

TWSE:5388

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
SEPTEMBER 30, 2018 AND 2017

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT ON REVIEW OF FINANCIAL STATEMENTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Sercomm Corporation

Introduction

We have reviewed the accompanying consolidated balance sheets of Sercomm Corporation and subsidiaries (the “Group”) as at September 30, 2018, and the related consolidated statements of comprehensive income for the three-month and nine-month periods then ended, as well as the related statements of changes in equity and of cash flows for the nine-month period then ended and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of 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 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 explained in Note 4(3), the financial statements of certain insignificant consolidated subsidiaries were not reviewed by independent accountants. Those statements reflect total assets of NT\$745,575 thousand, constituting 3.2% of the consolidated total assets, and total liabilities of NT\$29,611 thousand, constituting 0.2% of the consolidated total liabilities as at September 30, 2018, and total comprehensive income of NT\$(37,568) thousand and NT\$7,739 thousand, constituting (112%) and 1.3% of the consolidated total comprehensive income for the three-month and nine-month periods then ended.

Qualified Conclusion

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries been reviewed by independent accountants, that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2018, and of its consolidated financial performance for the three-month and nine-month periods then ended and its consolidated cash flows for the nine-month period then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

Other matter

The Group’s consolidated financial statements as of and for the nine-month period ended September 30, 2017 were reviewed by other independent accountants whose report, dated November 3, 2017, expressed a qualified conclusion on those statements, indicating that the financial statements of certain consolidated insignificant subsidiaries were not reviewed by independent accountants.

Yi-Chang Liang

Yu-Lung Wu

For and on behalf of PricewaterhouseCoopers, Taiwan

November 12, 2018

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2018 and 2017 are reviewed, not audited)

ASSETS		Notes	September 30, 2018		December 31, 2017		September 30, 2017	
			Amount	%	Amount	%	Amount	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 5,210,344	22	\$ 6,484,163	26	\$ 5,936,903	24
1110	Financial assets at fair value	6(2)						
	through profit or loss - current		478,575	2	-	-	1,604	-
1120	Financial assets measured at fair	6(3)						
	value through other comprehensive							
	income - current		293,360	1	-	-	-	-
1139	Financial assets for hedging -	6(4)						
	current		67,784	-	-	-	-	-
1150	Notes receivable, net	6(5)	630,893	3	912,670	4	864,036	4
1170	Accounts receivable, net	6(5)	5,251,971	23	6,287,648	25	6,412,367	26
1200	Other receivables	6(6)	444,983	2	339,523	1	326,581	1
130X	Inventories	6(7)	5,747,707	25	6,061,829	25	6,005,860	25
1410	Prepayments		230,328	1	250,451	1	294,873	1
1470	Other current assets	8	272,479	1	121,567	1	123,052	1
11XX	Total current assets		18,628,424	80	20,457,851	83	19,965,276	82
Non-current assets								
1510	Financial assets at fair value	6(2)						
	through profit or loss - noncurrent		60,979	-	24,121	-	23,868	-
1517	Financial assets measured at fair	6(3)						
	value through other comprehensive							
	income - noncurrent		82,268	-	-	-	-	-
1523	Available-for-sale financial assets -	12(4)						
	noncurrent		-	-	23,632	-	21,554	-
1543	Financial assets measured at cost -	12(4)						
	noncurrent		-	-	60,120	-	63,375	-
1550	Investments accounted for using	6(8)						
	equity method		28,333	-	-	-	-	-
1600	Property, plant and equipment, net	6(9)	3,204,218	14	3,248,680	13	3,273,707	13
1780	Intangible assets, net	6(10)	270,532	1	297,551	1	302,163	2
1840	Deferred income tax assets		380,122	2	301,257	1	285,949	1
1915	Prepayments for business facilities		195,292	1	47,526	-	38,004	-
1920	Guarantee deposits paid	8	60,654	-	48,534	-	34,837	-
1980	Other non-current financial assets	9	167,994	1	166,794	1	166,369	1
1985	Long-term prepaid rents		85,045	1	89,936	1	90,166	1
1990	Other non-current assets, others		917	-	1,444	-	711	-
15XX	Total non-current assets		4,536,354	20	4,309,595	17	4,300,703	18
1XXX	Total assets		\$ 23,164,778	100	\$ 24,767,446	100	\$ 24,265,979	100

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SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2018 and 2017 are reviewed, not audited)

	LIABILITIES AND EQUITY	Notes	September 30, 2018		December 31, 2017		September 30, 2017	
			Amount	%	Amount	%	Amount	%
	Current liabilities							
2100	Short-term borrowings	6(11)	\$ 3,362,725	14	\$ 1,876,361	8	\$ 2,605,950	11
2120	Financial liabilities at fair value through profit or loss - current	6(2)	5,886	-	12,606	-	425	-
2125	Derivative financial liabilities for hedging - current	12(4)	-	-	217,162	1	246,378	1
2126	Derivative financial liabilities for hedging - current	6(4)	5,243	-	-	-	-	-
2130	Contract liabilities	6(21)	86,889	-	-	-	-	-
2150	Notes payable		930,670	4	-	-	-	-
2170	Accounts payable		8,852,103	38	11,467,382	46	10,960,344	45
2200	Other payables	6(12)	2,454,083	11	3,032,039	12	2,773,511	11
2230	Current income tax liabilities		134,944	1	257,751	1	210,068	1
2250	Provisions for liabilities - current	6(16)	1,558	-	112,956	1	111,826	1
2355	Current lease obligations payable	6(13)	13,853	-	13,647	-	13,579	-
2365	Current preference share liabilities	6(21)	128,755	1	-	-	-	-
2399	Other current liabilities, others	9	230,216	1	314,276	1	317,531	1
21XX	Total current liabilities		<u>16,206,925</u>	<u>70</u>	<u>17,304,180</u>	<u>70</u>	<u>17,239,612</u>	<u>71</u>
	Non-current liabilities							
2570	Deferred tax liabilities		131,140	1	60,675	-	42,820	-
2610	Long-term notes and accounts payable	6(13)	103,250	-	114,231	1	117,846	1
2640	Net defined benefit liability, non-current		55,393	-	57,810	-	50,508	-
2645	Guarantee deposits received		5,120	-	4,254	-	4,232	-
25XX	Total non-current liabilities		<u>294,903</u>	<u>1</u>	<u>236,970</u>	<u>1</u>	<u>215,406</u>	<u>1</u>
2XXX	Total Liabilities		<u>16,501,828</u>	<u>71</u>	<u>17,541,150</u>	<u>71</u>	<u>17,455,018</u>	<u>72</u>
	Equity							
	Equity attributable to owners of the parent							
	Share capital	6(17)						
3110	Ordinary share		2,456,538	11	2,456,538	10	2,429,198	10
3140	Capital collected in advance		-	-	-	-	27,340	-
	Capital surplus	6(18)						
3200	Capital surplus		1,772,014	7	1,764,717	7	1,758,226	7
	Retained earnings	6(19)						
3310	Legal reserve		1,025,583	5	894,396	4	894,396	4
3320	Special reserve		412,962	2	131,678	-	131,678	1
3350	Undistributed retained earnings		1,594,298	7	2,417,027	10	2,047,761	8
	Other equity	6(20)						
3400	Other equity		(346,250)	(2)	(412,962)	(2)	(451,813)	(2)
	Treasury shares							
3500	Treasury shares	6(17)	(250,205)	(1)	(-)	(-)	(-)	(-)
31XX	Total equity attributable to owners of the parent		<u>6,664,940</u>	<u>29</u>	<u>7,251,394</u>	<u>29</u>	<u>6,836,786</u>	<u>28</u>
36XX	Non-controlling interest		<u>(1,990)</u>	<u>-</u>	<u>(25,098)</u>	<u>-</u>	<u>(25,825)</u>	<u>-</u>
3XXX	Total equity		<u>6,662,950</u>	<u>29</u>	<u>7,226,296</u>	<u>29</u>	<u>6,810,961</u>	<u>28</u>
	SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS	9						
3X2X	Total liabilities and equity		<u>\$ 23,164,778</u>	<u>100</u>	<u>\$ 24,767,446</u>	<u>100</u>	<u>\$ 24,265,979</u>	<u>100</u>

The accompanying notes are an integral part of these consolidated financial statements.

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share)
(Unaudited)

Items	Notes	Three-month periods ended September 30,				Nine-month periods ended September 30,			
		2018		2017		2018		2017	
		Amount	%	Amount	%	Amount	%	Amount	%
4000 Operating revenue	6(21) and 12(5)	\$ 8,519,282	100	\$ 10,523,806	100	\$ 23,782,466	100	\$ 28,151,094	100
5000 Operating costs	6(7)	(7,367,171)	(86)	(9,150,286)	(87)	(20,647,986)	(87)	(24,485,574)	(87)
5900 Gross profit		<u>1,152,111</u>	<u>14</u>	<u>1,373,520</u>	<u>13</u>	<u>3,134,480</u>	<u>13</u>	<u>3,665,520</u>	<u>13</u>
Operating expenses									
6100 Selling expenses		(269,216)	(3)	(251,083)	(2)	(737,556)	(3)	(756,066)	(3)
6200 General and administrative expenses		(176,520)	(2)	(222,530)	(2)	(553,656)	(2)	(621,742)	(2)
6300 Research and development expenses		(452,590)	(6)	(441,912)	(4)	(1,282,262)	(6)	(1,201,192)	(4)
6450 (Reversal of) impairment loss	12(3)	(3,000)	-	-	-	3,353	-	-	-
6000 Total operating expenses		(901,326)	(11)	(915,525)	(8)	(2,570,121)	(11)	(2,579,000)	(9)
6900 Operating profit		<u>250,785</u>	<u>3</u>	<u>457,995</u>	<u>5</u>	<u>564,359</u>	<u>2</u>	<u>1,086,520</u>	<u>4</u>
Non-operating income and expenses									
7010 Other income	6(22)	58,838	1	27,766	-	106,755	-	73,292	-
7020 Other gains and losses	6(23)	(62,836)	(1)	3,175	-	67,982	1	6,799	-
7050 Finance costs	6(24)	(20,324)	-	(16,291)	-	(51,132)	-	(42,965)	-
7060 Share of profit of associates and joint ventures accounted for under equity method	6(8)	(1,143)	-	-	-	(1,495)	-	-	-
7000 Total non-operating income and expenses		(25,465)	-	14,650	-	122,110	1	37,126	-
7900 Profit before income tax		<u>225,320</u>	<u>3</u>	<u>472,645</u>	<u>5</u>	<u>686,469</u>	<u>3</u>	<u>1,123,646</u>	<u>4</u>
7950 Income tax expense	6(27)	(40,053)	(1)	(85,705)	(1)	(140,232)	(-)	(212,003)	(1)
8200 Profit for the period		<u>\$ 185,267</u>	<u>2</u>	<u>\$ 386,940</u>	<u>4</u>	<u>\$ 546,237</u>	<u>3</u>	<u>\$ 911,643</u>	<u>3</u>

(Continued)

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share)
(Unaudited)

		Three-month periods ended September 30,				Nine-month periods ended September 30,			
		2018		2017		2018		2017	
Items	Notes	Amount	%	Amount	%	Amount	%	Amount	%
Components of other comprehensive income that will not be reclassified to profit or loss									
8316	Recorded as unrealised gains on valuation of investments in equity instruments measured at fair value through other comprehensive income	6(3)							
		(\$ 6,313)	-	\$ -	-	(\$ 6,199)	-	\$ -	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(27)							
		-	-	-	-	996	-	-	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss								
		(6,313)	-	-	-	(5,203)	-	-	-
Components of other comprehensive income that will be reclassified to profit or loss									
8361	Currency translation differences								
		(192,464)	(2)	82,375	-	(170,055)	(1)	(69,825)	(-)
8362	Unrealised gains on valuation of available-for-sale financial assets	6(20)							
		-	-	(2,330)	-	-	-	1,031	-
8363	Losses on effective portion of cash flow hedges	6(20)							
		-	-	(120,758)	(1)	-	-	(587,997)	(2)
8368	Hedging instruments	6(20)							
		3,322	-	-	-	281,628	1	-	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(27)							
		43,730	-	(14,470)	-	(35,841)	-	51,310	-
8360	Components of other comprehensive income that will be reclassified to profit or loss								
		(145,412)	(2)	(55,183)	(1)	75,732	-	(605,481)	(2)
8500	Total comprehensive income								
		\$ 33,542	-	\$ 331,757	3	\$ 616,766	3	\$ 306,162	1
Profit (loss), attributable to:									
8610	Owners of the parent								
		\$ 184,258	2	\$ 388,920	4	\$ 507,343	3	\$ 935,883	3
8620	Non-controlling interest								
		1,009	-	(1,980)	-	38,894	-	(24,240)	-
	Total								
		\$ 185,267	2	\$ 386,940	4	\$ 546,237	3	\$ 911,643	3
Comprehensive income attributable to:									
8710	Owners of the parent								
		\$ 32,982	-	\$ 333,714	3	\$ 577,655	3	\$ 330,091	1
8720	Non-controlling interest								
		560	-	(1,957)	-	39,111	-	(23,929)	-
	Total								
		\$ 33,542	-	\$ 331,757	3	\$ 616,766	3	\$ 306,162	1
Earnings per share									
		6(28)							
9750	Basic earnings per share								
		\$ 0.75		\$ 1.60		\$ 2.07		\$ 3.85	
9850	Diluted earnings per share								
		\$ 0.75		\$ 1.57		\$ 2.03		\$ 3.76	

The accompanying notes are an integral part of these consolidated financial statements.

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed In Thousands of New Taiwan dollars)
(Unaudited)

		Equity attributable to owners of the parent												
		Retained earnings					Other equity							
Notes	Share capital- common stock	Capital surplus	Legal reserve	Special reserve	Undistributed retained earnings	Financial statements translation differences of foreign operation	Unrealised gain or loss on financial assets at fair value through other comprehensive income	Unrealized gain or loss on available- for-sale financial assets	Gain or loss on effective portion of cash flow hedges	Gain or loss on hedging instrument	Treasury share	Total	Non- controlling interest	Total equity
<u>Nine-month period ended September 30, 2017</u>														
	\$ 2,429,198	\$ 1,617,572	\$ 748,231	\$131,678	\$ 2,278,306	(\$159,161)	\$ -	\$ 13,079	\$ 300,061	\$ -	\$ -	\$ 7,358,964	(\$ 1,896)	\$ 7,357,068
	-	-	-	-	935,883	-	-	-	-	-	-	935,883	(24,240)	911,643
	-	-	-	-	-	(73,903)	-	1,031	(532,920)	-	-	(605,792)	311	(605,481)
	-	-	-	-	935,883	(73,903)	-	1,031	(532,920)	-	-	330,091	(23,929)	306,162
Appropriation and distribution of retained earnings:	6(19)													
Legal reserve	-	-	146,165	-	(146,165)	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,020,263)	-	-	-	-	-	-	(1,020,263)	-	(1,020,263)
Employee stock options exercised		27,340	121,663	-	-	-	-	-	-	-	-	149,003	-	149,003
Compensation cost of employee stock options	6(15)	-	18,991	-	-	-	-	-	-	-	-	18,991	-	18,991
Balance at September 30, 2017		\$ 2,456,538	\$ 1,758,226	\$ 894,396	\$131,678	\$ 2,047,761	(\$233,064)	\$ -	\$ 14,110	(\$ 232,859)	\$ -	\$ 6,836,786	(\$ 25,825)	\$ 6,810,961
<u>Nine-month period ended September 30, 2018</u>														
	\$ 2,456,538	\$ 1,764,717	\$ 894,396	\$131,678	\$ 2,417,027	(\$210,063)	\$ -	\$ 16,188	(\$ 219,087)	\$ -	\$ -	\$ 7,251,394	(\$ 25,098)	\$ 7,226,296
Effect of adoption of new standards	12(4)	-	-	-	2,702	-	13,486	(16,188)	219,087	(219,087)	-	-	-	-
Balance after adjustments at January 1		2,456,538	1,764,717	894,396	131,678	2,419,729	(210,063)	13,486	-	(219,087)	-	7,251,394	(25,098)	7,226,296
Profit for the period		-	-	-	-	507,343	-	-	-	-	-	507,343	38,894	546,237
Other comprehensive income (loss) for the period		-	-	-	-	898	(193,605)	(6,101)	-	269,120	-	70,312	217	70,529
Total comprehensive income (loss)		-	-	-	-	508,241	(193,605)	(6,101)	-	269,120	-	577,655	39,111	616,766
Appropriation and distribution of retained earnings:	6(19)													
Legal reserve		-	-	131,187	-	(131,187)	-	-	-	-	-	-	-	-
Special reserve		-	-	-	281,284	(281,284)	-	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	(921,201)	-	-	-	-	-	(921,201)	-	(921,201)
Compensation cost of employee stock options	6(15)	-	7,297	-	-	-	-	-	-	-	-	7,297	-	7,297
Treasury share acquired	6(17)	-	-	-	-	-	-	-	-	-	(250,205)	(250,205)	-	(250,205)
Change in non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	(16,003)	(16,003)
Balance at September 30, 2018		\$ 2,456,538	\$ 1,772,014	\$ 1,025,583	\$412,962	\$ 1,594,298	(\$403,668)	\$ 7,385	\$ -	\$ 50,033	(\$ 250,205)	\$ 6,664,940	(\$ 1,990)	\$ 6,662,950

The accompanying notes are an integral part of these consolidated financial statements.

