660,718	6
Retained earnings:	2,421,985	22	3,005,648	30	2,080,683	19
Legal reserve	194,171	2	172,023	2	186,034	2
Undistributed earnings	(33,328)	-	(33,328)	-	(91,111)	(1)
Other equity	5,959,307	55	6,627,180	68	6,916,688	63
Treasury shares	(65,442)	(1)	(44,422)	-	(33,253)	-
Total equity attributable to owners of parent:	<u>5,893,865</u>	<u>54</u>	<u>6,582,758</u>	<u>68</u>	<u>6,883,433</u>	<u>63</u>
Non-controlling interests	10,991,594	100	9,803,147	100	11,099,334	100
Total equity	<u>10,991,594</u>	<u>100</u>	<u>9,803,147</u>	<u>100</u>	<u>11,099,334</u>	<u>100</u>
Total liabilities and equity	<u>\$ 10,991,594</u>	<u>100</u>	<u>9,803,147</u>	<u>100</u>	<u>11,099,334</u>	<u>100</u>

See accompanying notes to financial statements.

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

REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS**ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****For the three months and six months ended June 30, 2019 and 2018****(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)**

		For the three months ended June 30				For the six months ended June 30			
		2019		2018		2019		2018	
		Amount	%	Amount	%	Amount	%	Amount	%
4000	Total operating revenue (notes 6(p), 7 and 14)	\$ 2,181,689	100	2,103,906	100	4,062,303	100	3,883,144	100
5000	Total operating costs (notes 6(d), (l) and 7)	1,176,477	54	1,155,920	55	2,203,738	54	2,147,790	55
	Gross profit from operations	1,005,212	46	947,986	45	1,858,565	46	1,735,354	45
5920	Add: Realized profit (loss) from sales	(354)	-	190	-	2,764	-	2,961	-
		1,004,858	46	948,176	45	1,861,329	46	1,738,315	45
	Operating expenses: (notes 6(c), (l) and 12)								
6100	Selling expenses	92,296	4	98,102	5	156,633	4	169,134	4
6200	Administrative expenses	81,709	4	82,566	4	163,480	4	160,409	4
6300	Research and development expenses	375,167	17	376,064	18	740,993	18	728,285	19
6450	Impairment loss (impairment gain and loss) determined in accordance with IFRS 9	(896)	-	4,558	-	(3,115)	-	5,904	-
		548,276	25	561,290	27	1,057,991	26	1,063,732	27
	Operating income	456,582	21	386,886	18	803,338	20	674,583	18
	Non-operating income and expenses:								
7010	Other income (note 6(q))	38,734	2	26,541	1	79,171	2	39,251	1
7020	Other gains and losses (notes 6(q) and 7)	36,921	2	51,485	2	120,392	3	87,254	3
7050	Finance costs	(2,349)	-	(1,100)	-	(4,430)	-	(2,219)	-
7590	Miscellaneous disbursements	(978)	-	(171)	-	(2,917)	-	(1,442)	-
7770	Share of gain (loss) of associates accounted for using equity method (note 6(f))	938	-	(3,457)	-	12,183	-	(8,913)	-
		73,266	4	73,298	3	204,399	5	113,931	4
	Profit before tax	529,848	25	460,184	21	1,007,737	25	788,514	22
8110	Less: Income tax expenses (note 6(m))	105,770	5	94,703	5	199,376	5	164,338	5
	Net profit	424,078	20	365,481	16	808,361	20	624,176	17
8300	Other comprehensive income (loss):								
8310	Components of other comprehensive income (loss) that will not be reclassified to profit or loss								
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(28,109)	(1)	50,869	2	21,670	1	39,271	1
8349	Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-	-	-	-	-
		(28,109)	(1)	50,869	2	21,670	1	39,271	1
8360	Components of other comprehensive income (loss) that will be reclassified to profit or loss								
8361	Exchange differences on translation of foreign financial statements	30	-	347	-	466	-	351	-
8370	Share of other comprehensive income of associates accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(11)	-	(17)	-	12	-	(1,367)	-
8399	Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-	-	-	-	-
	Components of other comprehensive income that will be reclassified to profit or loss	19	-	330	-	478	-	(1,016)	-
8300	Other comprehensive income, net	(28,090)	(1)	51,199	2	22,148	1	38,255	1
	Comprehensive income	\$ 395,988	19	416,680	18	830,509	21	662,431	18
	Net profit attributable to:								
	Owners of parent	\$ 434,260	20	375,324	16	829,381	21	639,694	17
	Non-controlling interests	(10,182)	-	(9,843)	-	(21,020)	(1)	(15,518)	-
		\$ 424,078	20	365,481	16	808,361	20	624,176	17
	Comprehensive income attributable to:								
	Owners of the parent	\$ 406,170	19	426,523	18	851,529	22	677,949	18
	Non-controlling interests	(10,182)	-	(9,843)	-	(21,020)	(1)	(15,518)	-
		\$ 395,988	19	416,680	18	830,509	21	662,431	18
	Earnings per share (expressed in dollars) (note 6(o))								
	Basic earnings per share	\$ 1.49		0.90		2.85		1.54	
	Diluted earnings per share	\$ 1.48		0.90		2.82		1.52	

See accompanying notes to financial statements.

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

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent												Non-controlling interests	Total equity	
	Total other equity interest														
	Ordinary shares	Capital surplus	Retained earnings		Exchange differences on translation of foreign financial statements		Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income		Unrealized gains (losses) on available-for-sale financial assets	Treasury shares	Total equity attributable to owners of parent				
			Legal reserve	Unappropriated retained earnings											
Balance at January 1, 2018	\$	4,341,148	536,328	1,312,585	1,109,748	-	(4,060)	151,839	151,839	(151,839)	(91,111)	7,356,477	(33,014)	7,323,463	
Effects of retrospective application		-	-	-	17,120	-	-	-	-	-	-	17,120	-	17,120	
Balance at January 1, 2018 after adjustments		4,341,148	536,328	1,312,585	1,126,868	-	(4,060)	151,839	151,839	-	(91,111)	7,373,597	(33,014)	7,340,583	
Net profit		-	-	-	639,694	-	-	-	-	-	-	639,694	(15,518)	624,176	
Other comprehensive income		-	-	-	-	-	363	37,892	-	-	-	38,255	-	38,255	
Total comprehensive income		-	-	-	639,694	-	363	37,892	-	-	-	677,949	(15,518)	662,431	
Appropriation and distribution of retained earnings:															
Legal reserve appropriated		-	-	107,380	(107,380)	-	-	-	-	-	-	-	-	-	
Cash dividends of ordinary share		-	-	-	(998,464)	-	-	-	-	-	-	(998,464)	-	(998,464)	
Cash dividends from capital surplus		-	(121,552)	-	-	-	-	-	-	-	-	(121,552)	-	(121,552)	
Issuance of shares for non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	435	435	
Changes in non-controlling interests		-	(14,842)	-	-	-	-	-	-	-	-	(14,842)	14,842	-	
Balance at June 30, 2018	\$	4,341,148	399,934	1,419,965	660,718	-	(3,697)	189,731	189,731	-	(91,111)	6,916,688	(33,255)	6,883,433	
Balance at January 1, 2019	\$	3,038,804	444,033	1,419,965	1,585,683	-	(4,219)	176,242	176,242	-	(33,328)	6,627,180	(44,422)	6,582,758	
Net profit		-	-	-	829,381	-	-	-	-	-	-	829,381	(21,020)	808,361	
Other comprehensive income		-	-	-	-	-	478	21,670	21,670	-	-	22,148	-	22,148	
Total comprehensive income		-	-	-	829,381	-	478	21,670	21,670	-	-	851,529	(21,020)	830,509	
Appropriation and distribution of retained earnings:															
Legal reserve appropriated		-	-	155,958	(155,958)	-	-	-	-	-	-	-	-	-	
Cash dividends of ordinary share		-	-	-	(1,413,044)	-	-	-	-	-	-	(1,413,044)	-	(1,413,044)	
Cash dividends from capital surplus		-	(106,358)	-	-	-	-	-	-	-	-	(106,358)	-	(106,358)	
Balance at June 30, 2019	\$	3,038,804	337,675	1,575,923	846,062	-	(3,741)	197,912	197,912	-	(33,328)	5,959,307	(65,442)	5,893,865	

See accompanying notes to financial statements.

