

**Aerospace Industrial Development
Corporation and Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

Aerospace Industrial Development Corporation

By:

Kai-Hung Hu
President

March 28, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Aerospace Industrial Development Corporation

Opinion

We have audited the accompanying consolidated financial statements of Aerospace Industrial Development Corporation and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2018 are stated as follows:

Impairment loss of inventory

The Group assesses impairment of raw materials based on individual identification. The assessment of impairment loss of the raw materials involves the use of the management's critical judgment and, hence, the assessment is considered as a key audit matter. The Group assesses the impairment loss of the raw materials based on current market conditions and future consumption in accordance with IAS 2. Refer to Notes 5 and 10 to the financial statements for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the impairment assessment include the following:

1. We tested the inventory aging report for completeness and accuracy.
2. We inquired and assessed the reasons for inventories aged over one year but have not provided allowance for impairment.
3. We test checked the net realizable value of inventory, and we evaluated the reasonableness of the allowance for impairment loss.
4. We observed the physical count of inventory at year end and we test-checked actual quantity counted on tags. We also noted those which appeared to be obsolete or slow-moving items and traced them to the Company's impairment assessment worksheet.

Warranties

The Group provides warranties for military product maintenance, and the percentage of certain provisions involve management's critical judgment; hence, we consider provision for warranties as a key audit matter. Refer to Notes 5 and 19 for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the provisions for warranties include the following:

1. We obtained the documents based on the management's decision on the provision rate and we evaluated the reasonableness of the rates compared with rates in the past periods.
2. We recalculated the amount of provision.
3. We evaluated the reasonableness of the provision against the actual usage of warranties.

Other Matter

We have also audited the parent company only financial statements of Aerospace Industrial Development Corporation as of and for the years ended December 31, 2018 and 2017 on which we have issued an unqualified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including members of the audit committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Lie-Dong Wu and Done-Yuin Tseng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 28, 2019

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31			
	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash (Notes 4 and 6)	\$ 962,896	2	\$ 1,065,791	3
Notes receivable (Notes 4 and 9)	2,684	-	23,509	-
Trade receivables from unrelated parties (Notes 4 and 9)	15,036,728	38	9,278,949	28
Trade receivables from related parties (Notes 4 and 29)	310,857	1	308,373	1
Other receivables (Notes 4 and 9)	100,306	-	99,055	-
Inventories (Notes 4, 5 and 10)	6,798,041	17	6,770,848	20
Other financial assets - current (Notes 4, 15 and 30)	1,932,100	5	3,811,126	11
Other current assets (Notes 16 and 29)	<u>3,871,208</u>	<u>10</u>	<u>1,754,280</u>	<u>5</u>
Total current assets	<u>29,014,820</u>	<u>73</u>	<u>23,111,931</u>	<u>68</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 7)	103,467	-	-	-
Financial assets measured at cost - non-current (Notes 4 and 8)	-	-	79,200	-
Investment accounted for using equity method (Notes 4 and 12)	602,985	2	428,906	2
Property, plant and equipment (Notes 4, 13 and 30)	8,352,719	21	8,718,654	26
Intangible assets (Notes 4 and 14)	867,785	2	1,000,404	3
Deferred tax assets (Notes 4 and 24)	286,129	1	305,324	1
Prepayments for equipment	376,417	1	81,682	-
Other financial assets - non-current (Notes 4, 15 and 30)	10,807	-	10,807	-
Other non-current assets (Notes 4, 9 and 16)	<u>204,425</u>	<u>-</u>	<u>15,973</u>	<u>-</u>
Total non-current assets	<u>10,804,734</u>	<u>27</u>	<u>10,640,950</u>	<u>32</u>
TOTAL	<u>\$ 39,819,554</u>	<u>100</u>	<u>\$ 33,752,881</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 17 and 30)	\$ 7,730,000	20	\$ 6,515,000	19
Short-term bills payable (Note 17)	2,499,575	6	2,499,329	7
Contract liabilities (Note 4)	83,898	-	148,945	1
Trade payables to unrelated parties	1,993,498	5	1,394,004	4
Trade payables to related parties (Note 29)	294,289	1	201,665	1
Other payables (Notes 18 and 29)	3,518,693	9	3,747,714	11
Current tax liabilities (Notes 4 and 24)	198,140	1	260,674	1
Current portion of long-term borrowings (Notes 17 and 30)	5,289,606	13	342,606	1
Net defined benefit liabilities - current (Notes 4 and 20)	82,447	-	33,422	-
Other current liabilities	<u>115,461</u>	<u>-</u>	<u>365,558</u>	<u>1</u>
Total current liabilities	<u>21,805,607</u>	<u>55</u>	<u>15,508,917</u>	<u>46</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 17 and 30)	2,838,029	7	3,975,635	12
Provisions - non-current (Notes 4, 5 and 19)	771,067	2	939,150	3
Deferred tax liabilities (Notes 4 and 24)	65,179	-	21,677	-
Long-term deferred income	315	-	351	-
Guarantee deposits	<u>205,740</u>	<u>1</u>	<u>204,109</u>	<u>-</u>
Total non-current liabilities	<u>3,880,330</u>	<u>10</u>	<u>5,140,922</u>	<u>15</u>
Total liabilities	<u>25,685,937</u>	<u>65</u>	<u>20,649,839</u>	<u>61</u>
EQUITY				
Ordinary shares	9,418,671	23	9,418,671	28
Retained earnings				
Legal reserve	702,338	2	531,146	2
Special reserve	1,933,627	5	1,473,474	4
Unappropriated earnings	2,070,067	5	1,711,923	5
Other equity	<u>8,914</u>	<u>-</u>	<u>(32,172)</u>	<u>-</u>
Total equity	<u>14,133,617</u>	<u>35</u>	<u>13,103,042</u>	<u>39</u>
TOTAL	<u>\$ 39,819,554</u>	<u>100</u>	<u>\$ 33,752,881</u>	<u>100</u>

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
SALES (Notes 4, 22 and 29)	\$ 28,182,098	100	\$ 27,537,414	100
COST OF GOODS SOLD (Notes 10, 23 and 29)	<u>24,542,508</u>	<u>87</u>	<u>23,637,272</u>	<u>86</u>
GROSS PROFIT	<u>3,639,590</u>	<u>13</u>	<u>3,900,142</u>	<u>14</u>
OPERATING EXPENSES (Notes 23 and 29)				
Selling and marketing expenses	130,943	1	124,996	-
General and administrative expenses	618,777	2	598,200	2
Research and development expenses	545,217	2	407,178	2
Expected credit gain (Notes 4 and 9)	<u>(1,505)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>1,293,432</u>	<u>5</u>	<u>1,130,374</u>	<u>4</u>
PROFIT FROM OPERATIONS	<u>2,346,158</u>	<u>8</u>	<u>2,769,768</u>	<u>10</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 23)	188,679	1	193,040	1
Other gains and losses (Notes 4 and 23)	15,374	-	(805,416)	(3)
Share of profit of associate (Note 4)	235,111	1	240,264	1
Finance costs (Note 4)	<u>(133,304)</u>	<u>(1)</u>	<u>(118,867)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>305,860</u>	<u>1</u>	<u>(490,979)</u>	<u>(2)</u>
PROFIT BEFORE INCOME TAX	2,652,018	9	2,278,789	8
INCOME TAX EXPENSE (Notes 4 and 24)	<u>560,002</u>	<u>2</u>	<u>530,808</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>2,092,016</u>	<u>7</u>	<u>1,747,981</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(38,217)	-	(44,919)	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(70,070)	-	-	-

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AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	\$ 16,819	-	\$ (52,197)	-
Other comprehensive loss for the year, net of income tax	(91,468)	-	(97,116)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 2,000,548	7	\$ 1,650,865	6
EARNINGS PER SHARE (Note 25)				
Basic	\$ 2.22		\$ 1.86	
Diluted	\$ 2.21		\$ 1.85	