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Thousands of New Taiwan dollars)
(Unaudited)

	Notes	Nine-month periods ended September 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 686,469	\$ 1,123,646
Adjustments			
Adjustments to reconcile profit			
Depreciation	6(9)(25)	373,669	341,954
Amortisation	6(10)(25)	67,191	61,249
Bad debt expense	12(4)	-	1,210
Reversal of expected credit impairment	12(2)	(3,353)	-
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	6(2)	12,901	(3,239)
Interest expense	6(24)	51,132	42,965
Interest income	6(22)	(45,303)	(54,408)
Dividend income	6(22)	(32,365)	(117)
Compensation cost of employee stock options	6(15)	7,297	18,991
Gain on disposal of property, plant and equipment	6(23)	(3)	(1,743)
Gains on disposals of intangible assets	6(23)	(99,020)	-
Losses on disposal of investments	6(23)	-	1,220
Share of (loss)/profit of associates accounted for under equity method	6(8)	1,495	-
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		733,722	401,175
Accounts receivable		1,039,068	(554,925)
Other receivables	(	114,279)	137,708
Inventories		314,122	(498,891)
Prepayments		21,303	(84,353)
Other current assets	(	150,316)	(35,820)
Changes in operating liabilities			
Financial liabilities at fair value through profit or loss - current	(	24,432)	1,603
Contract liabilities		19,477	-
Notes payable		612,670	-
Accounts payable	(	2,749,224)	955,640
Other payables	(	592,591)	(385,097)
Provisions	(	8,089)	(56,913)
Refund liabilities - current	(	25,446)	-
Other current liabilities	(	16,941)	(36,410)
Net defined benefit liabilities - non-current	(	2,417)	(2,435)
Cash (outflow) inflow generated from operations		127,729	1,373,010
Interest received		52,922	70,636
Interest paid	(	48,809)	(43,474)
Income taxes paid	(	309,292)	(271,027)
Net cash (used in) from operating activities		(177,450)	1,129,145
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets at fair value through other comprehensive income		(298,076)	-
Acquisition of investments accounted for using equity method	6(8)	(30,144)	-
Acquisition of financial assets at fair value through profit or loss		(545,799)	(23,868)
Proceeds from disposal of financial assets at fair value through profit or loss		24,802	-
Proceeds from disposal of available-for-sale financial assets		-	38,780
Acquisition of property, plant and equipment	6(9)	(372,169)	(373,419)
Proceeds from disposal of intangible assets		826	3,598
Proceeds from disposal of property, plant and equipment		(42,297)	(76,844)
Acquisition of intangible assets	6(10)	67,203	-
Increase in refundable deposits		(12,120)	(5,480)
Increase in prepayments for business facilities		(147,766)	(26,462)
Dividends received		32,265	117
Net cash used in investing activities		(1,323,995)	(463,578)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term debt		1,486,364	470,633
Increase in guarantee deposits received		866	-
Decrease in guarantee deposits received		-	(2,047)
Decrease in lease payable	6(13)	(10,775)	(10,422)
Payments of cash dividend	6(19)	(921,101)	(1,020,263)
Employee stock options exercised		-	149,003
Treasury share acquired		(237,154)	-
Change in non-controlling interest		(16,003)	-
Net cash from (used in) financing activities		302,097	(413,096)
Effect of exchange rate changes		(74,471)	(36,909)
(Decrease) increase in cash and cash equivalents		(1,273,819)	215,562
Cash and cash equivalents at beginning of period		6,484,163	5,721,341
Cash and cash equivalents at end of period		\$ 5,210,344	\$ 5,936,903

The accompanying notes are an integral part of these consolidated financial statements.

SERCOMM CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(Expressed in Thousands of New Taiwan dollars, Except as otherwise indicated)
(Unaudited)

1. HISTORY AND ORGANISATION

Sercomm Corporation (the “Company”) was incorporated on July 29, 1992. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in research and development, manufacturing and sales of networking communication software and equipment.

The stocks of the Company were traded on Taipei Exchange since May 1999 and listed on Taiwan Stock Exchange since December 2007.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were reported to the Board of Directors on November 12, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15, Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised losses’	January 1, 2017
Amendments to IAS 40, ‘Transfers of investment property’	January 1, 2018
IFRIC 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, ‘First-time adoption of International Financial Reporting Standards’	January 1, 2018

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

A. Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'

The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. The amendment also clarifies the accounting for modifications that change an award from cash-settled to equity-settled. Additionally, the amendment introduces an exception that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

B. Amendments to IFRS 4, 'Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts'

To address concerns regarding the different effective dates of IFRS 9, 'Financial instruments', and IFRS 4, 'Insurance contract', which may result in different bases for measuring assets and liabilities, this amendment allows insurers who meet specific requirements as set out in IFRS 4 to adopt temporary exemption from IFRS 9, or to use overlay approach under IFRS 9 alternatively.

C. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

- (c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

D. IFRS 15, 'Revenue from contracts with customers' and amendments

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods. A customer obtains control of goods when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

E. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

F. Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'

These amendments clarify the recognition of deferred tax assets for unrealised losses, and they clarify several of the general principles underlying the accounting for deferred tax assets. The amendments clarify that a deductible temporary difference exists whenever an asset is measured at fair value and that fair value is below the asset's tax base. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, it considers a deductible temporary difference in combination with all of its other deductible temporary differences unless there are tax law restrictions, and the tax deduction resulting from temporary differences is excluded from estimated future taxable profits.

G. Amendments to IAS 40, 'Transfers of investment property'

The amendments clarify that, to transfer to, or from, investment properties, there must be a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A change in management's intentions, in isolation, does not provide evidence of the change in use. In addition, the amendments added examples of evidence of a change in use. The examples include transfer of assets under construction or development (not completed properties) from investment property to owner-occupied property at commencement of development with a view to owner-occupation and transfer from inventories to investment property at inception of an operating lease to another party.

H. IFRIC 22, 'Foreign currency transactions and advance consideration'

The Interpretation states that the date of the transaction for a foreign currency-denominated contract should be the date of initial recognition of the non-monetary asset or non-monetary liability arising from the receipt or payment of the advance consideration.

I. Annual improvements to IFRSs 2014-2016 cycle

(a) Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'

The amendments deleted short-term exemptions covering transition provisions of disclosures of financial instruments, employee benefits, and investment entities.

(b) Amendments to IFRS 12, 'Disclosure of interests in other entities'

The amendments clarify that when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified as held for sale in accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations', the disclosure requirements of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information for that subsidiary, joint venture or associate in accordance with paragraphs B10–B16.

(c) Amendments to IAS 28, 'Investments in associates and joint ventures'

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities (including investment-linked insurance funds), IAS 28 allows the entity to elect measuring that investment at fair value through profit or loss in accordance with IFRS 9. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture.

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

When adopting the new standards endorsed by the FSC effective from 2018, the Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9 and IFRS 15. The Group applied retrospectively IFRS 15 only to incomplete contracts as of January 1, 2018, adopting an optional transition expedient. The significant effects of applying the new standards as of January 1, 2018 are summarised below:

Consolidated balance sheet Affected items	2017 version IFRSs amount	Effect of adoption of new standards	2018 version IFRSs amount	Remark
<u>January 1, 2018</u>				
<u>Assets</u>				
Financial assets at fair value through other comprehensive income – non-current	\$ -	\$ 83,752	\$ 83,752	1
Available-for-sale financial assets – non-current	23,632	(23,632)	-	1
Financial assets at cost – non-current	60,120	(60,120)	-	1
<u>Liabilities</u>				
Contract liabilities	\$ -	\$ 67,412	\$ 67,412	2(2)
Current provisions	112,956	(103,390)	9,566	2(1)
Refund liabilities – current	-	103,390	103,390	2(1)
Other current liabilities – others	314,276	(67,412)	246,864	2(2)
<u>Equity</u>				
Retained earnings	\$ 3,443,101	\$ 2,702	\$ 3,445,803	1
Other equity interest	(412,962)	(2,702)	(415,664)	1

Explanation:

- A. In accordance with IFRS 9, the Group reclassified available-for-sale financial assets and financial assets at cost in the amounts of \$23,632 and \$60,120, respectively, and made an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, increasing retained earnings and decreasing other equity interest in the amounts of \$83,752, \$2,702 and \$2,702, respectively.
- B. Presentation of contract assets and contract liabilities
- In line with IFRS 15 requirements, the Group changed the presentation of certain accounts in the balance sheet as follows:
- (a) Under IFRS 15, liabilities in relation to expected volume discounts and refunds to customers are recognised as contract liabilities, but were previously presented as current provisions in the balance sheet. As of January 1, 2018, the balance amounted to \$103,390.
- (b) Under IFRS 15, liabilities in relation to selling contract are recognised as contract liabilities, but were previously presented as ‘other current liabilities - others’ in the balance sheet. As of January 1, 2018, the balance amounted to \$67,412.
- C. Please refer to Notes 12(4) and (5) for other disclosures in relation to the first application of IFRS 9 and IFRS 15.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	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
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

A. Amendments to IFRS 9, 'Prepayment features with negative compensation'.

The amendments introduce changes to certain extent in determining whether the prepayable financial assets fall under contractual cash flows that are solely payments of principal and interest (SPPI). The SPPI condition is satisfied when the prepayment includes reasonable compensation (even if it is negative compensation) for contract termination prior to the expiration date. The amendments further clarify that when a financial liability is modified without this resulting in derecognition, the difference arising between the original contractual cash flows and the modified contractual cash flows discounted at the original effective interest rate is recognised in profit or loss.

B. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

C. Amendments to IAS 19, 'Plan amendment, curtailment or settlement'

When a change to a plan take place, the amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

D. Amendments to IAS 28, 'Long-term interests in associates and joint ventures'

The amendment clarifies that, for any long-term interest that, in substance, form part of the entity's net investment in an associate or joint venture, an entity should apply IFRS 9 to such interests before it applies IAS 28 to recognise losses.

E. IFRIC 23, 'Uncertainty over income tax treatments'

This Interpretation clarifies when there is uncertainty over income tax treatments, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12, 'Income taxes' based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

F. Annual improvements to IFRSs 2015-2017 cycle

(a) Amendments to IFRS 3, 'Business combinations'

The amendments clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at the acquisition date.

(b) Amendments to IFRS 11, 'Joint arrangements'

The amendments clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

(c) Amendments to IAS 12, 'Income taxes'

The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends.

(d) Amendments to IAS 23, 'Borrowing costs'

The amendments clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

The Group will adopt the modified retrospective transitional provisions of IFRS 16 'Lease', and classify the effects on the lease contract of lessee to January 1, 2019 in accordance with IFRS 16. Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2019
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

A. Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'

The amendments clarify the definition of material, that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

B. Amendment to IFRS 3, 'Definition of a business'

The amendments clarify the definition of a business, that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to creating outputs; narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. Also, the amendments added an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

C. Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'

The amendments resolve a current inconsistency between IFRS 10 and IAS 28. The gain or loss resulting from a transaction that involves sales or contribution of assets between an investor and its associates or joint ventures is recognised either in full or partially depending on the nature of the assets sold or contributed:

- (a) If sales or contributions of assets constitute a 'business', the full gain or loss is recognized;
- (b) If sales or contributions of assets do not constitute a 'business', the partial gain or loss is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

D. IFRS 17, 'Insurance contracts'

IFRS 17 'Insurance Contracts' replaces IFRS 4 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The standard applies to insurance contracts (including reinsurance contracts) issued, to reinsurance contracts held and to investment contracts with discretionary participation features issued, provided the entity also issues insurance contracts. Embedded derivatives, distinct investment components and distinct performance obligations shall be separated from the insurance contracts. An entity shall, at initial recognition, disaggregate a portfolio into three groups of contracts: onerous, no significant risk of becoming onerous, and remaining contracts. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contract. An entity may apply a simplified measurement approach (the premium allocation approach) to some insurance contracts. An entity recognises the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately. Entities are required to present separately insurance revenue, insurance service expenses and insurance finance income or expenses and to disclose information about amounts, judgements and risks

arising from insurance contracts.

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Accounting Standard 34, 'Interim financial reporting' as endorsed by the FSC.

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach and the practical expedients whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the consolidated financial statements for the year ended December 31, 2017 and the first quarter of 2017 were not restated. The financial statements for the first quarter of 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

B. Subsidiaries included in the consolidated financial statements:

Name of subsidiary	Name of subsidiary	Main business activities	Ownership (%)			Remark
			September 30, 2018	December 31, 2017	September 30, 2017	
The Company	Sercomm USA Inc.	Domestic market consultation and customer services of computer information products	100	100	100	Note 1
"	Sercomm Trading Co. Ltd. ("Sercomm Trading")	Investment holding	100	100	100	
"	Shukuan Investment Ltd.	Investment activity	100	100	100	Note 1
"	Sercomm France SARL	Domestic market consultation and customer services of computer information products	100	100	100	Note 1
"	Sercomm Deutschland GmbH	Domestic market consultation and customer services of computer information products	100	100	100	Note 1
"	Sercomm Japan Corp.	Sales of IT products	100	100	100	Note 1
"	Sercomm Russia Limited Liability Company	Sales of IT products	100	100	100	Note 1
Sercomm Trading	Zealous Investments Ltd.	Investment holding	100	100	100	
"	Smart Trade Inc.	Investment holding	100	100	100	
Sercomm France SARL	Sercomm Italia SRL	Domestic market consultation and customer services of computer information products	100	100	100	Note 1
Zealous Investments Ltd.	Sernet Technology(Suzhou) Limited	Manufacturing of routers, communication products, Wlan products; sales and after-sell service	100	100	100	
"	HawXeye Inc.	Provide computer learning technology on video object analysis embedded on IP camera	55.09	55.09	55.6	Notes 1 and 2

Name of subsidiary	Name of subsidiary	Main business activities	Ownership (%)			Remark
			September 30, 2018	December 31, 2017	September 30, 2017	
Smart Trade Inc.	Dwnet Technology(Suzhou) Limited	Manufacturing of routers, communication products, Wlan products; sales and after-sell service	100	100	100	
Sernet Technology(Suzhou) Limited	Suzhou Hua-Yi Communications Co., Ltd	Manufacturing of routers, communication products, Wlan products; R&D center of software; sales and after-sell service	100	100	100	Note 1
“	Suzhou Femtel Communications Co., Ltd	Sales of communication products and software	100	100	100	Note 1
Suzhou Femtel Communications Co., Ltd	Nanjing Femtel Communications Co., Ltd	Sale of communication products; R&D center of software; after-sales service	100	100	100	Note 1

Note 1: The financial statements of the entity as of and for the nine-month periods ended September 30, 2018 and 2017 were not reviewed by the independent accountants as the entity did not meet the definition of a significant subsidiary.

Note 2: The Group’s ownership of HawXeye Inc. was lowered from 55.6% to 55.09% due to not acquiring its shares issued in December 2017 in proportion to ownership.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company’s functional and the Group’s presentation currency.

A. Foreign currency transactions and balances

- Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise, except when deferred in other comprehensive income as qualifying cash flow hedges.
- Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-

monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

- (d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

The operating results and financial position of all the group entities and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognised in other comprehensive income.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including time deposits with maturity within 12 months).

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

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:
 - (a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.
 - (b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(9) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods.

- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.
- C. The Group's operating pattern of accounts receivable that are expected to be factored is for the purpose of selling, and the accounts receivable are subsequently measured at fair value, with any changes in fair value recognised in profit or loss.

(10) Impairment of financial assets

For financial assets at amortised cost including accounts receivable or contract assets that have a significant financing component, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(11) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(12) Operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(13) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(14) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.

- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	36 ~ 56 years
Machinery and equipment	4 ~ 10 years
Research and development equipment	3 ~ 6 years
Office and other equipment	2 ~ 6 years
Leasehold assets	36 ~ 51 years

(16) Leased assets/ operating leases (lessee)

- A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset.
- (a) A finance lease is recognised as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.
 - (b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
 - (c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.
- B. Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(17) Intangible assets

A. Computer software and certification cost

Computer software and certification cost is stated at cost and amortised on a straight-line basis over its estimated useful life of 2 to 5 years.

B. Internally generated intangible assets—research and development expenditures

- (a) Research expenditures are recognised as an expense as incurred.
- (b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:
 - i. It is technically feasible to complete the intangible asset so that it will be available for use or sale;
 - ii. An entity intends to complete the intangible asset and use or sell it;
 - iii. An entity has the ability to use or sell the intangible asset;
 - iv. It can be demonstrated how the intangible asset will generate probable future economic benefits;
 - v. Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
 - vi. The expenditure attributable to the intangible asset during its development can be reliably measured.

- (c) Upon being available for use, internally generated intangible assets are amortised on a straight-line basis over their estimated useful life of 5 years.

C. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

D. Patents

Patents are stated at cost and amortised on a straight-line basis over the estimated useful life of 5 years.

(18) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.
- B. The recoverable amounts of goodwill and intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination.