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

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the six months ended June 30, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2019	2018
Cash flows from operating activities:		
Profit before tax	\$ 1,007,737	788,514
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	36,132	23,045
Amortization expense	20,070	25,431
Expected credit loss (gain)	(3,115)	5,904
Net gain on financial assets at fair value through profit or loss	(111,634)	(32,513)
Interest expense	4,430	2,219
Interest income	(22,119)	(22,352)
Dividend income	(7,252)	(5,964)
Share of loss (gain) of associates accounted for using equity method	(12,183)	8,913
Loss on disposal of property, plant and equipment	473	194
Impairment loss	-	15,000
Gain on disposal of financial assets at fair value through profit or loss	-	(48,313)
Difference between net pension liability and actual appropriations	541	(12,748)
Impairment loss and disposal loss on inventory	50,389	45,458
Others	(224)	281
Total adjustments to reconcile profit	(44,492)	4,555
Changes in operating assets and liabilities:		
Increase in financial assets at fair value through profit or loss	(67,502)	(43,534)
Decrease (increase) in notes and accounts receivable	19,743	(200,368)
Increase in inventories	(220,854)	(48,056)
Decrease (increase) in prepayments and other current assets	9,266	(6,887)
Increase in other receivables	(50,105)	(66,003)
Increase in notes and accounts payable	97,424	140,530
Increase (decrease) in other payables	(4,487)	94,827
Cash inflow generated from operations	746,730	663,578
Interest received	21,862	22,538
Dividends received	8,644	5,964
Interest paid	(4,577)	(2,330)
Income taxes paid	(163,883)	(98,601)
Net cash flows from operating activities	608,776	591,149
Cash flows from (used in) investing activities:		
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	29,167	25,266
Acquisition of financial assets at fair value through profit or loss	(17,933)	(8,539)
Proceeds from disposal of financial assets at fair value through profit or loss	79,729	47,692
Acquisition of property, plant and equipment	(20,611)	(50,035)
Acquisition of intangible assets	(12,407)	(14,101)
Decrease in other non-current assets	1,521	2,544
Decrease (increase) in time deposit with maturity longer than three months	(535,970)	467,620
Net cash flows from (used in) investing activities	(476,504)	470,447
Cash flows used in financing activities:		
Increase in short-term loans	273,000	182,000
Decrease in short-term loans	(245,000)	(194,000)
Increase in guarantee deposits received	31	307
Payment of lease liabilities	(13,194)	-
Change in non-controlling interests	-	435
Net cash flows used in financing activities	14,837	(11,258)
Net decrease in cash and cash equivalents	147,109	1,050,338
Cash and cash equivalents at the beginning of period	2,075,773	1,984,013
Cash and cash equivalents at the end of period	\$ 2,222,882	3,034,351

See accompanying notes to financial statements.

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

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

(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:

The consolidated financial statements for the six months ended June 30, 2019 and 2018 were authorized for issuance by the Board of Directors on August 13, 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, 2019.

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

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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:

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.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(c).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of office and transportation equipment.

- **Leases classified as operating leases under IAS 17**

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee’s incremental borrowing rate at the date of initial application; or

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Group recognised additional \$208,326 thousands of right-of-use assets and lease liabilities without an influence on retained earnings, respectively. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.79%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

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	<u>January 1, 2019</u>
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 59,245
Recognition exemption for:	
short-term leases	(958)
Extension and termination options reasonably certain to be exercised	<u>205,937</u>
	<u>\$ 264,224</u>
Discounted using the incremental borrowing rate at January 1, 2019	\$ 208,326
Lease liabilities recognized at January 1, 2019	<u>\$ 208,326</u>

(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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

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

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

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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Those which may be relevant to the Group are set out below:

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

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

(4) Summary of significant accounting policies:

(a) Statement of Compliance

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

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2018. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2018.

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(b) Basis of consolidation

(i) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding			Note
			June 30, 2019	December 31, 2018	June 30, 2018	
The Company	Elan Investment Corp.	Investment holding	100.00 %	100.00 %	100.00 %	-
The Company	Fong Yue Corporation	Investment holding	100.00 %	100.00 %	100.00 %	Note
The Company and Elan Investment Corp.	Metanoia Communications Inc.(MetaCom)	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	67.86 %	67.86 %	67.86 %	Note
The Company and Elan Investment Corp.	Avisonic Technology Corp. (Avisonic)	Research, design, develop, manufacture and sale on digital image-process chips	81.00 %	81.00 %	81.00 %	Note
The Company	JPUP Electron Co., Ltd. (JPUP)	Wholesale and installation of electronic devices, data storage and equipment process	49.00 %	49.00 %	49.00 %	The Company owns 3 out of 5 seats in the board, and has a control interest over JPUP
The Company and Elan Investment Corp.	Pixord Corporation (Pixord)	Research, design, develop, manufacture and sale on Webcam and server	97.27 %	97.27 %	96.96 %	Note
The Company	Elan H.K.	Sale and after-sales service	100.00 %	100.00 %	100.00 %	-
The Company	Elan Information	After-sales service and provide new informational skills	100.00 %	100.00 %	100.00 %	Note
Elan H.K.	Power Asia	Investment holding	100.00 %	100.00 %	100.00 %	-
Power Asia	Elan Shanghai	Provide system design, information on applications expansion	100.00 %	100.00 %	100.00 %	-
Power Asia	Elan Shenzhen	Provide system design, information on applications expansion	100.00 %	100.00 %	100.00 %	-

Note: Non-significant consolidated subsidiaries, based solely on the unreviewed financial statements.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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(c) Leases (applicable from January 1, 2019)

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Group has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of an asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery office and transportation that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Group applies IFRS15 to allocate the consideration in the contract.

(d) Employee benefits

The pension cost for the interim period is calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events..

(e) Income tax

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

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

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

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

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the consolidated interim financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2018. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2018.

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(6) Explanation of significant accounts:

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2018. Please refer to Note 6 of the 2018 annual consolidated financial statements.

(a) Cash and cash equivalents

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Petty cash	\$ 369	620	724
Checking and demand deposits	870,473	1,036,803	1,844,317
Time deposits with maturities of three months or less	<u>1,352,040</u>	<u>1,038,350</u>	<u>1,189,310</u>
	<u>\$ 2,222,882</u>	<u>2,075,773</u>	<u>3,034,351</u>

As of June 30, 2019, December 31 and June 30, 2018, time deposits with maturities of more than three months held by the Group amounted to \$2,295,450 thousand, \$1,759,480 thousand, and \$2,071,580 thousand, respectively, and were recorded as other current financial assets. The Group did not recognize impairment loss on other current financial assets for the six months ended June 30, 2019 and 2018. Other information relating to credit risk is provided in Note 6(s).

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

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Mandatorily measured at fair value through profit or loss:			
Current:			
Listed stocks	\$ 11,120	9,639	14,482
Open-end certificates of beneficial interest	497,426	477,111	613,358
Short-term commercial papers	<u>159,197</u>	<u>168,488</u>	<u>155,979</u>
Subtotal	<u>667,743</u>	<u>655,238</u>	<u>783,819</u>
Non-current:			
Listed stocks	867,313	808,068	789,112
Unlisted funds	<u>16,423</u>	<u>-</u>	<u>-</u>
Subtotal	<u>883,736</u>	<u>808,068</u>	<u>789,112</u>
Total	<u>\$ 1,551,479</u>	<u>1,463,306</u>	<u>1,572,931</u>

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(c) Notes and accounts receivable

	June 30, 2019	December 31, 2018	June 30, 2018
Notes receivable	\$ 18,339	16,165	15,901
Accounts receivable - fair value through other comprehensive income	573,392	726,785	495,912
Accounts receivable - measured at amortized cost	531,886	404,992	667,546
Less: Allowance for doubtful accounts	(35,511)	(43,208)	(47,122)
	<u><u>\$ 1,088,106</u></u>	<u><u>1,104,734</u></u>	<u><u>1,132,237</u></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.

