

TWSE:5388

**SERCOMM CORPORATION AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS
SEPTEMBER 30, 2019 AND 2018**

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

REPORT ON REVIEW OF FINANCIAL STATEMENTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Sercomm Corporation

Introduction

We have reviewed the accompanying consolidated balance sheets of Sercomm Corporation and subsidiaries (the “Group”) as at September 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three-month and nine-month period then ended, as well as the related statements of changes in equity and of cash flows for the nine-month period then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

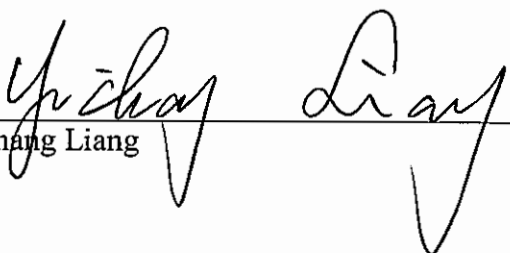
Basis for Qualified Conclusion

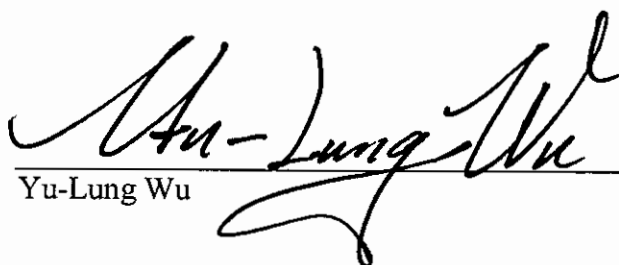
As explained in Note 4(3), the financial statements of certain non-significant consolidated subsidiaries and investments accounted for using equity method were not reviewed by independent accountants. Those statements reflect total assets (including investments accounted for using equity method) of NT\$446,481 thousand and NT\$745,575 thousand, constituting 1.7% and 3.2% of the consolidated total assets, and total liabilities of NT\$58,654 thousand and NT\$29,611 thousand, constituting 0.3% and 0.2% of the consolidated total liabilities as at September 30, 2019 and 2018, and operating revenue of NT\$458,588 thousand, NT\$473,412 thousand, NT\$1,009,088 thousand and NT\$1,081,981 thousand,

constituting 5.1%, 5.6%, 4.5% and 4.5% of the consolidated total operating revenue, and total comprehensive income (loss) of (NT\$137,847) thousand, (NT\$37,568) thousand, (NT\$197,613) thousand and NT\$7,739 thousand, constituting (84.7%), (112%), (33.4%) and 1.3% of the consolidated total comprehensive income (loss) for the three-month and nine-month period then ended.

Qualified Conclusion

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and investments accounted for using equity method been reviewed by independent accountants, that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2019 and 2018, and of its consolidated financial performance for the three-month and nine-month period then ended and its consolidated cash flows for the nine-month period then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.


Yi-Chang Liang


Yu-Lung Wu

For and on behalf of PricewaterhouseCoopers, Taiwan

November 8, 2019

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

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

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2019 and 2018 are reviewed, not audited)

	Assets	Notes	September 30, 2019		December 31, 2018		September 30, 2018	
			Amount	%	Amount	%	Amount	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 6,168,162	24	\$ 5,357,910	23	\$ 5,210,344	22
1110	Financial assets at fair value through profit or loss - current	6(2)	427,046	2	434,889	2	478,575	2
1120	Financial assets measured at fair value through other comprehensive income - current	6(3)	241,481	1	250,259	1	293,360	1
1139	Financial assets for hedging - current	6(4)	99,941	-	41,644	-	67,784	-
1150	Notes receivable, net	6(5)	1,110,201	4	898,632	4	630,893	3
1170	Accounts receivable, net	6(5)	5,540,069	22	5,642,324	24	5,251,971	23
1200	Other receivables	6(6)	445,006	2	925,295	4	444,983	2
1220	Current income tax assets		11,762	-	33,925	-	-	-
130X	Inventories	6(7)	6,344,193	25	5,024,173	22	5,747,707	25
1410	Prepayments		275,154	1	184,252	1	230,328	1
1470	Other current assets	8	178,170	1	98,225	-	272,479	1
11XX	Total Current Assets		<u>20,841,185</u>	<u>82</u>	<u>18,891,528</u>	<u>81</u>	<u>18,628,424</u>	<u>80</u>
Non-current assets								
1510	Financial assets at fair value through profit or loss - noncurrent	6(2)	31,124	-	41,797	-	60,979	-
1517	Financial assets measured at fair value through other comprehensive income - noncurrent	6(3)	53,009	-	58,870	-	82,268	-
1550	Investments accounted for using equity method	6(8)	7,783	-	9,251	-	28,333	-
1600	Property, plant and equipment, net	6(9)	2,988,642	12	3,250,139	14	3,204,218	14
1755	Right-of-use assets	6(10)	625,694	3	-	-	-	-
1780	Intangible assets, net	6(11)	355,075	1	359,339	2	270,532	1
1840	Deferred income tax assets		387,611	2	397,339	2	380,122	2
1915	Prepayments for business facilities	6(30)	86,596	-	115,339	1	195,292	1
1920	Guarantee deposits paid	8	74,034	-	88,702	-	60,654	-
1980	Other non-current financial assets	9	69,965	-	69,438	-	167,994	1
1985	Long-term prepaid rents		-	-	85,051	-	85,045	1
1990	Other non-current assets, others		655	-	1,033	-	917	-
15XX	Total non-current assets		<u>4,680,188</u>	<u>18</u>	<u>4,476,298</u>	<u>19</u>	<u>4,536,354</u>	<u>20</u>
1XXX	Total assets		<u>\$ 25,521,373</u>	<u>100</u>	<u>\$ 23,367,826</u>	<u>100</u>	<u>\$ 23,164,778</u>	<u>100</u>

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SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2019 and 2018 are reviewed, not audited)

Liabilities and Equity	Notes	September 30, 2019		December 31, 2018		September 30, 2018	
		Amount	%	Amount	%	Amount	%
Current liabilities							
2100		\$ 1,253,058	5	\$ 2,692,520	12	\$ 3,362,725	14
2120							
		2,208	-	560	-	5,886	-
2126							
		-	-	-	-	5,243	-
2130		233,452	1	214,498	1	86,889	-
2150		739,490	3	518,089	2	930,670	4
2170		9,672,593	38	9,331,166	40	8,852,103	38
2200		2,529,697	10	2,662,407	11	2,454,083	11
2230		350,321	1	198,070	1	134,944	1
2250		163,188	1	100,615	-	1,558	-
2280		75,619	-	-	-	-	-
2355		-	-	13,922	-	13,853	-
2365		152,407	1	177,889	1	128,755	1
2399		149,134	-	150,776	1	230,216	1
21XX		<u>15,321,167</u>	<u>60</u>	<u>16,060,512</u>	<u>69</u>	<u>16,206,925</u>	<u>70</u>
Non-current liabilities							
2530		2,300,000	9	-	-	-	-
2570		155,146	1	138,200	1	131,140	1
2580		342,526	1	-	-	-	-
2610		-	-	99,537	-	103,250	-
2640							
		53,800	-	56,864	-	55,393	-
2645		5,577	-	2,937	-	5,120	-
25XX		<u>2,857,049</u>	<u>11</u>	<u>297,538</u>	<u>1</u>	<u>294,903</u>	<u>1</u>
2XXX		<u>18,178,216</u>	<u>71</u>	<u>16,358,050</u>	<u>70</u>	<u>16,501,828</u>	<u>71</u>
Equity							
Equity attributable to owners of parent							
Share capital							
3110		2,456,538	10	2,456,538	11	2,456,538	11
3140		34,010	1	-	-	-	-
Capital surplus							
3200		1,938,153	7	1,800,214	7	1,772,014	7
Retained earnings							
3310		1,106,342	4	1,025,583	4	1,025,583	5
3320		381,414	2	412,964	2	412,962	2
3350		1,904,705	8	1,892,728	8	1,594,298	7
Other equity interest							
3400		(478,575)	(2)	(381,413)	(1)	(346,250)	(2)
Treasury stocks							
3500		-	-	(196,383)	(1)	(250,205)	(1)
31XX		<u>7,342,587</u>	<u>29</u>	<u>7,010,231</u>	<u>30</u>	<u>6,664,940</u>	<u>29</u>
36XX		<u>570</u>	<u>-</u>	<u>(455)</u>	<u>-</u>	<u>(1,990)</u>	<u>-</u>
3XXX		<u>7,343,157</u>	<u>29</u>	<u>7,009,776</u>	<u>30</u>	<u>6,662,950</u>	<u>29</u>
SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS							
3X2X		<u>\$ 25,521,373</u>	<u>100</u>	<u>\$ 23,367,826</u>	<u>100</u>	<u>\$ 23,164,778</u>	<u>100</u>

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

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

Items	Notes	Three-month period ended September 30,				Nine-month period ended September 30,			
		2019		2018		2019		2018	
		Amount	%	Amount	%	Amount	%	Amount	%
4000 Operating revenue	6(22)	\$ 9,059,604	100	\$ 8,519,282	100	\$ 22,238,429	100	\$ 23,782,466	100
5000 Operating costs	6(7)	(7,729,181)	(86)	(7,367,171)	(86)	(18,570,685)	(84)	(20,647,986)	(87)
5900 Gross profit		<u>1,330,423</u>	<u>14</u>	<u>1,152,111</u>	<u>14</u>	<u>3,667,744</u>	<u>16</u>	<u>3,134,480</u>	<u>13</u>
Operating expenses									
6100 Selling expenses		(331,402)	(3)	(269,216)	(3)	(919,861)	(4)	(737,556)	(3)
6200 General and administrative expenses		(158,152)	(2)	(176,520)	(2)	(575,261)	(3)	(553,656)	(2)
6300 Research and development expenses		(528,796)	(6)	(452,590)	(6)	(1,439,350)	(6)	(1,282,262)	(6)
6450 (Reversal of) impairment loss	12(2)	(105)	-	(3,000)	-	10,102	-	3,353	-
6000 Total operating expenses		<u>(1,018,455)</u>	<u>(11)</u>	<u>(901,326)</u>	<u>(11)</u>	<u>(2,924,370)</u>	<u>(13)</u>	<u>(2,570,121)</u>	<u>(11)</u>
6900 Operating profit		<u>311,968</u>	<u>3</u>	<u>250,785</u>	<u>3</u>	<u>743,374</u>	<u>3</u>	<u>564,359</u>	<u>2</u>
Non-operating income and expenses									
7010 Other income	6(23)	61,153	1	58,838	1	107,239	1	106,755	1
7020 Other gains and losses	6(24)	8,375	-	(62,836)	(1)	66,865	-	67,982	-
7050 Finance costs	6(25)	(27,838)	-	(20,324)	-	(74,184)	-	(51,132)	-
7060 Share of profit of associates and joint ventures accounted for using equity method	6(8)	945	-	(1,143)	-	(1,157)	-	(1,495)	-
7000 Total non-operating income and expenses		<u>42,635</u>	<u>1</u>	<u>(25,465)</u>	<u>-</u>	<u>98,763</u>	<u>1</u>	<u>122,110</u>	<u>1</u>
7900 Profit before income tax		<u>354,603</u>	<u>4</u>	<u>225,320</u>	<u>3</u>	<u>842,137</u>	<u>4</u>	<u>686,469</u>	<u>3</u>
7950 Income tax expense	6(28)	(63,527)	(1)	(40,053)	(1)	(159,960)	(1)	(140,232)	-
8200 Profit for the period		<u>\$ 291,076</u>	<u>3</u>	<u>\$ 185,267</u>	<u>2</u>	<u>\$ 682,177</u>	<u>3</u>	<u>\$ 546,237</u>	<u>3</u>

(Continued)

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

Items	Notes	Three-month period ended September 30,				Nine-month period ended September 30,				
		2019		2018		2019		2018		
		Amount	%	Amount	%	Amount	%	Amount	%	
Components of other comprehensive income that will not be reclassified to profit or loss										
8316	Recorded as unrealised gains on valuation of investments in equity instruments measured at fair value through other comprehensive income	6(3)	(\$ 4,102)	-	(\$ 6,313)	-	\$ 9,301	-	(\$ 6,199)	-
8317	Gain on hedging instrument	6(21)	-	-	-	-	18,090	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(28)	-	-	-	-	(1,540)	-	996	-
8310	Total components of other comprehensive income that will not be reclassified to profit or loss		(4,102)	-	(6,313)	-	25,851	-	(5,203)	-
Components of other comprehensive income that will be reclassified to profit or loss										
8361	Financial statements translation differences of foreign operations		(208,443)	(2)	(192,464)	(2)	(162,905)	-	(170,055)	(1)
8368	Gain on hedging instruments	6(21)	105,181	1	3,322	-	58,516	-	281,628	1
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(28)	(21,036)	-	43,730	-	(11,703)	-	(35,841)	-
8360	Total components of other comprehensive income that will be reclassified to profit or loss		(124,298)	(1)	(145,412)	(2)	(116,092)	-	75,732	-
8500	Total comprehensive income		\$ 162,676	2	\$ 33,542	-	\$ 591,936	3	\$ 616,766	3
Profit, attributable to										
8610	Owners of the parent		\$ 289,944	3	\$ 184,258	2	\$ 681,149	3	\$ 507,343	3
8620	Non-controlling interest		1,132	-	1,009	-	1,028	-	38,894	-
	Total		\$ 291,076	3	\$ 185,267	2	\$ 682,177	3	\$ 546,237	3
Comprehensive income attributable to										
8710	Owners of the parent		\$ 161,543	2	\$ 32,982	-	\$ 590,911	3	\$ 577,655	3
8720	Non-controlling interest		1,133	-	560	-	1,025	-	39,111	-
	Total		\$ 162,676	2	\$ 33,542	-	\$ 591,936	3	\$ 616,766	3
Earnings per share										
9750	Basic earnings per share	6(29)	\$ 1.18		\$ 0.75		\$ 2.78		\$ 2.07	
9850	Diluted earnings per share		\$ 1.17		\$ 0.75		\$ 2.73		\$ 2.03	