(19) Borrowings

- A. Borrowings refer to short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.
- B. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(20) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(21) Financial liabilities at fair value through profit or loss

- A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.
- B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.
- C. If the credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognised in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognising in profit or loss for loan commitments or financial guarantee contracts.

(22) Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is either discharged or cancelled or expires.

(23) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(24) Non-hedging and embedded derivatives

- A. Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.
- B. Under the financial assets, the hybrid contracts embedded with derivatives are initially recognised as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost based on the contract terms.
- C. Under the non-financial assets, whether the hybrid contracts embedded with derivatives are accounted for separately at initial recognition is based on whether the economic characteristics and risks of an embedded derivative are closely related in the host contract. When they are closely related, the entire hybrid instrument is accounted for by its nature in accordance with the applicable standard. When they are not closely related, the derivative is accounted for differently from the host contract as derivative while the host contract is accounted for by its nature in accordance with the applicable standard. Alternatively, the entire hybrid instrument is designated as financial liabilities at fair value through profit or loss upon initial recognition.

(25) Hedge accounting

- A. At the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements.

B. The Group designates the hedging relationship when one criteria is met:

- (a) Fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment.
- (b) Cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

C. Fair value hedges

- (a) The gain or loss on the hedging instrument is recognised in profit or loss. Whereas the gain or loss is recognised in other comprehensive income if the hedging instrument hedges an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income.
- (b) The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item and is recognised in profit or loss. However, if the hedged item is an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the hedged item is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

D. Cash flow hedges

- (a) The cash flow hedge reserve associated with the hedged item is adjusted to the lower of the following (in absolute amounts):
 - i. the cumulative gain or loss on the hedging instrument from inception of the hedge; and
 - ii. the cumulative change in fair value of the hedged item from inception of the hedge.
- (b) The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income. The gain or loss on the hedging instrument relating to the ineffective portion is recognised in profit or loss.
- (c) The amount that has been accumulated in the cash flow hedge reserve in accordance with (a) is accounted for as follows:
 - i. If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or liability.
 - ii. For cash flow hedges other than those covered by item i. above, that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.

- iii. If that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.
- (d) When the hedging instrument expires, or is sold, terminated, exercised or when the hedging relationship ceases to meet the qualifying criteria, if the forecast transaction is still expected to occur, the amount that has been accumulated in the cash flow hedge reserve shall remain in the cash flow hedge reserve until the forecast transaction occurs; if the forecast transaction is no longer expected to occur, the amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment.

(26) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(27) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.
- ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

- iii. Past service costs are recognised immediately in profit or loss.
- iv. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(28) Employee share-based payment

- A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.
- B. Restricted stocks:
 - (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.
 - (b) For restricted stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, at the lower of the original acquisition price or the closing price, the Company will repurchase the stocks as of the resignation date. The Company recognises the payments from the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the payments from the employees who are expected to be eventually vested with the stocks in 'capital surplus – restricted stocks'.

(29) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns

with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- G. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(30) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(31) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities.

(32) Revenue recognition

- A. The Group's revenue is recognised when a customer obtains control of promised goods. A customer obtains control of goods when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The Group recognises revenue by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

- B. The Group recognises a refund liability if the Group receives consideration from a customer and expects to refund some or all of that consideration to the customer. A refund liability is recognised for the amount of consideration received or receivable for which the Group does not expect to be entitled. The refund liability is measured at the end of each reporting period.
- C. The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.
- D. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(33) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

A. Revenue recognition

The Group estimates sales discounts and allowance based on historical results and other known factors. Provisions for such liabilities are recorded as a deduction item to sales revenues when the sales are recognised. The Group reassesses the reasonableness of estimates of discounts and returns periodically. Please refer to Note 6 for details.

B. Realisability of deferred tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Assessment of the realisability of deferred tax assets involves critical accounting judgements and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred tax assets. Please refer to Note 6 for details.

C. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation. Please refer to Note 6 for details.

D. Calculation of net defined benefit liabilities

When calculating the present value of defined pension obligations, the Group must apply judgements and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and future salary growth rate. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations. Please refer to Note 6 for details.

E. Financial assets—fair value measurement of unlisted stocks without active market

The fair value of unlisted stocks held by the Group that are not traded in an active market is determined considering those companies' recent funding raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(3) for the financial instruments fair value information.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Cash on hand and revolving funds	\$ 2,484	\$ 2,644	\$ 2,996
Checking accounts and demand deposits	2,717,483	1,989,841	1,743,652
Time deposits	2,490,377	4,318,904	4,169,172
Cash equivalents	-	172,774	21,083
	<u>\$ 5,210,344</u>	<u>\$ 6,484,163</u>	<u>\$ 5,936,903</u>

A. Cash equivalents refer to bankers' acceptance bills with maturities within three months.

B. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

C. The Group has no cash and cash equivalents pledged to others.

(2) Financial assets and liabilities at fair value through profit or loss

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
<u>Assets</u>			
Current items:			
Financial assets mandatorily measured at fair value through profit or loss			
Listed stocks	\$ 517,750	\$ -	\$ -
Cross currency swap	3,961	-	1,604
Valuation adjustment	(43,136)	-	-
	<u>\$ 478,575</u>	<u>\$ -</u>	<u>\$ 1,604</u>
Non-current items:			
Financial assets mandatorily measured at fair value through profit or loss			
Convertible bonds	\$ 27,834	\$ 23,867	\$ 23,868
Unlisted stocks	32,891	-	-
Valuation adjustment	254	254	-
	<u>\$ 60,979</u>	<u>\$ 24,121</u>	<u>\$ 23,868</u>

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
<u>Liabilities</u>			
Current items:			
Financial liabilities held for trading			
Forward foreign exchange contracts	\$ 5,124	\$ 8,032	\$ 138
Cross currency swap	<u>762</u>	<u>4,574</u>	<u>287</u>
	<u>\$ 5,886</u>	<u>\$ 12,606</u>	<u>\$ 425</u>

A. Amounts recognised in profit or loss in relation to financial assets and liabilities at fair value through profit or loss are listed below:

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	(\$ 46,057)	\$ -
Forward foreign exchange contracts	(4,922)	(522)
Cross currency swap	3,961	-
Financial liabilities held for trading		
Cross currency swap	(4,524)	(867)
	<u>(\$ 51,542)</u>	<u>(\$ 1,389)</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	(\$ 43,136)	\$ -
Forward foreign exchange contracts	(18,237)	1,922
Cross currency swap	3,961	-
Financial liabilities held for trading		
Cross currency swap	<u>44,511</u>	<u>1,317</u>
	<u>(\$ 12,901)</u>	<u>\$ 3,239</u>

B. The Group entered into forward foreign exchange contracts and cross currency swap contracts to sell and buy various currency to hedge exchange rate risk of export proceeds and interest rate risk. However, these forward foreign exchange contracts are not accounted for under hedge accounting. The summary of contracts not past due and entered into by the Group are as follows:

	<u>September 30, 2018</u>		
	<u>Currency</u>	<u>Contract period</u>	<u>Contract amount</u>
Forward foreign exchange contracts	Buy USD/ Sell RUB	2018/09~2018/12	USD 6,500 thousand
Cross currency swap	Buy USD/ Sell NTD	2018/07~2018/11	USD 40,000 thousand

December 31, 2017				
	Currency	Contract period	Contract amount	
Forward foreign exchange contracts	Buy USD/ Sell NTD	2017/10/17~2018/01/23	USD	10,000 thousand
Forward foreign exchange contracts	Buy USD/ Sell RUB	2017/12/04~2018/01/26	USD	1,440 thousand
Forward foreign exchange contracts	Buy USD/ Sell RMB	2017/12/12~2018/03/05	USD	21,450 thousand
Cross currency swap	Buy USD/ Sell NTD	2017/10/17~2018/03/19	USD	15,000 thousand

September 30, 2017				
	Currency	Contract period	Contract amount	
Forward foreign exchange contracts	Buy USD/ Sell RUB	2017/08/31~2017/11/06	USD	680 thousand
Cross currency swap	Buy USD/ Sell NTD	2017/07/17~2017/12/17	USD	25,000 thousand

- B. The Group's financial assets at fair value through profit or loss were not pledged to others as collateral.
- C. In May 2018, the consolidated subsidiary HawXeye Inc. obtained US2,274 thousand dollars and 3,845 common shares (\$32,891) because of the sale of patent rights. For indemnification obligations resulting from the patent rights, some common shares amounting to 1,730 shares (\$14,799) are restricted to transfer until November 2019.
- E. Information relating to fair value of financial assets at fair value through profit or loss is provided in Note 12(3).

(3) Financial asset at fair value through other comprehensive income

	September 30, 2018
Current items:	
Designation of equity instrument	\$ 298,076
Listed stocks	(4,716)
Valuation adjustment	\$ 293,360
Non-current items:	
Designation of equity instrument	
Unlisted stocks	\$ 70,819
Valuation adjustment	11,449
	\$ 82,268

- A. The Group has selected to classify equity instrument investments that are considered to be steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$375,628 as at September 30, 2018.
- B. Amounts recognised in profit or loss and other comprehensive income in relation to the equity instruments at fair value through other comprehensive income are listed below:

	Three-month Period ended September 30, 2018	Nine-month period ended September 30, 2018
Fair value change recognised in other comprehensive income	(\$ 6,313)	(\$ 6,199)

C. The Group's financial assets at fair value through other comprehensive income were not pledged to others as collateral.

D. Information relating to fair value of financial assets at fair value through other comprehensive income is provided in Note 12(3).

E. The information on available-for-sale financial assets and financial assets at cost as of December 31, 2017 and September 30, 2017 is provided in Note 12(4).

(4) Hedging financial assets and liabilities

	September 20, 2018	
	Assets	Liabilities
Cash flow hedges:		
<u>Exchange rate risk</u>		
Forward foreign exchange contracts	\$ 67,784	\$ 5,243

A. Hedge accounting is applied to remove the accounting inconsistency between the hedging instrument and the hedged item. As the Group's EUR denominated accounts receivable are exposed to the impact of variable exchange rate, the Group uses interest rate swap in relation to exposed risk with 1:1 hedge ratio to control the exchange rate risk under their acceptable range based on the Group's risk management policies in the next 12 months.

B. Transaction information associated with the Group adopting cash flow hedge accounting is as follows:

September 30, 2018				
<u>Hedged items</u>	<u>Derivative instruments designated as hedges</u>	<u>Fair value of instruments designated as hedges</u>	<u>Period of anticipated cash flow</u>	<u>Period of gain (loss) expected to be recognized in statements of comprehensive income</u>
Expected transaction	Forward foreign exchange contracts	\$ 67,784	2018/10~2019/6	2018/10~2019/6
Expected transaction	Forward foreign exchange contracts	(5,243)	2018/10~2018/12	2018/10~2018/12

C. Information of contract not past due are as follows:

	September 30, 2018		
	<u>Currency</u>	<u>Contract period</u>	<u>Contract amount</u>
Forward foreign exchange contracts	Sell EUR / Buy USD	2017/5/22~2019/6/25	EUR 66,000 thousand

D. Cash flow hedges

Other equity - cash flow hedge reserve

At January 1, 2018	(\$	219,087)
Add: Losses on hedge effectiveness-amount recognised in other comprehensive income		124,347
Add: Reclassified to profit or loss as the hedged item has affected profit or loss		<u>144,773</u>
At September 30, 2018	\$	<u>50,033</u>

To hedge exposed exchange rate risk arising from forecast sales revenue, the Group entered into a forward forecast sale agreement of EUR, and the hedge ratio is 1:1. The effective portion with respect to the changes in the fair value of the hedging instruments is deferred to recognise in the cash flow hedge reserve, which is under other comprehensive income, and will be directly included in the sales revenue when the hedged items are subsequently recognised in accounts receivable.

E. Information relating to credit risk of hedging financial assets and liabilities is provided in Note 12(2).

F. Information on December 31, 2017 and September 30, 2017 is provided in Note 12(4).

(5) Notes and accounts receivable

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Notes receivable	\$ 630,893	\$ 912,670	\$ 864,036
Less: Allowance for loss/ bad debts	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 630,893</u>	<u>\$ 912,670</u>	<u>\$ 864,036</u>
Accounts receivable	\$ 5,257,799	\$ 6,296,867	\$ 6,421,580
Less: Allowance for loss/ bad debts	<u>(5,828)</u>	<u>(9,219)</u>	<u>(9,213)</u>
	<u>\$ 5,251,971</u>	<u>\$ 6,287,648</u>	<u>\$ 6,412,367</u>

A. None of the Group's notes receivable are overdue. For the ageing analysis of the accounts receivable, please refer to Note 12(2). The Group grants credit term to their clients from 30 days to 210 days after the delivery date. Ageing analysis is conducted on the basis of the number of days overdue. Please refer to Note 12 for disclosures of credit risk and information on movement of impairment and analysis of accounts receivable.

B. As of September 30, 2018, notes receivable were endorsed and transferred to suppliers as payment, which had not reached maturity and were not derecognised, amounting to \$133,944 (RMB 30,170 thousand, the approximate fair value). If the issuer or acceptor of a note refuses to pay at maturity, the Group has the obligation to pay as the endorser.

C. As of September 30, 2018, December 31, 2017 and September 30, 2017, the amount of endorsed notes pledged as collateral for the purpose of issuing banker's acceptances was \$318,000, \$119,790, and \$102,408, respectively.

D. The information of accounts receivable and notes receivable on December 31, 2017 and September 30, 2017 is provided in Note 12(4).

(6) Transfer of financial assets

- A. The Group entered into a factoring agreement with financial institutions to sell its accounts receivable. Under the agreement, the Group prepared an offering document of purchase. The offering document states that the factoring is without the right of recourse, and the Group is not obligated to bear the default risk of the transferred accounts receivable, but is liable for the losses incurred on any business dispute. The Group does not have any continuing involvement in the transferred accounts receivable, thus, the Group meets the condition of financial assets derecognition. The derecognised accounts receivable are summarised as follows:

September 30, 2018					
<u>Purchaser of accounts receivable</u>	<u>Accounts receivable transferred</u>	<u>Amount derecognised</u>	<u>Facilities</u>	<u>Interest rate range of amount advanced</u>	<u>Interest rate range of amount advanced</u>
DBS Bank (Taiwan) Ltd.	\$ 1,728,930 (USD 56,592,000)	\$ 1,728,930	USD 72,000,000	\$ 1,429,532 (USD 46,792,000)	2.17%~2.94%
Taishin International Bank	13,086 (USD 428,000)	13,086	USD 1,000,000	-	-
	<u>\$ 1,742,016</u>	<u>\$ 1,742,016</u>		<u>\$ 1,429,532</u>	

December 31, 2017					
<u>Purchaser of accounts receivable</u>	<u>Accounts receivable transferred</u>	<u>Amount derecognised</u>	<u>Facilities</u>	<u>Interest rate range of amount advanced</u>	<u>Interest rate range of amount advanced</u>
DBS Bank (Taiwan) Ltd.	\$ 1,220,198 (USD 40,880,000)	\$ 1,220,198	USD 72,000,000	\$ 1,083,095 (USD 36,287,000)	1.40%~2.64%

September 30, 2017					
<u>Purchaser of accounts receivable</u>	<u>Accounts receivable transferred</u>	<u>Amount derecognised</u>	<u>Facilities</u>	<u>Interest rate range of amount advanced</u>	<u>Interest rate range of amount advanced</u>
DBS Bank (Taiwan) Ltd.	\$ 1,144,009 (USD 37,750,000)	\$ 1,144,009	USD 72,000,000	\$ 1,026,484 (USD 33,872,000)	1.40%~1.97%
BNP Paribas S.A	84,439 (USD 2,362,000)	84,439	EUR 30,000,000	-	-
	<u>\$ 1,228,448</u>	<u>\$ 1,228,448</u>		<u>\$ 1,026,484</u>	

- B. The price that arose from factoring of accounts receivable but not yet received from banks in advance are shown as ‘other receivables’.
- C. Certain notes receivable that were endorsed and transferred to other parties meet the requirements of derecognition as financial assets. The Group retains the obligation to pay as endorser only when the issuer or acceptor of a note refuses to pay at maturity; however, the credit rating of issuers or acceptors of the aforementioned notes is very high. Notes receivable endorsed and transferred to other parties which were derecognised before maturity are summarised as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Amount derecognised	\$ 169,839	\$ 1,779,971	\$ 1,989,525
	(RMB 38,255,000)	(RMB 388,343,000)	(RMB 436,376,000)

(7) Inventories

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Raw materials	\$ 2,673,613	\$ 2,423,716	\$ 2,258,395
Work in progress	992,925	507,696	979,162
Finished goods	2,076,280	3,020,004	2,768,303
Inventory in transit	<u>4,889</u>	<u>110,413</u>	<u>-</u>
	<u>\$ 5,747,707</u>	<u>\$ 6,061,829</u>	<u>\$ 6,005,860</u>

The cost of inventories recognised as expense for the period:

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Cost of goods sold	\$ 7,378,758	\$ 9,081,918
Gain on reversal of decline in market value	(11,587)	-
Loss on decline in market value	<u>-</u>	<u>68,368</u>
	<u>\$ 7,367,171</u>	<u>\$ 9,150,286</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Cost of goods sold	\$ 20,620,262	\$ 24,353,429
Loss on decline in market value	<u>27,724</u>	<u>132,145</u>
	<u>\$ 20,647,986</u>	<u>\$ 24,485,574</u>

During the three-month period ended September 30, 2018, the Group sold or disposed its inventories so the Group recognised a gain due to the reversal of a previous inventory write-down.