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. To measure the expected credit losses, notes and accounts receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The allowance for doubtful accounts were determined as follows:

	June 30, 2019	
	Gross carrying amount	Weighted-average loss rate
Current	\$ 1,045,656	0.15%
1 to 30 days past due	47,421	2.62%
31 to 60 days past due	3,860	14.65%
61 to 90 days past due	467	30.71%
More than 90 days past due	26,213	50%~100%
	<u><u>\$ 1,123,617</u></u>	<u><u>35,511</u></u>

	December 31, 2018	
	Gross carrying amount	Weighted-average loss rate
Current	\$ 1,003,142	0.18%
1 to 30 days past due	47,978	2.94%
31 to 60 days past due	26,378	15.92%
61 to 90 days past due	7,223	34.59%
More than 90 days past due	63,221	50%~100%
	<u><u>\$ 1,147,942</u></u>	<u><u>43,208</u></u>

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	June 30, 2018		
	Gross carrying amount	Weighted- average loss rate	Expected credit loss
Current	\$ 1,029,236	0.09%	912
1 to 30 days past due	76,948	2.17%	1,670
31 to 60 days past due	19,394	17.97%	3,582
61 to 90 days past due	829	40.94%	339
More than 90 days past due	<u>52,952</u>	50%~100%	<u>40,619</u>
	<u>\$ 1,179,359</u>		<u>47,122</u>

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

	For the six months ended June 30	
	2019	2018
Balance at January 1, 2019 and 2018	\$ 43,208	41,218
Impairment loss recognized (reversed)	(3,115)	5,904
Amounts written off	<u>(4,582)</u>	<u>-</u>
Balance at June 30, 2019 and 2018	<u>\$ 35,511</u>	<u>47,122</u>

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 June 30, 2019, December 31 and June 30, 2018, the accounts receivable which had not expired were as follows:

June 30, 2019					
Purchaser	Accounts derecognized	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral
Financial Institution	<u>\$ 598,169</u>	<u>3,042,400</u>	<u>-</u>	<u>0.05%~0.10%</u>	None

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

June 30, 2018					
Purchaser	Accounts derecognized	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral
Financial Institution	<u>\$ 560,047</u>	<u>2,000,000</u>	<u>-</u>	<u>0.05%~0.30%</u>	None

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The Group has deducted the advanced amount from the accounts receivable in accordance with the condition of derecognition as of June 30, 2019, December 31 and June 30, 2018. The remaining amount has been reclassified into other receivables. The Group did not recognize impairment loss on other receivables for the six months ended June 30, 2019 and 2018, and other information on credit risk is disclosed in Note 6(s).

(d) Inventories

	June 30, 2019	December 31, 2018	June 30, 2018
Raw materials	\$ 413,552	423,928	422,705
Work in progress	701,331	503,874	469,565
Finished goods	211,835	228,451	264,131
	<u>\$ 1,326,718</u>	<u>1,156,253</u>	<u>1,156,401</u>

Inventories recognized as cost of goods sold and the related expense amounted to \$1,146,449 thousand, \$1,120,891 thousand, \$2,153,711 thousand and \$2,101,972 thousand, \$29,991 thousand, \$35,062 thousand, \$50,389 thousand and \$45,458 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 \$37 thousand, increase by f\$33 thousand, increased by \$362 thousand and decreased by \$360 thousand for the three months and six months ended June 30, 2019 and 2018, respectively.

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

	June 30, 2019	December 31, 2018	June 30, 2018
Equity investments at fair value through other comprehensive income:			
Emerging stocks	\$ 11,198	11,033	213,589
Quoted shares	262,572	241,067	52,000
	<u>\$ 273,770</u>	<u>252,100</u>	<u>265,589</u>

Equity investments at fair value through other comprehensive income

- (i) The Group designated the investments shown above as equity securities at fair value through other comprehensive income because these equity securities were held for long-term strategic purposes instead of for trading.
- (ii) No strategic investments were disposed for the six months ended June 30, 2019 and 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(s).

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(f) Investments accounted for using equity method

The components of investments accounted for using the equity method at the reporting date were as follows:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Associate	\$ <u>257,824</u>	<u>246,562</u>	<u>284,615</u>

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

			<u>June 30, 2019</u>		<u>December 31, 2018</u>		<u>June 30, 2018</u>
	Nature of the relationship	Principal country	Amount	Share- holdin g (%)	Amount	Share- holdin g (%)	Amount
Tong Fu Investment Corporation	Investment holding	R.O.C.	\$ 30,000	46.73	30,000	46.73	30,000
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	38,381	29.89	71,029
Top Taiwan X Venture Capital Co. Ltd	Venture capital	R.O.C.	240,000	30.00	240,000	30.00	240,000
Uniband Electronic Corp	Manufactures and sells electronic devices	R.O.C.	80,000	23.12	80,000	23.12	80,000
Finger Pro. Incorporation	Manufactures and sells electronic devices	R.O.C.	6,000	23.08	6,000	23.08	6,000
Lighting Device Technologies Crop.	Research, design, develop, manufacture and sale on LED chips	R.O.C.	19,520	45.07	19,520	45.07	19,520
RONG CHENG Technology	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	R.O.C.	77,706	38.46	77,706	38.46	77,706
			<u>\$ 491,607</u>		<u>491,607</u>		<u>524,255</u>

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

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Attributable to the Group:				
Loss from continuing operations	\$ 938	(3,457)	12,183	(8,913)
Other comprehensive income (loss)	(11)	(17)	12	(1,367)
Comprehensive income	<u>\$ 927</u>	<u>(3,474)</u>	<u>12,195</u>	<u>(10,280)</u>

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

(g) Property, plant and equipment

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

	Land	Buildings	Machinery and equipment	Office and transportation equipment	Equipment awaiting examination	Total
Cost:						
Balance as of January 1, 2019	\$ 230,790	1,084,414	473,062	145,534	33,067	1,966,867
Additions	-	2,015	8,741	2,225	7,630	20,611
Derecognized	-	-	(2,095)	(2,780)	-	(4,875)
Reclassification	-	17	24,985	(61)	(25,002)	(61)
Effect of exchange rate changes	-	-	89	110	-	199
Balance as of June 30, 2019	<u>\$ 230,790</u>	<u>1,086,446</u>	<u>504,782</u>	<u>145,028</u>	<u>15,695</u>	<u>1,982,741</u>
Balance as of January 1, 2018	\$ 118,813	1,027,131	440,080	147,002	14,833	1,747,859
Additions	-	135	8,242	1,992	39,666	50,035
Derecognized	-	-	(4,918)	(4,804)	-	(9,722)
Reclassification	-	1,323	7,651	-	(8,974)	-
Effect of exchange rate changes	-	-	53	64	-	117
Balance as of June 30, 2018	<u>\$ 118,813</u>	<u>1,028,589</u>	<u>451,108</u>	<u>144,254</u>	<u>45,525</u>	<u>1,788,289</u>
Accumulated depreciation:						
Balance as of January 1, 2019	\$ -	660,712	405,140	133,141	-	1,198,993
Depreciation	-	8,501	12,517	2,925	-	23,943
Derecognized	-	-	(2,055)	(2,555)	-	(4,610)
Effect of exchange rate changes	-	-	79	96	-	175
Balance as of June 30, 2019	<u>\$ -</u>	<u>669,213</u>	<u>415,681</u>	<u>133,607</u>	<u>-</u>	<u>1,218,501</u>

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office and transportation equipment</u>	<u>Equipment awaiting examination</u>	<u>Total</u>
Balance as of January 1, 2018	\$ -	645,152	390,294	132,403	-	1,167,849
Depreciation	-	7,700	11,315	4,030	-	23,045
Derecognized	-	-	(4,918)	(4,804)	-	(9,722)
Effect of exchange rate changes	-	-	47	55	-	102
Balance as of June 30, 2018	<u>\$ -</u>	<u>652,852</u>	<u>396,738</u>	<u>131,684</u>	<u>-</u>	<u>1,181,274</u>
Carrying value:						
Balance as of January 1, 2019	<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 June 30, 2019	<u>\$ 230,790</u>	<u>417,233</u>	<u>89,101</u>	<u>11,421</u>	<u>15,695</u>	<u>764,240</u>
Balance as of June 30, 2018	<u>\$ 118,813</u>	<u>375,737</u>	<u>54,370</u>	<u>12,570</u>	<u>45,525</u>	<u>607,015</u>

(h) Right-of-use assets

The Group leases many assets including land and buildings, machinery and equipment. Information about leases for which the Group as a lessee is presented below:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Total</u>
Cost:				
Balance as of January 1, 2019	\$ -	-	-	-
Effects of retrospective application	<u>186,140</u>	<u>22,186</u>	<u>-</u>	<u>208,326</u>
Balance at January 1, 2019 after adjustment	186,140	22,186	-	208,326
Purchases	-	8,580	375	8,955
Derecognized	-	(5,072)	-	(5,072)
Effect of changes in foreign exchange rates	<u>-</u>	<u>231</u>	<u>-</u>	<u>231</u>
Balance as of June 30, 2019	<u>\$ 186,140</u>	<u>25,925</u>	<u>375</u>	<u>212,440</u>
Accumulated depreciation and impairment losses:				
Balance at January 1, 2019	\$ -	-	-	-
Effects of retrospective application	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at January 1, 2019 after adjustment	-	-	-	-
Depreciation for the year	2,785	9,286	118	12,189
Derecognized	-	(1,847)	-	(1,847)
Effect of changes in foreign exchange rates	<u>-</u>	<u>(4)</u>	<u>-</u>	<u>(4)</u>
Balance as of June 30, 2019	<u>\$ 2,785</u>	<u>7,435</u>	<u>118</u>	<u>10,338</u>
Book value:				
Balance as of January 1, 2019	<u>\$ 186,140</u>	<u>22,186</u>	<u>-</u>	<u>208,326</u>
Balance as of June 30, 2019	<u>\$ 183,355</u>	<u>18,490</u>	<u>257</u>	<u>202,102</u>