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

(Concluded)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company				Other Equity (Note 4)		
	Ordinary Shares (Note 21)	Retained Earnings (Note 21)			Exchange Differences on Translating Foreign Operations	Unrealized gain (loss) on Investments in Equity Instruments Designated as at Fair Value Through Other Comprehensive Income	Total Equity
		Legal Reserve	Special Reserve	Unappropriated Earnings			
BALANCE AT JANUARY 1, 2017	\$ 9,082,615	\$ 322,880	\$ 848,678	\$ 2,086,241	\$ 20,025	\$ -	\$ 12,360,439
Appropriation of 2016 earnings							
Legal reserve	-	208,266	-	(208,266)	-	-	-
Special reserve	-	-	624,796	(624,796)	-	-	-
Cash dividends distributed by the Company	-	-	-	(908,262)	-	-	(908,262)
Share dividends distributed by the Company	336,056	-	-	(336,056)	-	-	-
Profit for the year ended December 31, 2017	-	-	-	1,747,981	-	-	1,747,981
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	(44,919)	(52,197)	-	(97,116)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	1,703,062	(52,197)	-	1,650,865
BALANCE AT DECEMBER 31, 2017	9,418,671	531,146	1,473,474	1,711,923	(32,172)	-	13,103,042
Effect of retrospective application and retrospective restatement	-	-	-	-	-	94,337	94,337
BALANCE AT JANUARY 1, 2018 AS RESTATED	9,418,671	531,146	1,473,474	1,711,923	(32,172)	94,337	13,197,379
Appropriation of 2017 earnings							
Legal reserve	-	171,192	-	(171,192)	-	-	-
Special reserve	-	-	460,153	(460,153)	-	-	-
Cash dividends distributed by the Company	-	-	-	(1,064,310)	-	-	(1,064,310)
Profit for the year ended December 31, 2018	-	-	-	2,092,016	-	-	2,092,016
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	(38,217)	16,819	(70,070)	(91,468)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	2,053,799	16,819	(70,070)	2,000,548
BALANCE AT DECEMBER 31, 2018	\$ 9,418,671	\$ 702,338	\$ 1,933,627	\$ 2,070,067	\$ (15,353)	\$ 24,267	\$ 14,133,617

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 2,652,018	\$ 2,278,789
Adjustments for:		
Depreciation expenses	900,289	822,009
Amortization expenses	424,181	452,388
Reversal of excepted credit loss on trade receivables	(1,505)	-
Reversal of impairment loss on trade receivables	-	(4,027)
Finance costs	133,304	118,867
Interest income	(58,757)	(67,964)
Dividend income	(90)	(78)
Share of profit of associate	(235,111)	(240,264)
Loss (gain) on disposal of property, plant and equipment	(812)	1,352
Impairment loss recognized on non-financial assets	20,044	88,153
Unrealized net loss on foreign currency exchange	1,691	242,930
Recognized (reversal) of provisions	4,023	(24,962)
Other income from liabilities	(11,080)	(5,951)
Amortized other non-current assets	20,096	-
Net changes in operating assets and liabilities		
Notes receivable	20,825	(18,782)
Trade receivables	(5,755,398)	(2,153,203)
Other receivables	(12,955)	92,559
Inventories	(217,343)	664,193
Other current assets	(2,267,703)	(1,140,100)
Contract liabilities	(65,047)	(59,371)
Trade payables	692,898	182,150
Other payables	(183,561)	142,156
Other current liabilities	(243,379)	332,088
Deferred income	(36)	351
Cash generated from (used in) operations	(4,183,408)	1,703,283
Interest received	70,462	55,385
Interest paid	(123,673)	(120,343)
Income tax paid	(549,031)	(608,346)
Net cash generated from (used in) operating activities	(4,785,650)	1,029,979
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(567,743)	(1,462,412)
Proceeds from disposal of property, plant and equipment	9,114	2,599
Increase in refundable deposits	(21,744)	(16,160)
Decrease in refundable deposits	15,814	19,508
Payments for intangible assets	(270,032)	(656,011)
Decrease (increase) in other financial assets	1,876,535	(1,993,822)
Increase in other non-current assets	(201,573)	-

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AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2018	2017
Increase in prepayments for equipment	\$ (197,490)	\$ (253,985)
Dividend received	<u>77,726</u>	<u>544,148</u>
Net cash generated from (used in) investing activities	<u>720,607</u>	<u>(3,816,135)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	45,960,000	52,302,000
Repayments of short-term borrowings	(44,745,000)	(52,987,000)
Proceeds from short-term bills payable	32,096,560	8,692,399
Repayments of short-term bills payable	(32,096,314)	(8,191,952)
Proceeds from long-term borrowings	22,457,000	3,570,000
Repayments of long-term borrowings	(18,647,606)	(1,167,606)
Proceeds of guarantee deposits received	229,450	252,141
Refund of guarantee deposits	(227,819)	(260,295)
Dividends paid to owners of the Company	<u>(1,064,310)</u>	<u>(908,262)</u>
Net cash generated from financing activities	<u>3,961,961</u>	<u>1,301,425</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>187</u>	<u>(9,576)</u>
NET DECREASE IN CASH	(102,895)	(1,494,307)
CASH AT THE BEGINNING OF THE YEAR	<u>1,065,791</u>	<u>2,560,098</u>
CASH AT THE END OF THE YEAR	<u>\$ 962,896</u>	<u>\$ 1,065,791</u>

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

(Concluded)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Aerospace Industrial Development Corporation (the “Company”) was a state-owned enterprise formed by the Ministry of Economic Affairs on July 1, 1996 from Aero Industry Development Center, Chung-Shan Institute of Science and six other state-owned enterprises. The Company and its subsidiaries (collectively referred to as the “Group”) mainly engage in business categories as follows: design, manufacture, assembly, testing and maintenance of aircraft, engines, avionics and related components; consulting services and technology transfers of aerospace technology, logistical support and engineering technology management of large-scale projects; engineering and development of software and sales of aerospace products.

In July 2001, the initial public offering of the Company was approved by the Securities and Futures Commission (now called Securities and Futures Bureau of the Financial Supervisory Commission (FSC) of the Republic of China (ROC)). On September 13, 2013, in accordance with Rule No. 1020055531, the Company started its privatization process. On August 25, 2014, the Company was listed on the Taiwan Stock Exchange.

The consolidated financial statements are presented in the Company’s functional currency, New Taiwan dollars.

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on March 28, 2019.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the FSC

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group’s accounting policies:

- 1) IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash	Loans and receivables	Amortized cost	\$1,065,791	\$1,065,791	
Share securities	Measured at cost	The financial assets are measured at fair value through other comprehensive income (FVTOCI)	79,200	173,537	(a)
Notes receivable, trade receivables, other receivables and overdue receivables	Loans and receivables	Amortized cost	9,710,019	9,710,019	(b)
Refundable deposits and other financial assets	Loans and receivables	Amortized cost	3,837,773	3,837,773	(b)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi- cations	Remea- surements	IFRS 9 Carrying Amount as of January 1, 2018	Other Equity Effect on January 1, 2018
FVTOCI - Equity instruments	\$ -	\$ 79,200	\$ 94,337	\$ 173,537	\$ 94,337
Add: Financial assets measured at cost (IAS 39)	79,200	(79,200)	-	-	-
	<u>\$ 79,200</u>	<u>\$ -</u>	<u>\$ 94,337</u>	<u>\$ 173,537</u>	<u>\$ 94,337</u>

- a) Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$94,337 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.
- b) Notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits that were previously classified as loans and receivables under IAS 39 were are classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivable was recognized or deferred revenue was reduced when revenue was recognized for the contract under IAS 18.

The Group elected only to retrospectively apply IFRS 15 to contracts that were not complete on as of January 1, 2018.