(8) Investments accounted for using equity method (nine-month period ended September 30, 2017: none)

	<u>2018</u>
At January 1	\$ -
Addition of investments accounted for using equity method	30,144
Share of profit or loss of investments accounted for using equity method	(1,495)
Effect of exchange rate changes	(316)
At September 30	<u>\$ 28,333</u>

A. The Group acquired 30% of the shares of the associated company MECSware GmbH in March 2018, whose principal place of business is in Germany.

B. Abovementioned investments accounted for using equity method were measured based on the associate's financial statements which were not reviewed by independent accountants.

(9) Property, plant and equipment

	Land	Buildings and structures	Machinery and equipment	Development equipment	Office and other equipment	Leased assets	Unfinished construction	Total
January 1, 2018								
Cost	\$ 433,008	\$ 1,377,577	\$ 2,303,777	\$ 722,969	\$ 513,892	\$ 290,341	\$ 23,868	\$ 5,665,432
Accumulated depreciation	- (230,680)	(1,390,904)	(451,488)	(283,960)	(59,720)	-	(2,416,752)	
	<u>\$ 433,008</u>	<u>\$ 1,146,897</u>	<u>\$ 912,873</u>	<u>\$ 271,481</u>	<u>\$ 229,932</u>	<u>\$ 230,621</u>	<u>\$ 23,868</u>	<u>\$ 3,248,680</u>
At January 1, 2018	\$ 433,008	\$ 1,146,897	\$ 912,873	\$ 271,481	\$ 229,932	\$ 230,621	\$ 23,868	\$ 3,248,680
Additions	-	-	140,572	86,757	68,522	73,818	2,500	372,169
Disposals	-	-	(823)	-	-	-	-	(823)
Reclassifications	-	-	-	-	-	22,269	(22,269)	-
Depreciation charge	-	(24,704)	(214,995)	(66,550)	(59,933)	(7,487)	-	(373,669)
Net exchange differences	- (19,066)	(19,550)	(2,346)	575	147	(749)	(42,139)	
At September 30, 2018	<u>\$ 433,008</u>	<u>\$ 1,103,127</u>	<u>\$ 818,077</u>	<u>\$ 289,342</u>	<u>\$ 237,946</u>	<u>\$ 319,368</u>	<u>\$ 3,350</u>	<u>\$ 3,204,218</u>
September 30, 2018								
Cost	\$ 433,008	\$ 1,352,804	\$ 2,374,885	\$ 791,329	\$ 568,472	\$ 384,980	\$ 3,350	\$ 5,908,828
Accumulated depreciation	- (249,677)	(1,556,808)	(501,987)	(330,526)	(65,612)	-	(2,704,610)	
	<u>\$ 433,008</u>	<u>\$ 1,103,127</u>	<u>\$ 818,077</u>	<u>\$ 289,342</u>	<u>\$ 237,946</u>	<u>\$ 319,368</u>	<u>\$ 3,350</u>	<u>\$ 3,204,218</u>
January 1, 2017								
Cost	\$ 433,008	\$ 1,388,124	\$ 2,122,715	\$ 607,103	\$ 429,420	\$ 290,341	\$ 6,982	\$ 5,277,693
Accumulated depreciation	- (199,735)	(1,141,772)	(387,402)	(227,528)	(55,566)	-	(2,012,003)	
	<u>\$ 433,008</u>	<u>\$ 1,188,389</u>	<u>\$ 980,943</u>	<u>\$ 219,701</u>	<u>\$ 201,892</u>	<u>\$ 234,775</u>	<u>\$ 6,982</u>	<u>\$ 3,265,690</u>
At January 1, 2017	\$ 433,008	\$ 1,188,389	\$ 980,943	\$ 219,701	\$ 201,892	\$ 234,775	\$ 6,982	\$ 3,265,690
Additions	-	-	184,813	109,396	63,347	-	15,863	373,419
Disposals	-	-	(1,294)	(560)	(1)	-	-	(1,855)
Reclassifications	-	-	378	-	18,571	-	(6,853)	12,096
Depreciation charge	- (24,353)	(201,780)	(63,198)	(49,507)	(3,116)	-	(341,954)	
Net exchange differences	- (12,255)	(18,290)	(2,477)	(538)	-	(129)	(33,689)	
At September 30, 2017	<u>\$ 433,008</u>	<u>\$ 1,151,781</u>	<u>\$ 944,770</u>	<u>\$ 262,862</u>	<u>\$ 233,764</u>	<u>\$ 231,659</u>	<u>\$ 15,863</u>	<u>\$ 3,273,707</u>
September 30, 2017								
Cost	\$ 433,008	\$ 1,373,386	\$ 2,267,755	\$ 698,550	\$ 503,783	\$ 290,341	\$ 15,863	\$ 5,582,686
Accumulated depreciation	- (221,605)	(1,322,985)	(435,688)	(270,019)	(58,682)	-	(2,308,979)	
	<u>\$ 433,008</u>	<u>\$ 1,151,781</u>	<u>\$ 944,770</u>	<u>\$ 262,862</u>	<u>\$ 233,764</u>	<u>\$ 231,659</u>	<u>\$ 15,863</u>	<u>\$ 3,273,707</u>

A. The Group leased some office in Nankang Software Park through a capital lease. Please refer to Note 6(13) for details.

B. The Group has no property, plant and equipment that were pledged to others as collateral.

(10) Intangible assets

	<u>Computer software</u>	<u>Development expenditure</u>	<u>Goodwill</u>	<u>Patents</u>	<u>Total</u>
January 1, 2018					
Cost	\$ 390,290	\$ 221,541	\$ 49,059	\$ 10,545	\$ 671,435
Accumulated amortisation	(225,010)	(147,890)	-	(984)	(373,884)
	<u>\$ 165,280</u>	<u>\$ 73,651</u>	<u>\$ 49,059</u>	<u>\$ 9,561</u>	<u>\$ 297,551</u>
At January 1, 2018	\$ 165,280	\$ 73,651	\$ 49,059	\$ 9,561	\$ 297,551
Additions—acquired separately	21,059	-	-	2,648	23,707
Additions— from internal development	-	18,590	-	-	18,590
Amortisation charge	(47,131)	(18,332)	-	(1,728)	(67,191)
Net exchange differences	<u>585</u>	<u>-</u>	<u>(1,540)</u>	<u>-</u>	<u>2,125</u>
At September 30, 2018	<u>\$ 138,623</u>	<u>\$ 73,909</u>	<u>\$ 47,519</u>	<u>\$ 10,481</u>	<u>\$ 270,532</u>
September 30, 2018					
Cost	\$ 414,272	\$ 240,131	\$ 47,519	\$ 13,193	\$ 715,115
Accumulated amortisation	(275,649)	(166,222)	-	(2,712)	(444,583)
	<u>\$ 138,623</u>	<u>\$ 73,909</u>	<u>\$ 47,519</u>	<u>\$ 10,481</u>	<u>\$ 270,532</u>
	<u>Computer software</u>	<u>Development expenditure</u>	<u>Goodwill</u>	<u>Patents</u>	<u>Total</u>
January 1, 2017					
Cost	\$ 327,513	\$ 198,071	\$ 49,715	\$ -	\$ 575,299
Accumulated amortisation	(162,242)	(127,450)	-	-	(289,692)
	<u>\$ 165,271</u>	<u>\$ 70,621</u>	<u>\$ 49,715</u>	<u>\$ -</u>	<u>\$ 285,607</u>
At January 1, 2017	\$ 165,271	\$ 70,621	\$ 49,715	\$ -	\$ 285,607
Additions—acquired separately	49,286	-	-	8,756	58,042
Additions— from internal development	-	18,802	-	-	18,802
Reclassifications	2,796	-	-	-	2,796
Amortisation charge	(45,362)	(15,362)	-	(525)	(61,249)
Net exchange differences	<u>(919)</u>	<u>-</u>	<u>(916)</u>	<u>-</u>	<u>(1,835)</u>
At September 30, 2017	<u>\$ 171,072</u>	<u>\$ 74,061</u>	<u>\$ 48,799</u>	<u>\$ 8,231</u>	<u>\$ 302,163</u>
September 30, 2017					
Cost	\$ 378,295	\$ 216,873	\$ 48,799	\$ 8,756	\$ 652,723
Accumulated amortisation	(207,223)	(142,812)	-	(525)	(350,560)
	<u>\$ 171,072</u>	<u>\$ 74,061</u>	<u>\$ 48,799</u>	<u>\$ 8,231</u>	<u>\$ 302,163</u>

A. Details of amortisation on intangible assets are as follows:

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Operating costs	\$ 7,866	\$ 6,202
Operating expenses	<u>17,173</u>	<u>16,155</u>
	<u>\$ 25,039</u>	<u>\$ 22,357</u>
	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Operating costs	\$ 18,814	\$ 17,546
Operating expenses	<u>48,377</u>	<u>43,703</u>
	<u>\$ 67,191</u>	<u>\$ 61,249</u>

B. The Group has no intangible assets pledged to others as collateral.

(11) Short-term borrowings

<u>Type of borrowings</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Bank borrowings			
Unsecured borrowings	\$ 3,362,725	\$ 1,876,361	\$ 2,605,950
Interest rate range	0.47%~2.53%	0.47%~4.35%	0.47%~1.76%

(12) Other payables

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Wages and salaries payable	\$ 1,052,547	\$ 1,050,728	\$ 974,039
Payables on employees' compensation and directors' and supervisors' remuneration	123,000	295,000	218,300
Equipment payable	119,807	100,034	101,945
Freight payable	111,685	133,826	154,859
Royalty payable	64,529	82,055	99,561
Commission payable	20,661	23,476	17,624
Treasury share payable	13,051	-	-
Others	<u>948,803</u>	<u>1,346,920</u>	<u>1,207,183</u>
	<u>\$ 2,454,083</u>	<u>\$ 3,032,039</u>	<u>\$ 2,773,511</u>

(13) Finance lease liabilities

A. The Group entered into a contract with the Industrial Development Bureau, Ministry of Economic Affairs to lease an office space in Nankang Software Industrial Park on August 15, 2003. The leasing period is from August 2003 to August 2023 and the Group has a renewal option. In addition, the Group has a bargain purchase option within the lease term. In accordance with terms of the lease contract, the rate of rent of buildings in the Park was approved by the Industrial Development Bureau, and the prescribed rental rate was based on

the month the contract was entered into. The prescribed rental rate would be adjusted every January 1 and July 1 based on the rate of mid-term and long-term loans of capital of the Executive Yuan, and adjusted every year based on the base month rent and Consumer Price Index which was published by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

- B. Future minimum lease payments and their present values as at September 30, 2018, December 31, 2017 and September 30, 2017 are as follows:

September 30, 2018		
	<u>Total finance lease liabilities</u>	<u>Future finance charges</u> <u>Present value of finance lease liabilities</u>
<u>Current</u>		
Not later than one year	\$ 16,298	(\$ 2,445) \$ 13,853
<u>Non-current</u>		
Later than one year but not later than five years	120,517	(17,267) 103,250
Later than five years	-	(-) -
	<u>120,517</u>	<u>(17,267)</u> <u>103,250</u>
	<u>\$ 136,815</u>	<u>(\$ 19,712)</u> <u>\$ 117,103</u>
December 31, 2017		
	<u>Total finance lease liabilities</u>	<u>Future finance charges</u> <u>Present value of finance lease liabilities</u>
<u>Current</u>		
Not later than one year	\$ 16,298	(\$ 2,651) \$ 13,647
<u>Non-current</u>		
Later than one year but not later than five years	65,193	(7,798) 57,395
Later than five years	67,547	(10,711) 56,836
	<u>132,740</u>	<u>(18,509)</u> <u>114,231</u>
	<u>\$ 149,038</u>	<u>(\$ 21,160)</u> <u>\$ 127,878</u>
September 30, 2017		
	<u>Total finance lease liabilities</u>	<u>Future finance charges</u> <u>Present value of finance lease liabilities</u>
<u>Current</u>		
Not later than one year	\$ 16,298	(\$ 2,719) \$ 13,579
<u>Non-current</u>		
Later than one year but not later than five years	65,193	(4,663) 60,530
Later than five years	71,622	(14,306) 57,316
	<u>136,815</u>	<u>(18,969)</u> <u>117,846</u>
	<u>\$ 153,113</u>	<u>(\$ 21,688)</u> <u>\$ 131,425</u>

(14) Pensions

A. Defined benefit plans

- (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.
- (b) For the aforementioned pension plan, the Company recognised pension costs of \$273, \$296, \$819 and \$888 for the three-month and nine-month periods ended September 30, 2018 and 2017, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2019 amounts to \$4,333.

B. Defined contribution plans

- (a) The Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The Company's mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- (c) The Group's other foreign subsidiaries contributed pension to related pension management entities under local regulations.
- (d) The pension costs under defined contribution pension plans of the Group for the three-month and nine-month periods ended September 30, 2018 and 2017, were \$56,716, \$57,855, \$167,436 and \$173,663, respectively.

(15) Share-based payment

- A. Certain employees of the Group are entitled to share-based payment as part of their remunerations; services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.
- B. The Company was authorized by the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan, to issue employee stock options with a total number of 100,000 units on May 25, 2015. Each unit entitles an optionee to subscribe to 100 shares of the Company's common stock. The contractual term of each option granted is ten years. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these employee share options.

The Company issues new shares when employees exercise options. The granted period of option and exercisable ratio are as follows:

Granted period of option Accumulated ratio of exercisable stock option

After 2 years	50%
After 3 years	75%
After 4 years	100%

- C. Details of the share-based payment arrangements are as follows:

	2018		2017	
	No. of options (in thousand)	Weighted- average exercise price (in dollars)	No. of options (in thousand)	Weighted- average exercise price (in dollars)
Options outstanding at January 1	7,266	\$ 54.5	10,000	\$ 57.6
Options exercised	-		(2,734)	54.5
Options outstanding at September 30	<u>7,266</u>	51.6	<u>7,266</u>	54.5
Options exercisable at September 30	<u>7,266</u>		<u>7,266</u>	

- D. As at September 30, 2018, December 31, 2017 and September 30, 2017, the range of exercise prices of stock options outstanding was NT\$51.6, NT\$54.5 and NT\$54.5 (in dollars), respectively; the weighted-average remaining contractual period was 3.125 years, 3.875 years and 4.125 years, respectively.

E. The fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock options	2015.5.27							
-After 2 years		\$ 63.6	\$ 57.6	27.79%	6.0years	4.79%	1.17%	\$ 9.15
-After 3 years		63.6	57.6	27.79%	6.5years	4.79%	1.24%	9.26
-After 4 years		63.6	57.6	27.79%	7.0years	4.79%	1.31%	9.34

Note 1: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash, the appropriation of earnings, issuance of new shares in connection with merger, or issuance of new shares of other companies) in accordance with the employee stock option plan.

Note 2: Expected price volatility was based on the historical average volatility on return of one year before valuation date. The source is from the Taiwan Stock Exchange.

Note 3: The expected life of the share options is based on historical date and current expectations.

F. Expenses incurred on share-based payment transactions are shown below:

	<u>Three-month periods ended September 30,</u>	
	2018	2017
Compensation cost	\$ 2,400	\$ 5,999

	<u>Nine-month periods ended September 30,</u>	
	2018	2017
Compensation cost	\$ 7,297	\$ 18,991

(16) Current provisions

	<u>Maintenance warranties</u>	<u>Sales returns and allowances</u>	<u>Total</u>
At January 1, 2018	\$ 9,566	\$ 103,390	\$ 112,956
Effects of adopting new standards	-	(103,390)	(103,390)
Additional provisions	336	-	336
Used during the period	(267)	-	(267)
Reversal during the period	(8,033)	-	(8,033)
Effect of exchange rate changes	(44)	-	(44)
At September 30, 2018	\$ 1,558	\$ -	\$ 1,558

	<u>Maintenance warranties</u>	<u>Sales returns and allowances</u>	<u>Total</u>
At January 1, 2017	\$ 9,554	\$ 159,185	\$ 168,739
Additional provisions	860	94,009	94,869
Used during the period	(701)	(75,897)	(76,598)
Reversal during the period	-	(72,233)	(72,233)
Effect of exchange rate changes	(26)	(2,925)	(2,951)
At September 30, 2017	\$ 9,687	\$ 102,139	\$ 111,826

A. Maintenance warranties

A provision for maintenance warranties is recognized for expected warranty claims on products sold, based on historical data of warranty and management's judgement. It is expected that \$1,341 of provision for warranty will be used during 2018 and \$217 during 2019.

B. Information on related disclosure on refund liability for the nine-month period ended September 30, 2018 is provided in Note 6(21).

(17) Share capital

A. The Company's authorized capital was \$2,500,000 as at September 30, 2018, December 31, 2017 and September 30, 2017, consisting of 250,000 thousand shares. Paid-in capital were \$2,456,538, \$2,456,538 and \$2,429,198 with par value of NT\$10, respectively. All proceeds from shares issued have been collected.