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) 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, 2019	\$ 176,838	91,504	146,195	414,537
Additions	-	2,757	9,650	12,407
Derecognized	-	(34,191)	(4,886)	(39,077)
Effects of exchange rate changes	-	-	10	10
Balance as of June 30, 2019	<u>\$ 176,838</u>	<u>60,070</u>	<u>150,969</u>	<u>387,877</u>
Balance as of January 1, 2018	\$ 176,838	94,405	145,734	416,977
Additions	-	7,009	7,092	14,101
Derecognized	-	(10,755)	(6,604)	(17,359)
Effects of exchange rate changes	-	-	6	6
Balance as of June 30, 2018	<u>\$ 176,838</u>	<u>90,659</u>	<u>146,228</u>	<u>413,725</u>
Accumulated amortization:				
Balance as of January 1, 2019	\$ -	82,862	106,356	189,218
Additions	-	3,741	16,329	20,070
Derecognized	-	(34,191)	(4,886)	(39,077)
Effects of exchange rate changes	-	-	11	11
Balance as of June 30, 2019	<u>\$ -</u>	<u>52,412</u>	<u>117,810</u>	<u>170,222</u>
Balance as of January 1, 2018	\$ -	77,309	83,395	160,704
Additions	-	8,679	16,752	25,431
Derecognized	-	(10,755)	(6,604)	(17,359)
Effects of exchange rate changes	-	-	6	6
Balance as of June 30, 2018	<u>\$ -</u>	<u>75,233</u>	<u>93,549</u>	<u>168,782</u>
Book value:				
Balance as of January 1, 2019	<u>\$ 176,838</u>	<u>8,642</u>	<u>39,839</u>	<u>225,319</u>
Balance as of June 30, 2019	<u>\$ 176,838</u>	<u>7,658</u>	<u>33,159</u>	<u>217,655</u>
Balance as of June 30, 2018	<u>\$ 176,838</u>	<u>15,426</u>	<u>52,679</u>	<u>244,943</u>

(j) Short-term borrowings

The short-term borrowings were summarized as follows:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Unsecured bank loans	<u>\$ 271,000</u>	<u>243,000</u>	<u>228,000</u>
Range of interest rate	<u>1.69%~2.28%</u>	<u>1.69%~2.50%</u>	<u>1.69%~2.40%</u>
Unused short-term credit lines	<u>\$ 319,000</u>	<u>367,000</u>	<u>401,000</u>

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(k) Lease liabilities

	June 30, 2019	
	Future minimum lease payments	Interest
Less than one year	\$ 20,464	3,404
Between one and five years	42,351	13,742
More than five years	197,265	39,991
	<u>\$ 260,080</u>	<u>57,137</u>
Current	<u>\$ 20,464</u>	<u>3,404</u>
Non-current	<u>\$ 239,616</u>	<u>53,733</u>
		<u>Present value of minimum lease payments</u>
		17,060
		28,609
		157,274
		<u>202,943</u>

There were no significant issues, repurchases and repayments of lease liabilities for the six month ended June 30, 2019.

The amounts recognized in profit or loss were as follows:

	For the six months ended June 30, 2019
Interest on lease liabilities	<u>\$ 1,860</u>
Expenses relating to short-term leases	<u>\$ 1,834</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 17</u>

The amounts recognized in the statement of cash flows for the Group was as follows:

	For the six months ended June 30, 2019
Total cash outflow for leases	<u>\$ 16,905</u>

(i) Real estate leases

As of June 30, 2019, the Group leases land and buildings for its office space. The leases of office space typically run for a period of 2-3 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. Some leases provide for additional rent payments that are based on changes in local price indices.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Other leases

The Group leases machinery and equipment, with lease terms of one year. These leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. The Group leases office and transportation equipment, with lease terms of one to three years. These leases are short-term or leases of low-value items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

(l) Employee benefits

(i) Defined benefit plans

Management believes that there was no material volatility of the market, no material reimbursement and settlement or other material one time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2018 and 2017. The expenses recognized in profit or loss for the Group were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Operating cost	\$ 143	169	285	338
Selling expenses	164	190	327	380
Administration expenses	169	214	341	427
Research and development expenses	1,240	1,385	2,478	2,770
	<u>\$ 1,716</u>	<u>1,958</u>	<u>3,431</u>	<u>3,915</u>

(ii) Defined contribution plans

The Group's expenses under the pension plan cost to the Bureau of Labor Insurance for the three months and six months ended June 30, 2019 and 2018 were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Operating cost	\$ 1,819	1,856	3,665	3,679
Selling expenses	1,244	1,260	2,526	2,551
Administration expenses	1,779	1,996	3,789	3,983
Research and development expenses	11,214	10,542	22,195	21,370
	<u>\$ 16,056</u>	<u>15,654</u>	<u>32,175</u>	<u>31,583</u>

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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, 2019.
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) Income tax expenses for the period are best calculated by multiplying pre-tax income for the interim reporting period by the effective annual tax rate as forecasted by the management.

The Group’s income tax expenses were as follow:

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current income tax expense	\$ <u>105,770</u>	<u>94,703</u>	<u>199,376</u>	<u>164,338</u>

- (iii) The tax authorities have examined the Company’s income tax return for the year 2016.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Capital and other equity

(i) Ordinary share

As of June 30, 2019, December 31 and June 30, 2018, the authorized capital of the Company amounted to \$4,800,000 thousand, which was divided into 303,880 thousand shares, 303,880 thousand shares, 434,115 thousand shares, respectively, each at a par value of \$10 on common stock. The issued capital was composed of common stocks only and have been fully paid-up.

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

(ii) Capital surplus

The balances of capital surplus were as follows:

	June 30, 2019	December 31, 2018	June 30, 2018
Additional paid-in capital	\$ 231,051	337,409	337,409
Treasury share transactions	87,057	87,057	46,223
Difference arising from subsidiary's share price and its carrying value	19,567	19,567	16,302
	<u>\$ 337,675</u>	<u>444,033</u>	<u>399,934</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 11, 2018, the Company declared a cash dividend of \$0.28 per share, amounting to \$121,552 thousand from capital surplus, distributed via \$121,552 thousand from additional paid-in capital.

In pursuant to the resolution of annual shareholders meeting held on June 10, 2019, the Company declared a cash dividend of \$0.35 per share, amounting to \$106,358 thousand from capital surplus, distributed via \$106,358 thousand from additional paid-in capital.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Retained earnings

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

1) Legal reserve

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

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on April 6, 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 10, 2019 and June 11, 2018, the shareholder's meetings resolved to distribute the 2018 and 2017 earnings via cash dividend. The Company declared a cash dividend of \$4.65 and \$2.30 per share, amounting to \$1,413,044 thousand and \$998,464 thousand, respectively, for the year 2018 and 2017.

(iv) Treasury stock

	June 30, 2019		December 31, 2018		June 30, 2018	
	Shares (in thousands)	Amounts	Shares (in thousands)	Amounts	Shares (in thousands)	Amounts
The Company's shares held by subsidiaries	<u>12,438</u>	<u>\$ 33,328</u>	<u>12,438</u>	<u>33,328</u>	<u>17,754</u>	<u>91,111</u>

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 six months ended June 30, 2019 and 2018, the information on the Company's stock held by Elan Investment Corp. was as follows:

	For the six months ended June 30					
	2019			2018		
	Shares (in thousands)	Acquisition cost	Total market value	Shares (in thousands)	Acquisition cost	Total market value
Opening balance	12,438	\$ 33,328	935,353	17,754	91,111	818,450
Effects of valuation change	-	-	(29,852)	-	-	106,522
Ending balance	<u>12,438</u>	<u>\$ 33,328</u>	<u>905,501</u>	<u>17,754</u>	<u>91,111</u>	<u>924,972</u>

(v) Other equity

The movements of other equity were as follows:

	For the six months ended June 30, 2019		
	Foreign exchange differences arising from foreign operation	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total
Balance as of January 1	\$ (4,219)	176,242	172,023
Foreign exchange differences:			
The Group	466	-	466
Associates	12	-	12
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income			
The Group	-	21,670	21,670
Balance as of June 30	<u>\$ (3,741)</u>	<u>197,912</u>	<u>194,171</u>