Impact on assets and liabilities for current year

	As Originally Stated	Adjustments Arising from Initial Application	Restated
<u>January 1, 2018</u>			
Contract liabilities - current	\$ -	\$ 148,945	\$ 148,945
Unearned receipts	<u>148,945</u>	<u>(148,945)</u>	<u>-</u>
Total effect on liabilities	<u>\$ 148,945</u>	<u>\$ -</u>	<u>\$ 148,945</u>
December 31, 2018			
Increase in contract liabilities - current			\$ 83,898
Decrease in unearned receipts			<u>(83,898)</u>
Total effect in liabilities			<u>\$ -</u>

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over over Income Tax Treatments”	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts, including property interest qualified as investment properties, are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

The Group expects to apply the following practical expedients:

- 1) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

Anticipated impact on assets and liabilities

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ -	\$ 2,407,415	\$ 2,407,415
Total effect on assets	\$ -	\$ 2,407,415	\$ 2,407,415
Lease liabilities - current	\$ -	\$ 127,869	\$ 127,869
Lease liabilities - non-current	-	2,279,546	2,279,546
Total effect on liabilities	\$ -	\$ 2,407,415	\$ 2,407,415

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group assessed that the application of other standards and interpretations will not have a significant impact on the Group's financial position and financial performance.

- c. New IFRSs in issue by International Accounting Standards Board (IASB) but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
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 IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed by the FSC.

- b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, and net defined benefit liabilities (assets) which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period, and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. subsidiaries).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See Note 11 and Table 6 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries, in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars. Income and expense items are translated at the average exchange rates for the year. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

f. Inventories

Inventories consist of raw materials and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Raw materials and supplies are recorded at moving weighted-average cost and work-in-process items are recorded at standard cost but adjusted to weighted-average cost on the balance sheet date.

g. Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates.

The entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount of the investment is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When the Group transacts with its associate, profits and losses resulting from the transactions with the associate are recognized by the Group in its consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

h. Property, plant and equipment

Property, plant and equipment are measured at cost, less recognized accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are measured at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation of property, plant and equipment (including assets held under finance leases) is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b) The intention to complete the intangible asset and use or sell it;
- c) The ability to use or sell the intangible asset;
- d) How the intangible asset will generate probable future economic benefits;
- e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

j. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

2018

Financial assets are classified into the following categories: financial assets at amortized cost and equity instruments at FVTOCI.

i. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash, trade receivables, overdue receivables, notes receivable, other receivables, other financial assets and refundable deposits are measured at amortized cost, which equals to gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- ii) Financial asset that has subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

ii. Investments in equity instruments at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Loans and receivables

Loans and receivables (including cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial asset and refundable deposits) are measured at amortized cost using the effective interest method, at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

b) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables and overdue receivables).

The Group always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables and overdue receivables. For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investment have been affected.

For financial assets carried measured at amortized cost, such as trade receivables and overdue receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For a financial asset carried measured at amortized cost, the amount of the impairment loss recognized is the difference between the such an asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment (at the date on which the impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

For financial assets that are measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables and overdue receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and overdue receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Before 2017, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

l. Provisions

Provision is measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provision for the expected cost of warranty obligations is recognized at the date of sale of the relevant products, at the Group's best estimate of the expenditure required to settle the obligation.

m. Revenue recognition

2018

The Group identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

For the considerations that have been received from customers, the obligation to transfer goods or services to customers is recognized as a contract liability.

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of aerospace goods.

2) Revenue from rendering of services

Revenue from rendering of services comes from aircraft maintenance, logistics management and industrial technology services.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1) Revenue from the sale of goods

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

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 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 Group;
and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Revenue from rendering of services

Service income is recognized when services are provided.

Revenue from a contract to provide services is recognized with reference to the stage of completion of the contract.

3) Dividend and interest income

Dividend income from investments is recognized when the a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Group and that the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable effective interest rate.

n. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

o. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and recognized in profit or loss on a systematic and rational basis over the useful lives of the related assets.

q. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits

against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimations, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and the historical experience from selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

b. Estimate of provision

Provision is measured using estimated cash flows needed to settle present obligation. If future cash flows will exceed the estimated amount, then the amount of provision may require material adjustment.

6. CASH

	December 31	
	2018	2017
Cash on hand and petty cash	\$ 503	\$ 141
Checking accounts and demand deposits	<u>962,393</u>	<u>1,065,650</u>
	<u>\$ 962,896</u>	<u>\$ 1,065,791</u>
Rates of bank balance (%)	0.078-1.1	0.0018-1.00

7. FINANCIAL ASSETS AT FVTOCI - 2018

	December 31, 2018
<u>Emerging marked shares</u>	
UHT Unitech Co Ltd. (UHT Ltd.)	<u>\$ 70,400</u>
<u>Unlisted common shares</u>	
Aerovision Avionics Inc. (AAI)	30,918
Metro Consulting Service Ltd. (Metro Ltd.)	<u>2,149</u>
	<u>33,067</u>
	<u>\$ 103,467</u>

These investments in equity instruments are held for medium to long-term strategic purposes and expect to earn profits from long-term investment. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as financial assets measured at cost under IAS 39. Refer to Notes 3 and 8 for information relating to their reclassification and comparative information for 2017.

8. FINANCIAL ASSETS MEASURED AT COST – NON-CURRENT - 2017

	December 31, 2017
<u>Unlisted common shares</u>	
AAI Inc.	\$ 43,200
UHT Ltd.	33,000
Metro Ltd.	<u>3,000</u>
	<u>\$ 79,200</u>

Management believed that the fair value of the above unlisted equity investments held by the Group cannot be reliably measured due to the very significant range of reasonable fair value estimates; therefore they were measured at cost less impairment at the end of reporting period.

9. NOTES RECEIVABLES, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2018	2017
Notes receivable	\$ 2,684	\$ 23,509
<u>Trade receivables from unrelated parties</u>		
At amortized cost		
Gross carrying amount	\$ 15,041,936	\$ 9,281,803
Less: Allowance for impairment loss	(5,208)	(2,854)
	<u>\$ 15,036,728</u>	<u>\$ 9,278,949</u>
<u>Other receivables</u>		
Tax return receivables	\$ 84,824	\$ 66,998
Others	<u>15,482</u>	<u>32,057</u>
	<u>\$ 100,306</u>	<u>\$ 99,055</u>

Trade receivables - 2018

The average credit period of sales of goods was 60 to 90 days. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by referenced to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of note receivable, trade receivables and overdue receivables (accounted at other non-current assets).

December 31, 2018

	Not Past Due	Less than 90 Days	91 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	\$ 14,801,378	\$ 240,577	\$ 2,665	\$ 2,281	\$ 4,687	\$ 15,051,588
Loss allowance (Lifetime ECL)	<u>-</u>	<u>(5,075)</u>	<u>(133)</u>	<u>(1,105)</u>	<u>(4,687)</u>	<u>(11,000)</u>
Amortized cost	<u>\$ 14,801,378</u>	<u>\$ 235,502</u>	<u>\$ 2,532</u>	<u>\$ 1,176</u>	<u>\$ -</u>	<u>\$ 15,040,588</u>

The movements of the loss allowance of trade receivables and overdue receivables were as follows:

	For the Year Ended December 31, 2018	
	Trade receivables	Overdue receivables
Balance at January 1, 2018 per IAS 39	\$ 2,854	\$ 9,651
Adjustment on initial application of IFRS 9	<u>-</u>	<u>-</u>
Balance at January 1, 2018 per IFRS 9	2,854	9,651
Impairment loss recognized (reversed)	<u>2,354</u>	<u>(3,859)</u>
Balance at December 31, 2018	<u>\$ 5,208</u>	<u>\$ 5,792</u>

Trade receivables - 2017

The average credit period of sales on goods is 60 to 90 days. In determining the recoverability of trade receivables, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss was estimated by reference to the aging schedule, past default experience of the counterparties and an analysis of their current financial position.

The aging of receivables was as follows:

	December 31, 2017
0-90 days	\$ 9,277,165
91-180 days	<u>4,638</u>
	<u>\$ 9,281,803</u>

The above aging schedule was based on the past due date.

The ages of individually impaired trade receivables and overdue receivables (other non-current assets) were as follows:

	December 31, 2017
0-90 days	\$ 131,124
91-180 days	4,638
181-365 days	476
Over 365 days	<u>9,308</u>
	<u>\$ 145,546</u>

The above ages before deducting the allowance for impairment loss was presented based on the past due date.