The change in the Company's share capital to \$3,200,000 was approved in the 2012 general shareholders' meeting. A change in the Company's registration will be filed to reflect this change and a planned capital increase in the future.

B. In order to boost the Company's working capital, repay bank loans, purchase raw materials, and acquire funding needed for long-term development, the shareholders resolved in their meeting held on June 5, 2018 to raise capital by private offering of either common stock or domestic convertible bonds. Private offering of common stock shall not exceed 48,000 thousand shares, and private offering of domestic convertible bonds shall not exceed \$3,000,000. These privately placed common stock will be issued twice within one year of the resolution date. As of the date of the auditor's review report, the aforementioned capital increase had not been completed.

C. Treasury shares

(a) Reasons for the share reacquisition and movements in the number of the Company's treasury shares are follows:

Name of company holding	Reason for reacquisition	September 30, 2018	
		Number of shares (in thousand)	Carrying amount
The company	To be reissued to employees	4,893	\$ 250,205

(b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.

(c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.

(d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired.

(18) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. However, capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	Additional paid-in capital in excess of par, ordinary share	Conversion premium of convertible corporate bonds	Changes in ownership interests in subsidiaries	Employee stock options	Employee restricted stocks
At January 1, 2018	\$ 293,052	\$ 1,382,485	\$ 8,628	\$ 54,618	\$ 25,934
Compensation cost of employee stock options	-	-	-	7,297	-
At September 30, 2018	<u>\$ 293,052</u>	<u>\$ 1,382,485</u>	<u>\$ 8,628</u>	<u>\$ 61,915</u>	<u>\$ 25,934</u>

	Additional paid-in capital in excess of par, ordinary share	Conversion premium of convertible corporate bonds	Changes in ownership interests in subsidiaries	Employee stock options	Employee restricted stocks
At January 1, 2017	\$ 123,521	\$ 1,382,485	\$ 8,137	\$ 77,495	\$ 25,934
Compensation cost of employee stock options	-	-	-	18,991	-
Employee stock options exercised	<u>121,663</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At September 30, 2017	<u>\$ 245,184</u>	<u>\$ 1,382,485</u>	<u>\$ 8,137</u>	<u>\$ 96,486</u>	<u>\$ 25,934</u>

(19) Retained earnings

- A. Under the Company's Articles of Incorporation adopted by the shareholders during their meeting, the current year's earnings, if any, shall first be used to pay all taxes and offset accumulated deficit and then 10% of the remaining amount shall be set aside as legal reserve until the amount of legal reserve is equal to the amount of paid-in capital. After the provision or reversal of special reserve, the appropriation of the remaining earnings along with the unappropriated earnings of prior years and current adjustment on unappropriated earnings as distributable retained earnings, and shall be proposed by the Board of Directors and approved by the shareholders, and appropriated in accordance with the proportion of total share amount.
- B. The policy for dividend distribution should reflect factors such as current and future investment environment, fund requirements, domestic and international competition and capital budgets, as well as the benefit of stockholders, share bonus equilibrium, and long-term financial planning etc. It could be paid in cash or the form of share dividends. Accordingly, at least 10% of the dividends must be paid in the form of cash.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. Special reserve

- (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.
- (c) As of January 1, 2018 and 2017, special reserve set aside for the first-time adoption of IFRSs both amount to \$131,678. Furthermore, the Company did not reverse special reserve to retained earnings during the three-month and nine-month periods ended September 30, 2018 and 2017 as a result of the use, disposal or reclassification of related assets. As of September 30, 2018, December 31, 2017 and September 30, 2017, the amount of special reserve set aside for the first-time adoption of IFRSs all amounted to \$131,678.

E. Details of 2017 and 2016 earnings appropriation resolved by the stockholders on June 5, 2018 and June 22, 2017, respectively, are as follows:

	<u>Year ended December 31, 2017</u>		<u>Year ended December 31, 2016</u>	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Legal reserve appropriated	\$ 131,187		\$ 146,165	
Special reserve appropriated	281,284		-	
Cash dividends	921,201	\$ 3.75	1,020,263	\$ 4.20

Information about the appropriation of retained earnings of the Company as approved by the Board of Directors and resolved by the shareholders' will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

F. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(26).

(20) Other equity items

	Currency translation differences	Unrealised gains (losses) on financial assets at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Gains (losses) on hedging instruments	Total
At January 1, 2018	(\$ 210,063)	\$ -	\$ 16,188	(\$ 219,087)	\$ -	(\$ 412,962)
Effects of adopting new standards	-	13,486	(16,188)	219,087	(219,087)	(2,702)
After adjusted on January 1	(210,063)	13,486	-	-	(219,087)	(415,664)
Currency translation differences:						
–Group	(170,272)	-	-	-	-	(170,272)
–Tax on Group	(23,333)	-	-	-	-	(23,333)
Valuation adjustment	-	(6,199)	-	-	-	(6,199)
Revaluation – tax	-	98	-	-	-	98
Gains (losses) on hedging instruments:						
-Gain (loss) on fair value	-	-	-	-	136,855	136,855
– Tax on fair value gains (losses)	-	-	-	-	(12,508)	(12,508)
-Transfers to sales of goods	-	-	-	-	144,773	144,773
At September 30, 2018	(\$ 403,668)	\$ 7,385	\$ -	\$ -	\$ 50,033	(\$ 346,250)

	Currency translation differences	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total
At January 1, 2017	(\$ 159,161)	\$ 13,079	\$ 300,061	\$ 153,979
Currency translation differences:				
–Group	(70,136)	-	-	(70,136)
–Tax on Group	(3,767)	-	-	(3,767)
Valuation adjustment	-	1,031	-	1,031
Cash flow hedges:				
-Loss on fair value	-	-	(513,423)	(513,423)
– Tax on fair value losses	-	-	55,077	55,077
-Transfers to sales of goods	-	-	(74,574)	(74,574)
At September 30, 2017	(\$ 233,064)	\$ 14,110	(\$ 232,859)	(\$ 451,813)

(21) Operating revenue

A. Disaggregation of revenue from contracts with customers

Sales are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions:

<u>Three-month period ended September 30, 2018</u>	<u>Taiwan</u>	<u>China</u>	<u>All other segments</u>	<u>Reconciliation and elimination</u>	<u>Total</u>
Revenue from external customer contracts	\$ 6,496,914	\$ 1,629,978	\$ 392,390	\$ -	\$ 8,519,282
Inter-segment revenue	368,209	6,201,558	60,592	(6,630,359)	-
Total segment revenue	<u>\$ 6,865,123</u>	<u>\$ 7,831,536</u>	<u>\$ 452,982</u>	<u>(\$ 6,630,359)</u>	<u>\$ 8,519,282</u>
Merchandise types					
Wireless networking products	\$ 6,345,901	\$ 7,324,281	\$ 534,053	(\$ 6,476,603)	\$ 7,727,632
Wired networking products	478,858	469,531	1,903	(249,167)	701,125
Others	40,364	37,724	(82,974)	(95,411)	90,525
	<u>\$ 6,865,123</u>	<u>\$ 7,831,536</u>	<u>\$ 452,982</u>	<u>(\$ 6,630,359)</u>	<u>\$ 8,519,282</u>
 <u>Nine-month period ended September 30, 2018</u>	 <u>Taiwan</u>	 <u>China</u>	 <u>All other segments</u>	 <u>Reconciliation and elimination</u>	 <u>Total</u>
Revenue from external customer contracts	\$17,549,793	\$ 5,289,058	\$ 943,615	\$ -	\$ 23,782,466
Inter-segment revenue	877,207	16,973,854	155,734	(18,006,795)	-
Total segment revenue	<u>\$18,427,000</u>	<u>\$22,262,912</u>	<u>\$ 1,099,349</u>	<u>(\$ 18,006,795)</u>	<u>\$23,782,466</u>
Merchandise types					
Wireless networking products	\$16,631,625	\$20,892,097	\$ 1,090,577	(\$ 17,149,291)	\$ 21,465,008
Wired networking products	1,629,540	1,265,235	8,060	(833,883)	2,068,952
Others	165,835	105,580	712	(23,621)	248,506
	<u>\$18,427,000</u>	<u>\$22,262,912</u>	<u>\$ 1,099,349</u>	<u>(\$ 18,006,795)</u>	<u>\$23,782,466</u>

B. Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	<u>September 30, 2018</u>
Sales contract	<u>\$ 86,889</u>

(a) Significant changes in contract liabilities

The Group's contract liabilities significantly decreased due to the customer no longer placing orders since it was merged with another company.

(b) Revenue recognised that was included in the contract liability balance at the beginning of the period

	<u>Three-month period ended September 30, 2018</u>	<u>Nine-month period ended September 30, 2018</u>
Sales contract	<u>\$ 4,364</u>	<u>\$ 61,709</u>

C. Refund liabilities

Sales revenue was recognised based on contract price net of sales discounts and allowances. The merchandise is often sold with sales discounts and allowances based on aggregate sales over a 12-month period. Accumulated experience is used to estimate and provide for the sales discounts and allowances, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. The payment terms for sales are normally 30 to 210 days after delivery. The time between the transfer of promised goods or services to the client and collection of

payment does not exceed one year. Therefore, the Group does not adjust the transaction price to reflect the time value of money.

	<u>September 30, 2018</u>
Refund liabilities	<u>\$ 128,755</u>

D. Related disclosures for the three-month and nine-month periods ended September 30, 2018 operating revenue are provided in Note 12(5).

(22) Other income

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest income	\$ 14,731	\$ 21,368
Rental revenue	62	139
Dividend income	32,365	117
Gain on write-off of past due payable	4,112	-
Others	<u>7,668</u>	<u>6,142</u>
	<u>\$ 58,838</u>	<u>\$ 27,766</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest income	\$ 45,303	\$ 54,408
Rental revenue	293	843
Dividend income	32,365	117
Gain on write-off of past due payable	4,112	-
Others	<u>24,782</u>	<u>17,924</u>
	<u>\$ 106,755</u>	<u>\$ 73,292</u>

(23) Other gains and losses

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Gains on disposals of intangible assets other than goodwill	\$ -	\$ -
Net losses on financial assets/ liabilities at fair value through profit or loss	(51,542)	(1,389)
Net currency exchange (losses) gains	(9,021)	4,886
Gains on disposals of property, plant and equipment	-	654
Losses on disposals of investments	-	(667)
Others	<u>(2,273)</u>	<u>(309)</u>
	<u>(\$ 62,836)</u>	<u>\$ 3,175</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Gains on disposals of intangible assets other than goodwill	\$ 99,020	\$ -
Net (losses) gains on financial assets/ liabilities at fair value through profit or loss	(12,901)	3,239
Net currency exchange (losses) gains	(15,043)	4,194
Gains on disposals of property, plant and equipment	3	1,743
Losses on disposals of investments	-	(1,220)
Others	(3,097)	(1,157)
	<u>\$ 67,982</u>	<u>\$ 6,799</u>

For the information relating to the gains on disposal of patent rights, please refer to Note 6 (2).

(24) Finance costs

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest expense		
-Bank borrowings	\$ 19,729	\$ 15,625
-Finance lease liabilities	595	666
	<u>\$ 20,324</u>	<u>\$ 16,291</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest expense		
-Bank borrowings	\$ 49,294	\$ 40,915
-Finance lease liabilities	1,838	2,050
	<u>\$ 51,132</u>	<u>\$ 42,965</u>

(25) Expenses by nature

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Employee benefit expense	\$ 919,217	\$ 827,286
Depreciation charges on property, plant and equipment	126,903	117,136
Amortisation charges on intangible assets	25,039	22,357
	<u>\$ 1,071,159</u>	<u>\$ 966,779</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Employee benefit expense	\$ 2,631,964	\$ 2,315,313
Depreciation charges on property, plant and equipment	373,669	341,954
Amortisation charges on intangible assets	67,191	61,249
	<u>\$ 3,072,824</u>	<u>\$ 2,718,516</u>

(26) Employee benefit expense

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Wages and salaries	\$ 778,809	\$ 681,770
Labour and health insurance fees	30,634	30,459
Pension costs	56,989	58,151
Directors' and supervisors' remuneration	5,926	12,810
Other personnel expenses	46,859	44,096
	<u>\$ 919,217</u>	<u>\$ 827,286</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Wages and salaries	\$ 2,231,156	\$ 1,896,334
Labour and health insurance fees	84,658	88,111
Pension costs	168,255	174,551
Directors' and supervisors' remuneration	16,760	29,300
Other personnel expenses	131,135	127,017
	<u>\$ 2,631,964</u>	<u>\$ 2,315,313</u>

- A. According to the Articles of Incorporation, 12%-18% of profit of the current year is distributable as employees' compensation and no higher than 2.5% of profit of the current year is distributable as remuneration to directors. Qualification requirements of employees include the employees of subsidiaries of the company meeting certain specific requirements. If the Company has accumulated deficit, earnings should be reserved to cover losses. Independent directors did not participate in the abovementioned distribution of directors' remuneration.
- B. For the three-month and nine-month periods ended September 30, 2018 and 2017, employees' compensation was accrued at \$43,676, \$82,942, \$108,529 and \$192,618, respectively; directors' remuneration was accrued at \$5,824, \$11,058, \$14,471 and \$25,682, respectively. The aforementioned amounts were recognised in salary expenses.

For the nine-month periods ended September 30, 2018 and 2017, the employees' compensation and directors' remuneration were estimated and accrued based on 15% and 2% of distributable profit of current year as of the end of reporting period.

The 2017 employees' compensation and directors' remuneration as resolved by the Board of Directors amounted to \$266,139 and \$28,861, respectively, which are in agreement with the total amount of 2017 employees' compensation and directors' remuneration on the financial

statements. The employees' compensation and directors' remuneration will be distributed in the form of cash.

Information about employees' compensation and directors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(27) Income tax

A. Income tax expense

(a) Components of income tax expense:

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Current tax:		
Current tax on profits for the period	\$ 97,968	\$ 110,104
Prior year income tax (over) underestimation	(28,583)	(12,040)
Total current tax	<u>69,385</u>	<u>98,064</u>
Deferred tax:		
Origination and reversal of temporary differences	(29,332)	(12,300)
Deferred tax related with origination and reversal of tax loss and tax credit	-	(59)
Impact of change in tax rate	<u>-</u>	<u>-</u>
Total deferred tax	<u>(29,332)</u>	<u>(12,359)</u>
Income tax expense	<u>\$ 40,053</u>	<u>\$ 85,705</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Current tax:		
Current tax on profits for the period	\$ 181,139	\$ 240,014
Prior year income tax (over) underestimation	<u>5,914</u>	<u>(57,232)</u>
Total current tax	<u>187,053</u>	<u>182,782</u>
Deferred tax:		
Origination and reversal of temporary differences	(28,256)	38,792
Deferred tax related with origination and reversal of tax loss and tax credit	-	(9,571)
Impact of change in tax rate	<u>(18,565)</u>	<u>-</u>
Total deferred tax	<u>(46,821)</u>	<u>29,221</u>
Income tax expense	<u>\$ 140,232</u>	<u>\$ 212,003</u>

- (b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Currency translation differences	\$ -	\$ 11,472
(Losses) gains on effective portion of cash flow hedges	(43,730)	2,998
Impact of change in tax rate	-	-
	<u>(\$ 43,730)</u>	<u>\$ 14,470</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Currency translation differences	\$ 23,333	\$ 3,767
(Losses) gains on effective portion of cash flow hedges	12,508	(55,077)
Impact of change in tax rate	(996)	-
	<u>\$ 34,845</u>	<u>(\$ 51,310)</u>

B. Assessment and approval of income tax by the Tax Authority:

	<u>Assessment and approval of income tax returns</u>
The Company	2016
Shukuan Investment Ltd.	2015

- C. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(28) Earnings per share

	<u>Three-month period ended September 30, 2018</u>		
		Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>	<u>Amount after tax</u>		
Profit attributable to the parent	\$ 184,258	245,110	<u>\$ 0.75</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employee stock options	-	507	
Employees' compensation	-	874	
Profit attributable to the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 184,258</u>	<u>246,491</u>	<u>\$ 0.75</u>

<u>Three-month period ended September 30, 2017</u>			
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 388,920	242,920	<u>\$ 1.60</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employee stock options	-	2,246	
Employees' compensation	-	2,312	
Profit attributable to the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 388,920</u>	<u>247,478</u>	<u>\$ 1.57</u>

<u>Nine-month period ended September 30, 2018</u>			
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 507,343	245,110	<u>\$ 2.07</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employee stock options	-	1,797	
Employees' compensation	-	2,999	
Profit attributable to the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 507,343</u>	<u>249,906</u>	<u>\$ 2.03</u>

<u>Nine-month period ended September 30, 2017</u>			
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 935,883	242,920	<u>\$ 3.85</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employee stock options	-	2,246	
Employees' compensation	-	3,828	
Profit attributable to the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 935,883</u>	<u>248,994</u>	<u>\$ 3.76</u>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issuance.