	For the six months ended June 30, 2018		
	Foreign exchange differences arising from foreign operation	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total
Balance as of January 1	\$ (4,060)	151,839	147,779
Foreign exchange differences:			
The Group	363	-	363
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income			
The Group	-	39,271	39,271
Associates	-	(1,379)	(1,379)
Balance as of June 30	<u>\$ (3,697)</u>	<u>189,731</u>	<u>186,034</u>

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(o) Earnings per share

Basic and diluted earnings per share for the three months and six months ended June 30, 2019 and 2018 were calculated as follows:

(i) Basic earnings per share:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Net income	\$ <u>434,260</u>	<u>375,324</u>	<u>829,381</u>	<u>639,694</u>
Weighted-average number of shares outstanding (thousands)	<u>291,442</u>	<u>416,360</u>	<u>291,442</u>	<u>416,360</u>
Earnings per share	\$ <u>1.49</u>	<u>0.90</u>	<u>2.85</u>	<u>1.54</u>

(ii) Diluted earnings per share:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Net income (used to calculate diluted earnings per share)	\$ <u>434,260</u>	<u>375,324</u>	<u>829,381</u>	<u>639,694</u>
Weighted-average number of shares outstanding (thousands)	291,442	416,360	291,442	416,360
Effect of dilutive potential common stock				
— employee emoluments	<u>1,683</u>	<u>1,809</u>	<u>2,982</u>	<u>3,562</u>
Weighted-average number of shares outstanding (thousands) used to calculate diluted earnings per share	\$ <u>293,125</u>	<u>418,169</u>	<u>294,424</u>	<u>419,922</u>
Diluted earnings per share	\$ <u>1.48</u>	<u>0.90</u>	<u>2.82</u>	<u>1.52</u>

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Taiwan	\$ 236,775	178,124	466,716	441,888
Mainland China	392,666	445,033	770,412	818,442
Hong Kong	1,542,470	1,468,307	2,803,131	2,583,386
United States of America	3,073	4,674	6,847	21,930
Europe	781	685	2,088	1,366
Other	5,924	7,083	13,109	16,132
	<u>\$ 2,181,689</u>	<u>2,103,906</u>	<u>4,062,303</u>	<u>3,883,144</u>

For details on revenue for the three months and six months ended June 30, 2019, please refer to note 14.

(ii) Contract balances

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

(q) Non-operating income and expenses

(i) Other income

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Interest income	\$ 13,146	12,893	22,119	22,352
Rental income	484	556	998	1,112
Dividend income	7,252	5,964	7,252	5,964
Government grant	-	6,300	29,400	6,300
Others	17,852	828	19,402	3,523
Total	<u>\$ 38,734</u>	<u>26,541</u>	<u>79,171</u>	<u>39,251</u>

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Other gains and losses

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Foreign exchange gains (losses)	\$ 7,925	38,315	9,220	21,622
Gains on financial asset at fair value through profit or loss	29,340	13,267	111,634	80,826
Loss on disposal of property, plant and equipment	(355)	(97)	(473)	(194)
Impairment loss	-	-	-	(15,000)
Others	11	-	11	-
	<u>\$ 36,921</u>	<u>51,485</u>	<u>120,392</u>	<u>87,254</u>

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

According to the Company's Articles of Incorporation, should the Company net a profit for the year, it shall allocate not less 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 six months ended June 30, 2019 and 2018, the remunerations to employees and directors were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholder' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year.

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

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Employees' remuneration	\$ 64,166	56,211	122,545	94,250
Directors' and supervisors' remuneration	8,249	6,927	15,759	11,684
	<u>\$ 72,415</u>	<u>63,138</u>	<u>138,304</u>	<u>105,934</u>

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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For the year ended December 31, 2018 and 2017, the amounts of employees' compensation were estimated at \$226,000 thousand and \$155,000 thousand respectively, whereas, the amount of remuneration to directors and supervisors were estimated at \$29,000 thousand and \$20,000 thousand respectively. The estimated amounts mentioned above is consistent with the content as per the Board of Directors minutes of meetings, to which information can be found on the Market Observation Post System website.

(s) Financial instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note 6(t) of the consolidated financial statements for the year ended December 31, 2018.

(i) Credit risk

1) Credit risk exposure

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

2) Concentration of credit risk

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

Further more, 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 June 30, 2019 and 2018, 80% and 73%, respectively, of accounts receivable were composed by 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).

Other financial assets at amortized cost, including time deposits with maturities of more than three months and other receivables, are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(g) of the consolidated financial statements for the year ended December 31, 2018. There was no loss allowance provision for the six months ended June 30, 2019 and 2018, respectively.

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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	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
June 30, 2019							
Non-derivative financial liabilities							
Short-term borrowings	\$ 271,000	272,971	194,457	78,514	-	-	-
Notes and accounts payable	1,073,002	1,073,002	1,073,002	-	-	-	-
Others payables	645,191	645,191	645,191	-	-	-	-
Dividends payable	1,519,402	1,519,402	1,519,402	-	-	-	-
Lease liabilities	202,943	202,943	10,556	6,504	185,883	-	-
	<u>\$ 3,711,538</u>	<u>3,713,509</u>	<u>3,442,608</u>	<u>85,018</u>	<u>185,883</u>	<u>-</u>	<u>-</u>
December 31, 2018							
Non derivative financial liabilities							
Short-term borrowing	\$ 243,000	489,478	244,739	194,552	50,187	-	-
Notes and accounts payable	975,578	975,578	975,578	-	-	-	-
Others payable	1,316,133	1,316,133	1,316,133	-	-	-	-
	<u>\$ 2,534,711</u>	<u>2,781,189</u>	<u>2,536,450</u>	<u>194,552</u>	<u>50,187</u>	<u>-</u>	<u>-</u>
June 30, 2018							
Non-derivative financial liabilities							
Short-term loans	\$ 228,000	230,310	145,743	84,567	-	-	-
Notes and accounts payable	1,036,504	1,036,504	1,036,504	-	-	-	-
Other payables	619,992	619,992	619,992	-	-	-	-
Lease liabilities	1,120,016	1,120,016	1,120,016	-	-	-	-
	<u>\$ 3,004,512</u>	<u>3,006,822</u>	<u>2,922,255</u>	<u>84,567</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:

	June 30, 2019			December 31, 2018			June 30, 2018		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets:									
Monetary item									
US dollar	\$ 76,509	31.06	2,376,377	79,460	30.71	2,440,229	80,313	29.80	2,393,343
Financial liabilities:									
Monetary item									
US dollar	48,234	31.06	1,498,153	29,696	30.71	911,961	48,963	29.91	1,464,722

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 June 30, 2019 and 2018 would have increased (decreased) the equity by \$35,129 thousand and \$38,221 thousand, respectively, for the six months ended June 30, 2019 and 2018, assuming all other factors remained constant. The analysis is performed on the same basis in 2019 and 2018.

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 \$9,220 thousand and \$21,622 thousand for the six months ended June 30, 2019 and 2018, respectively.

(iv) Fair value of financial instruments

1) Fair value hierarchy

The fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income 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 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:

	June 30, 2019				
	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)	\$ 1,551,479	508,546	159,197	883,736	1,551,479
Financial assets measured at fair value through other comprehensive income					
Stocks	273,770	262,572	-	11,198	273,770
Accounts receivable	573,392	-	-	-	-
Subtotal	847,162	262,572	-	11,198	273,770
Financial assets measured at amortized cost					
Cash and cash equivalents	2,222,882	-	-	-	-
Notes and trade receivables	550,225	-	-	-	-
Other receivables	708,447	-	-	-	-
Other financial assets-current	2,295,450	-	-	-	-
Guarantee deposits	12,694	-	-	-	-
Subtotal	5,789,698	-	-	-	-
Total	\$ 8,188,339	771,118	159,197	894,934	1,825,249
Financial liabilities measured at amortized cost					
Bank loans	\$ 271,000	-	-	-	-
Notes and trade payables	1,073,002	-	-	-	-
Other payables	2,852,992	-	-	-	-
Lease liabilities (current and non-current)	202,943	-	-	-	-
Guarantee deposits	10,708	-	-	-	-
Total	\$ 4,410,645	-	-	-	-