Past due but not impaired receivables are receivables that were past due at the end of the reporting period but not provided with allowance for impairment. The Group did not have past due but not impaired receivables.

The movements of the allowance for impairment loss were as follows:

	For the Year Ended December 31, 2017	
	Trade Receivables	Overdue Receivables
<u>Collectively Assessed for Impairment</u>		
Balance at January 1	\$ 1,813	\$ 14,719
Impairment loss recognized (reversed)	<u>1,041</u>	<u>(5,068)</u>
Balance at December 31	<u>\$ 2,854</u>	<u>\$ 9,651</u>

10. INVENTORIES

	December 31	
	2018	2017
Raw materials	\$ 3,629,155	\$ 3,100,690
Work in progress	<u>3,168,886</u>	<u>3,670,158</u>
	<u>\$ 6,798,041</u>	<u>\$ 6,770,848</u>

The cost of inventories recognized as cost of goods sold was as follows:

	For the Year Ended December 31	
	2018	2017
Indemnity income	\$ (45,219)	\$ (40,267)
Income from sales of scraps	(47,728)	(31,507)
Loss on disposal of inventories	37,144	39,108
Recognized of inventory write-downs	18,044	85,137

11. SUBSIDIARIES

Subsidiary included in consolidated financial statements:

Investor	Investee	% of Ownership	
		December 31	
		2018	2017
The Company	AIDC USA LLC (AIDC USA)	100	100

For the main businesses of AIDC USA, refer to Table 6.

The subsidiary included in consolidated financial statements is immaterial subsidiary, the financial statements have been audited.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2018	2017
<u>Investment in associate</u>		
International Turbine Engine Company LLC (ITEC)	\$ 602,985	\$ 428,906

As of December 31, 2018 and 2017, the ownership and voting right of ITEC held by the Group were both 22.05%.

On March 27, 2017, the Company's board of directors resolved to restructure its investments and, in April 2017, the Company transferred its ownership of ITEC to AIDC USA.

Refer to "Table 6: Information on Investees" for the nature of activities, principal place of business and country of incorporation of the associates.

The investments accounted for using the equity method and the share of profit or loss of the associate were based on the associates' financial statements which have been audited for the same years.

13. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2018					
	Balance, Beginning of Year	Additions	Deductions	Reclassification	Effects of Foreign Currency Exchange Differences	Balance, End of Year
<u>Cost</u>						
Land improvements	\$ 121,314	\$ -	\$ (575)	\$ -	\$ -	\$ 120,739
Buildings	5,885,214	28,891	-	2,112	-	5,916,217
Machinery and equipment	12,472,099	428,145	(179,008)	48,252	2	12,769,490
Transportation equipment	735,258	897	(3,282)	-	39	732,912
Other equipment	768,605	23,814	(6,147)	1,346	6	787,624
Property in construction	1,245	30,907	-	(2,092)	-	30,060
	<u>19,983,735</u>	<u>\$ 512,654</u>	<u>\$ (189,012)</u>	<u>\$ 49,618</u>	<u>\$ 47</u>	<u>20,357,042</u>
<u>Accumulated depreciation</u>						
Land improvements	114,522	\$ 1,555	\$ (563)	\$ -	\$ -	115,514
Buildings	2,649,893	177,749	-	-	-	2,827,642
Machinery and equipment	7,403,717	665,236	(170,735)	-	1	7,898,219
Transportation equipment	683,362	13,716	(3,282)	-	16	693,812
Other equipment	291,872	61,677	(6,130)	-	2	347,421
	<u>11,143,366</u>	<u>\$ 919,933</u>	<u>\$ (180,710)</u>	<u>\$ -</u>	<u>\$ 19</u>	<u>11,882,608</u>
<u>Impairment</u>						
Buildings	26,258	\$ -	\$ -	\$ -	\$ -	26,258
Machinery and equipment	95,457	-	-	-	-	95,457
	<u>121,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>121,715</u>
	<u>\$ 8,718,654</u>					<u>\$ 8,352,719</u>

For the Year Ended December 31, 2017

	Balance, Beginning of Year	Additions	Deductions	Reclassification	Effects of Foreign Currency Exchange Differences	Balance, End of Year
<u>Cost</u>						
Land improvements	\$ 123,706	\$ -	\$ (2,392)	\$ -	\$ -	\$ 121,314
Buildings	5,131,565	33,787	(2,238)	722,100	-	5,885,214
Machinery and equipment	11,849,710	626,640	(393,985)	389,736	(2)	12,472,099
Transportation equipment	721,700	13,281	(4,446)	4,826	(103)	735,258
Leased assets	42,394	-	-	(42,394)	-	-
Other equipment	394,339	32,317	(1,515)	343,480	(16)	768,605
Property in construction	782,719	107,173	-	(888,647)	-	1,245
	<u>19,046,133</u>	<u>\$ 813,198</u>	<u>\$ (404,576)</u>	<u>\$ 529,101</u>	<u>\$ (121)</u>	<u>19,983,735</u>
<u>Accumulated depreciation</u>						
Land improvements	115,261	\$ 1,653	\$ (2,392)	\$ -	\$ -	114,522
Buildings	2,478,513	173,618	(2,238)	-	-	2,649,893
Machinery and equipment	7,133,807	617,554	(390,037)	42,394	(1)	7,403,717
Transportation equipment	671,667	16,154	(4,443)	-	(16)	683,362
Leased assets	41,806	588	-	(42,394)	-	-
Other equipment	239,292	54,096	(1,515)	-	(1)	291,872
	<u>10,680,346</u>	<u>\$ 863,663</u>	<u>\$ (400,625)</u>	<u>\$ -</u>	<u>\$ (18)</u>	<u>11,143,366</u>
<u>Impairment</u>						
Buildings	26,258	\$ -	\$ -	\$ -	\$ -	26,258
Machinery and equipment	95,457	-	-	-	-	95,457
	<u>121,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>121,715</u>
	<u>\$ 8,244,072</u>					<u>\$ 8,718,654</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

Land improvements	2-50 years
Buildings	
Main buildings	20-45 years
Others	3-60 years
Machinery and equipment	2-40 years
Transportation equipment	2-15 years
Leased assets	6 years
Other equipment	2-15 years

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 30.

14. INTANGIBLE ASSETS

	December 31	
	2018	2017
<u>Other intangible assets</u>		
Computer software	\$ 113,492	\$ 142,800
Deferred technical cooperation expenses	30,262	8,257
Patent	899	667
Trademark	175	250
	<u>144,828</u>	<u>151,974</u>
<u>Developing intangible assets</u>		
Projects non-recurring costs	<u>722,957</u>	<u>848,430</u>
	<u>\$ 867,785</u>	<u>\$ 1,000,404</u>
	Other Intangible Assets	Developing Intangible Assets
<u>Cost</u>		
Balance at January 1, 2018	\$ 944,254	\$ 5,857,993
Additions from internal developments	-	232,554
Additions	65,354	-
Disposals	(6,913)	-
Reclassification	<u>4,297</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 1,006,992</u>	<u>\$ 6,090,547</u>
<u>Accumulated amortization and impairment</u>		
Balance at January 1, 2018	\$ 792,280	\$ 5,009,563
Amortization expense	76,797	356,027
Disposals	(6,913)	-
Impairment loss recognized in profit and loss	<u>-</u>	<u>2,000</u>
Balance at December 31, 2018	<u>\$ 862,164</u>	<u>\$ 5,367,590</u>
Carrying amounts at December 31, 2018	<u>\$ 144,828</u>	<u>\$ 722,957</u>
<u>Cost</u>		
Balance at January 1, 2017	\$ 876,296	\$ 5,250,996
Additions	82,352	-
Additions from internal developments	-	651,481
Disposals	<u>(14,394)</u>	<u>(44,484)</u>
Balance at December 31, 2017	<u>\$ 944,254</u>	<u>\$ 5,857,993</u>

(Continued)

	Other Intangible Assets	Developing Intangible Assets
<u>Accumulated amortization and impairment</u>		
Balance at January 1, 2017	\$ 743,456	\$ 4,649,031
Amortization expense	63,218	402,000
Disposals	(14,394)	(44,484)
Impairment loss recognized in profit and loss	<u>-</u>	<u>3,016</u>
Balance at December 31, 2017	<u>\$ 792,280</u>	<u>\$ 5,009,563</u>
Carrying amounts at December 31, 2017	<u>\$ 151,974</u>	<u>\$ 848,430</u> (Concluded)

Projects non-recurring costs include the costs related to product design, tooling design and fabrication, production planning, specimen and prototype trial fabrication. Deferred technical cooperation expenses include the participation fees or royalties for participation in international cooperation and development of new business. The amounts were allocated by the proportion of actual sales volume divided by expected sales volume.