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

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

	Notes	Equity attributable to owners of the parent											Non-controlling interest	Total equity
		Share capital			Retained earnings				Other equity					
		Common stock	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Undistributed retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on financial assets at fair value through other comprehensive income	Gain or loss on hedging instrument	Treasury shares	Total		
Nine-month period ended September 30, 2018														
Balance at January 1, 2018		\$ 2,456,538	\$ -	\$ 1,764,717	\$ 894,396	\$ 131,678	\$ 2,419,729	(\$ 210,063)	\$ 13,486	(\$ 219,087)	\$ -	\$ 7,251,394	(\$ 25,098)	\$ 7,226,296
Profit for the period		-	-	-	-	-	507,343	-	-	-	-	507,343	38,894	546,237
Other comprehensive income (loss) for the period	6(21)	-	-	-	-	-	898	(193,605)	(6,101)	269,120	-	70,312	217	70,529
Total comprehensive income(loss)		-	-	-	-	-	508,241	(193,605)	(6,101)	269,120	-	577,655	39,111	616,766
Appropriation and distribution of retained earnings:														
Legal reserve	6(20)	-	-	-	131,187	-	(131,187)	-	-	-	-	-	-	-
Special reserve	6(20)	-	-	-	-	281,284	(281,284)	-	-	-	-	-	-	-
Cash dividends	6(20)	-	-	-	-	-	(921,201)	-	-	-	(921,201)	-	(921,201)	-
Compensation cost of employee stock options	6(16)	-	-	7,297	-	-	-	-	-	-	-	7,297	-	7,297
Purchase of treasury shares		-	-	-	-	-	-	-	-	-	(250,205)	(250,205)	-	(250,205)
Change in non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	(16,003)	(16,003)
Balance at September 30, 2018		\$ 2,456,538	\$ -	\$ 1,772,014	\$ 1,025,583	\$ 412,962	\$ 1,594,298	(\$ 403,668)	\$ 7,385	\$ 50,033	(\$ 250,205)	\$ 6,664,940	(\$ 1,990)	\$ 6,662,950
Nine-month period ended September 30, 2019														
Balance at January 1, 2019		\$ 2,456,538	\$ -	\$ 1,800,214	\$ 1,025,583	\$ 412,964	\$ 1,892,728	(\$ 361,896)	(\$ 52,833)	\$ 33,316	(\$ 196,383)	\$ 7,010,231	(\$ 455)	\$ 7,009,776
Profit for the period		-	-	-	-	-	681,149	-	-	-	-	681,149	1,028	682,177
Other comprehensive income (loss) for the period	6(21)	-	-	-	-	-	-	(162,902)	11,379	61,285	-	(90,238)	(3)	(90,241)
Total comprehensive income (loss)		-	-	-	-	-	681,149	(162,902)	11,379	61,285	-	590,911	1,025	591,936
Appropriation and distribution of retained earnings:														
Legal reserve	6(20)	-	-	-	80,759	-	(80,759)	-	-	-	-	-	-	-
Special reserve	6(20)	-	-	-	-	(31,550)	31,550	-	-	-	-	-	-	-
Cash dividends	6(20)	-	-	-	-	-	(612,239)	-	-	-	(612,239)	-	(612,239)	-
Compensation cost of employee stock options	6(16)	-	-	2,919	-	-	-	-	-	-	-	2,919	-	2,919
Treasury shares transferred to employees	6(18)	-	-	-	-	-	-	-	-	-	196,383	196,383	-	196,383
Exercise of employee share options		-	34,010	135,020	-	-	-	-	-	-	-	169,030	-	169,030
Removal of hedging reserve		-	-	-	-	-	-	-	-	(10,780)	(10,780)	-	(10,780)	-
Reclassification of ineffective hedging reserve		-	-	-	-	-	-	-	-	(3,868)	(3,868)	-	(3,868)	-
Proceeds from disposal of investments in equity instruments measured at fair value through other comprehensive income	6(3)	-	-	-	-	-	(7,724)	-	7,724	-	-	-	-	-
Balance at September 30, 2019		\$ 2,456,538	\$ 34,010	\$ 1,938,153	\$ 1,106,342	\$ 381,414	\$ 1,904,705	(\$ 524,798)	(\$ 33,730)	\$ 79,953	\$ -	\$ 7,342,587	\$ 570	\$ 7,343,157

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

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of New Taiwan dollars)

(Unaudited)

	Notes	Nine-month period ended	
		September 30,	
		2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 842,137	\$ 686,469
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(26)	422,014	373,669
Amortisation expense	6(26)	71,431	67,191
Expected credit gain	12(2)	(10,102)	(3,353)
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	6(2)(24)	(15,288)	12,901
Interest expense	6(25)	74,184	51,132
Interest income	6(23)	(67,746)	(45,303)
Dividend income	6(23)	(33,198)	(32,265)
Compensation cost of employee stock options	6(16)	2,919	7,297
Share of profit of associates accounted for using equity method	6(8)	1,157	1,495
Gain on disposal of property, plant and equipment	6(24)	(1,317)	(3)
Gains on disposal of intangible assets	6(24)	-	(99,020)
Gain on early termination of lease		(13)	-
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(140,107)	733,722
Accounts receivable		112,386	1,039,068
Other receivables		480,228	(114,279)
Inventories		(1,320,020)	314,122
Prepayments		(90,412)	21,303
Other current assets		(77,109)	(150,316)
Other financial assets-non-current		(527)	-
Changes in operating liabilities			
Financial assets and liabilities at fair value through profit or loss - current		29,570	(24,432)
Contract liabilities		18,954	19,477
Notes payable		149,939	612,670
Accounts payable		341,427	(2,749,224)
Other payables		(125,915)	(594,585)
Provisions		62,573	(8,089)
Refund liabilities-current		(25,482)	25,446
Other current liabilities		(1,642)	(16,941)
Net defined benefit liabilities - non-current		(3,064)	(2,417)
Cash inflow generated from operations		696,977	125,735
Interest received		63,581	52,922
Interest paid		(63,215)	(48,809)
Refund (payments) of income tax		33,234	(309,292)
Net cash flows from (used in) operating activities		<u>730,577</u>	<u>(179,444)</u>

(Continued)

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of New Taiwan dollars)

(Unaudited)

	Notes	Nine-month period ended September 30,	
		2019	2018
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets at fair value through profit or loss		\$ -	(\$ 545,799)
Proceeds from disposal of financial assets at fair value through profit or loss		-	24,082
Acquisition of financial asset at fair value through other comprehensive income		-	(298,076)
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(3)	23,940	-
Acquisition of investments accounted for using equity method	6(8)	-	(30,144)
Acquisition of property, plant and equipment	6(30)	(322,207)	(446,983)
Proceeds from disposal of property, plant and equipment		1,724	826
Decrease (increase) in guarantee deposit paid		14,668	(12,120)
Acquisition of intangible assets	6(30)	(82,381)	(13,255)
Proceeds from disposal of intangible assets		-	67,203
Decrease in other non-current assets		378	-
Dividends received	6(23)	33,198	32,265
Net cash flows used in investing activities		(330,680)	(1,222,001)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from short-term debts		3,479,601	4,633,626
Settlement of short-term debts		(4,919,063)	(3,147,262)
Proceeds from issuance of corporate bonds	6(13)	2,300,000	-
Increase in guarantee deposits received		2,819	1,034
Decrease in lease payables		-	(10,775)
Exercise of employee share options		169,030	-
Payments to acquire treasury shares		-	(237,154)
Proceeds from treasury shares transferred to employees	6(18)	196,383	-
Settlement of lease liabilities	6(31)	(72,437)	-
Cash dividends paid	6(20)	(612,239)	(921,201)
Change in non-controlling interests		-	(16,003)
Net cash flows from financing activities		544,094	302,265
Effect of exchange rate changes		(133,739)	(174,639)
Net increase (decrease) in cash and cash equivalents		810,252	(1,273,819)
Cash and cash equivalents at beginning of period		5,357,910	6,484,163
Cash and cash equivalents at end of period		\$ 6,168,162	\$ 5,210,344

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

SERCOMM CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2019 AND 2018

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

(Unaudited)

1. HISTORY AND ORGANISATION

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

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

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

These consolidated financial statements were reported to the Board of Directors on November 8, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

<u>New and revised Standards, Interpretations and Amendments</u>	<u>Effective date issued by International Accounting Standards Board</u>
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

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

B. IFRS 16, 'Leases'

- (a) IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.
- (b) The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
 - i. Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
 - ii. The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - iii. The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of \$28,561 was recognised for the nine-month period ended September 30, 2019.
 - iv. The exclusion of initial direct costs for the measurement of 'right-of-use asset'.
 - v. The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- (c) The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate range from 1.53% to 4.31%.
- (d) The Group recognised lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The amount of aforementioned present values is the same as the amount of lease liabilities recognised on January 1, 2019.

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

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

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

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

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

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

F. Annual improvements to IFRSs 2015-2017 cycle

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

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

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

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

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

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

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

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

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

The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. The significant effects of applying the new standard as of January 1, 2019 are summarised below:

<u>Consolidated balance sheet Affected items</u>	<u>2018 version IFRSs amount</u>	<u>Effect of adoption of new standards</u>	<u>2019 version IFRSs amount</u>
<u>January 1, 2019</u>			
<u>Assets</u>			
Right-of-use assets	\$ -	\$ 618,428	\$ 618,428
Long-term prepaid rents	85,051 (85,051)	-
Property, plant and equipment	226,466 (226,466)	-
<u>Liabilities</u>			
Lease liabilities	\$ -	\$ 420,370	\$ 420,370
Current lease obligations payable	13,922 (13,922)	-
Long-term notes and accounts payable	99,537 (99,537)	-

Note: There was no impact on the statement of comprehensive income when the Group adopted IFRS 16.

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

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

<u>New and revised Standards, Interpretations and Amendments</u>	<u>Effective date issued by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020

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

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

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

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

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

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

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

<u>New and revised Standards, Interpretations and Amendments</u>	<u>Effective date issued by International Accounting Standards Board</u>
Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

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

The amendments resolve a current inconsistency between IFRS 10 and IAS 28. The gain or loss resulting from a transaction that involves sales or contribution of assets between an investor and its

associates or joint ventures is recognised either in full or partially depending on the nature of the assets sold or contributed:

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

B. IFRS 17, ‘Insurance contracts’

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

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

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

- (b) Financial assets and liabilities at fair value through other comprehensive income.
- (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

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

B. Subsidiaries included in the consolidated financial statements:

Name of Investment Company	Name of subsidiary	Main business activities	Ownership (%)			Remark
			September 30, 2019	December 31, 2018	September 30, 2018	
The Company	Sercomm USA Inc.	Local market consultation and customer services of computer information products	100	100	100	Note 4
"	Sercomm Trading Co. Ltd.	Overseas indirect investment	100	100	100	
"	Shukuan Investment Ltd.	General investment	100	100	100	Note 4

Name of Investment Company	Name of subsidiary	Main business activities	Ownership (%)			Remark
			September 30, 2019	December 31, 2018	September 30, 2018	
The Company	Sercomm France SARL	Local market consultation and customer services of computer information products	100	100	100	Note 4
"	Sercomm Deutschland GmbH	Local market consultation and customer services of computer information products	100	100	100	Note 4
"	Sercomm Japan Corp.	Sales of computer information products and quotation, tender, general import and export business related the products.	100	100	100	Note 4
"	Sercomm Russia Limited Liability Company	Sales of computer information products and quotation, tender, general import and export business related the products.	100	100	100	Note 4
"	Sercomm Technology Inc.	Sales of computer information products and quotation, tender, general import and export business related the products.	100	100	-	Notes 1 and 4
"	Sercomm Britain Limited	Local market consultation and customer services of computer information products	100	-	-	Notes 2 and 4
Sercomm Trading	Zealous Investments Ltd.	Overseas indirect investment	100	100	100	
"	Smart Trade Inc.	Overseas indirect investment	100	100	100	
Sercomm France SARL	Sercomm Italia SRL	Local market consultation and customer services of computer information products	100	100	100	Note 4
Zealous Investments Ltd.	Sernet Technology (Suzhou) Limited	R&D and manufacturing of servers, routers, OS and related software	100	100	100	
"	HawXeye, LLC.	R&D and application of advanced analysis techniques in monitoring images	55.09	55.09	55.09	Notes 3 and 4
"	Sercomm Philippines Inc.	Manufacturing of servers, routers, OS and related software	100	-	-	Notes 2 and 4
Smart Trade Inc.	DWnet Technology (Suzhou) Limited	Manufacturing and sales of servers, routers, OS and related software	100	100	100	
Sernet Technology (Suzhou) Limited	Suzhou Hua-Yi Communications Co., Ltd.	Sales of servers, routers, OS and related software	100	100	100	Note 4
"	Suzhou Femtel Communications Co., Ltd.	Sales of communication products and related software	100	100	100	Note 4
Suzhou Femtel Communications Co., Ltd	Nanjing Femtel Communications Co., Ltd.	R&D and sales of communication products and related software	100	100	100	Note 4

Note 1: The Company was set up in September 2018.

Note 2: Sercomm Philippines Inc. and Sercomm Britain Limited were set up in March and June 2019, respectively.

Note 3: HawXeye Inc. has changed its name to HawXeye, LLC. in November 2018.

Note 4: The financial statements of the entity as of and for the nine-month period ended September 30, 2019 and 2018 were not reviewed by the independent accountants as the entity did not meet the definition of a significant subsidiary.

- C. Subsidiaries not included in the consolidated financial statements: None.
- D. Adjustments for subsidiaries with different balance sheet dates: None.
- E. Significant restrictions: None.
- F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income.

B. Translation of foreign operations

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

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

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- (a) Liabilities that are expected to be settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

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

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

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

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

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

(9) Accounts and notes receivable

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

(10) Impairment of financial assets

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

(11) Derecognition of financial assets

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

- A. The contractual rights to receive the cash flows from the financial asset expire.

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

(12) Leasing arrangements (lessor)-operating leases

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

(13) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(14) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will

flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

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

(16) Leasing arrangements (lessee) - right-of-use assets/ lease liabilities

Effective since 2019

A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the interest rate implicit in the lease.

Lease payments are comprised of the following:

- (a) Fixed payments, less any lease incentives receivable;
 - (b) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option.
- The Group subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:

- (a) The amount of the initial measurement of lease liability;
- (b) Any lease payments made at or before the commencement date.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(17) Leased assets/ operating leases (lessee)

Prior to 2019

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

(18) Intangible assets

A. Computer software and certification cost

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

B. Internally generated intangible assets-research and development expenditures

- (a) Research expenditures are recognised as an expense as incurred.
- (b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:
- i. It is technically feasible to complete the intangible asset so that it will be available for use or sale;
 - ii. An entity intends to complete the intangible asset and use or sell it;
 - iii. An entity has the ability to use or sell the intangible asset;
 - iv. It can be demonstrated how the intangible asset will generate probable future economic benefits;
 - v. Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
 - vi. The expenditure attributable to the intangible asset during its development can be reliably measured.
- (c) Upon being available for use, internally generated intangible assets are amortised on a straight-line basis over their estimated useful life of 5 years.

C. Goodwill

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

D. Trademark right

Trademark right is stated at cost and amortized on a straight-line basis over its estimated useful life of 5 years.

(19) Impairment of non-financial assets

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

(20) Borrowings

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

(21) Notes and accounts payable

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

notes and accounts payable at fair value.