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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December 31, 2018					
	<u>Book value</u>	<u>Fair Value</u>			<u>total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial assets at FVTPL (current and non-current)	\$ 1,463,306	486,750	168,488	808,068	1,463,306
Financial assets at FVOCI					
Stocks	252,100	241,067	-	11,033	252,100
Accounts receivable	726,785	-	-	-	-
Subtotal	978,885	241,067	-	11,033	252,100
Financial assets measured at amortized cost					
Cash and cash equivalents	2,075,773	-	-	-	-
Notes and trade receivables	421,157	-	-	-	-
Other receivables	658,085	-	-	-	-
Other financial assets-current	1,759,480	-	-	-	-
Guarantee deposits	11,231	-	-	-	-
Subtotal	4,925,726	-	-	-	-
Total	\$ 7,367,917	727,817	168,488	819,101	1,715,406
Financial liabilities measured at amortized costs					
Bank loans	\$ 243,000	-	-	-	-
Notes and trade payables	975,578	-	-	-	-
Other payables	1,340,084	-	-	-	-
Guarantee deposits	10,677	-	-	-	-
Total	\$ 2,569,339	-	-	-	-
June 30, 2018					
	<u>Book value</u>	<u>Fair Value</u>			<u>total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial assets at FVTPL (current and non-current)	\$ 1,572,931	627,841	155,978	789,112	1,572,931
Financial assets at FVOCI					
Stocks	265,589	52,000	-	213,589	265,589
Accounts receivable	495,912	-	-	-	-
Subtotal	761,501	52,000	-	213,589	265,589
Financial assets measured at amortized cost					
Cash and cash equivalents	3,034,351	-	-	-	-
Notes and trade receivables	667,546	-	-	-	-
Other receivables	605,284	-	-	-	-
Other financial assets-current	2,071,580	-	-	-	-
Guarantee deposits	11,755	-	-	-	-
Subtotal	6,390,516	-	-	-	-
Total	\$ 8,724,948	679,841	155,978	1,002,701	1,838,520
Financial liabilities measured at amortized costs					
Bank loans	\$ 228,000	-	-	-	-
Notes and trade payables	1,036,504	-	-	-	-
Other payables	2,334,880	-	-	-	-
Guarantee deposits	10,733	-	-	-	-
Total	\$ 3,610,117	-	-	-	-

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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 for the six months ended June 30, 2019 and 2018.

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, 2019	\$ 808,068
Total gains and losses recognized:	
In profit or loss	75,668
Ending Balance, June 30, 2019	<u>\$ 883,736</u>
Opening balance, January 1, 2018	\$ 778,988
Total gains and losses recognized:	
In profit or loss	10,124
Ending Balance, June 30, 2018	<u>\$ 789,112</u>

For the six months ended June 30, 2019 and 2018, total gains and losses that were included in "other gains and losses" from financial assets at fair value through other comprehensive income" were as follows:

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	For the three months ended		For the six months ended	
	June 30		June 30	
	2019	2018	2019	2018
Total gains and losses recognized: In profit or loss, and presented in "other gains and losses"	\$ 2,651	(13,059)	75,668	10,124

- 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".

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 - equity investments without an active market	Market Comparison Method	<ul style="list-style-type: none"> Price to book ratio (June 30, 2019, December 31, 2018 and June 30, 2018: 1.03% to 2.74%, 1.30% to 3.04% and 1.31% to 2.75%) Non-liquid discount (June 30, 2019, December 31, 2018 and June 30, 2018: 7% to 10%) Price to earnings ratio (June 30, 2019, December 31, 2018 and June 30, 2018: 0.74% to 4.57%, 0.41% to 4.57% and 0.63% to 4.24%) Price to book assets ratio (June 30, 2019, December 31, 2018 and June 30, 2018: 0.45% to 2.14%, 0.46% to 2.74% and 0.58% to 2.45%) 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> the price to book ratio were higher (lower); the non-liquid discount were lower (higher).

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Notes to the Consolidated Financial Statements

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

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

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

	Input	Increase or decrease	Profit or loss	
			Favorable	Unfavorable
June 30, 2019				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Price to book ratio	Decrease by 10%	-	(33,890)
	Non-liquid discount	Decrease by 10%	-	(1,204)
December 31, 2018				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Price to book ratio	Decrease by 10%	-	(33,863)
	Non-liquid discount	Decrease by 10%	-	(308)
June 30, 2018				
Equity investments without an active market	Price to book ratio	Decrease by 10%	-	(21,140)
	Non-liquid discount	Decrease by 10%	3,878	-

(t) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in Note 6(u) of the consolidated financial statements for the year ended December 31, 2018.

(u) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2017. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2018. Please refer to Note 6(v) of the consolidated financial statements for the year ended December 31, 2018 for further details.

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

	January 1, 2019	Cash flows	Non-cash changes			June 30, 2019
			Foreign exchange movement	Fair value changes	Others	
Short-term borrowings	\$ 243,000	28,000	-	-	-	271,000
Lease liabilities	208,326	(13,194)	232	-	7,579	202,943
Total liabilities from financial activities	<u>\$ 451,326</u>	<u>14,806</u>	<u>232</u>	<u>-</u>	<u>7,579</u>	<u>473,943</u>

	January 1, 2018	Cash flows	Non-cash changes			June 30, 2018
			Foreign exchange movement	Fair value changes		
Short-terms borrowings	<u>\$ 240,000</u>	<u>(12,000)</u>	<u>-</u>	<u>-</u>		<u>228,000</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 transactions with related parties

(i) Sale of goods to related parties

The amounts of significant sales by the Group to related parties were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Associates-Finger Pro.	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>32</u>

The selling price for related parties approximated the market price, and the credit terms ranged from 30 to 60 days by monthly closed. Accounts receivable from related parties were uncollateralized, and no provisions for doubtful debt were required after the assessment by the management.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Raw materials purchasing services and other operating income

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Associates-Eminent	\$ <u>4,767</u>	<u>(1,981)</u>	<u>4,741</u>	<u>(779)</u>

(iii) Rental income

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Associates-Eminent	\$ <u>476</u>	<u>556</u>	<u>952</u>	<u>1,112</u>

(iv) Purchase

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

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Associates-Eminent	\$ <u>(229)</u>	<u>410</u>	<u>20</u>	<u>410</u>

The terms and pricing of purchase transactions with related parties were not significantly different from those offered by other vendors. The payment term was 30 days by monthly closed, which were no different from the payment terms given by other vendors.

(v) Receivable from related parties

The receivables from related parties are as follows:

Accounts	Types of related parties	June 30, 2019	December 31, 2018	June 30, 2018
Accounts receivable	Associates-Eminent	\$ 1,218	1,134	269
Other receivables	Associates-Eminent	51,274	28,831	6,570
		<u>\$ 52,492</u>	<u>29,965</u>	<u>6,839</u>

- (vi) In January 2015, the Company sold its fixed assets to the associate-Eminent, 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 June 30, 2019, the realized loss and deferred loss on disposal amounted to \$4,104 thousand and \$194 thousand, respectively.

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(c) Key management personnel compensation

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Short-term employee benefits \$	15,328	12,974	32,157	26,293
Post-employment benefits	145	190	355	420
	<u>\$ 15,473</u>	<u>13,164</u>	<u>32,512</u>	<u>26,713</u>

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

(8) Pledged assets: None.

(9) Commitments and contingencies:

- (a) 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 June 30, 2019, December 31 and June 30, 2018, the financial institutions had issued performance guarantees amounting to \$4,000 thousand, \$11,000 thousand, and \$7,000 thousand, respectively.
- (b) As of June 30, 2019, December 31 and June 30, 2018, the refundable notes payable for short-term loans amounted to \$565,000 thousand, \$585,000 thousand, and \$629,000 thousand, respectively.
- (c) The Company entered into non-infringement guarantee agreements with some customers (guarantees) to provide a guarantee regarding the selling of touchpad module products.
- (d) 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. On December 31, 2018, the subsidy's received but not recognized income was \$29,400 thousand. The development plan was completed on June 30, 2019. For the six months ended June 30, 2019, the Company recognized income from government grant amounting to \$29,400 thousand within other gains and losses income.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(e) Royalty fee

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

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other:

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

	For the three months ended June 30					
	2019			2018		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expenses						
Salaries and wages	\$ 56,015	365,919	421,934	61,574	362,228	423,802
Labor and health insurance	5,170	21,649	26,819	5,430	20,954	26,384
Pension expenses	1,962	15,810	17,772	2,025	15,587	17,612
Remuneration of directors	-	-	-	-	-	-
Others	3,717	14,949	18,666	3,721	9,558	13,279
Depreciation expenses	5,685	12,502	18,187	4,037	7,510	11,547
Amortization expenses	1,058	8,176	9,234	1,068	11,705	12,773

	For the six months ended June 30					
	2019			2018		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expenses						
Salaries and wages	\$ 113,844	730,064	843,908	120,722	700,324	821,046
Labor and health insurance	10,812	43,025	53,837	9,997	41,709	51,706
Pension expenses	3,950	31,656	35,606	4,017	31,481	35,498
Others	7,312	18,809	26,121	7,155	19,262	26,417
Depreciation expenses	11,837	24,295	36,132	7,911	15,134	23,045
Amortization expenses	2,099	17,971	20,070	2,166	23,265	25,431