The above items of intangible assets are amortized on a straight-line basis over the estimated useful life of the asset:

Trademark	10-15 years
Patent	10-20 years
Computer software	2-3 years

15. OTHER FINANCIAL ASSETS

Other financial assets are the time deposits with original maturities over three months from the date of acquisition; for pledged assets information, refer to Note 30. The market rates of the time deposits in the years of 2018 and 2017 were 0.28%-3% and 0.35%-2.05%, respectively.

16. OTHER ASSETS

	<u>December 31</u>	
	2018	2017
<u>Current</u>		
Prepayment	\$ 3,801,375	\$ 1,721,218
Others	<u>69,833</u>	<u>33,062</u>
	<u>\$ 3,871,208</u>	<u>\$ 1,754,280</u>

	December 31	
	2018	2017
<u>Non-current</u>		
Overdue receivables (Note 9)	\$ 6,968	\$ 9,784
Less: Allowance for impairment loss	<u>(5,792)</u>	<u>(9,651)</u>
	1,176	133
Refundable deposits	21,772	15,840
Other	<u>181,477</u>	<u>-</u>
	<u>\$ 204,425</u>	<u>\$ 15,973</u>

17. BORROWINGS

a. Short-term borrowings

	December 31	
	2018	2017
Unsecured borrowings	\$ 7,730,000	\$ 5,515,000
Secured borrowings (Note 30)	<u>-</u>	<u>1,000,000</u>
	<u>\$ 7,730,000</u>	<u>\$ 6,515,000</u>
Rates of interest per annum (%)	0.86-1.5	0.78-0.88

b. Short-term bills payable

	December 31	
	2018	2017
Commercial paper	\$ 2,500,000	\$ 2,500,000
Less: Unamortized discount on bills payable	<u>(425)</u>	<u>(671)</u>
	<u>\$ 2,499,575</u>	<u>\$ 2,499,329</u>
Rate of interest per annum (%)	0.53-0.77	0.5-0.71

c. Long-term borrowings

	December 31	
	2018	2017
Credit borrowings	\$ 6,327,635	\$ 2,518,241
Secured borrowings (Note 30)	<u>1,800,000</u>	<u>1,800,000</u>
	8,127,635	4,318,241
Less: Current portion	<u>(5,289,606)</u>	<u>(342,606)</u>
Long-term borrowings	<u>\$ 2,838,029</u>	<u>\$ 3,975,635</u>
Rates of interest per annum (%)	0.78-1.13	0.78-1.22

18. OTHER PAYABLES

	December 31	
	2018	2017
Payable for salaries and bonuses	\$ 1,453,985	\$ 1,290,348
Payable for outsourcing	748,847	883,854
Payable for purchase of equipment	229,855	284,970
Payable for service fee	138,807	94,239
Payable for employee's compensation and remuneration of directors	136,404	115,127
Payable for annual leave	105,964	107,002
Payable for remedy	6,870	55,219
Others	<u>697,961</u>	<u>916,955</u>
	<u>\$ 3,518,693</u>	<u>\$ 3,747,714</u>

19. PROVISIONS - NON-CURRENT

	December 31	
	2018	2017
Warranties	\$ 656,794	\$ 795,067
Others	<u>114,273</u>	<u>144,083</u>
	<u>\$ 771,067</u>	<u>\$ 939,150</u>

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of other events affecting product quality.

Others refer to the obligation of the Group to improve its Taichung Complex groundwater pollution remediation site as ordered by the Environmental Protection Administration. The Group has the obligation to improve this site and recognized the discounted value of the best estimate of the remediation expenses as provisions.

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

AIDC USA has not established a retirement plan in accordance with local ordinances.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes to a pension fund administered by the pension fund monitoring committee; the amounts of contributions were equal to 16.31% and 15.85% of total monthly salaries and wages for the years ended December 31, 2018 and

2017, respectively. Pension contributions are deposited in the Bank of Taiwan in the committee's name and are managed by the Bureau of Labor Funds, Ministry of Labor ("the "Bureau"). Before the end of each year, The Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, The Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Company has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of The Company's defined benefit plans were as follows:

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 1,889,063	\$ 1,425,694
Fair value of plan assets	<u>(1,806,616)</u>	<u>(1,392,272)</u>
Net defined benefit liabilities	<u>\$ 82,447</u>	<u>\$ 33,422</u>

Movements in net defined benefit asset were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Asset)
Balance at January 1, 2017	\$ 988,764	\$ (1,009,462)	\$ (20,698)
Service cost			
Current service cost	400,054	-	400,054
Net interest expense (income)	<u>11,344</u>	<u>(13,868)</u>	<u>(2,524)</u>
Recognized in profit or loss	<u>411,398</u>	<u>(13,868)</u>	<u>397,530</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	3,609	3,609
Actuarial loss - changes in financial assumptions	33,511	-	33,511
Actuarial loss - experience adjustments	<u>17,000</u>	<u>-</u>	<u>17,000</u>
Recognized in other comprehensive income (loss)	<u>50,511</u>	<u>3,609</u>	<u>54,120</u>
Contributions from the employer	-	(397,530)	(397,530)
Benefits paid	<u>(24,979)</u>	<u>24,979</u>	<u>-</u>
Balance at December 31, 2017	<u>1,425,694</u>	<u>(1,392,272)</u>	<u>33,422</u>
Service cost			
Current service cost	411,360	-	411,360
Net interest expense (income)	<u>12,043</u>	<u>(13,501)</u>	<u>(1,458)</u>
Recognized in profit or loss	<u>423,403</u>	<u>(13,501)</u>	<u>409,902</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Asset)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (36,999)	\$ (36,999)
Actuarial gain - changes in financial assumptions	(8,854)	-	(8,854)
Actuarial loss - experience adjustments	<u>94,878</u>	<u>-</u>	<u>94,878</u>
Recognized in other comprehensive income (loss)	<u>86,024</u>	<u>(36,999)</u>	<u>49,025</u>
Contributions from the employer	-	(409,902)	(409,902)
Benefits paid	<u>(46,058)</u>	<u>46,058</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 1,889,063</u>	<u>\$ (1,806,616)</u>	<u>\$ 82,447</u>

(Concluded)

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Pension Fund or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rate(s)	0.90%	0.85%
Expected rate(s) of salary increase	1.50%	1.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2018	2017
Discount rate(s)		
0.25% increase	\$ (35,718)	\$ (29,621)
0.25% decrease	\$ 36,687	\$ 30,480
Expected rate(s) of salary increase		
0.25% increase	\$ 36,376	\$ 30,206
0.25% decrease	\$ (35,596)	\$ (29,506)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2018	2017
The expected contributions to the plan for the next year	\$ 422,766	\$ 409,902
The average duration of the defined benefit obligation	7.55 years	7.1 years

21. EQUITY

a. Ordinary shares

	December 31	
	2018	2017
Number of shares authorized (in thousands)	1,500,000	1,500,000
Shares authorized	\$ 15,000,000	\$ 15,000,000
Number of shares issued and fully paid (in thousands)	941,867	941,867
Shares issued	\$ 9,418,671	\$ 9,418,671

On June 14, 2017, the Company's shareholders held a meeting and resolved to appropriate retained earnings to capital and issue 33,605 thousand ordinary shares with par value of NT\$10. The FSC approved the capital increase on June 28, 2017 and the board of directors set July 29, 2017 as the subscription base date. As a result, the Company increased its issued and fully paid shares to \$9,418,671.

b. Retained earnings and dividend policy

The Company's Articles of Incorporation provide that the annual net income after paying income tax should be used first to make up for prior years' losses, set aside 10% as a legal reserve and appropriate or reverse special reserve. The residual earnings will be allocated by the resolution in the shareholders' meeting. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to Note 23 (d).