7. RELATED PARTY TRANSACTIONS

Key management compensation

<u>Three-month periods ended September 30,</u>		
	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 82,812	\$ 73,932
Post-employment benefits	501	473
Share-based payment	2,399	1,567
	<u>\$ 85,712</u>	<u>\$ 75,972</u>

<u>Nine-month periods ended September 30,</u>		
	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 130,609	\$ 119,463
Post-employment benefits	1,464	1,429
Share-based payment	7,296	4,961
	<u>\$ 139,369</u>	<u>\$ 125,853</u>

8. PLEDGED ASSETS

The Group's assets pledged as custom duty guarantee and performance guarantee are as follows:

<u>Pledged asset</u>	<u>Book value</u>			<u>Purpose</u>
	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>	
Guarantee deposits paid	\$ 11,972	\$ 8,728	\$ 8,728	Custom duty guarantee and performance guarantee
Restricted assets-current (shown as other current assets)	182,330	-	-	Bank acceptance bill
	<u>\$ 207,520</u>	<u>\$ 8,728</u>	<u>\$ 8,728</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

A. The Company has entered into agreements with overseas customers. The agreement provided that the overseas customer was required to pay a fee toward specified items prescribed in the agreement and the Company shall be liable for any third party infringement claims. The amount received has been deposited in a trust fund set up by the Company. The Company recognized the trust fund as other financial assets-noncurrent and other current liabilities.

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Other non-current financial assets	\$ 167,994	\$ 166,794	\$ 166,369
Other current liabilities	157,709	157,709	157,709

As of September 30, 2018, December 31, 2017 and September 30, 2017, the accumulated interest of the trust fund assets was recognised as 'other financial assets-noncurrent' in the amounts of \$10,285, \$9,085 and \$8,660, respectively.

B. The Group has entered into non-cancellable operating leases on certain plant, office and equipment. The lease periods are from one to five years with the renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases. Future minimum rentals payable under non-cancellable operating leases are as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Not later than one year	\$ 82,522	\$ 84,348	\$ 27,525
Later than one year but not later than five years	106,594	148,002	97,714
Later than five years	-	-	694
	<u>\$ 189,116</u>	<u>\$ 232,350</u>	<u>\$ 125,933</u>

C. As of September 30, 2018, the amount of contracted but not yet paid instruments, equipment and construction was \$28,260.

D. The amounts of Performance Letters of Guarantee issued by banks for the purpose of the research project of Industrial Development Bureau, Ministry of Economic Affairs and shipment guarantee are as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
NTD	\$ 11,972	\$ 40,192	\$ 24,248
EUR (in thousands)	2,627	2,627	2,500

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

(2) Financial instruments

A. Financial instruments by category

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
<u>Financial assets</u>			
Financial assets at fair value through profit or loss			
Financial assets mandatorily measured at fair value through profit or loss	\$ 539,554	\$ 24,121	\$ 25,472
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	\$ 375,628	\$ -	\$ -
Available-for-sale financial assets			
Available-for-sale financial assets	\$ -	\$ 23,632	\$ 21,554
Financial assets at cost	-	60,120	63,375
	<u>\$ -</u>	<u>\$ 83,752</u>	<u>\$ 84,929</u>
Financial assets at amortised cost/Loans and receivables			
Cash and cash equivalents (excluding cash on hand)	\$ 5,207,860	\$ 6,481,519	\$ 5,933,907
Notes receivable, net	630,893	912,670	864,036
Accounts receivable, net	5,251,971	6,287,648	6,412,367
Other receivables	444,983	339,523	326,581
Guarantee deposits paid	60,654	48,534	34,837
Other financial assets	167,994	166,794	166,369
	<u>\$ 11,764,355</u>	<u>\$ 14,236,688</u>	<u>\$ 13,738,097</u>
Derivative financial assets for hedging	\$ 67,784	\$ -	\$ -

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Financial liabilities</u>			
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	\$ 5,886	\$ 12,606	\$ 425
Financial liabilities at amortised cost			
Short-term borrowings	3,362,725	1,876,361	2,605,950
Notes payable	930,670	-	-
Accounts payable	8,852,103	11,467,382	10,960,344
Other payables	2,454,083	3,032,039	2,773,511
Finance lease liabilities (including current portion)	117,103	127,878	131,425
Guarantee deposits received	5,120	4,254	4,232
	<u>\$ 15,721,804</u>	<u>\$ 16,507,914</u>	<u>\$ 16,475,462</u>
Derivative financial liabilities for hedging	<u>\$ 5,243</u>	<u>\$ -</u>	<u>\$ -</u>
Hedged derivative financial liabilities	<u>\$ -</u>	<u>\$ 217,162</u>	<u>\$ 246,378</u>

B. Financial risk management policies

- The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.
- The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.
- To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts are used to hedge certain exchange rate risk, and interest rate swaps are used to fix variable future cash flows. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments. Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Note 6(2) and (4).

C. Significant financial risks and degrees of financial risks

(a) Market risk

Exchange rate risk

- The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and EUR. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.
- The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria.

- iii. The Group's risk management policy is to hedge anticipated cash flows from sales in EUR for the subsequent year.
- iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD, EUR and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

September 30, 2018			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 586,998	4.44	\$ 2,606,065
USD:NTD	119,013	30.55	3,635,969
EUR:NTD	22,691	35.50	805,480
RUB:NTD	668,696	0.47	311,278
JPY:NTD	531,752	0.27	143,254
<u>Non-monetary items</u>			
USD:NTD	\$ 3,213	30.55	\$ 98,167
EUR:NTD	840	35.50	29,818
GBP:NTD	600	39.90	23,942
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 457,625	4.44	\$ 2,031,693
USD:NTD	64,552	30.55	1,972,125
EUR:NTD	28,000	35.50	993,922
USD:RMB	172,354	6.88	1,186,038
December 31, 2017			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 1,099,875	4.58	\$ 5,041,302
USD:NTD	224,006	29.85	6,686,112
EUR:NTD	20,751	4.58	740,270
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 1,122,296	4.58	\$ 5,144,086
USD:NTD	258,943	29.85	7,728,919
EUR:NTD	25,000	4.58	891,428

September 30, 2017			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 888,645	4.56	\$ 4,051,509
USD:NTD	257,713	30.31	7,810,015
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 748,608	4.56	3,413,055
USD:NTD	286,939	30.31	8,695,680
EUR:NTD	25,000	35.74	893,543

- v. It is not applicable to disclose the exchange gains or losses for each functional currency due to the fact that the functional currencies used by the Group's entities are diverse.
- vi. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the three-month and nine-month periods ended September 30, 2018 and 2017, amounted to (\$9,021), \$4,886, (\$15,043) and \$4,194, respectively.
- vii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Nine-month period ended September 30, 2018				
Sensitivity analysis				
	Degree of variation		Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>				
<u>Monetary items</u>				
RMB:NTD	1%	\$	26,061	\$ -
USD:NTD	1%		36,360	-
EUR:NTD	1%		8,055	-
RUB:NTD	1%		3,113	-
JPY:NTD	1%		1,433	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
RMB:NTD	1%	\$	20,317	\$ -
USD:NTD	1%		19,721	-
EUR:NTD	1%		9,939	-
USD:RMB	1%		11,860	-

Nine-month period ended September 30, 2017			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
RMB:NTD	1%	\$ 40,515	\$ -
USD:NTD	1%	78,100	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	1%	\$ 34,131	\$ -
USD:NTD	1%	86,957	-
EUR:NTD	1%	8,935	-

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.
- ii. The Group's investments in equity securities comprise shares issued by the domestic and foreign companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the nine-month period ended September 30, 2018 would have increased/decreased by \$5,234 and \$230, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other comprehensive income would have increased/decreased by \$3,636 and \$216.

Cash flow and fair value interest rate risk

- i. The Group's main interest rate risk arises from short-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. As of September 30, 2018 and 2017, the Group's borrowings at variable rate were mainly denominated in New Taiwan dollars.
- ii. The Group's borrowings are measured at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.
- iii. If the borrowing interest rate had increased/decreased by 1% with all other variables held constant, profit, net of tax for the nine-month periods ended September 30, 2018 and 2017 would have increased/decreased by \$20,176 and \$15,636, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost and at fair value through profit or loss.
- ii. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain customers' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.
- iii. Credit risk from balances with banks and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions with high credit rating.
- iv. The Group adopted assumptions under IFRS 9 to judge whether there is any evidence that the credit risk of financial instruments has been significantly increased after initial recognition. If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.

- v. The following indicators are used to determine whether the credit impairment of financial assets has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) Default.
- vi. The Group classifies customers' accounts receivable in accordance with customer types. The Group applies the simplified approach using provision matrix or loss rate methodology to estimate expected credit loss.
- vii. The Group used the forecastability of Taiwan Institute of Economic Research report to adjust historical and timely information to assess the default possibility of accounts receivable. On September 30, 2018, the provision matrix is as follows:

	Without past due	Up to 30 days	Up to 31-90 days	Up to 91 to 180 days	Over 180 days	Total
<u>Group 1</u>						
Expected loss rate	0.05%	0.53%	4.36%	8.95%	100%	
Total book value	\$ 4,768,961	\$ 216,327	\$ 127,802	\$ 25,187	\$ 186	\$ 5,138,463
Loss allowance	\$ 2,550	\$ 1,157	\$ 5,577	\$ 2,255	\$ 186	\$ 11,725
<u>Group 2</u>						
Expected loss rate	0.69%	37.10%	37.09%	100%	100%	
Total book value	\$ 112,643	\$ 4,811	\$ 1,809	\$ 73	\$ -	\$ 119,336
Loss allowance	\$ 773	\$ 1,785	\$ 671	\$ 73	\$ -	\$ 3,302
Total book value	\$ 4,881,604	\$ 221,138	\$ 129,611	\$ 25,260	\$ 186	\$ 5,257,799
Loss allowance	\$ 3,323	\$ 2,942	\$ 6,248	\$ 2,328	\$ 186	\$ 15,027

Note: Customer types that are classified based on the Group's credit risk management policy are as follows:

Group 1: The customers have been insured by professional insurance agency.

Group 2: The customers have not been insured by professional insurance agency.

Considering that the accounts receivable are insured, the Group derecognized the impairment loss amounting to \$9,199 as of September 30, 2018.

xiii. Movements in relation to the Group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

At January 1, 2018_IAS 39	\$ 9,219
Adjustments under new standards	-
At January 1, 2018_IFRS 9	9,219
Reversal of impairment loss	(3,353)
Effect of exchange rate changes	(38)
At September 30, 2018	\$ 5,828

ix. For the nine-month period ended September 30, 2017, credit risk information is provided in Note 12(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets.
- ii. The Group invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

iii. The Group has the following undrawn borrowing facilities:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Floating rate:			
Expiring within one year	\$ <u>6,895,944</u>	\$ <u>7,702,197</u>	\$ <u>8,438,698</u>

iv. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

<u>September 30, 2018</u>	<u>Within 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities</u>				
Short-term borrowings	\$ 3,369,240	\$ -	\$ -	\$ -
Notes payable	930,670			
Accounts payable	8,852,103	-	-	-
Other payables	2,454,083	-	-	-
Finance lease liabilities	16,298	16,298	104,219	-
<u>Derivative financial liabilities</u>				
Forward foreign exchange contracts	5,124	-	-	-
Cross currency swap	762	-	-	-
<u>December 31, 2017</u>	<u>Within 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities</u>				
Short-term borrowings	\$ 1,880,552	\$ -	\$ -	\$ -
Accounts payable	11,467,382	-	-	-
Other payables	3,032,039	-	-	-
Finance lease liabilities	16,298	16,298	48,895	67,547
<u>Derivative financial liabilities</u>				
Forward foreign exchange contracts	8,032	-	-	-
Cross currency swap	4,574			

September 30, 2017	<u>Within 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities</u>				
Short-term borrowings	\$ 2,610,723	\$ -	\$ -	\$ -
Accounts payable	10,960,344	-	-	-
Other payables	2,773,511	-	-	-
Finance lease liabilities	16,298	16,298	48,895	71,622
<u>Derivative financial liabilities</u>				
Forward foreign exchange contracts	138	-	-	-
Cross currency swap	287	-	-	-

The Group did not expect the occurrence timing of cash flow of expiry date analysis would be significantly earlier, or the actual amount would significantly differ.

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in certain derivative instruments is included in Level 1.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in convertible corporate bonds and equity investment without active market and investment property is included in Level 3.

B. Financial instruments not measured at fair value

(a) Except for those listed in the table below, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, other current assets, short-term borrowings, notes payable, accounts payable, other payables and other current liabilities are approximate to their fair values.

	September 30, 2018			
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial liabilities:				
Finance lease liabilities (including current portion)	\$ 117,103	\$ -	\$ -	\$ 136,815

December 31, 2017				
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial liabilities:				
Finance lease liabilities (including current portion)	\$ 128,878	\$ -	\$ -	\$ 149,038
September 30, 2017				
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial liabilities:				
Finance lease liabilities (including current portion)	\$ 131,425	\$ -	\$ -	\$ 153,113

- (b) Finance lease liabilities: They are measured at present value, which is calculated based on the cash flow expected to be paid and discounted using a market rate prevailing at balance sheet date.

C. Financial instruments and non-financial instruments measured at fair value

- (a) The related information of natures of the assets and liabilities is as follows:

September 30, 2018	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Listed stocks	\$ 474,614	\$ -	\$ -	\$ 474,614
Unlisted stocks	-	-	32,891	32,891
Convertible bonds	-	-	28,088	28,088
Forward foreign exchange contracts	-	3,961	-	3,961
Financial assets for hedging				
Forward foreign exchange contracts	-	67,784	-	67,784
Financial assets at fair value through other comprehensive income				
Listed stocks	293,360	-	-	293,360
Unlisted stocks	-	-	82,268	82,268
	<u>\$ 767,974</u>	<u>\$ 71,745</u>	<u>\$ 143,247</u>	<u>\$ 982,966</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	\$ -	\$ 5,124	\$ -	\$ 5,124
Cross currency swap	-	762	-	762
Financial liabilities for hedging				
Forward foreign exchange contracts	-	5,243	-	5,243
	<u>\$ -</u>	<u>\$ 11,129</u>	<u>\$ -</u>	<u>\$ 11,129</u>

December 31, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Convertible bonds	\$ -	\$ -	\$ 24,121	\$ 24,121
Available-for-sale financial assets				
Equity securities	-	-	23,632	23,632
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,753</u>	<u>\$ 47,753</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	\$ -	\$ 8,032	\$ -	\$ 8,032
Cross currency swap	-	4,574	-	4,574
Derivative financial liabilities for hedging				
Forward foreign exchange contracts	-	217,162	-	217,162
	<u>\$ -</u>	<u>\$ 229,768</u>	<u>\$ -</u>	<u>\$ 229,768</u>
September 30, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Convertible bonds	\$ -	\$ -	\$ 23,868	\$ 23,868
Cross currency swap	-	1,604	-	1,604
Available-for-sale financial assets				
Equity securities	-	-	21,554	21,554
	<u>\$ -</u>	<u>\$ 1,604</u>	<u>\$ 45,422</u>	<u>\$ 47,026</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	\$ -	\$ 138	\$ -	\$ 138
Cross currency swap	-	287	-	287
Derivative financial liabilities for hedging				
Forward foreign exchange contracts	-	246,378	-	246,378
	<u>\$ -</u>	<u>\$ 246,803</u>	<u>\$ -</u>	<u>\$ 246,803</u>

(b) The methods and assumptions the Group used to measure fair value are as follows:

- i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Closed-end fund</u>	<u>Open-end fund</u>	<u>Government bonds</u>	<u>Corporate bonds</u>	<u>Convertible (exchangeable) bond</u>
Market quoted price	Closing price	Closing price	Net asset value	Transaction price	Weighted average quoted price	Closing price

- ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).
- iii. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, interest rate swap contracts, foreign exchange swap contracts and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- iv. For high-complexity financial instruments, the fair value is measured by using self-developed valuation model based on the valuation method and technique widely used within the same industry. The valuation model is normally applied to derivative financial instruments, debt instruments with embedded derivatives or securitised instruments. Certain inputs used in the valuation model are not observable at market, and the Group must make reasonable estimates based on its assumptions. The effect of unobservable inputs to the valuation of financial instruments is provided in Note 12(3) I.
- v. The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate. Structured interest derivative instruments are measured by using appropriate option pricing models (i.e. Black-Scholes model) or other valuation methods, such as Monte Carlo simulation.
- vi. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of

financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

- vii. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

D. For the nine-month periods ended September 30, 2018 and 2017, there was no transfer between Level 1 and Level 2.

E. The following chart is the movement of Level 3 for the nine-month periods ended September 30, 2018 and 2017:

	<u>Convertible bonds</u>	<u>Equity securities</u>	<u>Total</u>
At January 1, 2018	\$ 24,121	\$ 23,632	\$ 47,753
Effects of adoption of new standards	-	60,120	60,120
Balance at January 1 after adjustment	24,121	83,752	107,873
Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income	- (1,484)	(1,484)	(1,484)
Acquired during the period	3,967	32,891	36,858
At September 30, 2018	<u>\$ 28,088</u>	<u>\$ 115,159</u>	<u>\$ 143,247</u>

	<u>Convertible bonds</u>	<u>Equity securities</u>	<u>Total</u>
At January 1, 2017	\$ -	\$ 25,672	\$ 25,672
Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income	- (4,118)	(4,118)	(4,118)
Acquired during the period	23,868	-	23,868
At September 30, 2017	<u>\$ 23,868</u>	<u>\$ 21,554</u>	<u>\$ 45,422</u>