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

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

(23) Bonds payable

Ordinary corporate bonds issued by the Group are initially recognised at fair value less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is presented as an addition to or deduction from bonds payable, which is amortised to profit or loss over the period of bond circulation using the effective interest method as an adjustment to 'finance costs'.

(24) Derecognition of financial liabilities

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

(25) Offsetting financial instruments

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

(26) Non-hedging and embedded derivatives

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

the applicable standard. Alternatively, the entire hybrid instrument is designated as financial liabilities at fair value through profit or loss upon initial recognition.

(27) Hedge accounting

- A. At the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements.
- B. The Group designates the hedging relationship as follows:
 - (a) Fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment.
 - (b) Cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.
- C. Fair value hedges
 - (a) The gain or loss on the hedging instrument is recognised in profit or loss. Whereas the gain or loss is recognised in other comprehensive income if the hedging instrument hedges an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income.
 - (b) The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item and is recognised in profit or loss. However, if the hedged item is an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the hedged item is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.
- D. Cash flow hedges
 - (a) The cash flow hedge reserve associated with the hedged item is adjusted to the lower of the following (in absolute amounts):
 - i. the cumulative gain or loss on the hedging instrument from inception of the hedge; and
 - ii. the cumulative change in fair value of the hedged item from inception of the hedge.
 - (b) The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income. The gain or loss on the hedging instrument relating to the ineffective portion is recognised in profit or loss.
 - (c) The amount that has been accumulated in the cash flow hedge reserve in accordance with (a) is accounted for as follows:
 - i. If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is

applied, the Group shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or liability.

ii. For cash flow hedges other than those covered by item i. above, that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.

iii. If that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

(d) When the hedging instrument expires, or is sold, terminated, exercised or when the hedging relationship ceases to meet the qualifying criteria, if the forecast transaction is still expected to occur, the amount that has been accumulated in the cash flow hedge reserve shall remain in the cash flow hedge reserve until the forecast transaction occurs; if the forecast transaction is no longer expected to occur, the amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment.

(28) Provisions

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

(29) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the

balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

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

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

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(30) Employee share-based payment

- A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.
- B. Restricted stocks:
 - (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.
 - (b) For restricted stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must return the stocks to the Group and the Group must refund their payments on the stocks, the Group recognises the payments from the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the

payments from the employees who are expected to be eventually vested with the stocks in ‘capital surplus – restricted employee right.’

(31) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

G. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(32) Share capital

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

(33) Dividends

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

(34) Revenue recognition

- A. Revenue is recognised when control of the products has transferred, and the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

The Group uses five steps to determine the revenue recognition:

Step 1: Identify the contract.

Step 2: Identify the obligation in contract.

Step 3: Determine transaction price.

Step 4: Distribute transaction price to each obligation in contract.

Step 5: Recognize revenue when those obligations are satisfied.

- B. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected payable to customers in relation to sales made until the end of the reporting period.
- C. The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.
- D. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(35) Operating segments

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

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

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

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

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand and revolving funds	\$ 3,298	\$ 2,238	\$ 2,484
Checking accounts and demand deposits	3,434,561	2,180,581	2,717,483
Time deposits	2,730,303	3,174,037	2,490,377
Cash equivalents	-	1,054	-
	<u>\$ 6,168,162</u>	<u>\$ 5,357,910</u>	<u>\$ 5,210,344</u>

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

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

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

Assets	September 30, 2019	December 31, 2018	September 30, 2018
Current items:			
Financial assets mandatorily measured at fair value through profit or loss			
Listed stocks	\$ 517,751	\$ 517,751	\$ 517,750
Forward foreign exchange contract	451	4,220	-
Cross currency swap	-	1,841	3,961
Valuation adjustment	(91,156)	(88,923)	(43,136)
	<u>\$ 427,046</u>	<u>\$ 434,889</u>	<u>\$ 478,575</u>
Non-current items:			
Financial assets mandatorily measured at fair value through profit or loss			
Converted corporate bonds	\$ 4,169	\$ 27,834	\$ 27,834
Unlisted stocks	33,453	33,088	32,891
Valuation adjustment	(6,498)	(19,125)	254
	<u>\$ 31,124</u>	<u>\$ 41,797</u>	<u>\$ 60,979</u>
Liabilities	September 30, 2019	December 31, 2018	September 30, 2018
Current items			
Financial liabilities held for trading			
Cross currency swap	\$ 1,191	\$ 560	\$ 5,124
Forward foreign exchange contract	1,017	-	762
	<u>\$ 2,208</u>	<u>\$ 560</u>	<u>\$ 5,886</u>

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

	<u>Three-month period ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	(\$ 32,397)	(\$ 46,057)
Forward foreign exchange contract	-	(4,922)
Cross currency swap	1,320	3,961
Financial liabilities held for trading		
Cross currency swap	-	(4,524)
Forward foreign exchange contract	3,863	-
	<u>(\$ 27,214)</u>	<u>(\$ 51,542)</u>

	Nine-month period ended September 30,	
	2019	2018
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	(\$ 7,023)	(\$ 43,136)
Forward foreign exchange contract	-	(18,237)
Cross currency swap	23,514	3,961
Financial liabilities held for trading		
Cross currency swap	-	44,511
Forward foreign exchange contract	(5,071)	-
	<u>\$ 11,420</u>	<u>(\$ 12,901)</u>

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

	September 30, 2019			
	Currency	Contract period	Contract amount	
Forward foreign exchange contracts	Buy USD/Sell RUB	2019/09~2019/10	USD	4,000 thousand
Cross currency swap	Buy USD/Sell NTD	2019/08~2019/11	USD	5,000 thousand
	December 31, 2018			
	Currency	Contract period	Contract amount	
Forward foreign exchange contracts	Buy USD/Sell RUB	2018/11~2019/01	USD	2,670 thousand
Cross currency swap	Buy USD/Sell NTD	2018/10~2019/02	USD	40,000 thousand
	September 30, 2018			
	Currency	Contract period	Contract amount	
Forward foreign exchange contracts	Buy USD/Sell RUB	2018/09~2018/12	USD	6,500 thousand
Cross currency swap	Buy USD/Sell NTD	2018/07~2018/11	USD	40,000 thousand

- C. Except for item D, the Group's financial assets at fair value through profit or loss were not pledged to others as collateral.
- D. In May 2018, the consolidated subsidiary HawXeye, LLC. obtained US2,274 thousand dollars and 3,845 thousand common shares (\$33,088) because of the sale of patent rights. For indemnification obligations resulting from the patent rights, some common shares amounting to 1,730 thousand shares (\$14,887) are restricted to transfer until November 2019.
- E. Information relating to fair value of financial assets at fair value through profit or loss is provided in Note 12(3).

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

	September 30, 2019	December 31, 2018	September 30, 2018
Current items:			
Designation of equity instruments			
Listed stocks	\$ 264,052	\$ 295,716	\$ 298,076
Valuation adjustment	(22,571)	(45,457)	(4,716)
	<u>\$ 241,481</u>	<u>\$ 250,259</u>	<u>\$ 293,360</u>
Non-current items:			
Designation of equity instruments			
Unlisted stocks	\$ 70,819	\$ 70,819	\$ 70,819
Valuation adjustment	(17,810)	(11,949)	11,449
	<u>\$ 53,009</u>	<u>\$ 58,870</u>	<u>\$ 82,268</u>

- A. The Group has elected to classify investments that are considered to be strategic investments or steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$294,490, \$309,129 and \$375,628 as at September 30, 2019, December 31, 2018 and September 30, 2018, respectively.
- B. Considering the financial planning and market risk, the Group disposed listed stocks in the second quarter of 2019. The fair value of sold stocks amounted to \$23,940 and loss on disposal amounting to \$7,724 was recognized.
- C. Amounts recognised in profit or loss and other comprehensive income in relation to the equity instruments at fair value through other comprehensive income are listed below:

	<u>Three-month period ended September 30,</u>	
	2019	2018
Fair value change recognized in other comprehensive income	(\$ 4,102)	(\$ 6,313)
Accumulated loss arising from derecognition or reclassification of retained earnings	\$ -	\$ -
Dividend income recognised in profit or loss		
Held at end of period	\$ 14,953	\$ 15,288

	<u>Nine-month period ended September 30,</u>	
	2019	2018
Fair value change recognized in other comprehensive income	\$ 9,301	(\$ 6,199)
Accumulated loss arising from derecognition or reclassification of retained earnings	(\$ 7,724)	\$ -
Dividend income recognised in profit or loss		
Held at end of period	\$ 14,953	\$ 15,288

- D. The Group's financial assets at fair value through profit or loss were not pledged to others as collateral.

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

(4) Hedging financial assets and liabilities

	September 30, 2019	
	Assets	Liabilities
Cash flow hedges:		
<u>Exchange rate risk</u>		
Forward foreign exchange contract	\$ 99,941	\$ -

	December 31, 2018	
	Assets	Liabilities
Cash flow hedges:		
<u>Exchange rate risk</u>		
Forward foreign exchange contract	\$ 41,644	\$ -

	September 30, 2018	
	Assets	Liabilities
Cash flow hedges:		
<u>Exchange rate risk</u>		
Forward foreign exchange contract	\$ 67,784	\$ 5,243

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

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

September 30, 2019				
Hedged items	Derivative instruments designated as hedges	Fair value of instruments designated as hedges	Period of anticipated cash flow	Prior of gain (loss) expected to be recognized in statements of comprehensive income
Expected transaction	Forward foreign exchange contracts	\$ 99,941	2019/10~2020/06	2019/10~2020/06

December 31, 2018				
Hedged items	Derivative instruments designated as hedges	Fair value of instruments designated as hedges	Period of anticipated cash flow	Prior of gain (loss) expected to be recognized in statements of comprehensive income
Expected transaction	Forward foreign exchange contracts	\$ 41,644	2019/01~2019/06	2019/01~2019/06

September 30, 2018

Hedged items	Derivative instruments designated as hedges	Fair value of instruments designated as hedges	Period of anticipated cash flow	Prior of gain (loss) expected to be recognized in statements of comprehensive income
Expected transaction	Forward foreign exchange contracts	\$ 67,784	2018/10~2019/06	2018/10~2019/06
Expected transaction	Forward foreign exchange contracts	(5,243)	2018/10~2018/12	2018/10~2018/12

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

	September 30, 2019		
	Currency	Contract period	Contract amount
Forward foreign exchange contracts	Sell EUR / Buy NTD	2019/05~2020/06	EUR 63,000 thousand

	December 31, 2018		
	Currency	Contract period	Contract amount
Forward foreign exchange contracts	Sell EUR / Buy USD	2018/09~2019/06	EUR 30,000 thousand

	September 30, 2018		
	Currency	Contract period	Contract amount
Forward foreign exchange contracts	Sell EUR / Buy USD	2017/05~2019/06	EUR 66,000 thousand

D. Cash flow hedge:

	2019	2018
<u>Other equity – cash flow hedge reserve</u>		
At January 1	\$ 33,316	(\$ 219,087)
Losses on hedge effectiveness - amount recognised in other comprehensive income	110,466	124,347
Reclassified to profit or loss as the hedged item has affected profit or loss	(49,181)	144,773
The sold hedged item adjusted to inventories during the period	(10,780)	-
Reclassified to profit or loss – forecast transaction is no longer expected to occur	(3,868)	-
At September 30	<u>\$ 79,953</u>	<u>\$ 50,033</u>

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

E. Information relating to credit risk of hedging financial assets and liabilities is provided in Note 12(3).

(5) Notes and accounts receivable

	September 30, 2019	December 31, 2018	September 30, 2018
Notes receivable	\$ 1,110,201	\$ 898,632	\$ 630,893
Accounts receivable	\$ 5,541,973	\$ 5,654,986	\$ 5,257,799
Less: Allowance for loss / bad debts	(1,904)	(12,662)	(5,828)
	<u>\$ 5,540,069</u>	<u>\$ 5,642,324</u>	<u>\$ 5,251,971</u>

A. None of the Group's notes receivable are overdue. For the ageing analysis of the accounts receivable, please refer to Note 12(2).

The Group grants credit term to their clients from 30 days to 210 days after the delivery date. Ageing analysis is conducted on the basis of the number of days overdue. Please refer to Note 12 for disclosures of credit risk and information on movement of impairment and analysis of accounts receivable.

B. As of September 30, 2019, December 31, 2018 and September 30, 2018, accounts receivable and notes receivable were all from contracts with customers. And as of January 1, 2018, the total balance of accounts receivable and notes receivable from contracts with customers amounted to \$7,209,537 and loss allowance amounted to \$9,219.

C. As of September 30, 2019, December 31, 2018 and September 30, 2018, notes receivable were endorsed and transferred to suppliers as payment, which had not reached maturity and were not derecognised, amounting to \$71,462, \$100,540 and \$133,944 (RMB 16,390 thousand, 22,461 thousand and \$30,170 thousand, the approximate fair value), respectively. If the issuer or acceptor of a note refuses to pay at maturity, the Group has the obligation to pay as the endorser.

D. As of September 30, 2019, December 31, 2018 and September 30, 2018, the amount of endorsed notes pledged as collateral for the purpose of issuing banker's acceptances was \$40,497, \$452,678 and \$318,000, respectively.

(6) Transfer of financial assets

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

September 30, 2019						
Purchaser of accounts receivable	Accounts receivable transferred	Amount derecognised	Facilities	Amount advanced	Amount available for advance	Interest rate range of amount advanced
DBS Bank (Taiwan) Ltd.	\$ 2,114,109 (USD65,277,000) (EUR 2,637,000)	\$ 2,114,109	USD64,688,000	\$ 1,883,280 (USD 58,075,000) (EUR 2,370,000)	\$ 230,829	2.75%~3.38%
Taishin International Bank	27,037 (USD 871,000)	27,037	USD 1,000,000	-	27,037	-
	<u>\$ 2,141,146</u>	<u>\$ 2,141,146</u>		<u>\$ 1,883,280</u>	<u>\$ 257,866</u>	

December 31, 2018

Purchaser of accounts receivable	Accounts receivable transferred	Amount derecognised	Facilities	Amount advanced	Amount available for advance	Interest rate range of amount advanced
DBS Bank (Taiwan) Ltd.	\$ 2,198,962 (USD71,550,000)	\$ 2,198,962	USD 72,000,000	\$ 1,426,853 (USD 46,427,000)	\$ 772,109	2.17%~3.86%
Taishin International Bank	6,219 (USD 202,000)	6,219	USD 1,000,000	-	6,219	-
	<u>\$ 2,205,181</u>	<u>\$ 2,205,181</u>		<u>\$ 1,426,853</u>	<u>\$ 778,328</u>	

September 30, 2018

Purchaser of accounts receivable	Accounts receivable transferred	Amount derecognised	Facilities	Amount advanced	Amount available for advance	Interest rate range of amount advanced
DBS Bank (Taiwan) Ltd.	\$ 1,728,930 (USD56,592,000)	\$ 1,728,930	USD 72,000,000	\$ 1,429,532 (USD 46,792,000)	\$ 299,398	2.17%~2.94%
Taishin International Bank	13,086 (USD 428,000)	13,086	USD 1,000,000	-	13,086	-
	<u>\$ 1,742,016</u>	<u>\$ 1,742,016</u>		<u>\$ 1,429,532</u>	<u>\$ 312,484</u>	

B. As of September 30, 2019, December 31, 2018 and September 30, 2018, the price that arose from factoring of accounts receivable but not yet received from banks in advance amounted to \$257,866, \$778,328 and \$312,484, respectively, which were reclassified as other receivables.