Profits of the Company may be distributed by way of cash dividend or stockshare dividend. Since the Company is in a capital-intensive industry with steady growth in its current business, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stockshare dividend provided; however, the ratio of stockshare dividend shall not exceed 50% of total distribution.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's capital surplus. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's capital surplus, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse special reserve.

The appropriations of earnings for 2017 and 2016 having been approved in the shareholders' meetings on June 26, 2018, and June 14, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	2017	2016	2017	2016
Legal reserve	\$ 171,192	\$ 208,266		
Special reserve	460,153	624,796		
Cash dividends	1,064,310	908,262	\$ 1.13	\$ 1.00
Share dividends	-	336,056	-	0.37

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on March 28, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 207,007	
Special reserve	588,848	
Cash dividends	1,262,102	\$ 1.34

The appropriations of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held in May 2019.

22. REVENUES

	For the Year Ended December 31	
	2018	2017
Aircraft/vehicle maintenance	\$ 15,964,570	\$ 17,749,411
Aero/industrial engine	11,818,385	9,416,818
Industrial technology services	<u>399,143</u>	<u>371,185</u>
	<u>\$ 28,182,098</u>	<u>\$ 27,537,414</u>

23. NET PROFIT

a. Other income

	For the Year Ended December 31	
	2018	2017
Interest income	\$ 58,757	\$ 67,964
Remedy income	11,237	30,881
Other income from condoned liabilities	11,080	5,951
Others	<u>107,605</u>	<u>88,244</u>
	<u>\$ 188,679</u>	<u>\$ 193,040</u>

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Net foreign exchange gains (losses)	\$ 213,750	\$ (587,447)
Impairment loss	(2,000)	(3,016)
Gain (loss) on disposal of property, plant and equipment	812	(1,352)
Others	<u>(197,188)</u>	<u>(213,601)</u>
	<u>\$ 15,374</u>	<u>\$ (805,416)</u>

c. Employee benefits, depreciation and amortization

	Operating Cost	Operating Expense	Non-operating Expense	Transfer to Developing Intangible Assets	Capital cost	Total
<u>For the Year Ended December 31, 2018</u>						
Employee benefits expense						
Salaries expense	\$ 4,834,015	\$ 593,173	\$ 12,699	\$ 60,698	\$ 112	\$ 5,500,697
Retirement benefit						
Defined contribution plans	70,009	9,111	150	1,104	2	80,376
Defined benefit plans	357,030	46,465	767	5,629	11	409,902
Labor and health insurance	299,810	32,435	60,596	4,013	8	396,862
Other employee benefits	54,572	6,012	10,909	55	-	71,548
Depreciation expense	828,360	51,767	20,162	19,618	26	919,933
Amortization expense	414,061	10,081	39	8,642	1	432,824
<u>For the Year Ended December 31, 2017</u>						
Employee benefits expense						
Salaries expense	4,230,437	511,619	11,377	88,682	44	4,842,159
Retirement benefit						
Defined contribution plans	55,534	7,569	130	1,442	1	64,676
Defined benefit plans	341,334	46,524	803	8,864	5	397,530
Labor and health insurance	277,746	30,375	56,095	6,072	3	370,291
Other employee benefits	50,570	5,315	10,103	108	-	66,096
Depreciation expense	754,642	47,399	19,968	41,640	14	863,663
Amortization expense	442,280	10,057	51	12,829	1	465,218

d. Employees' compensation and remuneration of directors

The Company stipulate distribution of employees' compensation at the rates no less than 0.58% and remuneration to directors at the rates no higher than 4.65%, respectively, of net profit before income tax.

The employees' compensation and remuneration of directors for 2018 and 2017 having been resolved by the board of directors on March 28, 2019 and March 27, 2018, were as follows:

	For the Year Ended December 31			
	2018		2017	
	The Proportion of Estimate	Amount of Money	The Proportion of Estimate	Amount of Money
Employees' compensation	4.65%	\$ 121,277	4.65%	\$ 102,360
Remuneration of directors	0.58%	15,127	0.58%	12,767

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2017.

Information on the employees' compensation and the remuneration of directors resolved by the Company's board of directors in 2019 and 2018 are available at the Market Observation Post System website of the Taiwan Stock Exchange.

e. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2018	2017
Foreign exchange gains	\$ 521,564	\$ 191,708
Foreign exchange losses	<u>(307,814)</u>	<u>(779,155)</u>
Net gains (losses)	<u>\$ 213,750</u>	<u>\$ (587,447)</u>

24. TAXES

a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ 446,980	\$ 591,242
Income tax on unappropriated earnings	43,539	62,709
Adjustments for prior years	<u>(4,022)</u>	<u>2,084</u>
	<u>486,497</u>	<u>656,035</u>
Deferred tax		
In respect of the current year	122,565	(125,227)
Adjustments to deferred tax attributable to change in tax rates and laws	<u>(49,060)</u>	<u>-</u>
	<u>73,505</u>	<u>(125,227)</u>
Income tax expense recognized in profit or loss	<u>\$ 560,002</u>	<u>\$ 530,808</u>

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2018	2017
Income tax expense calculated at the statutory rate	\$ 565,539	\$ 444,074
Nondeductible expenses in determining taxable income	123	10
Tax-exempt income	(18)	(13)
Income tax on unappropriated earnings	43,539	62,709
Temporary differences	3,901	21,944
Adjustments to deferred tax attributable to change in tax rates and laws	(49,060)	-
Adjustments for prior years' tax	<u>(4,022)</u>	<u>2,084</u>
Income tax expense recognized in profit or loss	<u>\$ 560,002</u>	<u>\$ 530,808</u>

In 2017, the applicable corporate income tax rate used by the Company in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by a subsidiary in USA the United States is 39.5%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income (loss)

	For the Year Ended December 31	
	2018	2017
Deferred tax		
Remeasurement of defined benefit plan	\$ (10,808)	\$ (9,201)
Translation of foreign operations	-	(4,101)
	<u>\$ (10,808)</u>	<u>\$ (13,302)</u>

c. Deferred tax assets and liabilities

	For the Year Ended December 31, 2018			
			Recognized in Other Comprehensive Income	
	Opening Balance	Recognized in Profit or Loss		Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Provisions	\$ 159,655	\$ (5,440)	\$ -	\$ 154,215
Intangible assets	58,254	10,681	-	68,935
Payable for annual leave	18,190	3,002	-	21,192
Property plant and equipment	20,692	3,651	-	24,343
Unrealized loss on foreign currency exchange	42,851	(42,680)	-	171
Defined benefit plan	5,682	-	10,808	16,490
Others	<u>-</u>	<u>783</u>	<u>-</u>	<u>783</u>
	<u>\$ 305,324</u>	<u>\$ (30,003)</u>	<u>\$ 10,808</u>	<u>\$ 286,129</u>

For the Year Ended December 31, 2018			
		Recognized in Other Comprehensive Income	
	Opening Balance	Recognized in Profit or Loss	Closing Balance
<u>Deferred tax liabilities</u>			
Temporary differences			
Investment accounted for using equity method	\$ 21,633	\$ 43,546	\$ -
Others	<u>44</u>	<u>(44)</u>	<u>-</u>
	<u>\$ 21,677</u>	<u>\$ 43,502</u>	<u>\$ 65,179</u>

For the Year Ended December 31, 2017			
		Recognized in Other Comprehensive Income	
	Opening Balance	Recognized in Profit or Loss	Closing Balance
<u>Deferred tax assets</u>			
Temporary differences			
Provision	\$ 177,396	\$ (17,741)	\$ -
Intangible assets	61,180	(2,926)	-
Payable for annual leave	46,508	(28,318)	-
Property plant and equipment	20,692	-	-
Unrealized loss on foreign currency exchange	-	42,851	-
Defined benefit plan	<u>-</u>	<u>-</u>	<u>5,682</u>
	<u>\$ 305,776</u>	<u>\$ (6,134)</u>	<u>\$ 5,682</u>

<u>Deferred tax liabilities</u>			
Temporary differences			
Investment accounted for using equity method	\$ 128,492	\$ (106,859)	\$ -
Unrealized gain on foreign currency exchange	24,430	(24,430)	-
Translating foreign operations	4,101	-	(4,101)
Defined benefit plan	3,519	-	(3,519)
Others	<u>116</u>	<u>(72)</u>	<u>-</u>
	<u>\$ 160,658</u>	<u>\$ (131,361)</u>	<u>\$ (7,620)</u>

- d. Deductible temporary differences for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2018	2017
Deductible temporary differences		
Inventories	<u>\$ 2,160,722</u>	<u>\$ 2,142,678</u>

e. Income tax assessments

Income tax returns of the Company through 2016 have been examined and cleared by the tax authorities.