(b) Seasonality of operations

As there was more than 50% growth in the touch screen and stylus chip laptop market in the current quarter, alongside a growth in a customer's business (a top-tier brand manufacturer), this has resulted in an increase in the touch pad and touch screen product market by more than 15% and 25% respectively. This has caused a 20% increase in the Group's touch screen chip product sales in the current quarter. On the other hand, the non-touchscreen products was affected by the seasonal market changes, which caused a single-digit quarterly growth in the current quarter. This resulted in a higher sales and operating profits of the Group in the second quarter as compared to the first quarter.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the three months ended March 31, 2019:

- (i) Loans to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Securities held as of June 30, 2019 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Microelectronics Corporation	Harvatek Corporation	-	Current financial assets at fair value through profit or loss	491	7,024	- %	7,024	Note 3
Elan Microelectronics Corporation	PineBridge Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,209	30,252	- %	30,252	
Elan Microelectronics Corporation	Cathay Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,430	30,272	- %	30,272	
Elan Microelectronics Corporation	Paradigm Pion Money Market Fund	-	Current financial assets at fair value through profit or loss	2,000	23,133	- %	23,133	
Elan Microelectronics Corporation	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	1,960	21,042	- %	21,042	
Elan Microelectronics Corporation	KGI Victory Money Market Fund	-	Current financial assets at fair value through profit or loss	2,596	30,090	- %	30,090	
Elan Microelectronics Corporation	Union Money Market Fund	-	Current financial assets at fair value through profit or loss	3,801	50,242	- %	50,242	
Elan Microelectronics Corporation	Global Strategic FX Arbitrage Note	-	Current financial assets at fair value through profit or loss	208	64,605	- %	64,605	
Elan Microelectronics Corporation	Multi-Manager FX Trading Note (M2)	-	Current financial assets at fair value through profit or loss	204	63,532	- %	63,532	
Elan Microelectronics Corporation	Global Strategic FX Arbitrage Note (USD)(SERIES II)	-	Current financial assets at fair value through profit or loss	100	31,060	- %	31,060	
Elan Microelectronics Corporation	Fitipower Integrated Technology Inc.	-	Non-current financial assets at fair value through other comprehensive income	4,064	154,432	2.50 %	154,432	Note 3
Elan Microelectronics Corporation	ThroughTek Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	1,100	11,198	4.23 %	11,198	Note 3
Elan Microelectronics Corporation	Chino-Excel Technology Corporation	-	Non-current financial assets at fair value through profit or loss	823	-	1.48 %	-	Note 1
Elan Microelectronics Corporation	Panther technology Co., Ltd.	-	Non-current financial assets at fair value through profit or loss	340	4,813	0.94 %	4,813	Note 2
Elan Microelectronics Corporation	XINCE Co., Ltd	-	Non-current financial assets at fair value through profit or loss	2,866	-	9.24 %	-	Note 1
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	1,739	9,126	17.39 %	9,126	Note 2
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	784	4,811	7.00 %	4,811	Note 2

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Microelectronics Corporation	TOP TAIWAN V VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	1,382	5,670	8.13 %	5,670	Note 2
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	1,130	6,006	2.17 %	6,006	Note 2
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	3,796	29,718	6.12 %	29,718	Note 2
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	8,333	51,885	4.17 %	51,885	Note 2
Elan Microelectronics Corporation	Midatouch Research Corporation	-	Non-current financial assets at fair value through profit or loss	2,500	8,050	12.31 %	8,050	Note 2
Elan Microelectronics Corporation	TOP TAIWAN IX VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	5,000	58,256	6.25 %	58,256	Note 2
Elan Microelectronics Corporation	InnoBridge Venture Capital	-	Non-current financial assets at fair value through profit or loss	800	3,656	11.35 %	3,656	Note 1
Elan Microelectronics Corporation	Startek Engineering Inc.	-	Non-current financial assets at fair value through profit or loss	189	-	0.53 %	-	Note 1
Elan Microelectronics Corporation	North Star Venture Capital	-	Non-current financial assets at fair value through profit or loss	3,000	34,596	10.00 %	34,596	Note 1
Elan Microelectronics Corporation	TOP TAIWAN XI VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	5,000	52,643	6.25 %	52,643	Note 2
Elan Microelectronics Corporation	Genius Vision Digital Inc.	-	Non-current financial assets at fair value through profit or loss	989	-	6.56 %	-	Note 1
Elan Microelectronics Corporation	Lyra Semiconductor Incorporated	-	Non-current financial assets at fair value through profit or loss	2,400	24,648	11.78 %	24,648	Note 2
Elan Microelectronics Corporation	TOP TAIWAN XII VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	25,000	273,052	18.52 %	273,052	Note 2
Elan Microelectronics Corporation	Chimei Motor Electronics Co., Ltd.	-	Non-current financial assets at fair value through profit or loss	950	10,697	5.94 %	10,697	Note 2
Elan Microelectronics Corporation	Waltop International Corporation	-	Non-current financial assets at fair value through profit or loss	1,000	4,460	6.77 %	4,460	Note 2
Elan Microelectronics Corporation	Vertex Growth (SG) LP	-	Non-current financial assets at fair value through profit or loss	-	16,423	- %	16,423	Note 1
Elan Investment Corp.	United Microelectronics Corporation	-	Current financial assets at fair value through profit or loss	294	4,096	- %	4,096	Note 3
Elan Investment Corp.	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	186	33,261	- %	33,261	
Elan Investment Corp.	FSITC China High Yield Bond Fund-A-TWD	-	Current financial assets at fair value through profit or loss	1,613	15,875	- %	15,875	
Elan Investment Corp.	FSITC Global Utilities and Infrastructure Fund-A-TWD	-	Current financial assets at fair value through profit or loss	1,000	10,432	- %	10,432	
Elan Investment Corp.	FSITC US Top 100 Bond Fund Acc TWD	-	Current financial assets at fair value through profit or loss	1,500	14,997	- %	14,997	

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Investment Corp.	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	5,012	53,798	- %	53,798	
Elan Investment Corp.	Nomura Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,221	36,286	- %	36,286	
Elan Investment Corp.	Taishin Global Multi-asset Fund of Funds-TWD-A	-	Current financial assets at fair value through profit or loss	1,000	10,850	- %	10,850	
Elan Investment Corp.	Taishin Global Disruptive Innovation Fund-TWD	-	Current financial assets at fair value through profit or loss	1,500	16,680	- %	16,680	
Elan Investment Corp.	Taishin 1699 Money Market Fund	-	Current financial assets at fair value through profit or loss	5,556	75,262	- %	75,262	
Elan Investment Corp.	Taishin North American Income Trust Fund-A	-	Current financial assets at fair value through profit or loss	1,943	44,954	- %	44,954	
Elan Investment Corp.	Elan Microelectronics Corporation	Subsidiary	Non-current financial assets at fair value through other comprehensive income	12,438	905,501	4.09 %	905,501	Note 3
Elan Investment Corp.	Fitipower Integrated Technology Inc.	-	Non-current financial assets at fair value through other comprehensive income	941	35,740	0.58 %	35,740	Note 3
Elan Investment Corp.	Rafael Microelectronics, Inc.	-	Non-current financial assets at fair value through other comprehensive income	400	72,400	1.62 %	72,400	Note 3
Elan Investment Corp.	Panther Technology Co., Ltd.	-	Non-current financial assets at fair value through profit or loss	1,396	19,752	3.88 %	19,752	Note 2
Elan Investment Corp.	RISE Technology Corp.	-	Non-current financial assets at fair value through profit or loss	769	-	3.23 %	-	Note 1
Elan Investment Corp.	FineMat Applied Materials Co., Ltd	-	Non-current financial assets at fair value through profit or loss	8,900	231,410	14.74 %	231,410	Note 2
Elan Investment Corp.	Linkinwave-Preferred shares	-	Non-current financial assets at fair value through profit or loss	296	-	- %	-	Note 1
Elan Investment Corp.	Pica 8-Preferred shares	-	Non-current financial assets at fair value through profit or loss	342	4,680	4.48 %	4,680	Note 2
Elan Investment Corp.	Arplanet Digital Technology Co., LTD.-Preferred shares	-	Non-current financial assets at fair value through profit or loss	114	993	4.69 %	993	Note 1
Elan Investment Corp.	Arplanet Digital Technology Co., LTD.-Common Stock	-	Non-current financial assets at fair value through profit or loss	75	652	3.08 %	652	Note 1
Elan Investment Corp.	INNOJOY TECHNOLOGY INC.-Preferred Shares	-	Non-current financial assets at fair value through profit or loss	143	-	10.00 %	-	Note 1
Elan Investment Corp.	ZQAM Communications Corporation-Preferred shares	-	Non-current financial assets at fair value through profit or loss	1,000	5,410	5.00 %	5,410	Note 2
Elan Investment Corp.	e-Formula Technologies, Inc.	-	Non-current financial assets at fair value through profit or loss	550	13,673	3.03 %	13,673	Note 2
Elan Investment Corp.	ALGOLREALITY CO., LTD.-Preferred Shares	-	Non-current financial assets at fair value through profit or loss	100	-	13.04 %	-	Note 1
Elan Investment Corp.	Vita Genomics, Inc.	-	Non-current financial assets at fair value through profit or loss	677	7,029	1.13 %	7,029	Note 2
Elan Investment Corp.	MedicusTek International Inc.	-	Non-current financial assets at fair value through profit or loss	1,010	-	1.55 %	-	Note 1
Elan Investment Corp.	Taiwan i Connect Co., Ltd.-Preferred Shares	-	Non-current financial assets at fair value through profit or loss	10,000	1,627	14.29 %	1,627	Note 1
Elan Investment Corp.	Genius Vision Digital Inc.	-	Non-current financial assets at fair value through profit or loss	740	-	4.91 %	-	Note 1