C. Certain notes receivable that were endorsed and transferred to other parties meet the requirements of derecognition as financial assets. The Group retains the obligation to pay as endorser only when the issuer or acceptor of a note refuses to pay at maturity; however, the credit rating of issuers or acceptors of the aforementioned notes is very high. Notes receivable endorsed and transferred to other parties which were derecognised before maturity are summarised as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Amount derecognized	\$ 11,676	\$ 130,612	\$ 169,839
	(RMB 2,678,000)	(RMB 29,179,000)	(RMB 38,255,000)

(7) Inventories

	September 30, 2019	December 31, 2018	September 30, 2018
Raw materials	\$ 2,243,864	\$ 1,906,188	\$ 2,673,613
Work in progress	1,164,693	530,977	992,925
Finished goods	2,879,334	2,581,878	2,076,280
Inventory in transit	56,302	5,130	4,889
	<u>\$ 6,344,193</u>	<u>\$ 5,024,173</u>	<u>\$ 5,747,707</u>

The cost of inventories recognised as expense for the period:

	Three-month period ended September 30,	
	2019	2018
Cost of goods sold	\$ 7,725,630	\$ 7,378,758
Loss on (gain on reversal of) decline in market value	3,551 (11,587)
	<u>\$ 7,729,181</u>	<u>\$ 7,367,171</u>

	Nine-month period ended September 30,	
	2019	2018
Cost of goods sold	\$ 18,540,123	\$ 20,620,262
Loss on decline in market value	30,562	27,724
	<u>\$ 18,570,685</u>	<u>\$ 20,647,986</u>

For the three-month period ended September 30, 2018, gain on reversal of decline in market value was due from selling or scrapping market value declined inventories.

(8) Investments accounted for using equity method

	2019	2018
At January 1	\$ 9,251	\$ -
Addition of investments accounted for using equity method	-	30,144
Share of profit or loss of investments accounted for using equity method	(1,157)	(1,495)
Effect of exchange rate changes	(311)	(316)
At September 30	<u>\$ 7,783</u>	<u>\$ 28,333</u>

A. The Group acquired 30% of the shares of the associated company, MECSoftware GmbH, in March 2018, whose principal place of business is in Germany, its net loss for the nine-month period ended September 30, 2019 and 2018 were \$3,857 and \$4,985, respectively.

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

(9) Property, plant and equipment

	2019							Total
	Land	Buildings and structures	Machinery and equipment	Development equipment	Office and other equipment	Leased assets and leasehold improvements	Unfinished construction	
January 1								
Cost	\$433,008	\$ 1,359,105	\$ 2,400,234	\$ 829,054	\$ 638,121	\$ 387,162	\$ 763	\$ 6,047,447
Accumulated depreciation	-	(259,225)	(1,591,349)	(527,263)	(349,303)	(70,168)	-	(2,797,308)
	<u>\$433,008</u>	<u>\$ 1,099,880</u>	<u>\$ 808,885</u>	<u>\$ 301,791</u>	<u>\$ 288,818</u>	<u>\$ 316,994</u>	<u>\$ 763</u>	<u>\$ 3,250,139</u>
At January 1	\$433,008	\$ 1,099,880	\$ 808,885	\$ 301,791	\$ 288,818	\$ 316,994	\$ 763	\$ 3,250,139
Additions	-	-	88,421	103,332	66,682	24,242	24,433	307,110
Disposals	-	-	(384)	-	(23)	-	-	(407)
Reclassifications	-	-	316	24,420	8,925	(226,466)	25,194	(167,611)
Depreciation charge	-	(24,477)	(192,369)	(74,667)	(68,787)	(8,531)	-	(368,831)
Net exchange differences	-	(14,745)	(12,384)	(2,285)	(287)	(2,038)	(19)	(31,758)
At September 30	<u>\$433,008</u>	<u>\$ 1,060,658</u>	<u>\$ 692,485</u>	<u>\$ 352,591</u>	<u>\$ 295,328</u>	<u>\$ 104,201</u>	<u>\$ 50,371</u>	<u>\$ 2,988,642</u>
September 30								
Cost	\$433,008	\$ 1,339,114	\$ 2,389,796	\$ 941,240	\$ 708,490	\$ 118,989	\$ 50,371	\$ 5,981,008
Accumulated depreciation	-	(278,456)	(1,697,311)	(588,649)	(413,162)	(14,788)	-	(2,992,366)
	<u>\$433,008</u>	<u>\$ 1,060,658</u>	<u>\$ 692,485</u>	<u>\$ 352,591</u>	<u>\$ 295,328</u>	<u>\$ 104,201</u>	<u>\$ 50,371</u>	<u>\$ 2,988,642</u>

2018

	Land	Buildings and structures	Machinery and equipment	Development equipment	Office and other equipment	Leased assets and leasehold improvements	Unfinished construction	Total
January 1								
Cost	\$ 433,008	\$ 1,377,577	\$ 2,303,777	\$ 722,969	\$ 513,892	\$ 290,341	\$ 23,868	\$ 5,665,432
Accumulated depreciation	-	(230,680)	(1,390,904)	(451,488)	(283,960)	(59,720)	-	(2,416,752)
	<u>\$ 433,008</u>	<u>\$ 1,146,897</u>	<u>\$ 912,873</u>	<u>\$ 271,481</u>	<u>\$ 229,932</u>	<u>\$ 230,621</u>	<u>\$ 23,868</u>	<u>\$ 3,248,680</u>
At January 1	\$ 433,008	\$ 1,146,897	\$ 912,873	\$ 271,481	\$ 229,932	\$ 230,621	\$ 23,868	\$ 3,248,680
Additions	-	-	140,572	86,757	68,522	73,818	2,500	372,169
Disposals	-	-	(823)	-	-	-	-	(823)
Reclassifications	-	-	-	-	-	22,269	(22,269)	-
Depreciation charge	-	(24,704)	(214,995)	(66,550)	(59,933)	(7,487)	-	(373,669)
Net exchange differences	-	(19,066)	(19,550)	(2,346)	575	147	(749)	(42,139)
At September 30	<u>\$ 433,008</u>	<u>\$ 1,103,127</u>	<u>\$ 818,077</u>	<u>\$ 289,342</u>	<u>\$ 237,946</u>	<u>\$ 319,368</u>	<u>\$ 3,350</u>	<u>\$ 3,204,218</u>
September 30								
Cost	\$ 433,008	\$ 1,352,804	\$ 2,374,885	\$ 791,329	\$ 568,472	\$ 384,980	\$ 3,350	\$ 5,908,828
Accumulated depreciation	-	(249,677)	(1,556,808)	(501,987)	(330,526)	(65,612)	-	(2,704,610)
	<u>\$ 433,008</u>	<u>\$ 1,103,127</u>	<u>\$ 818,077</u>	<u>\$ 289,342</u>	<u>\$ 237,946</u>	<u>\$ 319,368</u>	<u>\$ 3,350</u>	<u>\$ 3,204,218</u>

A. The Group leased some offices in Nankang Software Park through a capital lease, which were reclassified from leasehold assets to right-of-use assets on January 1, 2019. Please refer to Notes 6(10) and 6(14) for details.

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

(10) Leasing arrangements - lessee

Effective since 2019

A. The Group leases various assets including land use right, buildings and equipment. Rental contracts are typically made for periods of 1 to 51 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing, transfer, sublease and share purposes.

B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	September 30, 2019	Three-month period ended September 30, 2019	Nine-month period ended September 30, 2019
	Carrying amount	Depreciation charge	Depreciation charge
Land	\$ 94,163	\$ -	\$ -
Land use right	83,521	690	2,108
Buildings	448,010	18,062	51,075
	<u>\$ 625,694</u>	<u>\$ 18,752</u>	<u>\$ 53,183</u>

C. For the nine-month period ended September 30, 2019, the additions to right-of-use assets amounted to \$65,547.

D. The information on income and expense accounts relating to lease contracts is as follows:

	Three-month period ended September 30, 2019	Nine-month period ended September 30, 2019
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 3,286	\$ 8,493
Expense on short-term lease contracts	5,653	32,041
Expense on leases of low-value assets	101	354

E. For the nine-month period ended September 30, 2019, the Group's total cash outflow for leases amounted to \$104,832.

(11) Intangible assets

	<u>Computer software</u>	<u>Development expenditure</u>	<u>Goodwill</u>	<u>Patents</u>	<u>Total</u>
January 1, 2019					
Cost	\$ 520,946	\$ 246,009	\$ 47,911	\$ 13,398	\$ 828,264
Accumulated amortisation	(290,685)	(175,056)	-	(3,184)	(468,925)
	<u>\$ 230,261</u>	<u>\$ 70,953</u>	<u>\$ 47,911</u>	<u>\$ 10,214</u>	<u>\$ 359,339</u>
At January 1, 2019					
At January 1, 2019	\$ 230,261	\$ 70,953	\$ 47,911	\$ 10,214	\$ 359,339
Additions — acquired separately	44,851	-	-	12,217	57,068
Additions — from internal development	-	11,609	-	-	11,609
Amortisation charge	(55,966)	(13,210)	-	(2,255)	(71,431)
Net exchange differences	(266)	-	(1,244)	-	(1,510)
At September 30, 2019	<u>\$ 218,880</u>	<u>\$ 69,352</u>	<u>\$ 46,667</u>	<u>\$ 20,176</u>	<u>\$ 355,075</u>
September 30, 2019					
Cost	\$ 563,706	\$ 257,618	\$ 46,667	\$ 25,615	\$ 893,606
Accumulated amortisation	(344,826)	(188,266)	-	(5,439)	(538,531)
	<u>\$ 218,880</u>	<u>\$ 69,352</u>	<u>\$ 46,667</u>	<u>\$ 20,176</u>	<u>\$ 355,075</u>

	Computer software	Development expenditure	Goodwill	Patents	Total
January 1, 2018					
Cost	\$ 390,290	\$ 221,541	\$ 49,059	\$ 10,545	\$ 671,435
Accumulated amortisation	(225,010)	(147,890)	-	(984)	(373,884)
	<u>\$ 165,280</u>	<u>\$ 73,651</u>	<u>\$ 49,059</u>	<u>\$ 9,561</u>	<u>\$ 297,551</u>
At January 1, 2018	\$ 165,280	\$ 73,651	\$ 49,059	\$ 9,561	\$ 297,551
Additions – acquired separately	21,059	-	-	2,648	23,707
Additions – from internal development	-	18,590	-	-	18,590
Amortisation charge	(47,131)	(18,332)	-	(1,728)	(67,191)
Net exchange differences	(585)	-	(1,540)	-	(2,125)
At September 30, 2018	<u>\$ 138,623</u>	<u>\$ 73,909</u>	<u>\$ 47,519</u>	<u>\$ 10,481</u>	<u>\$ 270,532</u>
September 30, 2018					
Cost	\$ 414,272	\$ 240,131	\$ 47,519	\$ 13,193	\$ 715,115
Accumulated amortisation	(275,649)	(166,222)	-	(2,712)	(444,583)
	<u>\$ 138,623</u>	<u>\$ 73,909</u>	<u>\$ 47,519</u>	<u>\$ 10,481</u>	<u>\$ 270,532</u>

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

	Three-month period ended September 30,	
	2019	2018
Operating costs	\$ 5,026	\$ 7,866
Operating expenses	18,202	17,173
	<u>\$ 23,228</u>	<u>\$ 25,039</u>
	Nine-month period ended September 30,	
	2019	2018
Operating costs	\$ 14,559	\$ 18,814
Operating expenses	56,872	48,377
	<u>\$ 71,431</u>	<u>\$ 67,191</u>

B. The Group has entered into an assets exchange contract with Prescience Limited on July 30, 2019, exchanging 600 thousand shares of Prescience Limited's convertible bonds on hand and its interest receivable for the patent rights amounting to \$7,978.

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

(12) Short-term borrowings

Type of borrowings	September 30, 2019	December 31, 2018	September 30, 2018
Bank borrowings			
Unsecured borrowings	\$ 1,253,058	\$ 2,692,520	\$ 3,362,725
Interest rate range	0.45%~2.64%	0.47%~3.4%	0.47%~2.53%

(13) Bonds payable (December 31, 2018 and September 30, 2018: None)

	<u>September 30, 2019</u>
Bonds payable	\$ 2,300,000
Less: Current portion	<u>-</u>
	<u>\$ 2,300,000</u>

The terms of the first domestic unsecured corporate bonds issued in 2019 by the Company are as follows:

The Company issued the first domestic unsecured corporate bonds in 2019 amounting to \$2,300,000 based on the face value at an annual rate of 1.02%, as approved by the regulatory authority. The bonds mature in 5 years from the issue date, the period is from July 26, 2019 to July 26, 2024. The bonds were listed on the Taipei Exchange on July 26, 2019 and will be redeemed in cash at face value at the maturity date.

(14) Finance lease liabilities

Prior to 2019

A. The Group entered into a contract with the Industrial Development Bureau, Ministry of Economic Affairs to lease an office space in Nankang Software Industrial Park on August 15, 2003. The leasing period is from August 2003 to August 2023 and the Group has a renewal option. In addition, the Group has a bargain purchase option within the lease term. In accordance with terms of the lease contract, the rate of rent of buildings in the Park was approved by the Industrial Development Bureau, and the prescribed rental rate was based on the month the contract was entered into. The prescribed rental rate would be adjusted every January 1 and July 1 based on the rate of mid-term and long-term loans of capital of the Executive Yuan, and adjusted every year based on the base month rent and Consumer Price Index which was published by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

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

	<u>December 31, 2018</u>		
	<u>Total finance</u>	<u>Future finance</u>	<u>Present value</u>
	<u>lease liabilities</u>	<u>charges</u>	<u>of finance</u>
			<u>lease liabilities</u>
<u>Current</u>			
Not later than one year	\$ 16,298	(\$ 2,376)	\$ 13,922
<u>Non-current</u>			
Later than one year but not later than five years	116,443	(16,906)	99,537
Later than five years	-	-	-
	<u>116,443</u>	<u>(16,906)</u>	<u>99,537</u>
	<u>\$ 132,741</u>	<u>(\$ 19,282)</u>	<u>\$ 113,459</u>

	September 30, 2018		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
Not later than one year	\$ 16,298	(\$ 2,445)	\$ 13,853
<u>Non-current</u>			
Later than one year but not later than five years	120,517	(17,267)	103,250
Later than five years	-	-	-
	<u>120,517</u>	<u>(17,267)</u>	<u>103,250</u>
	<u>\$ 136,815</u>	<u>(\$ 19,712)</u>	<u>\$ 117,103</u>

(15) Pensions

A. Defined benefit plans

- (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by September 30, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.
- (b) For the aforementioned pension plan, the Group recognised pension costs of \$241, \$273, \$723 and \$819 for the three-month and nine-month period ended September 30, 2019 and 2018, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Company for the year ended December 31, 2019 amounts to \$602.