F. For the nine-month periods ended September 30, 2018 and 2017, there was no transfer into or out from Level 3.

G. Treasury segment is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at September 30, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 115,159	Market comparable companies	Discount for lack of marketability	15%~30%	The higher the discount for lack of marketability, the lower the fair value
Hybrid instrument:					
Convertible bonds	\$ 28,088	Market comparable companies and binomial model	Volatility	40.85%	The higher the volatility, the higher the fair value
	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 23,632	Market comparable companies	Discount for lack of marketability	15%~30%	The higher the discount for lack of marketability, the lower the fair value
Hybrid instrument:					
Convertible bonds	\$ 24,121	Market comparable companies and binomial model	Volatility	40.85%	The higher the volatility, the higher the fair value
	Fair value at September 30, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 21,554	Market comparable companies	Discount for lack of marketability	15%~30%	The higher the discount for lack of marketability, the lower the fair value
Hybrid instrument:					
Convertible bonds	\$ 23,868	Market comparable companies and binomial model	Volatility	40.85%	The higher the volatility, the higher the fair value

I. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

		September 30, 2018					
				<u>Recognised in profit or loss</u>		<u>Recognised in other comprehensive income</u>	
				<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
	<u>Input</u>	<u>Change</u>					
Financial assets							
Equity instruments	Liquidity	±5%	\$	7	\$ 7	\$ 1,117	\$ 1,117
Hybrid instrument	Volatility	±5%		1,918	1,279	-	-
			\$	1,925	\$ 1,286	\$ 1,117	\$ 1,117
		December 31, 2017					
				<u>Recognised in profit or loss</u>		<u>Recognised in other comprehensive income</u>	
				<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
	<u>Input</u>	<u>Change</u>					
Financial assets							
Equity instruments	Liquidity	±5%	\$	-	\$ -	\$ 1,390	\$ 1,390
Hybrid instrument	Volatility	±5%		1,918	1,279	-	-
			\$	1,918	\$ 1,279	\$ 1,390	\$ 1,390
		September 30, 2017					
				<u>Recognised in profit or loss</u>		<u>Recognised in other comprehensive income</u>	
				<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
	<u>Input</u>	<u>Change</u>					
Financial assets							
Equity instruments	Liquidity	±5%	\$	-	\$ -	\$ 1,078	\$ 1,078

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summaries of adopting significant accounting policies for the nine-month period ended September 30, 2017

(a) Financial instruments

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

Financial assets and financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

i. Financial assets

The Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

A financial asset is classified as held for trading if:

- (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (i) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- (i) significant financial difficulty of the issuer or obligor; or
- (ii) A breach of contract, such as a default or delinquency in interest or principal payments; or
- (iii) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (iv) the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the

present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

ii. Financial liabilities and equity instruments

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Compound instruments

The Group evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Group assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the rate of interest applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled.

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IAS 39 Financial Instruments: Recognition and Measurement.

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

Financial liabilities

Financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (i) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

iii. Derivative financial instruments

The Group uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

iv. Hedge accounting

The Group uses derivative financial instruments to hedge for:

- (i) Classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (Fair value hedge)
- (ii) Assets or liabilities recognized, and highly expected transaction related to cash flow (Cash flow hedge)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The gain or loss from effective hedge portion of the hedging instruments is recognized in equity and the ineffective portion is recognized in profit and loss.

When the hedged transaction affects profit or loss, the amount recognized in equity will be transferred to profit or loss. When the hedged item is a non-financial asset or liability, the amount recognized in equity will be transferred to the original carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is reclassified to profit or loss. If the hedging instrument expires, or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in equity remains in equity until the forecast transaction or firm commitment affects profit or loss.

B. The reconciliation of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

	Measured at fair value through profit or loss	Available-for- sale financial assets-equity	Financial assets at cost	Total	Retained earnings	Effects Unrealised gains (losses) on financial assets at fair value through other comprehensive income
IAS 39	\$ -	\$ 23,632	\$ 60,120	\$ 83,752	\$ 2,417,027	\$ 16,188
Transferred into and measured at fair value through other comprehensive income-equity	83,752 (	23,632) (	60,120)	-	-	-
Impairment loss adjustment	-	-	-	-	3,254 (	3,254)
Income tax adjustment	-	-	-	-	(552)	522
IFRS 9	<u>\$ 83,752</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,752</u>	<u>\$ 2,419,729</u>	<u>\$ 13,486</u>

Under IAS 39, because the equity instruments, which were classified as: available-for-sale financial assets and financial assets at cost, amounting to \$23,632 and \$60,120, respectively, were not held for the purpose of trading, they were reclassified as "financial assets at fair value

through other comprehensive income (equity instruments)" amounting to \$83,752, increased retained earnings and decreased other equity interest in the amounts of \$2,702 and \$2,702, respectively, on initial application of IFRS 9.

C. Summaries of adopting significant accounting policies on September 30, 2017 and for the three-month period ended September 30, 2017

(a) Available-for-sale financial assets - non-current

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Stocks	\$ 7,444	\$ 7,444
Valuation adjustment	<u>16,188</u>	<u>14,110</u>
	<u>\$ 23,632</u>	<u>\$ 21,554</u>

The Group has no available-for-sale financial assets pledged to others.

(b) Financial assets measured at cost - non-current

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Available-for-sale financial assets		
Stocks	\$ 63,375	\$ 63,375
Less: Accumulated impairment	<u>(3,255)</u>	<u>-</u>
	<u>\$ 60,120</u>	<u>\$ 63,375</u>

i. The range of the reasonable estimation of the fair value of the aforementioned investments in the equity of unlisted companies is large, and the probability of each estimated value cannot be reasonably measured. Therefore these investment are measured at cost, and not at fair value.

ii. The Group has no financial assets measured at cost pledged to others.

(c) Derivative financial liabilities for hedging – current

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Derivative financial assets for hedging	<u>\$ -</u>	<u>\$ -</u>
Derivative financial liabilities for hedging	<u>(\$ 217,162)</u>	<u>(\$ 246,378)</u>

i. The items hedged by foreign currency forwards are highly probable forecast transactions denominated in foreign currency, and are expected to occur on unspecified dates in the next twelve months. Adjustments included in other comprehensive income as of September 30, 2017, are expected to be reclassified to profit or loss when the effect of the acquired hedged asset or the assumed hedged liability on profit or loss is recognised. The majority of the Group's cash flow hedges are effective hedges. As a result, the gains or losses recognized on ineffective cash flow hedges for the nine-month period ended September 30, 2017 were not material. The credit quality of the financial institutions with which the Group has entered into derivative transaction is good. The maximum exposure to credit risk at the reporting date is the carrying amount of the hedging financial derivatives.

ii. Cash flow hedges

	<u>Hedged items</u>	<u>Designated as hedging instruments</u>		<u>Period of anticipated cash flow</u>	<u>Period of gain (loss) expected to be recognised in profit or loss</u>
		<u>Derivative instruments designated as hedges</u>	<u>Fair value</u>		
December 31, 2017	Expected transaction	Forward foreign exchange contracts	(\$ 217,162)	2018.01~2018.12	2018.01~2018.12
September 30, 2017	Expected transaction	Forward foreign exchange contracts	(\$ 246,378)	2017.10~2018.12	2017.10~2018.12

Adjustments included in other comprehensive income will be reclassified to profit or loss (sales revenue) when the effect of the acquired hedged asset or the assumed hedged liability on profit or loss is recognised. For the nine-month period ended September 30, 2017, the amount reclassified from other comprehensive income to profit or loss was \$ 74,574.

iii. Information in relation to unmatured contracts is as follows:

		<u>Currency</u>	<u>Anticipated cash flow and maturity</u>	<u>Contract amount</u>
December 31, 2017	Forward foreign exchange contracts	Sell EUR and buy USD	2018.01.19~2018.12.24	EUR 113,000,000
September 30, 2017	Forward foreign exchange contracts	Sell EUR and buy USD	2017.10.13~2018.12.24	EUR 150,000,000

D. Credit risk information on September 30, 2017 and for the nine-month period ended September 30, 2017 are as follows:

- Credit risk refers to the risk of financial loss to the Group arising from default by the counterparties on the contract obligations. The Group's credit risk arises from operations (primarily accounts and notes receivable) and financial transactions (primarily bank deposits and other financial instruments).
- Every sales unit follows the Group's policies, procedures, and controls on customer credit risk to manage such risk. The assessment of the credit risk of each customer takes into account the customer's financial condition, external credit ratings, experience on past transactions, current economic environment, and the Groups internal credit standards. In certain instances, the Group employs certain credit enhancement tools, such as advance payment and insurance, in order to minimize credit risk of specific customers.
- The finance department of the Group manages the credit risk of bank deposits and other financial instruments in accordance with the Group's policies. The transaction counterparties are determined by the Group's internal control procedures, which consist of banks with good credit and financial institutions, businesses, and governments with investment-grade credit ratings. There is no concern over breach of contract, and therefore no significant credit risk.

(d) The ageing analysis of accounts receivable is as follows:

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Neither past due nor impaired	\$ 6,132,471	\$ 5,911,779
Up to 30 days	117,945	372,612
31 to 90 days	9,923	79,931
91 to 180 days	-	7,285
Over 181 days	<u>27,309</u>	<u>40,760</u>
	<u>\$ 6,287,648</u>	<u>\$ 6,412,367</u>

(e) Movements in the provision for impairment of accounts receivable for the nine-month period ended September 30, 2017 are as follows:

	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ -	\$ 8,025	\$ 8,025
Provision for impairment	-	1,210	1,210
Effect of exchange rate changes	<u>-</u>	<u>(22)</u>	<u>(22)</u>
At September 30	<u>\$ -</u>	<u>\$ 9,213</u>	<u>\$ 9,213</u>

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the nine-month period ended September 30, 2017 are set out below.

Sales of goods:

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- (a) the significant risks and rewards of ownership of the goods have passed to the buyer;
- (b) neither continuing managerial involvement nor effective control over the goods sold have been retained;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) the costs incurred in respect of the transaction can be measured reliably.

Sales returns and allowances

A provision has been recognized for sales returns and allowances based on past experience and other known factors.

B. The revenue recognised by using above accounting policies are as follows:

	Three-month period ended September 30, 2017	Nine-month period ended September 30, 2017
Sales revenue	\$ 10,603,614	\$ 28,521,314
Sales discounts and allowances	(81,299)	(374,789)
Other operating revenue	1,491	4,569
	<u>\$ 10,523,806</u>	<u>\$ 28,151,094</u>

C. For the nine-month period ended September 30, 2018, the effects and description of current balance sheet items if the Group continues adopting above accounting policies are as follows:

		September 30, 2018		
		Balance by using		
		Balance by using IFRS 15	previous accounting policies	Effects from changes in accounting policy
Balance sheet	Description			
Contract liabilities	(1)	86,889	-	(86,889)
Current refund liabilities-	(2)	128,755	-	(128,755)
Current provisions	(2)	-	128,755	128,755
Other current liabilities, others	(1)	-	86,889	86,889

Note: The initial application of International Financial Reporting Standards 15 (“IFRS 15”) has no effect on the consolidated statement of comprehensive income of the current period.

Explanation:

- (a) In accordance with IFRS 15, sales discounts that are probable are recognized as ‘refund liabilities’, which were included in ‘current provisions’ in prior periods.
- (b) In accordance with IFRS 15, advance payments are recorded as contract liabilities that are related to the sales contract. In prior periods, these were included in ‘other current liabilities-other’ on the balance sheet.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company’s paid-in capital: Please refer to table 4.

- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 6.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2), 6(4) and 12.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 8.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 9.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to tables 1, 2, 5, 6 and 7.

14. SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

There is no material change in the basis for formation of entities and division of segments in the Group or in the measurement basis for segment information during this period.

(2) Segment information

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

For the three-month period ended September 30, 2018

	<u>Taiwan</u>	<u>Mainland China</u>	<u>Others</u>	<u>Reconciliation and elimination</u>	<u>Total</u>
Revenue from external customers	\$ 6,496,914	\$ 1,629,978	\$ 392,390	\$ -	\$ 8,519,282
Inter-segment revenue	<u>368,209</u>	<u>6,201,558</u>	<u>60,592</u>	<u>(6,630,359)</u>	<u>-</u>
Total segment revenue	<u>\$ 6,865,123</u>	<u>\$ 7,831,536</u>	<u>\$ 452,982</u>	<u>(\$ 6,630,359)</u>	<u>\$ 8,519,282</u>
Segment income	<u>\$ 249,865</u>	<u>\$ 10,732</u>	<u>\$ 1,397</u>	<u>(\$ 36,674)</u>	<u>\$ 225,320</u>

For the three-month period ended September 30, 2017:

	<u>Taiwan</u>	<u>Mainland China</u>	<u>Others</u>	<u>Reconciliation and elimination</u>	<u>Total</u>
Revenue from external customers	\$ 8,258,090	\$ 2,055,341	\$ 210,375	\$ -	\$ 10,523,806
Inter-segment revenue	<u>219,917</u>	<u>7,357,442</u>	<u>35,997</u>	<u>(7,613,356)</u>	<u>-</u>
Total segment revenue	<u>\$ 8,478,007</u>	<u>\$ 9,412,783</u>	<u>\$ 246,372</u>	<u>(\$ 7,613,356)</u>	<u>\$ 10,523,806</u>
Segment income	<u>\$ 425,896</u>	<u>\$ 78,274</u>	<u>\$ 43,631</u>	<u>(\$ 75,156)</u>	<u>\$ 472,645</u>

For the nine-month period ended September 30, 2018

	<u>Taiwan</u>	<u>Mainland China</u>	<u>Others</u>	<u>Reconciliation and elimination</u>	<u>Total</u>
Revenue from external customers	\$ 17,549,793	\$ 5,289,058	\$ 943,615	\$ -	\$ 23,782,466
Inter-segment revenue	<u>877,207</u>	<u>16,973,854</u>	<u>155,734</u>	<u>(18,006,795)</u>	<u>-</u>
Total segment revenue	<u>\$ 18,427,000</u>	<u>\$ 22,262,912</u>	<u>\$ 1,099,349</u>	<u>(\$ 18,006,795)</u>	<u>\$ 23,782,466</u>
Segment income	<u>\$ 608,856</u>	<u>\$ 322,948</u>	<u>\$ 78,379</u>	<u>(\$ 323,714)</u>	<u>\$ 686,469</u>

For the nine-month period ended September 30, 2017:

	<u>Taiwan</u>	<u>Mainland China</u>	<u>Others</u>	<u>Reconciliation and elimination</u>	<u>Total</u>
Revenue from external customers	\$ 21,857,478	\$ 5,737,988	\$ 555,628	\$ -	\$ 28,151,094
Inter-segment revenue	<u>541,850</u>	<u>18,559,150</u>	<u>141,583</u>	<u>(19,242,583)</u>	<u>-</u>
Total segment revenue	<u>\$ 22,399,328</u>	<u>\$ 24,297,138</u>	<u>\$ 697,211</u>	<u>(\$ 19,242,583)</u>	<u>\$ 28,151,094</u>
Segment income	<u>\$ 1,009,124</u>	<u>\$ 431,351</u>	<u>(\$ 9,375)</u>	<u>(\$ 307,454)</u>	<u>\$ 1,123,646</u>

(3) Reconciliation for segment income (loss)

Sales between segments are carried out at arm's length. The revenue from external customers reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income.

Sercomm Corporation
Loans to others
Nine-month period ended September 30, 2018

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the nine-month period ended September 30, 2018	Balance at September 30, 2018	Actual amount drawn down	Interest rate(%)	Nature of loan (Note 4)	Amount of transactions with the borrower	Reason for short- term financing	Allowance for bad debt	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted	Footnote
													Item	Value			
0	The Company	Sernet Technology (Suzhou) Limited	Other receivables- related party	Y	\$ 936,720	\$ 887,920	\$ -	4.00	(2)	\$ -	Additional operating capital	\$ -	-	\$ -	\$ 1,332,988	\$ 2,665,976	Note 2(3)
0	"	Hawxeye Inc.	Other receivables- related party	Y	4,610	4,583	-	8.00	(2)	-	Additional operating capital	-	-	-	1,332,988	2,665,976	Note 2(3)
1	Sernet Technology (Suzhou) Limited	Dwnet Technology (Suzhou) Limited	Other receivables- related party	Y	936,720	887,920	257,497	4.35	(2)	-	Additional operating capital	-	-	-	3,332,470	6,664,940	Note 3(3)

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: The aggregate amount of loans to others shall not exceed 40% of the Company's net assets based on the latest audited or reviewed financial statements.

The loan limit for each entity depending on the purpose of the loan is as follows:

(1) Nature of loans is related to business transactions: The amount shall not exceed the higher of the sales or purchases amount to/ from the borrower for the year as of the time of the lending event or for the most recent year.

(2) As short-term financing: The amount shall not exceed 20% of the Company's net assets based on the latest audited or reviewed financial statements.

(3) Financing between the Company's 100% directly- or indirectly- held overseas investee is not limited to 40% of the Company's net assets based on the latest audited or reviewed financial statements.

However, total loans shall not exceed 100% net assets. Loans to a single party shall not exceed 50% net assets.