25. EARNINGS PER SHARE

Unit: NT\$ Per share

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	\$ 2.22	\$ 1.86
Diluted earnings per share	\$ 2.21	\$ 1.85

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

	For the Year Ended December 31	
	2018	2017
<u>Profit for the year attributable to owners of the Company</u>		
Earnings used in the computation of basic earnings per share		
(Earnings used in the computation of diluted earnings per share)	\$ 2,092,016	\$ 1,747,981
<u>Weighted average number of ordinary shares outstanding</u>		
<u>(in thousand shares)</u>		
Weighted average number of ordinary shares in computation of basic earnings per share	941,867	941,867
Effect of potentially dilutive ordinary shares		
Employees' compensation issue to employees	4,689	3,549
Weighted average number of ordinary shares used in the computation of diluted earnings per share	946,556	945,416

If the Company's compensation or bonuses payable to employees can be settled in cash or shares, then the Company should assume the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares, if dilutive, should be included in the weighted average number of shares outstanding used in the computation of diluted earnings per share. Such dilutive effect of the potential shares should be included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

26. OPERATING LEASE ARRANGEMENTS

The future minimum lease payments for non-cancellable operating lease commitments are as follows:

	December 31	
	2018	2017
Not later than 1 year	\$ 164,996	\$ 164,957
Later than 1 year and not later than 5 years	<u>-</u>	<u>164,630</u>
	<u>\$ 164,996</u>	<u>\$ 329,587</u>

27. CAPITAL MANAGEMENT

The Group must maintain adequate capital necessary for profitable operations and business expansion, equipment upgrade and participation in international new aircraft developing. Therefore, the Group manages its capital to ensure that the Group will have enough financial resources to respond accordingly to its working capital requirements at least for the next 12 months, capital expenditures, participation in international new aircraft developing and repayments of liabilities.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents and other financial assets) and equity (comprising ordinary shares, retained earnings and other equity).

28. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

The management considers the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values or their fair values cannot be reliably measured.

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	\$ 70,400	\$ -	\$ -	\$ 70,400
Unlisted shares	<u>-</u>	<u>-</u>	<u>33,067</u>	<u>33,067</u>
	<u>\$ 70,400</u>	<u>\$ -</u>	<u>\$ 33,067</u>	<u>\$ 103,467</u>

There were no transfers between Levels 1 and 2 in for the years ended December 31, 2018 and 2017, respectively.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2018

Financial Assets	Financial Assets at FVTOCI Equity Instruments
Balance at January 1, 2018	\$ 33,848
Recognized in other comprehensive loss	<u>(781)</u>
Balance at December 31, 2018	<u>\$ 33,067</u>

3) Valuation techniques and inputs applied for Level 3 fair value measurement

The marketable securities of unlisted shares held by the Group is estimated using the evaluation method when there is no market price reference. The fair value of unlisted shares was evaluated using the asset-based approach.

c. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Loans and receivables	\$ -	\$ 14,613,583
Financial assets at amortized cost	18,379,326	-
Financial assets measured at cost	-	79,200
Investments in equity instruments at FVTOCI - non-current	103,467	-
<u>Financial liabilities</u>		
Financial liabilities at amortized cost	22,745,084	17,677,483

Loans and receivables measured at amortized cost which comprise cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits.

Financial assets at amortized cost comprise cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits.

Financial liabilities at amortized cost comprise short-term borrowings, short-term bills payable, trade payables, other payables (excluded payable for salaries and bonuses, payable for annual leave and payable for employee's compensation and remuneration of directors), other financial liabilities (accounted at other current liabilities), long-term borrowings (included not later than one year) and guarantee deposits.

d. Financial risk management objectives

The Group's major financial risk management objectives are to manage the market risk (including currency risk, and interest rate risk), credit risk and liquidity risk of operating activities. The Group minimizes the unfavorable effects of these risks by identification and assessment of the risks and by applying aversion methods to the uncertainties.

The Group's financial targets including its investment plan for fixed assets are laid out in its "Five-Year Business Plan". The financial plan includes risk management policies and the division of responsibilities.

The Group's major financial instruments include cash, trade receivable, short-term borrowings, trade payables and long-term borrowings. The financial department coordinates access to domestic financial markets.

The Group's compliance with the operating procedure and responsibilities are reviewed by the internal auditors. The evaluation results are also used for future reference by the authorities.

1) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

Foreign currency risk

The Group minimizes its currency exposure by natural hedging. Foreign currency operation performance is reported to the key management personnel every quarter and the expected foreign currency and operation direction are set for the next quarter.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 32.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar. The Group's sensitivity to a 0.5% stronger or weaker New Taiwan dollar against the relevant foreign currencies means profit before income tax would be increased/decreased by \$48,356 thousand and \$41,262 thousand for the years ended December 31, 2018 and 2017. The sensitivity rate of 0.5% represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, with the foreign currency rates at the end of the reporting period adjusted for a 0.5% change.

Interest rate risk

The Group's interest risk is evaluated in terms of short-term borrowings; short-term bills payable and long-term borrowings. Borrowing and repayment require budget planning in advance to control the interest risk. Interest rates of short-term loans from different financial organizations are compared and lowest one will be selected.

Sensitivity analysis

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would decrease/increase by \$33,394 thousand and \$27,083 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings. A 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The possible financial loss would equal to the carrying amount of the recognized financial assets as stated in the balance sheets. However, the Group is executing forward exchange only with the correspondent financial institutions, and they are creditworthy with no credit risks.

The Group's dealing counterparties are national defence organizations and international aerospace corporations, and they are creditworthy with extreme low risk of bankruptcy. The Group's key management checks the accounts receivable every month, and instructs the project team to collect the past due amounts.

The Group's concentration of credit risk by geographical location was mainly in the U.S. United States, which accounted for 40% and 37% of the total trade receivable as of December 31, 2018 and 2017, respectively.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the Group had available unutilized bank loan facilities as set out in (b) below.

a) Liquidity and interest risk rate tables for non-derivative financial liabilities

The following tables details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

	December 31, 2018	
	Less Than 1 Year	More than 1 Year
<u>Non-derivative financial liabilities</u>		
Non-interest bearing liabilities	\$ 4,182,134	\$ 205,740
Variable interest rate liabilities	10,519,606	2,838,029
Fixed interest rate liabilities	<u>4,999,575</u>	<u>-</u>
	<u>\$ 19,701,315</u>	<u>\$ 3,043,769</u>

	December 31, 2017	
	Less Than 1 Year	More than 1 Year
<u>Non-derivative financial liabilities</u>		
Non-interest bearing liabilities	\$ 4,140,804	\$ 204,109
Variable interest rate liabilities	5,142,606	3,975,635
Fixed interest rate liabilities	<u>4,214,329</u>	<u>-</u>
	<u>\$ 13,497,739</u>	<u>\$ 4,179,744</u>

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities (reviewed annually)

	December 31	
	2018	2017
Unsecured bank overdraft facility:		
Amount unused	<u>\$ 4,975,573</u>	<u>\$ 12,493,750</u>
Secured bank loan facilities:		
Amount unused	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

29. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiary, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and related parties are disclosed below.