B. Defined contribution plans

- (a) The Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The Company's mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the

pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.

- (c) The Group's other foreign subsidiaries contributed pension to the relevant pension authorities under local regulations.
- (d) The pension costs under defined contribution pension plans of the Group for the three-month and nine-month period ended September 30, 2019 and 2018, were \$56,648, \$56,716, \$164,291 and \$167,436, respectively.

(16) Share-based payment

A. Certain employees of the Group are entitled to share-based payment as part of their remunerations; services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

B. The arrangements of share-based payment for the nine-month period ended September 30, 2019 and 2018 are as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Grant quantity (in thousand)</u>	<u>Contract period</u>	<u>Vesting condition</u>
Employee option plan	2015.5.27	10,000	10 years	(Note)

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

<u>Granted period of option</u>	<u>Accumulated ratio of exercisable stock option</u>
After 2 years	50%
After 3 years	75%
After 4 years	100%

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

	<u>2019</u>		<u>2018</u>	
	<u>No. of options (in thousand)</u>	<u>Weighted- average exercise price (in dollars)</u>	<u>No. of options (in thousand)</u>	<u>Weighted- average exercise price (in dollars)</u>
Options outstanding at January 1	7,266	\$ 51.60	7,266	\$ 54.50
Options granted	-	-	-	-
Options exercised	(<u>3,401</u>)	49.70	-	-
Options outstanding at September 30	<u>3,865</u>	49.70	<u>7,266</u>	51.60
Options exercisable at September 30	<u>3,865</u>		<u>7,266</u>	

D. As at September 30, 2019, December 31, 2018 and September 30, 2018, the range of exercise prices of stock options outstanding was NT\$49.7, NT\$51.6 and NT\$51.6 (in dollars), respectively; the weighted-average remaining contractual period was 2.125 years, 2.875 years and 3.125 years, respectively.

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

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

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

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

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

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

	Three-month period ended September 30,	
	2019	2018
Compensation costs	\$ -	\$ 2,400

	Nine-month period ended September 30,	
	2019	2018
Compensation costs	\$ 2,919	\$ 7,297

(17) Current provisions

	2019	2018
At January 1	\$ 100,615	\$ 9,566
Additional provisions	158,125	336
Reversal during the period	(95,591)	(8,300)
Effect of exchange rate changes	39	(44)
At September 30	\$ 163,188	\$ 1,558

A provision for maintenance warranties is recognised for expected warranty claims on products sold, based on historical data of warranty and management's judgement. It is expected to be used during the coming year.

(18) Share capital

A. The Company's authorized capital was \$5,000,000, \$2,500,000 and \$2,500,000, as at September 30, 2019, December 31, 2018 and September 30, 2018, consisting of 500,000 thousand, 250,000 thousand and 250,000 thousand shares, respectively. Paid-in capital were all \$2,456,538 with par value of NT\$10. All proceeds from shares issued have been collected.

The change in the Company's share capital to \$5,000,000 was approved at their shareholders' meeting on June 12, 2019, which had been registered.

The number of common shares at the beginning and the end of the period is reconciled as below:

	<u>2019 (in thousand)</u>	<u>2018 (in thousand)</u>
At January 1	241,696	245,654
Treasury share transferred to employees	3,958	-
At September 30	<u>245,654</u>	<u>245,654</u>

B. In order to boost the Company's working capital, repay bank loans, enhance financial structure, purchase raw materials, and acquire funding needed for long-term development, the shareholders resolved in their meeting held on June 12, 2019 to raise capital by private offering of either common stock or domestic/foreign convertible bonds. Private offering of common stock shall not exceed 50,000 thousand shares, and private offering of domestic/foreign convertible bonds shall not exceed \$3,000,000 or USD \$100,000 thousand.

C. Treasury shares

(a) Reasons for the share reacquisition and movements in the number of the Company's treasury shares are as follows: (September 30, 2019: None.)

		<u>December 31, 2018</u>	
<u>Name of company holding</u>	<u>Reason for reacquisition</u>	<u>Number of shares (in thousand)</u>	<u>Carrying amount</u>
The company	To be reissued to employees	3,958	\$ 196,383

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

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

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

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

(19) Capital surplus

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

	Additional paid-in capital in excess of par, ordinary share	Conversion premium of convertible corporate bonds	Trade of treasury Share	Employee stock options	Employee restricted stocks	Changes in ownership interests in subsidiaries
At January 1, 2019	\$ 293,052	\$ 1,382,485	\$ 15,588	\$ 74,527	\$ 25,934	\$ 8,628
Exercise of employee share options	167,043	-	-	(32,023)	-	-
Compensation cost of employee stock options	-	-	-	2,919	-	-
Transfer treasury share	-	-	10,212	(10,212)	-	-
At September 30, 2019	<u>\$ 460,095</u>	<u>\$ 1,382,485</u>	<u>\$ 25,800</u>	<u>\$ 35,211</u>	<u>\$ 25,934</u>	<u>\$ 8,628</u>

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

(20) Retained earnings

- A. Under the Company's Articles of Incorporation adopted by the shareholders during their meeting, the current year's earnings, if any, shall first be used to pay all taxes and offset accumulated deficit and then 10% of the remaining amount shall be set aside as legal reserve until the amount of legal reserve is equal to the amount of paid-in capital. After the provision or reversal of special reserve, the appropriation of the remaining earnings along with the unappropriated earnings of prior years and current adjustment on unappropriated earnings as distributable retained earnings, and shall be proposed by the Board of Directors and approved by the shareholders, and appropriated in accordance with the proportion of total share amount.
- B. The policy for dividend distribution should reflect factors such as current and future investment environment, fund requirements, domestic and international competition and capital budgets, as well as the benefit of stockholders, share bonus equilibrium, and long-term financial planning etc. It could be paid in cash or in the form of share dividends. Accordingly, at least 10% of the dividends must be paid in the form of cash.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
 - (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

(c) As of January 1, 2018, special reserve set aside for the first-time adoption of IFRSs amount to \$131,678. Furthermore, the Company did not reverse special reserve to retained earnings during the nine-month period ended September 30, 2019 and 2018 as a result of the use, disposal or reclassification of related assets. As of September 30, 2019, December 31, 2018 and September 30, 2018, the amount of special reserve set aside for the first-time adoption of IFRSs all amounted to \$131,678.

E. Details of 2018 and 2017 earnings appropriation resolved by the stockholders on June 12, 2019 and June 5, 2018, respectively, are as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve appropriated	\$ 80,759		\$ 131,187	
Special reserve appropriated	-		281,284	
Reversal of special reserve	(31,550)		-	
Cash dividends	612,239	\$ 2.50	921,201	\$ 3.75

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

F. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(27).

(21) Other equity items

	2019			
	Financial statements translation differences of foreign operations	Unrealised gains (losses) on financial assets at fair value through other comprehensive income	Gains (losses) on hedging instruments	Total
At January 1, 2019	(\$ 361,896)	(\$ 52,833)	\$ 33,316	(\$ 381,413)
Currency translation differences:				
-Group	(162,902)	-	-	(162,902)
Valuation adjustment	-	9,301	-	9,301
Revaluation – tax	-	2,078	-	2,078
Revaluation transferred to retained earnings-gross	-	7,724	-	7,724
Gains (losses) on hedging instruments:				
-Gain (loss) on fair value	-	-	138,082	138,082
-Tax on fair value gains (losses)	-	-	(27,616)	(27,616)
-Transfers to sales of goods	-	-	(61,476)	(61,476)
-Tax on transfers to sales of goods	-	-	12,295	12,295
-Transfers to inventories	-	-	(13,475)	(13,475)
-Tax on inventories	-	-	2,695	2,695
-Ineffective hedging transfer to profit or loss	-	-	(4,835)	(4,835)
-Tax on ineffective hedging transfer to profit or loss	-	-	967	967
At September 30, 2019	(\$ 524,798)	(\$ 33,730)	79,953	(\$ 478,575)

	2018			
	Financial statements translation differences of foreign operations	Unrealised gains (losses) on financial assets at fair value through other comprehensive income	Gains (losses) on hedging instruments	Total
At January 1, 2018	(\$ 210,063)	\$ 13,486	(\$ 219,087)	(\$ 415,664)
Currency translation differences:				
-Group	(170,272)	-	-	(170,272)
-Tax on Group	(23,333)	-	-	(23,333)
Valuation adjustment	-	(6,199)	-	(6,199)
Revaluation – tax	-	98	-	98
Gains (losses) on hedging instruments:				
-Gain (loss) on fair value	-	-	136,855	136,855
-Tax on fair value gains (losses)	-	-	(12,508)	(12,508)
-Transfers to sales of goods	-	-	144,773	144,773
At September 30, 2018	(\$ 403,668)	\$ 7,385	\$ 50,033	(\$ 346,250)

(22) Operating revenue

A. Disaggregation of revenue from contracts with customers

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

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and also in each reportable operating segment:

	Three-month period ended September 30,	
	2019	2018
Wireless networking products	\$ 7,869,987	\$ 7,727,632
Wired networking products	1,189,617	701,125
Others	-	90,525
	<u>\$ 9,059,604</u>	<u>\$ 8,519,282</u>

	Nine-month period ended September 30,	
	2019	2018
Wireless networking products	\$ 18,903,824	\$ 21,465,008
Wired networking products	3,334,605	2,068,952
Others	-	248,506
	<u>\$ 22,238,429</u>	<u>\$ 23,782,466</u>

B. Contract liabilities

Contract liabilities recognised by the Group as a result of revenue from contracts with customers are as follows:

	September 30, 2019	December 31, 2018
Sales contract	\$ 233,452	\$ 214,498

	September 30, 2018	January 1, 2018
Sales contract	\$ 86,889	\$ 67,412

(a) Significant changes in contract liabilities

For the nine-month period ended September 30, 2019, the Group's advanced payment from customers for product development is increasing due to the recent application for 5G network technology.

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

	Three-month period ended September 30,	
	2019	2018
Sales contract	\$ 90	\$ 4,364

	Nine-month period ended September 30,	
	2019	2018
Sales contract	\$ 214,333	\$ 61,709

C. Refund liabilities

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

	September 30, 2019	December 31, 2018	September 30, 2018
Refund liabilities	\$ 152,407	\$ 177,889	\$ 128,755

(23) Other income

	Three-month period ended September 30,	
	2019	2018
Interest income	\$ 24,991	\$ 14,731
Dividend income	33,198	32,265
Rental revenue	50	62
Gains on write-off of past due payable	-	4,112
Others	2,914	7,668
	<u>\$ 61,153</u>	<u>\$ 58,838</u>

	Nine-month period ended September 30,	
	2019	2018
Interest income	\$ 67,746	\$ 45,303
Dividend income	33,198	32,265
Rental revenue	165	293
Gains on write-down of past due payable	-	4,112
Others	6,130	24,782
	<u>\$ 107,239</u>	<u>\$ 106,755</u>

(24) Other gains and losses

	Three-month period ended September 30,	
	2019	2018
Net losses on financial assets/liabilities at fair value through profit or loss	(\$ 27,214)	(\$ 51,542)
Net currency exchange gains (losses)	35,736 (9,021)
Gains on disposals of property, plant and equipment	-	-
Gains on disposals of intangible assets	-	-
Others	(147)	(2,273)
	<u>\$ 8,375</u>	<u>(\$ 62,836)</u>

	Nine-month period ended September 30,	
	2019	2018
Net gains (loss) on financial assets/liabilities at fair value through profit or loss	\$ 15,288	\$ 12,901
Net currency exchange gains (losses)	52,239 (15,043)
Gains on disposals of property, plant and equipment	1,317	3
Gains on disposals of intangible assets (Note)	-	99,020
Others	(1,979)	(3,097)
	<u>\$ 66,865</u>	<u>\$ 67,982</u>

A. Considering the Group was no longer expecting hedge instruments, the Group reclassified hedging instruments to net gains on financial assets at fair value through profit and loss amounting to \$0 and \$3,868, respectively, for the three-month and nine-month period ended September 30, 2019.

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

(25) Finance costs

	Three-month period ended September 30,	
	2019	2018
Interest expense		
-Bank borrowing	\$ 20,310	\$ 19,729
-Lease contracts	3,286	595
-Bonds payable	4,242	-
	<u>\$ 27,838</u>	<u>\$ 20,324</u>
	Nine-month period ended September 30,	
	2019	2018
Interest expense		
-Bank borrowing	\$ 61,449	\$ 49,294
-Lease contracts	8,493	1,838
-Bonds payable	4,242	-
	<u>\$ 74,184</u>	<u>\$ 51,132</u>

(26) Additional information of expenses by nature

	Three-month period ended September 30,	
	2019	2018
Employee benefit expense	\$ 917,854	\$ 919,217
Depreciation charges on property, plant and equipment	121,276	126,903
Amortisation charges on intangible assets	23,228	25,039
Depreciation charges on right-of-use assets	18,752	-
	<u>\$ 1,081,185</u>	<u>\$ 1,071,159</u>
	Nine-month period ended September 30,	
	2019	2018
Employee benefit expense	\$ 2,685,783	\$ 2,631,964
Depreciation charges on property, plant and equipment	368,831	373,669
Amortisation charges on intangible assets	71,431	67,191
Depreciation charges on right-of-use assets	53,183	-
	<u>\$ 3,179,228</u>	<u>\$ 3,072,824</u>

(27) Employee benefit expense

	Three-month period ended September 30,	
	2019	2018
Wages and salaries	\$ 768,881	\$ 776,409
Employee compensation cost	-	2,400
Labor and health insurance fees	33,735	30,634
Pension costs	56,889	56,989
Directors' remuneration	8,214	5,926
Other personnel expenses	50,135	46,859
	<u>\$ 917,854</u>	<u>\$ 919,217</u>

	Nine-month period ended September 30,	
	2019	2018
Wages and salaries	\$ 2,270,092	\$ 2,223,859
Employee compensation cost	2,919	7,297
Labor and health insurance fees	92,384	84,658
Pension costs	165,014	168,255
Directors' remuneration	20,583	16,760
Other personnel expenses	134,791	131,135
	<u>\$ 2,685,783</u>	<u>\$ 2,631,964</u>

A. According to the Articles of Incorporation, 12%-18% of profit of the current year is distributable as employees' compensation and no higher than 2.5% of profit of the current year is distributable as remuneration to directors. Qualification requirements of employees include the employees of subsidiaries of the company meeting certain specific requirements. If the Company has an accumulated deficit, earnings should be reserved to cover losses. Independent directors did not participate in the abovementioned distribution of directors' remuneration.