Note 3: The aggregate amount of loans from subsidiaries to others shall not exceed 40% of stockholders' equity as stated in the subsidiary's or the Company's most recent audited or reviewed financial statement, whichever is lower.

The loan limit for each entity depending on the purpose of the loan is as follows:

(1) Nature of loans is related to business transactions: The amount shall not exceed the higher of the sales or purchases amount to/ from the trading partner for the year as of the time of the lending event or for the most recent year.

(2) As short-term financing: The amount shall not exceed 20% of the subsidiary or the Company's net assets based on the latest audited or reviewed financial statements.

(3) Financing between the group's investee which is 100% directly- or indirectly- held by the parent company is not limited to the ratio as stated in the preceding paragraph.

However, total loans shall not exceed 100% net assets as stated in the parent company's most recent audited or reviewed financial statement. Loans to individual investee shall not exceed 50% net assets.

Note 4: (1)Nature of loans is related to business transactions : The trading amounts refer to the business transaction amounts within the recent year between the lender company and the loanee entity.

(2)Short-term financing

Sercomm Corporation
Provision of endorsements and guarantees to others
Nine-month period ended September 30, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of September 30, 2018 (Note 4)	Outstanding endorsement/ guarantee amount at September 30, 2018	Actual amount drawn down	Amount of endorsements / guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company (%)	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
		Company name	Relationship with the endorser/ guarantor (Note 2)											
0	The Company	Sercomm Russia Limited Liability Company	(2)	\$ 3,332,470	\$ 4,610	\$ -	\$ -	\$ -	0.07	\$ 6,664,940	Y	N	N	
0	"	Sercomm Japan Corp.	(2)	3,332,470	55,480	53,880	-	-	0.83	6,664,940	Y	N	N	
0	"	Sernet Technology(Suzhou) Limited	(2)	3,332,470	921,930	916,530	-	-	13.83	6,664,940	Y	N	Y	
0	"	Dwnet Technology (Suzhou) Limited	(2)	3,332,470	1,413,626	1,405,346	584,915	-	21.21	6,664,940	Y	N	Y	

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(a) The Company is '0'.

(b) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following six categories:

(a) Having business relationship.

(b) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(c) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.

(d) The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.

(e) Mutual guarantee of the trade as required by the construction contract.

(f) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

Note 3: The Company's 'Procedures for Provision of Endorsements and Guarantees' are as follows:

(1) Limit on total endorsements is 50% of the Company's net assets based on the latest audited or reviewed financial statements, and limit on endorsements to a single party is 25%.

(2) The restriction stated in (1) shall not apply to inter-company loans of funds between foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares.

However the endorsement / guarantee amount should not exceed 100% net assets. Endorsements / guarantees provided to individual investees should not exceed 50% net assets.

(3) The amounts permitted to make in endorsements/guarantees to single subsidiary shall not exceed 50% of the Company's stockholders' equity as stated in its latest financial statement; the total amount shall not exceed 100% of stockholders' equity as stated in its latest financial statement.

Note 4: Fill in the year-to-date maximum outstanding balance of endorsements/guarantees provided as of the reporting period.

Sercomm Corporation
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
September 30, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

				As of September 30, 2018				
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares (in thousand shares)	Book value	Ownership (%)	Fair value	Footnote
The Company	Listed stocks							
	Hitron Technologies Inc.	-	Financial assets at fair value through profit or loss-non current	22,335	\$ 474,614	9.97	\$ 474,614	
	Convertible bonds							
	Presciense Limited	Associate	Financial assets at fair value through profit or loss-non current	600	23,918	-	23,918	
"	Siklu Inc.	-	Financial assets at fair value through profit or loss-non current	137	4,170	-	4,170	
Hawxeye Inc.	Unlisted stocks							
	Bossa Nova Robotics Holding Corp.		Financial assets at fair value through profit or loss-non current	3,845	32,891	8.64	32,891	
The Company	Listed stocks							
	HON HAI PRECISION IND.CO.,LTD.	-	Financial assets at fair value through profit or loss- current	1,180	93,456	-	93,456	
	PEGATRON Corporation.	-	Financial assets at fair value through profit or loss- current	1,600	97,760	-	97,760	
	QUANTA COMPUTER INC.	-	Financial assets at fair value through profit or loss- current	1,920	102,144	-	102,144	
"	Unlisted stocks							
	Teco Nanotech Co., Ltd.	-	Financial assets at fair value through profit or loss-non current	-	10	-	10	
"	Unlisted preference share							
	Siklu Inc.	-	Financial assets at fair value through profit or loss-non current	2,018	60,110	-	60,110	
Shukuan Investment Ltd.	Unlisted stocks		Financial assets at fair value through profit or loss-non current					
	Cerpass Technology Co., Ltd.	-	Financial assets at fair value through profit or loss-non current	747	22,148	-	22,148	

Note: Except for Bossa Nova Robotics Holding Corp. of 1,730 shares [as of the end of November 2019, there are restrictions on transfer, please refer to Note 6 (2)], the remaining has not been provided with guarantee, pledge loan or other agreement limited use.

Sercomm Corporation

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or20% of the Company’s paid-in capital

Nine-month period ended September 30, 2018

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

						Beginning of period		Acquired (Note 3)		Sold (Note 3, 4)			End of period	
Trading company		Marketable securities	Counterparty	Relationship with	Number	Amount	Number	Amount	Number	Price	Book value	Dispose of profit and loss	Number	Amount
		(Note 1)	General ledger account	the securities	of shares		of shares (in thousand shares)		of shares (in thousand shares)				of shares (in thousand shares)	
		(Note 2)		issuer (Note 2)										
The Company	Hitron Technologies Inc.	Financial assets at fair value through profit or loss - current	-	-	-	\$ -	24,743	\$ 541,833	2,408	\$ -	\$ 24,082	\$ -	22,335	\$ 517,751

Note 1 : The term "Marketable securities" as used in this table refers to stocks, bonds, beneficiary certificates and securities derived from the above items.

Note 2 : Investors who use the equity method in the securities account must fill in the two columns and the remainder is exempt.

Note 3 : Acquisition or sale of the same security with the accumulated cost should be caculated separately according to market price whether reaching 300 million or 20% of the paid-up capital. The paid-in capital refers to the paid-in capital of the parent company.

Note 4 : Due to Hitron Technologies Inc.'s reduction of capital on August 1, 2018, the company's shareholdings was reduced by 2,408 thousand shares and obtained \$24,082.

Sercomm Corporation
Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more
Nine-month period ended September 30, 2018

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions (Note 1)		Notes/accounts receivable (payable)	
			Purchases (sales)	Amount	Percentage of total purchases (sales)(%)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)(%)
The Company	Sernet Technology(Suzhou) Limited	Subsidiary	Purchases	\$ 14,019,865	89	45	Note 1	Note 1	(\$ 3,338,988)	76
"	Sercomm Russia Limited Liability Company	Subsidiary	Sales	(741,969)	5	105	Note 1	Note 1	215,896	6
"	Sercomm Japan Corp.	Subsidiary	Sales	(131,179)	1	105	Note 1	Note 1	73,347	2
Sernet Technology(Suzhou) Limited	Dwnet Technology(Suzhou) Limited	Affiliate	Purchase	2,494,267	17	120	Note 1	Note 1	(1,199,519)	16
"	"	Affiliate	Note 2	(286,940)	2	120	Note 1	Note 1	202,868	4

Note 1: The sales price to the above related parties was determined through mutual agreement based on the market conditions.

The collection period for related parties was month-end 90-210 days, while the terms for domestic third party sales was net 30-75 days. The collection period for overseas sales was net 30-210 days.

Note 2: Sernet Technology(Suzhou) Limited provides processing service to Dwnet. Technology(Suzhou) Limited.

Sercomm Corporation
Receivables from related parties reaching \$100 million or 20% of paid-in capital or more
September 30, 2018

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at September 30, 2018 (Note 1)	Turnover rate(%)	Overdue receivables		Amount collected subsequent to the balance sheet date (Note)	Allowance for doubtful accounts
					Amount	Action taken		
Sernet Technology(Suzhou) Limited	Sercomm Corp.	Ultimate parent company	\$ 3,338,988	-	\$ -	-	\$ 199,784	\$ -
"	Dwnet Technology(Suzhou) Limited	Affiliate	202,868	-	-	-	-	-
The Company	Sercomm Russia Limited Liability Company	Subsidiary	215,896	-	-	-	31,124	-
Dwnet Technology(Suzhou) Limited	Sernet Technology(Suzhou) Limited	Affiliate	1,199,519	-	-	-	99,739	-

(Note) Information was collected as of October 22, 2018.

Sercomm Corporation
Significant inter-company transactions during the reporting periods
Nine-month period ended September 30, 2018

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (%)(Note 3)
				General ledger account	Amount	Transaction terms	
0	The Company	Sercomm France SARL	1	Other Payables	\$ 16,996	-	-
0	"	"	1	Commissions expense	45,053	-	-
0	"	"	1	Prepayments	20,829	-	-
0	"	Sercomm Deutschland GmbH	1	Prepayments	39,721	-	-
0	"	"	1	Other Payables	8,455	-	-
0	"	"	1	Commissions expense	24,869	-	-
0	"	Sercomm Japan Corp.	1	Prepayments	36,378	-	-
0	"	"	1	Sales revenue	131,179	Note 4	1
0	"	"	1	Accounts receivable	73,347	-	-
0	"	Sercomm Russia Limited Liability Company	1	Accounts receivable	215,896	-	1
0	"	"	1	Other receivables	61,218	-	-
0	"	"	1	Prepayments	28,032	-	-
0	"	"	1	Sales revenue	741,969	Note 4	3
0	"	Sercomm USA Inc.	1	Other payables	36,308	-	-
0	"	"	1	Commissions expense	85,444	-	-
0	"	"	1	Prepayments	20,133	-	-
0	"	Sernet Technology(Suzhou) Limited	1	Purchase	14,019,865	-	59
0	"	"	1	Accounts payable	3,338,988	-	14
0	"	"	1	Accounts receivable	64,140	-	-
0	"	Dwnet Technology(Suzhou) Limited	1	Accounts payable	4,589	-	-
0	"	"	1	Purchase	14,186	-	-
2	Sernet Technology(Suzhou) Limited	Dwnet Technology(Suzhou) Limited	3	Accounts receivable	202,868	-	1
2	"	"	3	Other receivables	306,896	-	1
2	"	"	3	Processing fees revenue	286,940	-	1
2	"	"	3	Rental revenue	10,309	-	-
2	"	"	3	Purchase	2,494,267	-	10
2	"	"	3	Accounts payable	1,199,519	-	5
2	"	"	3	Sales revenue	33,011	Note 4	-

Sercomm Corporation
Significant inter-company transactions during the reporting periods
Nine-month period ended September 30, 2018

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (%)(Note 3)
				General ledger account	Amount	Transaction terms	
2	Sernet Technology(Suzhou) Limited	Dwnet Technology(Suzhou) Limited	3	Interest revenue	6,991	-	-
2	"	Suzhou Femtel Communications Co., Ltd	3	Commissions expense	9,154	-	-
2	"	Nanjing Femtel Communications Co., Ltd	3	Prepayments	11,232	-	-
2	"	"	3	Service expense	20,676	-	-
3	Dwnet Technology(Suzhou) Limited	Suzhou Femtel Communications Co., Ltd	3	Accounts receivable	10,509	-	-

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the middle of year to consolidated total operating revenues for income statement accounts.

Note 4: The sales price to the above related parties was determined through mutual agreement based on the market conditions. The collection period for third party was month-end 90-210 days, while the terms for domestic sales was net 30-75 days. The collection period for overseas sales was net 30-210 days.

Note 5: Only show the amount of more than \$3,000 transactions.

Sercomm Corporation
Information on investees (excluding investees in Mainland China)
Nine-month period ended September 30, 2018

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held and book value as at September 30, 2018			Net profit (loss) of the investee for the nine-month period ended September 30, 2018	Investment income (loss) recognised by the Company for the nine-month period ended September 30, 2018	Footnote
				Balance as September 30, 2018	Balance as at December 31, 2017	Number of shares (in thousand shares)	Ownership (%)	Book value			
The Company	Sercomm USA Inc.	USA	Domestic market consultation and customer services of computer information products	\$ 20,739	\$ 20,739	650	100	\$ 26,446	\$ 4,128	\$ 4,128	Subsidiary
"	Sercomm Trading Co. Ltd.	Samoa	Overseas indirect investment	1,471,186	1,471,186	46,800	100	5,240,765	336,541	336,541	Subsidiary
"	ShuKuan Investment Ltd.	Taiwan	General investment	56,298	56,298	2,800	100	31,659	21	21	Subsidiary
"	Sercomm Japan Corp.	Japen	Sales of computer information products; quotation, bidding and trade of related products	157,721	157,721	10	100	(16,746)	(1,053)	(1,053)	Subsidiary
"	Sercomm France SARL.	France	Domestic market consultation and customer services of computer information products	4,004	4,004	100	100	14,260	3,967	3,967	Subsidiary
"	Sercomm Deutschland GmbH	Germany	Domestic market consultation and customer services of computer information products	3,727	3,727	100	100	(298)	(3,670)	(3,670)	Subsidiary
"	Sercomm Russia Limited Liability Company	Russia	Sales of computer information products; quotation, bidding and trade of related products	10	10	10	100	1,810	(16,219)	(16,219)	Subsidiary
"	Presciense Limited	UK	Design, research and application of smarthome platform technology	-	-	3,333	25	-	-	-	Associate
Sercomm Trading Co. Ltd.	Zealous Investments Ltd.	Samoa	Overseas indirect investment	989,358	989,358	30,956	100	4,288,208	316,403	316,403	second-tier subsidiary
"	Smart Trade Inc.	Samoa	Overseas indirect investment	481,829	481,829	16,000	100	1,074,080	20,137	20,137	second-tier subsidiary
Sercomm France SARL	Sercomm Italia SRL.	Italy	Domestic market consultation and customer services of computer information products	388	388	10	100	2,592	948	948	second-tier subsidiary
Zealous Investments Ltd.	HawXeye Inc.	USA	R&D and application of monitoring images' advanced analysis techniques	4,787	24,348	157	55	(2,443)	86,612	47,718	second-tier subsidiary
Sercomm Deutschland GmbH	MECSware GmbH	Germany	Sale of IT products	30,144	-	11	30	28,333	(4,985)	(1,495)	Associate (Note)

Note : In March 2018, the Company acquired an affiliate's 30% equity interest in the amount of EU\$840 thousand.

Sercomm Corporation
Information on investments in Mainland China
Nine-month period ended September 30, 2018

Table 9
Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital (Note 3)	Investment method (Note 1)	Accumulated amount remitted from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China / Amount remitted back to Taiwan for the nine-month period ended September 30, 2018		Accumulated amount remitted from Taiwan to Mainland China as of September 30, 2018	Net income of investee for the nine- month period ended September 30, 2018	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognised by the Company for the nine-month period ended September 30, 2018(Note 2)	Book value of investments in Mainland China as of September 30, 2018	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Sernet Technology(Suzhou) Limited	Sales and manufacturing of servers, routers, OS and software	\$ 933,252	(2)	\$ 912,698	\$ -	\$ -	\$ 912,698	\$ 326,904	100	\$ 326,904	\$ 4,193,202	\$ -	Note 2 、 3
Dwnet Technology(Suzhou) Limited	Sales and manufacturing of servers, routers, OS and software	481,829	(2)	481,829	-	-	481,829	20,137	100	20,137	1,074,079	-	Note 2 、 4
Suzhou Hua-Yi Communications Co., Ltd	Sales and manufacturing of servers, routers, OS and software	2,454	(2)	-	-	-	-	(8)	100	(8)	1,875	-	Note 5
Suzhou Femtel Communications Co., Ltd	Sales of communication products and software	32,599	(2)	-	-	-	-	4,045	100	(4,290)	23,157	-	Note 5
Nanjing Femtel Communications Co., Ltd	R&D and sales of communication products and software	12,538	(2)	-	-	-	-	3,292	100	3,292	(15,193)	-	Note 6

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
- (3) Others

Note 2: Investment income (loss) was recognised based on the fianacial statement reviewed by the parent company's independent accountants.

Note 3:The Company established Sercomm Trading Co. Ltd. in a third region. The Company reinvested in Zealous Investments Ltd. (through Sercomm Trading Co. Ltd.) and then invested in Mainland China.

Note 4:The Company established Sercomm Trading Co. Ltd. in the third country. The Company reinvest Smart Trade Inc. (through Sercomm Trading Co. Ltd.) and then invest in Mainland China

Note 5:Indirect investment through Sernet Technology(Suzhou) Limited

Note 6:Indirect investment through Suzhou Femtel Communications Co., Ltd

Note 7:The Company's investment in Mainland China is not subject to an upper limit as it is deemed corporate operations headquarters as it complied with the Examination Standards of Investments and Technical Cooperation in the Mainland China area published by Investment Commission, MOEA.

Company name	Accumulated amount remitted from Taiwan to Mainland China as of September 30, 2018	Investment amount approved by the Investment Commission of the Ministry of MOEA	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
The Company	\$1,394,527(US\$ 44,900 thousand)	\$1,407,475 (USD45,144 thosuand)	No limitation (Note 7)