a. Related Party Categories / Names

<u>Related Party Name</u>	<u>Relationship with the Consolidated Company</u>
ITEC	Associate
Ministry of Economic Affairs	Corporate director

b. Sales of goods

	For the Year Ended December 31	
Related Parties Name	2018	2017
ITEC	<u>\$ 1,254,290</u>	<u>\$ 1,213,353</u>

The Group's sales prices are based on the contracts. The collection terms are as follows:

<u>Item</u>	<u>Collection terms</u>
Engine	90 days after the invoice date
Backup parts	Offset account receivables with account payable

There is no unrelated party with similar product item to compare the engine sales price. The backup parts are only directly sold to the ROC Air Force, and the sales price is according to the purchase contract with related party plus the processing fee agreed by both parties, and collection term is 1-2 months.

c. Purchase of goods

Related Parties Name	For the Year Ended December 31	
	2018	2017
ITEC	\$ <u>924,826</u>	\$ <u>1,025,748</u>

The Group's buying prices from related party are based on contract. The payment term in principle is 1-2 months or paying after offset of accounts receivable. There are no unrelated parties with similar product items that can serve as basis of comparison of prices and terms.

d. Manufacturing expenses

Related Parties Name	For the Year Ended December 31	
	2018	2017
ITEC	\$ 487,619	\$ 510,420
Ministry of Economic Affairs	<u>-</u>	<u>50,419</u>
	\$ <u>487,619</u>	\$ <u>560,839</u>

e. Operation expenses

Related Parties Name	For the Year Ended December 31	
	2018	2017
Ministry of Economic Affairs	\$ <u>-</u>	\$ <u>29,005</u>

- f. The Group leases land from the Ministry of Economic Affairs, rent expense is calculated at 5% of the annually announced land values, payment is once a year. Since 2018, the ownership of the land has been changed to the National Property Administration, Ministry of Finance. Rent expense for the year ended December 31, 2017 was \$105,562 thousand.

g. Receivable from related parties

Related Parties Name	December 31	
	2018	2017
ITEC	\$ <u>310,857</u>	\$ <u>308,373</u>

The outstanding trade receivables from related parties are unsecured. No impairment loss and excepted credit loss was recognized on trade receivables from related parties.

h. Other current assets

Related Parties Name	December 31	
	2018	2017
ITEC	\$ <u>796,598</u>	\$ <u>222,401</u>

i. Payable to related parties

Related Parties Name	December 31	
	2018	2017
ITEC	\$ 294,289	\$ 201,665

The outstanding trade payables to related parties are unsecured.

j. Other payables

Related Parties Name	December 31	
	2018	2017
ITEC	\$ 90,391	\$ 25,737

k. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term benefits	\$ 36,098	\$ 33,753
Post-employment benefits	1,279	3,922
	<u>\$ 37,377</u>	<u>\$ 37,675</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following other financial assets and property, plant and equipment were provided as collateral for bank borrowings and obligation:

	December 31	
	2018	2017
Property, plant and equipment	\$ 2,121,409	\$ 2,189,921
Other financial assets - Current	1,860,093	2,986,905
Other financial assets - Non - current	<u>10,807</u>	<u>10,807</u>
	<u>\$ 3,992,309</u>	<u>\$ 5,187,633</u>

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2018 and 2017 were as follows:

- As of December 31, 2018 and 2017, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$114,076 thousand and \$156,402 thousand, respectively.
- As of December 31, 2018 and 2017, unpaid contract for purchases of raw materials and machinery and equipment amounted to approximately \$36,761,294 thousand and \$29,803,225 thousand, respectively.

32. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

	December 31					
	2018			2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Assets</u>						
Monetary items						
USD	\$ 323,600	30.715	\$ 9,939,374	\$ 293,148	29.76	\$ 8,724,084
Non-monetary items						
USD	19,632	30.715	602,985	14,412	29.76	428,906
<u>Liabilities</u>						
Monetary items						
USD	8,732	30.715	268,203	15,850	29.76	471,696

The significant unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2018		2017	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Loss	Exchange Rate	Net Foreign Exchange Loss
USD	30.715	<u>\$ (1,035)</u>	29.76	<u>\$(251,851)</u>

33. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (None)
- 2) Endorsements/guarantees provided. (None)
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 1)
- 4) Marketable securities acquired and disposed at costs or prices at least \$300 million or 20% of the paid-in capital. (None)
- 5) Acquisition of individual real estate at costs of at least \$300 million or 20% of the paid-in capital. (Table 2)
- 6) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital. (None)

- 7) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital. (Table 3)
 - 8) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital. (Table 4)
 - 9) Trading in derivative instruments. (None)
 - 10) Intercompany relationships and significant intercompany transactions. (Table 5)
 - 11) Information on investees. (Table 6)
- b. Information on investments in mainland China. (None)

34. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the type of services delivered or provided.

The Group has only one operating segment which is the main business, i.e. design, manufacture, assembly, testing and maintenance of aircraft.

a. Geographical information

	For the Year Ended December 31	
	2018	2017
Asia	\$ 12,792,812	\$ 15,124,728
America	12,488,381	9,925,806
Europe	<u>2,900,905</u>	<u>2,486,880</u>
	<u>\$ 28,182,098</u>	<u>\$ 27,537,414</u>

b. Information on major customers

Single customers that contributed 10% or more to the Group's revenue were as follows:

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Customer A	\$ 5,060,199	18	\$ 3,441,161	12
Customer B	3,554,997	13	3,523,233	13
Customer C	3,514,216	12	1,105,663	4

TABLE 1

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars or Shares)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018			
				Shares	Carrying Value	Percentage of Ownership	Fair Value
The Company	<u>Share capital</u>						
	UHT Ltd.	-	Financial assets at FVTOCI - non-current	1,100	\$ 70,400	3.2%	\$ 70,400
	AAI	The Company is a corporate director	Financial assets at FVTOCI - non-current	4,968	30,918	13.09%	30,918
	Metro Ltd.	The Company is a corporate director	Financial assets at FVTOCI - non-current	300	2,149	6%	2,149

Note: Information about subsidiary and associate is provided in Table 6.

TABLE 2

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COST FOR AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Company	Building	2018.12.14	\$ 608,311	Note	Note	-	N/A	N/A	N/A	N/A	Price comparison and negotiation	Production	None

Note: The expected date to bid is in April 2019.

TABLE 3

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Purchaser or Seller	Related Party	Nature of Relationship with the Purchaser or Seller	Transaction Details				Abnormal Transaction		Notes and Accounts Receivable (Payable)		Note
			Purchase or Sale	Amount	% to Total	Collection Terms	Unit Price	Collection Terms	Ending Balance	% to Total	
The Company	ITEC	Associate	Sale	\$ (1,228,336)	(4)	Note	Note	Note	\$ 306,833	2	
			Purchase	924,826	8	Note	Note	Note	(294,289)	(13)	

Note: Information is provided in Note 29.

TABLE 4

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES

**RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
The Company	ITEC	Associate	\$ 306,833	3.99	\$ -	-	\$ 306,833	\$ -

TABLE 5

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

No.	Investee Company	Counterparty	Relationship	Transactions Details			
				Financial Statement Accounts	Amount	Payment Terms	% to Total Sales or Assets
0	The Company	AIDC USA	Parent company to subsidiary	Purchase of goods	\$ 706	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Manufacturing expenses	16,915	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Operation expenses	18,650	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Other payables	3,057	T/T 30 - 60 days	-

Note: Significant intercompany accounts and transactions have been eliminated.

TABLE 6

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars or Shares, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018			Net Income of the Investee	Share of Profits	Note
				December 31, 2018	December 31, 2017	Shares	%	Carrying Amount			
The Company	AIDC USA	State of Delaware USA	Provide program management and relevant services for purchasing and selling raw materials, parts and components of aircraft, engines and subsystems.	\$ 288,661	\$ 288,661	-	100	\$ 621,696	\$ 197,169	\$ 197,169	Subsidiary
AIDC USA	ITEC	State of Delaware USA	Development production and remodel of aircraft	728	728	-	22.05	602,985	1,066,263	235,111	Associate