B. For the three-month and nine-month period ended September 30, 2019 and 2018, employees' compensation was accrued at \$60,622, \$43,676, \$151,015 and \$108,529, respectively; directors' remuneration was accrued at \$6,378, \$5,824, \$14,985 and \$14,471 respectively. The aforementioned amounts were recognised in salary expenses.

For the nine-month period ended September 30, 2019, the employees' compensation and directors' remuneration were estimated and accrued based on 15.37% and 1.52% of distributable profit of current year as of the end of reporting period.

The 2018 employees' compensation and directors' remuneration as resolved by the Board of Directors amounted to \$197,233 and \$17,767, respectively and there is no difference with financial statement in 2018. The employees' compensation and directors' remuneration will be distributed in the form of cash.

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

(28) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Three-month period ended September 30,	
	2019	2018
Current tax:		
Current tax on profits for the period	\$ 71,923	\$ 97,968
Prior year income tax overestimation	(5,158)	(28,583)
Total current tax	<u>66,765</u>	<u>69,385</u>
Deferred tax:		
Origination and reversal of temporary differences	(3,238)	(29,332)
Impact of change in tax rate	-	-
Total deferred tax	<u>(3,238)</u>	<u>(29,332)</u>
Income tax expense	<u>\$ 63,527</u>	<u>\$ 40,053</u>

	Nine-month period ended September 30,	
	2019	2018
Current tax:		
Current tax on profits for the period	\$ 199,523	\$ 181,139
Prior year income tax (over) underestimation	(53,999)	5,914
Total current tax	<u>145,524</u>	<u>187,053</u>
Deferred tax:		
Origination and reversal of temporary differences	14,436	(28,256)
Impact of change in tax rate	-	(18,565)
Total deferred tax	<u>14,436</u>	<u>(46,821)</u>
Income tax expense	<u>\$ 159,960</u>	<u>\$ 140,232</u>

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

	Three-month period ended September 30,	
	2019	2018
Currency translation differences	\$ -	\$ -
Hedging instruments benefit (loss) of effective hedging in cash flow hedging	21,036	(43,730)
Changes in fair value of financial assets at fair value through other comprehensive income	-	-
Impact of change in tax rate	-	-
	<u>\$ 21,036</u>	<u>(\$ 43,730)</u>

	Nine-month period ended September 30,	
	2019	2018
Currency translation differences	\$ -	\$ 23,333
Hedging instruments benefit of effective hedging in cash flow hedging	11,659	12,508
Changes in fair value of financial assets at fair value through other comprehensive income	(2,078)	-
Impact of change in tax rate	-	(996)
	<u>\$ 9,581</u>	<u>\$ 34,845</u>

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

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

C. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(29) Earnings per share

	<u>Three-month period ended September 30, 2019</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 289,944	245,348	<u>\$ 1.18</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employee' options	-	2,420	
Employees' compensation	-	767	
Profit attributable to the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 289,944</u>	<u>248,535</u>	<u>\$ 1.17</u>

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

	<u>Nine-month period ended September 30, 2019</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 681,149	245,180	<u>\$ 2.78</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employee' options	-	1,921	
Employees' compensation	-	<u>2,711</u>	
Profit attributable to the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 681,149</u>	<u>249,812</u>	<u>\$ 2.73</u>

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

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

(30) Supplemental cash flow information

Investing activities with partial cash payments:

	Nine-month period ended September 30,	
	2019	2018
Purchase of property, plant and equipment	\$ 365,965	\$ 372,169
Add: Ending balance of advance payment	8,310	84,812
Less: Opening balance of advance payment	(55,897)	(9,162)
Add: Opening balance of equipment payable	104,638	98,645
Less: Ending balance of equipment payable	(100,809)	(99,481)
Cash paid during the period	<u>\$ 322,207</u>	<u>\$ 446,983</u>
Purchase of intangible assets	\$ 60,699	\$ 42,297
Add: Ending balance of advance payment	78,286	10,480
Less: Opening balance of advance payment	(59,442)	(38,364)
Add: Opening balance of equipment payable	6,127	1,389
Less: Ending balance of equipment payable	(3,289)	(2,547)
Cash paid during the period	<u>\$ 82,381</u>	<u>\$ 13,255</u>

(31) Changes in liabilities from financial activities

	Short-term <u>borrowings</u>	Guarantee <u>deposits received</u>	Lease <u>liabilities</u>	Bonds <u>payable</u>	Liabilities from financial <u>activities-gross</u>
At January 1, 2019	\$ 2,692,520	\$ 2,937	\$ 420,370	\$ -	\$ 3,115,827
Changes in cash flow from financial activities	(1,439,462)	2,819	(72,437)	2,300,000	790,920
Impact of changes in foreign exchange rate	-	(179)	(1,634)	-	(1,813)
Changes in other non-cash items	-	-	71,846	-	71,846
At September 30, 2019	<u>\$ 1,253,058</u>	<u>\$ 5,577</u>	<u>\$ 418,145</u>	<u>\$ 2,300,000</u>	<u>\$ 3,976,780</u>

	Short-term <u>borrowings</u>	Guarantee <u>deposits received</u>	Lease <u>liabilities</u>	Bonds <u>payable</u>	Liabilities from financial <u>activities-gross</u>
At January 1, 2018	\$ 1,876,361	\$ 4,254	\$ 127,878	\$ -	\$ 2,008,493
Changes in cash flow from financial activities	1,486,364	1,034	(10,775)	-	1,476,623
Impact of changes in foreign exchange rate	-	(168)	-	-	(168)
Changes in other non-cash items	-	-	-	-	-
At September 30, 2018	<u>\$ 3,362,725</u>	<u>\$ 5,120</u>	<u>\$ 117,103</u>	<u>\$ -</u>	<u>\$ 3,484,948</u>

7. RELATED PARTY TRANSACTIONS

Key management compensation

	Three-month period ended September 30,	
	2019	2018
Short-term employee benefits	\$ 68,657	\$ 82,812
Post-employee benefits	444	501
Share-based payment	-	2,399
	<u>\$ 69,101</u>	<u>\$ 85,712</u>

	Nine-month period ended September 30,	
	2019	2018
Short-term employee benefits	\$ 114,744	\$ 130,609
Post-employee benefits	1,320	1,464
Share-based payment	1,738	7,296
	<u>\$ 117,802</u>	<u>\$ 139,369</u>

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	September 30, 2019	December 31, 2018	September 30, 2018	Purpose
Guarantee deposits paid	\$ 42,408	\$ 57,773	\$ 25,190	Custom duty guarantee and performance guarantee
Restricted assets-current (shown as other current assets)	155,736	74,637	182,330	Bank acceptance bill
	<u>\$ 198,144</u>	<u>\$ 132,410</u>	<u>\$ 207,520</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

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

	September 30, 2019	December 31, 2018	September 30, 2018
Other non-current financial assets	\$ 69,965	\$ 69,438	\$ 167,994
Other current liabilities	57,811	57,811	157,709

As of September 30, 2019, December 31, 2018 and September 30, 2018, the accumulated interest of the trust fund assets was recognised as 'other financial assets-noncurrent' in the amounts of \$12,154, \$11,627 and \$10,285, respectively.

B. Prior to 2018, the Group has entered into non-cancellable operating leases for certain plant, office and equipment. The lease periods are from one to eight years with the renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases. Future minimum rentals payable under non-cancellable operating leases are as follows:

	December 31, 2018	September 30, 2018
Not later than one year	\$ 90,844	\$ 82,522
Later than one year but not later than five years	172,012	106,594
Over five years	98,097	-
	<u>\$ 360,953</u>	<u>\$ 189,116</u>

C. As of September 30, 2019, the amount of contracted but not yet paid instruments, equipment and construction was \$61,356.

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

	September 30, 2019	December 31, 2018	September 30, 2018
NTD	\$ 21,746	\$ 23,976	\$ 11,972
EUR (in thousands)	1,127	1,127	2,627

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

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

(2) Financial instruments

A. Financial instruments by category

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets</u>			
Financial assets at fair value through profit or loss			
Financial assets mandatorily measured at fair value through profit or loss	\$ 458,170	\$ 476,686	\$ 539,554
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	\$ 294,490	\$ 309,129	\$ 375,628
Financial assets at amortised cost/Loans and receivables			
Cash and cash equivalents	\$ 6,168,162	\$ 5,357,910	\$ 5,210,344
Notes receivable	1,110,201	898,632	630,893
Accounts receivable	5,540,069	5,642,324	5,251,971
Other receivables	445,006	925,295	444,983
Guarantee deposits paid	74,034	88,702	60,654
Other financial assets	69,965	69,438	167,994
	\$ 13,407,437	\$ 12,982,301	\$ 11,766,839
Derivative financial assets for hedging	\$ 99,941	\$ 41,644	\$ 67,784

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial liabilities</u>			
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	\$ 2,208	\$ 560	\$ 5,886
Financial liabilities at amortised cost			
Short-term borrowings	\$ 1,253,058	\$ 2,692,520	\$ 3,362,725
Notes payable	739,490	518,089	930,670
Accounts payable	9,672,593	9,331,166	8,852,103
Other payables	2,529,697	2,662,407	2,454,083
Bond payable	2,300,000	-	-
Finance lease liabilities (including current portion)	-	113,459	117,103
Guarantee deposits receivable	5,577	2,937	5,120
	<u>\$ 16,500,415</u>	<u>\$ 15,320,578</u>	<u>\$ 15,721,804</u>
Lease liability (including current portion)	\$ 418,145	\$ -	\$ -
Financial liabilities for hedging	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,243</u>

B. Financial risk management policies

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

C. Significant financial risks and degrees of financial risks

(a) Market risk

Exchange rate risk

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

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

	September 30, 2019		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 444,491	4.36	\$ 1,959,826
USD:NTD	266,795	31.04	8,281,850
EUR:NTD	17,344	33.89	587,818
RUB:NTD	470,306	0.48	266,735
JPY:NTD	607,724	0.29	174,964
USD:RMB	10,501	7.12	325,985
<u>Non-monetary items</u>			
USD:NTD	\$ 970	31.04	\$ 30,116
<u>Investments accounted for using equity method</u>			
EUR:NTD	\$ 230	33.89	\$ 7,783
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 613,722	4.36	\$ 2,675,889
USD:NTD	99,928	31.04	3,101,965
EUR:NTD	15,000	33.89	508,376
USD:RMB	110,426	7.12	3,427,976

December 31, 2018			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 775,042	4.48	\$ 3,472,188
USD:NTD	194,475	30.73	5,976,217
EUR:NTD	15,426	35.20	542,995
RUB:NTD	710,324	0.44	312,543
JPY:NTD	579,151	0.28	162,162
<u>Non-monetary items</u>			
USD:NTD	\$ 1,318	30.73	\$ 40,504
<u>Investments accounted for using equity method</u>			
EUR:NTD	\$ 263	35.20	\$ 9,251
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 538,853	4.48	\$ 2,414,061
USD:NTD	81,223	30.73	2,495,983
EUR:NTD	16,000	35.20	563,200
USD:RMB	166,499	6.87	5,124,440

September 30, 2018			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 586,998	4.44	\$ 2,606,065
USD:NTD	119,013	30.55	3,635,969
EUR:NTD	22,691	35.50	805,480
RUB:NTD	668,696	0.47	311,278
JPY:NTD	531,752	0.27	143,254
<u>Non-monetary items</u>			
USD:NTD	\$ 3,213	30.55	\$ 98,167
EUR:NTD	840	35.50	29,818
GBP:NTD	600	39.90	23,942
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	\$ 457,625	4.44	\$ 2,031,693
USD:NTD	64,552	30.55	1,972,125
EUR:NTD	28,000	35.50	993,922
USD:RMB	172,354	6.88	5,264,932

- v. It is not applicable to disclose the exchange gains or losses for each functional currency due to the fact that the functional currencies used by the Group's entities are diverse.
- vi. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the three-month and nine-month period ended September 30, 2019 and 2018, amounted to \$35,736, (\$9,021), \$52,239 and (\$15,043), respectively.
- vii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

	<u>Nine-month period ended September 30, 2019</u>		
	<u>Sensitivity analysis</u>		
	<u>Degree of variation</u>	<u>Effect on profit or loss</u>	<u>Effect on other comprehensive income</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 82,819	\$ -
RMB:NTD	1%	19,598	-
EUR:NTD	1%	5,878	-
RUB:NTD	1%	2,667	-
JPY:NTD	1%	1,750	-
USD:RMB	1%	3,260	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	1%	\$ 26,759	\$ -
USD:NTD	1%	31,020	-
EUR:NTD	1%	5,084	-
USD:RMB	1%	34,280	-

Nine-month period ended September 30, 2018
Sensitivity analysis

	<u>Degree of variation</u>	<u>Effect on profit or loss</u>	<u>Effect on other comprehensive income</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 36,360	\$ -
RMB:NTD	1%	26,061	-
EUR:NTD	1%	8,055	-
RUB:NTD	1%	3,113	-
JPY:NTD	1%	1,433	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	1%	\$ 20,317	\$ -
USD:NTD	1%	19,721	-
EUR:NTD	1%	9,939	-
USD:RMB	1%	52,649	-

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.
- ii. The Group's investments in equity and debt securities comprise shares issued by the domestic and foreign companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity and debt securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the nine-month period ended September 30, 2019 and 2018 would have increased/decreased by \$4,515 and \$5,234, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other comprehensive income would have increased/decreased by \$2,885 and \$3,636, respectively.