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: The balances are calculated on the net assets derived from the latest unaudited financial statements of the investee companies.

Note 2: The balances are calculated on the net assets obtained from the latest valuation report of the investee companies.

Note 3: The balances are calculated on the market prices (closing prices) of the investee companies on June 28, 2019.

- (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 Microelectronics Corporation	Elan H.K.	Subsidiary	Sale	235,655	5.80 %	Open Account 45 Days	-		39,511	3.52%	

Note: The amounts of the transaction and the ending balance had been offset in the 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:

Significant transactions and business relationship between the parent company and its subsidiaries exceeding 1% of total assets or operating revenue are as follows:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions				Percentage of the consolidated net revenue or total assets
				Account name	Amount	Trading terms		
0	Elan Microelectronics Corporation	Elan H.K.	1	Operating revenue	235,655	Open Account 45 Days		5.80%
0	Elan Microelectronics Corporation	Elan H.K.	1	Accounts receivables	39,511	Open Account 45 Days		0.36%
1	Elan H.K.	Elan Microelectronics Corporation	2	Commission revenue	104,576	Monthly settlement		2.57%

(b) Information on investees:

The followings are the information on investees for the six months ended June 30, 2019 (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 June 30, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				June 30, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value			
Elan Microelectronics Corporation	Elan H.K. Microelectronics Corp. Ltd.	Hong kong, China	Sale and after-sales service	123,272	123,272	29,328	100.00 %	236,502	11,326	11,326	Note
Elan Microelectronics Corporation	Elan Investment Corp.	Taipei, Taiwan	Investment holding	500,000	500,000	50,000	100.00 %	768,327	81,959	81,959	Note
Elan Microelectronics Corporation	Elan Information Technology Group	California, USA	Sale, after-sales service and provide new informational skills	22,822	22,822	65	100.00 %	15,297	242	242	Note
Elan Microelectronics Corporation	UPUP 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 %	1,999	(3,704)	(1,815)	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 June 30, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				June 30, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value			
Elan Microelectronics 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	9,730	63.60 %	(128,149)	(46,070)	(29,276)	Note
Elan Microelectronics Corporation	Avionics Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	266,333	266,333	26,633	74.93 %	(15,523)	(21,225)	(15,597)	Note
Elan Microelectronics Corporation	Tong fu Investment Corp.	Hsin-Chu, Taiwan	Investment holding	30,000	30,000	3,000	46.73 %	-	-	-	
Elan Microelectronics Corporation	Lighting Device Technologies Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on LED chips	19,520	19,520	1,805	45.07 %	-	-	-	
Elan Microelectronics Corporation	PIXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	376,024	376,024	33,871	96.78 %	40,245	(10,697)	(10,352)	Note
Elan Microelectronics Corporation	EMINENT ELECTRONIC TECHNOLOGY CORP. LTD.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	38,381	38,381	3,351	29.89 %	(6,379)	(23,924)	(7,178)	
Elan Microelectronics Corporation	TOP TAIWAN X VENTURE CAPITAL CO., LTD	Taipei, Taiwan	Venture capital	240,000	240,000	24,000	30.00 %	255,293	82,795	24,838	
Elan Microelectronics Corporation	Fong Yue Corporation	Taipei, Taiwan	Investment holding	-	30,000	-	- %	-	(4,392)	(4,392)	Note
Elan Microelectronics Corporation	Uniband Electronic Corp.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	80,000	80,000	8,000	23.12 %	6,931	(21,776)	(5,035)	
Elan Microelectronics Corporation	Finger Pro. Incorporation	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	6,000	6,000	600	23.08 %	1,979	(1,879)	(442)	
Elan Investment Corp.	Avionics Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	21,543	21,543	2,154	6.06 %	(1,245)	(21,225)	(1,287)	Note
Elan Investment Corp.	RONG CHENG Technology	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	77,706	77,706	8,000	38.46 %	-	-	-	
Elan Investment Corp.	PIXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	2,659	2,659	174	0.50 %	207	(10,697)	(53)	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	653	4.27 %	7,643	(46,070)	(1,965)	Note
Elan H.K.	Power Asia Investment Corporation	Republic of Mauritius	Investment business	89,572	89,572	2,861	100.00 %	(8,323)	(32,834)	(32,837)	Note

Note: The amount had been offset in the consolidated financial statements.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(c) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of June 30, 2019	Net income (losses) of the investee	Percentage of ownership	Investment income (losses) recognized	Carrying value as of June 30, 2019	Accumulated inward remittance of earnings as of June 30, 2019
					Outflow	Inflow						
Elan Shanghai	Provide system design, information on applications expansion	52,095	(2)	52,095	-	-	52,095	(9,832)	100.00%	(9,832)	4,300	-
Elan Shenzhen	Provide system design, information on applications expansion	34,670	(2)	34,670	-	-	34,670	(23,003)	100.00%	(23,002)	(13,104)	-

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

(ii) Upper limit on investment in Mainland China:

Accumulated Investment in Mainland China as of June 30, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
86,765	98,333	3,575,584

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

(iii) Significant transactions:

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information:

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

For the three months ended June 30, 2019										
	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	\$ 642,196	1,361,675	11,747	15,967	12,443	-	138,354	-	(693)	2,181,689
Net revenue from sales among intersegments	134,087	-	-	-	-	-	57,428	5,961	(197,476)	-
Total revenue	\$ 776,283	1,361,675	11,747	15,967	12,443	-	195,782	5,961	(198,169)	2,181,689
Reportable segment profit or loss	\$ 122,556	419,317	(23,621)	(8,573)	(5,109)	(185)	14,396	(912)	(61,287)	456,582
For the three months ended June 30, 2018										
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Revenue										
Revenue from external customers	\$ 582,028	1,356,581	12,326	16,944	5,624	-	127,391	8	3,004	2,103,906
Net revenue from sales among intersegments	129,518	-	279	-	-	-	57,692	8,124	(195,613)	-
Total revenue	\$ 711,546	1,356,581	12,605	16,944	5,624	-	185,083	8,132	(192,609)	2,103,906
Reportable segment profit or loss	\$ 39,568	440,341	(25,647)	(7,315)	(7,208)	(1,076)	15,219	2,341	(69,337)	386,886
For the six month ended June 30, 2019										
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Revenue										
Revenue from external customers	\$ 1,168,550	2,571,713	28,062	28,605	25,203	-	240,934	-	(764)	4,062,303
Intersegment revenues	236,376	-	576	-	-	-	104,576	11,479	(353,007)	-
Total revenue	\$ 1,404,926	2,571,713	28,638	28,605	25,203	-	345,510	11,479	(353,771)	4,062,303
Reportable segment profit or loss	\$ 177,342	807,978	(45,029)	(20,795)	(10,648)	(341)	18,470	(3,462)	(120,177)	803,338
For the six month ended June 30, 2018										
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Revenue										
Revenue from external customers	\$ 1,123,086	2,441,607	45,192	35,693	9,061	-	225,268	8	3,229	3,883,144
Intersegment revenues	235,567	-	279	-	-	-	103,173	15,183	(354,202)	-
Total revenue	\$ 1,358,653	2,441,607	45,471	35,693	9,061	-	328,441	15,191	(350,973)	3,883,144
Reportable segment profit or loss	\$ 59,494	784,174	(35,031)	(13,434)	(15,192)	(2,129)	22,402	1,354	(127,055)	674,583