Cash flow and fair value interest rate risk

- i. The Group's main interest rate risk arises from short-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. As of September 30, 2019 and 2018, the Group's borrowings at variable rate were mainly denominated in New Taiwan dollars.
- ii. The Group's borrowings are measured at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

- iii. If the borrowing interest rate had increased/decreased by 1% with all other variables held constant, profit, net of tax for the nine-month period ended September 30, 2019 and 2018 would have increased/decreased by \$7,518 and \$20,176, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost and at fair value through profit or loss.
- ii. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain customers' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.
- iii. Credit risk from balances with banks and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions with high credit rating.
- iv. The Group adopted experience of historical transactions to judge whether there is any evidence that the credit risk of financial instruments has been significantly increased after initial recognition. If the contract payments were past due over 90 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition. The default occurs when the contract payments are past due over 270 days.
- v. The following indicators are used to determine whether the credit impairment of financial assets has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) Default.
- vi. The Group classifies customers' accounts receivable in accordance with customer types. The Group applies the simplified approach using provision matrix or loss rate methodology to estimate expected credit loss.
- vii. After recourse procedures, the Group writes-off the amount of the recoverable financial assets which is not reasonably expected to be recovered, but the Group will continue to pursue the legal right of recourse to protect the claims. As of September 30, 2019, December 31, 2018 and September 30, 2018, the Group's claims for write-offs and recourse activities was \$2,968, \$2,968 and \$0, respectively.
- viii. The Group used the forecast ability of Taiwan Institute of Economic Research report to adjust historical and timely information to assess the default possibility of accounts receivable. As of September 30, 2019, December 31, 2018 and September 30, 2018, the

provision matrix are as follows:

September 30, 2019	Without past due	Up to 1-90 days	Up to 91 to 180 days	Up to 181 to 270 days	Over 271 days	Total
<u>Group 1</u>						
Expected loss rate	0.01%	0.94%	1.10%	0.00%	100%	
Total book value	\$ 4,823,131	\$ 910,253	\$ 223,615	\$ -	\$ 1	\$ 5,957,000
Loss allowance	\$ 570	\$ 8,519	\$ 2,451	\$ -	\$ 1	\$ 11,541
<u>Group 2</u>						
Expected loss rate	0.20%	3.18%	-	100%	-	
Total book value	\$ 631,117	\$ 64,054	\$ -	\$ 3	\$ -	\$ 695,174
Loss allowance	\$ 1,270	\$ 2,039	\$ -	\$ 3	\$ -	\$ 3,312
Total book value	\$ 5,454,248	\$ 974,307	\$ 223,615	\$ 3	\$ 1	\$ 6,652,174
Loss allowance	\$ 1,840	\$ 10,558	\$ 2,451	\$ 3	\$ 1	\$ 14,853
<u>December 31, 2018</u>						
December 31, 2018	Without past due	Up to 1-90 days	Up to 91 to 180 days	Up to 181 to 270 days	Over 271 days	Total
<u>Group 1</u>						
Expected loss rate	0.06%	1.32%	11.35%	-	-	
Total book value	\$ 4,431,131	\$ 884,216	\$ 62,523	\$ -	\$ -	\$ 5,377,870
Loss allowance	\$ 2,783	\$ 11,665	\$ 7,099	\$ -	\$ -	\$ 21,547
<u>Group 2</u>						
Expected loss rate	0.09%	1.88%	23.84%	100%	100%	
Total book value	\$ 262,838	\$ 12,188	\$ -	\$ 1,168	\$ 922	\$ 277,116
Loss allowance	\$ 248	\$ 229	\$ -	\$ 1,168	\$ 922	\$ 2,567
Total book value	\$ 4,693,969	\$ 896,404	\$ 62,523	\$ 1,168	\$ 922	\$ 5,654,986
Loss allowance	\$ 3,031	\$ 11,894	\$ 7,099	\$ 1,168	\$ 922	\$ 24,114
<u>September 30, 2018</u>						
September 30, 2018	Without past due	Up to 30 days	Up to 31-90 days	Up to 91 to 180 days	Over 180 days	Total
<u>Group 1</u>						
Expected loss rate	0.05%	0.53%	4.36%	8.95%	100%	
Total book value	\$ 4,768,961	\$ 216,327	\$ 127,802	\$ 25,187	\$ 186	\$ 5,138,463
Loss allowance	\$ 2,550	\$ 1,157	\$ 5,577	\$ 2,255	\$ 186	\$ 11,725
<u>Group 2</u>						
Expected loss rate	0.69%	37.10%	37.09%	100%	100%	
Total book value	\$ 112,643	\$ 4,811	\$ 1,809	\$ 73	\$ -	\$ 119,336
Loss allowance	\$ 773	\$ 1,785	\$ 671	\$ 73	\$ -	\$ 3,302
Total book value	\$ 4,881,604	\$ 221,138	\$ 129,611	\$ 25,260	\$ 186	\$ 5,257,799
Loss allowance	\$ 3,323	\$ 2,942	\$ 6,248	\$ 2,328	\$ 186	\$ 15,027

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

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

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

Considering that the accounts receivable are insured, the Group derecognised the impairment loss amounting to \$12,949, \$11,452 and \$9,199 as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

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

	2019	2018
At January 1	\$ 12,662	\$ 9,219
Reversal of impairment loss	(10,102)	(3,353)
Write-offs	(627)	-
Effect of exchange rate changes	(29)	(38)
At September 30	<u>\$ 1,904</u>	<u>\$ 5,828</u>

(c) Liquidity risk

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

	September 30, 2019	December 31, 2018	September 30, 2018
Floating rate:			
Expiring within one year	<u>\$ 9,430,242</u>	<u>\$ 9,088,573</u>	<u>\$ 6,895,944</u>

- iv. The Group's non-derivative financial liabilities were analysed based on the remaining period at the balance sheet date to the contractual maturity date, derivative financial liabilities were analysed based on the fair value on balance sheet date.

Except that the contractual undiscounted cash flows of notes payable, accounts payable, other payables, cross currency swap contracts and forward foreign exchange contracts approximately equal to its book value and mature within one year, the contractual undiscounted cash flows of remaining financial liabilities are disclosed in the following table:

September 30, 2019	<u>Within 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities</u>				
Short-term borrowings	\$ 1,257,207	\$ -	\$ -	-
Lease liabilities	91,708	81,489	203,403	104,523
Bonds payable	27,702	23,460	2,366,138	-

December 31, 2018	<u>Within 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities</u>				
Short-term borrowings	\$ 2,698,435	\$ -	\$ -	\$ -
Lease obligations payable (including current portion)	16,298	16,298	100,145	-

September 30, 2018	<u>Within 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities</u>				
Short-term borrowings	\$ 3,369,240	\$ -	\$ -	\$ -
Lease obligations payable (including current portion)	16,298	16,298	104,219	-

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

(3) Fair value information

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

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

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

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

B. Financial instruments not measured at fair value

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

	<u>Book value</u>	<u>September 30, 2019</u>		
		<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial liabilities:				
Lease liabilities (including current portion)	\$ 418,145	\$ -	\$ -	\$ 481,123
Bonds payable	<u>2,300,000</u>	<u>-</u>	<u>2,294,959</u>	<u>-</u>
	<u>\$ 2,718,145</u>	<u>\$ -</u>	<u>\$ 2,294,959</u>	<u>\$ 481,123</u>

	December 31, 2018			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial liabilities:				
Lease obligations payable (including current portion)	\$ 113,459	\$ -	\$ -	\$ 132,741
	September 30, 2018			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial liabilities:				
Lease obligations payable (including current portion)	\$ 117,103	\$ -	\$ -	\$ 136,815

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

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

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

September 30, 2019	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Listed stocks	\$ 426,595	\$ -	\$ -	\$ 426,595
Unlisted stocks	-	-	28,635	28,635
Convertible bonds	-	-	2,489	2,489
Cross currency swap	-	451	-	451
Financial assets for hedging				
Forward foreign exchange contracts	-	99,941	-	99,941
Financial assets at fair value through other comprehensive income				
Listed stocks	241,481	-	-	241,481
Unlisted stocks	-	-	53,009	53,009
	<u>\$ 668,076</u>	<u>\$ 100,392</u>	<u>\$ 84,133</u>	<u>\$ 852,601</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	\$ -	\$ 1,017	\$ -	\$ 1,017
Cross currency swap	-	1,191	-	1,191
	<u>\$ -</u>	<u>\$ 2,208</u>	<u>\$ -</u>	<u>\$ 2,208</u>

December 31, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Listed stocks	\$ 428,828	\$ -	\$ -	\$ 428,828
Unlisted stocks	-	-	33,088	33,088
Convertible bonds	-	-	8,709	8,709
Forward foreign exchange contracts	-	4,220	-	4,220
Cross currency swap	-	1,841	-	1,841
Financial assets for hedging				
Forward foreign exchange contracts	-	41,644	-	41,644
Financial assets at fair value through other comprehensive income				
Listed stocks	250,259	-	-	250,259
Unlisted stocks	-	-	58,869	58,869
	<u>\$ 679,087</u>	<u>\$ 47,705</u>	<u>\$ 100,666</u>	<u>\$ 827,458</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Cross currency swap	\$ -	\$ 560	\$ -	\$ 560
September 30, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Listed stocks	\$ 474,614	\$ -	\$ -	\$ 474,614
Unlisted stocks	-	-	32,891	32,891
Convertible bonds	-	-	28,088	28,088
Forward foreign exchange contracts	-	3,961	-	3,961
Financial assets for hedging				
Forward foreign exchange contracts	-	67,784	-	67,784
Financial assets at fair value through other comprehensive income				
Listed stocks	293,360	-	-	293,360
Unlisted stocks	-	-	82,268	82,268
	<u>\$ 767,974</u>	<u>\$ 71,745</u>	<u>\$ 143,247</u>	<u>\$ 982,966</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	\$ -	\$ 5,124	\$ -	\$ 5,124
Cross currency swap	-	762	-	762
Financial liabilities for hedging				
Forward foreign exchange contracts	-	5,243	-	5,243
	<u>\$ -</u>	<u>\$ 11,129</u>	<u>\$ -</u>	<u>\$ 11,129</u>

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

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

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

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

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

D. For the nine-month period ended September 30, 2019 and 2018, there was no transfer between Level 1 and Level 2.

E. The following chart is the movement of Level 3 for the nine-month period ended September 30, 2019 and 2018:

	<u>Convertible bonds</u>	<u>Equity securities</u>	<u>Total</u>
At January 1, 2019	\$ 8,709	\$ 91,957	\$ 100,666
Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through profit or loss	-	(4,790)	(4,790)
Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income	-	(5,861)	(5,861)
Settlement in the period	(6,220)	-	(6,220)
Effect of exchange rate changes	<u>-</u>	<u>338</u>	<u>338</u>
At September 30, 2019	<u>\$ 2,489</u>	<u>\$ 81,644</u>	<u>\$ 84,133</u>

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

F. For the nine-month period ended September 30, 2019 and 2018, there was no transfer into or out from Level 3.

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

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

	Fair value at September 30, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship between inputs and fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 81,644	Market comparable companies	Discount for lack of marketability	15%~ 55.04%	The higher the discount for lack of marketability, the lower the fair value
Hybrid instrument:					
Convertible bonds	\$ 2,489	Market comparable companies and binomial model	Volatility	46.86%~ 56.86%	The higher the volatility, the higher the fair value

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship between inputs and fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 91,957	Market comparable companies	Discount for lack of marketability	10%~ 52.88%	The higher the discount for lack of marketability, the lower the fair value
Hybrid instrument:					
Convertible bonds	\$ 8,710	Market comparable companies and binomial model	Volatility	34.57%~ 47.65%	The higher the volatility, the higher the fair value

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

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

	September 30, 2019					
			Recognised in profit or loss		Recognised in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets	Input	Change				
Equity instruments	Liquidity	±5%	\$ 2,769	\$ 2,769	\$ 3,985	\$ 3,985
Hybrid instrument	Volatility	±5%	139	139	-	-
			<u>\$ 2,908</u>	<u>\$ 2,908</u>	<u>\$ 3,985</u>	<u>\$ 3,985</u>

		December 31, 2018					
				<u>Recognised in profit or loss</u>		<u>Recognised in other comprehensive income</u>	
		<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets							
Equity instruments	Liquidity	±5%	\$ -	\$ -	\$ 8,456	\$ 8,456	
Hybrid instrument	Volatility	±5%	676	676	-	-	
			<u>\$ 676</u>	<u>\$ 676</u>	<u>\$ 8,456</u>	<u>\$ 8,456</u>	
		September 30, 2018					
				<u>Recognised in profit or loss</u>		<u>Recognised in other comprehensive income</u>	
		<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets							
Equity instruments	Liquidity	±5%	\$ 7	\$ 7	\$ 1,117	\$ 1,117	
Hybrid instrument	Volatility	±5%	1,918	1,279	-	-	
			<u>\$ 1,925</u>	<u>\$ 1,286</u>	<u>\$ 1,117</u>	<u>\$ 1,117</u>	

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2), 6(4) and 12.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to tables 1, 2, 4 and 5.

14. SEGMENT INFORMATION

(1) General information

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

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

(2) Segment information

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

For the three-month period ended September 30, 2019:

	<u>Taiwan</u>	<u>Mainland China</u>	<u>Others</u>	<u>Reconciliation and elimination</u>	<u>Total</u>
Revenue from external customers	\$ 7,673,615	\$ 1,191,901	\$ 194,088	\$ -	\$ 9,059,604
Inter-segment revenue	<u>221,143</u>	<u>4,548,829</u>	<u>34,839</u>	<u>(4,804,811)</u>	<u>-</u>
Total segment revenue	<u>\$ 7,894,758</u>	<u>\$ 5,740,730</u>	<u>\$ 228,927</u>	<u>(\$ 4,804,811)</u>	<u>\$ 9,059,604</u>
Segment income (loss)	<u>\$ 265,807</u>	<u>\$ 148,336</u>	<u>(\$ 26,992)</u>	<u>(\$ 32,618)</u>	<u>\$ 354,603</u>

For the three-month period ended September 30, 2018:

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

For the nine-month period ended September 30, 2019:

	<u>Taiwan</u>	<u>Mainland China</u>	<u>Others</u>	<u>Reconciliation and elimination</u>	<u>Total</u>
Revenue from external customers	\$ 17,680,049	\$ 3,879,309	\$ 679,071	\$ -	\$ 22,238,429
Inter-segment revenue	<u>772,596</u>	<u>12,299,659</u>	<u>116,182</u>	<u>(13,188,437)</u>	<u>-</u>
Total segment revenue	<u>\$ 18,452,645</u>	<u>\$ 16,178,968</u>	<u>\$ 795,253</u>	<u>(\$ 13,188,437)</u>	<u>\$ 22,238,429</u>
Segment income	<u>\$ 671,773</u>	<u>\$ 241,483</u>	<u>(\$ 26,904)</u>	<u>(\$ 44,215)</u>	<u>\$ 842,137</u>

For the nine-month period ended September 30, 2018:

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

(3) Reconciliation for segment income (loss)

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

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Sercomm Corporation and Subsidiaries
Loans to others
For the nine-month period ended September 30, 2019

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the nine-month periods ended September 30, 2019	Balance at September 30, 2019	Actual amount drawn down	Interest rate(%)	Nature of loan (Note 4)	Amount of transactions with the borrower	Reason for short- term financing	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted	Footnote
												Allowance for bad debt	Item Value			
0	The Company	Sernet Technology (Suzhou) Limited	Other receivables- related party	Y	\$ 920,920	\$ 872,020	\$ -	4.00	(2)	\$ -	Additional operating capital	\$ -	- \$ -	\$ 1,468,517	\$ 2,937,034	Note 2(3)
0	"	Hawxeye LLC.	Other receivables- related party	Y	4,616	-	-	8.00	(2)	-	Additional operating capital	-	- -	1,468,517	2,937,034	Note 2(3)
1	Sernet Technology (Suzhou) Limited	DWnet Technology (Suzhou) Limited	Other receivables- related party	Y	920,920	-	-	4.35	(2)	-	Additional operating capital	-	- -	3,671,293	7,343,587	Note 3(3)

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

(1)The Company is '0'.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(2)Short-term financing

Sercomm Corporation and Subsidiaries
Provision of endorsements and guarantees to others
For the nine-month period ended September 30, 2019

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed			Maximum outstanding endorsement/ guarantee amount as of September 30, 2019 (Note 4)	Outstanding endorsement/ guarantee amount at September 30, 2019	Actual amount drawn down	Amount of endorsements / guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company (%)	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by parent subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
		Company name	Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)										
0	The Company	Sercomm Russia LLC.	(2)	\$ 3,671,293	\$ 3,141	\$ 3,104	\$ 3,104	-	0.04	\$ 7,342,587	Y	N	N	
0	"	Sernet Technology(Suzhou) Limited	(2)	\$ 3,671,293	\$ 948,360	\$ 931,260	\$ -	-	12.68	\$ 7,342,587	Y	N	Y	
0	"	DWnet Technology (Suzhou) Limited	(2)	3,671,293	1,454,152	1,427,932	338,351	-	19.45	7,342,587	Y	N	Y	

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

- (a) The Company is '0'.
- (b) The subsidiaries are numbered in order starting from '1'.

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

- (a) Having business relationship.
- (b) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (c) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.
- (d) The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.
- (e) Mutual guarantee of the trade as required by the construction contract.
- (f) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.
- (g) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

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

- (1) Limit on total endorsements is 50% of the Company's net assets based on the latest audited or reviewed financial statements, and limit on endorsements to a single party is 25%.
- (2) The restriction stated in (1) shall not apply to inter-company loans of funds between foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares.
However the endorsement / guarantee amount should not exceed 100% net assets. Endorsements / guarantees provided to individual investees should not exceed 50% net assets.
- (3) The amounts permitted to make in endorsements/guarantees to single subsidiary shall not exceed 50% of the Company's stockholders' equity as stated in its latest financial statement; the total amount shall not exceed 100% of stockholders' equity as stated in its latest financial statement.

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

Sercomm Corporation and Subsidiaries
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
For the nine-month period ended September 30, 2019

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of September 30, 2019				Footnote
				Number of shares (in thousand shares)	Book value	Ownership (%)	Fair value	
The Company	Listed stocks Hitron Technologies Inc.	-	Financial assets at fair value through profit or loss - current	22,335	\$ 426,595	9.80	\$ 426,595	
"	Convertible bonds Siklu Inc.	-	Financial assets at fair value through profit or loss - non - current	137	2,489	-	2,489	
Hawxeye LLC.	Unlisted stocks Bossa Nova Robotics Holding Corp.	-	Financial assets at fair value through profit or loss - non - current	3,845	28,635	8.64	28,635	
The Company	HON HAI PRECISION IND.CO.,LTD.	-	Financial assets at fair value through other comprehensive income - current	634	46,409	-	46,409	
"	PEGATRON Corporation.	-	Financial assets at fair value through other comprehensive income - current	1,600	86,400	-	86,400	
"	QUANTA COMPUTER INC.	-	Financial assets at fair value through other comprehensive income - current	1,920	108,672	-	108,672	
"	Unlisted stocks Teco Nanotech Co., Ltd.	-	Financial assets at fair value through other comprehensive income - non - current	-	10	-	10	
"	Unlisted preference share Siklu Inc.	-	Financial assets at fair value through other comprehensive income - non - current	2,018	30,114	-	30,114	
Shukuan Investment Ltd.	Unlisted stocks Cerpass Technology Co., Ltd.	-	Investments in equity instruments measured at fair value through other comprehensive income - non-current	747	22,885	-	22,885	

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

Sercomm Corporation and Subsidiaries
Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more
For the nine-month period ended September 30, 2019

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions (Note 1)		Notes/accounts receivable (payable)	
			Purchases (sales)	Amount	Percentage of total purchases (sales)(%)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)(%)
The Company	Sernet Technology(Suzhou) Limited	Subsidiary	Purchases	\$ 10,231,666	62	45	Note 1	Note 1	\$ 1,659,527	28
"	Sercomm Russia Limited Liability Company	Subsidiary	Sales	620,495	3	105	Note 1	Note 1	104,886	3
"	Sercomm Japan Corp.	Subsidiary	Sales	109,265	1	90	Note 1	Note 1	98,766	3
Sernet Technology(Suzhou) Limited	Dwnet Technology(Suzhou) Limited	Affiliate	Purchase	1,581,134	14	120	Note 1	Note 1	843,955	17

Note 1: The sales price to the above related parties was determined through mutual agreement based on the market conditions. The collection period for related parties was month-end 90-210 days, while the terms for domestic third party sales was net 30-75 days. The collection period for overseas sales was net 30-210 days.

Sercomm Corporation and Subsidiaries
 Receivables from related parties reaching \$100 million or 20% of paid-in capital or more
 For the nine-month period ended September 30, 2019

Table 5

Expressed in thousands of NTD
 (Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at September 30, 2019 (Note 1)	Turnover rate(%)	Overdue receivables		Amount collected subsequent to the balance sheet date (Note)	Allowance for doubtful accounts
					Amount	Action taken		
Sernet Technology(Suzhou) Limited	Sercomm Corp.	Ultimate parent company	\$ 1,659,527	-	\$ -	-	\$ 1,438,537	\$ -
The Company	Sercomm Russia Limited Liability Company	Subsidiary	104,886	-	-	-	34,519	-
DWnet Technology (Suzhou) Limited	Sernet Technology(Suzhou) Limited	Affiliate	843,955	-	-	-	133,790	-
Sernet Technology(Suzhou) Limited	DWnet Technology(Suzhou) Limited	Affiliate	117,309	-	-	-	-	-

(Note) Information was collected as of October 31, 2019.

Sercomm Corporation and Subsidiaries
Significant inter-company transactions during the reporting periods
For the nine-month period ended September 30, 2019

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship	Transaction			Percentage of consolidated total operating revenues or total assets (%)(Note 3)
				General ledger account	Amount	Transaction terms	
0	The Company	Sercomm France SARL	1	Other payables	\$ 7,087	-	-
0	"	"	1	Commissions expense	33,137	-	-
0	"	Sercomm Italia SRL	1	Commissions expense	23,242	-	-
0	"	Sercomm Deutschland GmbH	1	Prepayments	35,270	-	-
0	"	"	1	Commissions expense	17,128	-	-
0	"	Sercomm Japan Corp.	1	Accounts receivable	98,766	-	-
0	"	"	1	Prepayments	48,511	-	-
0	"	"	1	Sales revenue	109,265	Note4	-
0	"	"	1	Commissions expense	26,164	-	-
0	"	Sercomm Russia Limited Liability Company	1	Accounts receivable	104,886	-	-
0	"	"	1	Sales revenue	620,495	Note4	3
0	"	Sercomm Britain Limited	1	Other receivables	6,347	-	-
0	"	Sercomm USA Inc.	1	Prepayments	25,983	-	-
0	"	"	1	Commissions expense	42,474	-	-
0	"	Sernet Technology(Suzhou) Limited	1	Prepayments	8,552	-	7
0	"	"	1	Accounts payable	1,659,527	-	1
0	"	"	1	Purchase	10,231,666	-	47
0	"	"	1	Miscellaneous expenses	12,291	-	-
0	"	DWnet Technology(Suzhou) Limited	1	Accounts receivable	9,401	-	-
0	"	"	1	Sales revenue	11,301	-	-
0	"	"	1	Purchase	7,220	-	-
2	Sercomm USA Inc.	Sercomm Technology Inc.	3	Other receivables	5,538	-	-
2	Sernet Technology(Suzhou) Limited	DWnet Technology(Suzhou) Limited	3	Processing fees revenue	196,312	-	1
2	"	"	3	Repairs and maintenance	8,039	-	-
2	"	"	3	Accounts payable	843,955	-	3
2	"	"	3	Rental revenue	11,637	-	-

Sercomm Corporation and Subsidiaries
Significant inter-company transactions during the reporting periods
For the nine-month period ended September 30, 2019

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship	Transaction			Percentage of consolidated total operating revenues or total assets (%)(Note 3)
				General ledger account	Amount	Transaction terms	
2	Sernet Technology(Suzhou) Limited	DWnet Technology(Suzhou) Limited	3	Accounts receivable	\$ 117,309	-	-
2	"	"	3	Purchase	1,581,134	-	7
2	"	"	3	Other receivables	22,689	-	-
2	"	Suzhou Femtel Communications Co., Ltd	3	Prepayments	9,582	-	-
2	"	"	3	Commissions expense	11,310	-	-
2	"	Nanjing Femtel Communications Co., Ltd	3	Prepayments	5,162	-	-
2	"	"	3	Service expense	24,890	-	-

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

(1) Parent company is '0'.

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

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

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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

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

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

Sercomm Corporation and Subsidiaries
Information on investees (excluding investees in Mainland China)
For the nine-month period ended September 30, 2019

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held and book value as at September 30, 2019			Net profit (loss) of the investee for the nine-month period ended September 30, 2019	Investment income (loss) recognised by the Company for the nine-month period ended September 30, 2019	Footnote
				Balance as at September 30, 2019	Balance as at December 31, 2018	Number of shares (in thousand shares)	Ownership (%)	Book value			
The Company	Sercomm USA Inc.	USA	Local market consultation and customer services of computer information products	\$ 20,739	\$ 20,739	650	100	(\$ 6,468)	(\$ 33,212)	(\$ 33,212)	Subsidiary
"	Sercomm Trading Co. Ltd.	Samoa	Overseas indirect investment	1,471,186	1,471,186	46,800	100	5,404,658	181,287	112,519	Subsidiary
"	ShuKuan Investment Ltd.	Taiwan	General investment	56,298	56,298	2,800	100	32,804	98	98	Subsidiary
"	Sercomm Japan Corp.	Japen	Sales of computer information products and quotation, tender, general import and export business related the products	157,721	157,721	10	100	(19,300)	(17,168)	(17,168)	Subsidiary
"	Sercomm France SARL.	France	Local market consultation and customer services of computer information products	4,004	4,004	100	100	35,947	15,153	15,153	Subsidiary
"	Sercomm Deutschland GmbH	Germany	Local market consultation and customer services of computer information products	3,727	3,727	100	100	(21,135)	(5,539)	(5,539)	Subsidiary
"	Sercomm Russia Limited Liability Company	Russia	Sales of computer information products and quotation, tender, general import and export business related the products	28,958	10	28,958	100	(10,362)	(9,737)	(9,737)	Subsidiary
"	Sercomm Technology Inc.	USA	Sales of computer information products and quotation, tender, general import and export business related the products	153,380	153,380	5,000	100	(44,379)	(76,509)	(76,509)	Subsidiary
"	Sercomm Britain Limited	UK	Local market consultation and customer services of computer information products	13,535	-	350	100	(7,346)	(6,220)	(6,220)	Subsidiary
"	Prescience Limited	UK	Design, R&D and application of smarthome platform technology	-	-	3,333	25	-	-	-	Associate
Sercomm Trading Co. Ltd.	Zealous Investments Ltd.	Samoa	Overseas indirect investment	989,358	989,358	30,956	100	4,442,678	131,386	-	Second-tier subsidiary
"	Smart Trade Inc.	Samoa	Overseas indirect investment	481,829	481,829	16,000	100	1,120,119	49,901	-	Second-tier subsidiary
Sercomm France SARL	Sercomm Italia SRL.	Italy	Local market consultation and customer services of computer information products	388	388	10	100	6,306	3,975	-	Second-tier subsidiary
Zealous Investments Ltd.	HawXeye LLC.	USA	R&D and application of monitoring images' advanced analysis techniques	4,787	4,787	157	55	699	2,290	-	Second-tier subsidiary
Zealous Investments Ltd.	Sercomm Philippines Inc.	Philippines	Manufacturing and sales of servers, routers, OS and related software	36,728	-	60,000	100	35,912	11	-	Second-tier subsidiary
Sercomm Deutschland GmbH	MECSware GmbH	Germany	Sale of IT products	30,144	30,144	11	30	(7,783)	(3,857)	-	Associate

Sercomm Corporation and Subsidiaries
Information on investments in Mainland China
For the nine-month period ended September 30, 2019

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount remitted from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China / Amount remitted back to Taiwan for the nine-month period ended September 30, 2019		Accumulated amount remitted from Taiwan to Mainland China as of September 30, 2019	Net income of investee for the nine- month period ended September 30, 2019	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognised by the Company for the nine-month period ended September 30, 2019(Note 2)	Book value of investments in Mainland China as of September 30, 2019	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2019	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Sernet Technology(Suzhou) Limited	R&D and manufacturing of servers, routers, OS and software	\$ 933,252	(2)	\$ 912,698	\$ -	\$ -	\$ 912,698	\$ 167,227	100	\$ 167,227	\$ 4,415,045	\$ -	Note 2、3
Dwnet Technology(Suzhou) Limited	Manufacturing and sales of servers, routers, OS and related software	481,829	(2)	481,829	-	-	481,829	49,901	100	49,901	1,120,117	-	Note 2、4
Suzhou Hua-Yi Communications Co., Ltd	Sales of servers, routers, OS and related software	2,454	(2)	-	-	-	-	(8)	100	(8)	1,821	-	Note 5
Suzhou Femtel Communications Co., Ltd	Sales of communication products and related software	32,599	(2)	-	-	-	-	7,662	100	5,029	33,102	-	Note 5
Nanjing Femtel Communications Co., Ltd	R&D and sales of communication products and related software	12,538	(2)	-	-	-	-	7,255	100	7,255	(6,201)	-	Note 6

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

(1) Directly invest in a company in Mainland China.

(2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.

(3) Others

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

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

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

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

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

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

Company name	Accumulated amount remitted from Taiwan to Mainland China as of September 30, 2019	Investment amount approved by the Investment Commission of the Ministry of MOEA	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
The Company	\$1,394,527 (USD44,900 thousand)	\$1,407,475 (USD45,144 thousand)	No limitation (Note 7)