

**Edimax Technology Co., Ltd. and  
Subsidiaries**

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

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Edimax Technology Co., Ltd.

### Opinion

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

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

### Basis for Opinion

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

### Key Audit Matters

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

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

#### Sales Revenue from Significant Customer

For the year ended December 31, 2018, the Group's revenue amounted to \$6,873,561 thousand, of which NT\$1,227,365 thousand was recognized from a single customer. The revenue from the significant single customer was material, and the amount had an obvious increase compared to the amount in the prior year; thus, the sales revenue from the single customer was deemed to be a key audit matter.

The main audit procedures we performed to address the above key audit matter were as follows:

1. We obtained an understanding of and assessed internal controls relating to sales revenue from the customer, including credit condition, sale price and payment conditions, and confirmed whether the sales to the significant customer had been appropriately approved, and whether the Group had obtained valid supporting documents that include the result of a search for relevant information about the customer.
2. We selected samples of sales to the customer, and we checked the accuracy of the records against the sales documents such as purchase orders, invoices, and subsequent receipt.
3. We tested the balances of trade receivables from the customer by confirmations procedures.
4. We inspected subsequent transactions after the reporting period and checked that material sales returns and discounts were properly recorded.

#### **Other Matter**

We did not audit the financial statements of several subsidiaries included in the consolidated financial statements of the Group, but such statements were audited by other auditors. Our opinion, insofar as it relates to the amounts included for those subsidiaries, are based solely on the reports of other auditors. The total assets of those subsidiaries were NT\$420,341 thousand and NT\$429,052 thousand, which constituted 6.03% and 6.65% of consolidated total assets as of December 31, 2018 and 2017, respectively, and total revenues were NT\$531,411 thousand and NT\$586,761 thousand, which constituted 7.73% and 10.42% of consolidated total revenues for the years then ended, respectively.

In addition, an investment in an associate, which is included in the consolidated financial statements of the Group, was based on financial statements audited by other auditors. Our opinion, insofar as it relates to the investment in associate accounted for using the equity method, the share of profit or loss of associate and the share of other comprehensive income/(loss) of associate accounted for using the equity method is based solely on the report of other auditors. The investment accounted for using the equity method was NT\$52,085 thousand, which constituted 0.75% of consolidated total assets as of December 31, 2018, the share of profit or loss of associate was NT\$19,469 thousand, which constituted 9.46% of consolidated profit before income tax for the year ended December 31, 2018, and the share of the other comprehensive income of associate accounted for using the equity method was NT\$20,270 thousand, which constituted 15.93% of the consolidated total comprehensive income for the year ended December 31, 2018.

We have also audited the parent company only financial statements of Edimax Technology Co., Ltd. as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion with other matter paragraph.

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

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

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

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chih-Yuan Chen and Ching-Jen Chang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 15, 2019

#### Notice to Readers

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

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

# EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2018 AND 2017  
(In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 3, 4 and 6)	\$ 879,800	13	\$ 708,374	11
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	16,015	-	-	-
Held-to-maturity financial assets - current (Notes 3, 4 and 10)	-	-	45,650	1
Financial assets at amortized cost - current (Notes 3 and 9)	2,054	-	-	-
Notes receivable from unrelated parties (Notes 3, 4 and 12)	15,042	-	14,063	-
Trade receivables from unrelated parties (Notes 3, 4, 12 and 25)	1,329,331	19	1,246,905	19
Other receivables (Notes 3, 12 and 34)	105,259	2	23,330	-
Current tax assets (Notes 4 and 27)	427	-	353	-
Inventories (Notes 4 and 13)	1,890,820	27	1,412,987	22
Prepayments	71,553	1	74,096	1
Other financial assets - current (Notes 3, 19 and 36)	6	-	203,793	3
Other current assets	26,086	-	32,777	1
<b>Total current assets</b>	<b>4,336,393</b>	<b>62</b>	<b>3,762,328</b>	<b>58</b>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - non-current (Notes 3, 4 and 8)	21,616	-	-	-
Financial assets at amortized cost - non-current (Notes 3, 9 and 36)	2,633	-	-	-
Financial assets measured at cost - non-current (Notes 3, 4 and 11)	-	-	21,616	-
Investments accounted for using the equity method (Notes 4 and 16)	52,085	1	-	-
Property, plant and equipment (Notes 4, 17, 35 and 36)	2,407,578	35	2,478,439	38
Intangible assets (Notes 4 and 18)	30,062	-	33,147	1
Deferred tax assets (Notes 4 and 27)	51,358	1	57,294	1
Refundable deposits (Note 32)	11,868	-	11,432	-
Other financial assets - non-current (Notes 3, 19 and 36)	54,729	1	51,507	1
Other non-current assets	-	-	31,815	1
<b>Total non-current assets</b>	<b>2,631,929</b>	<b>38</b>	<b>2,685,250</b>	<b>42</b>
<b>TOTAL</b>	<b>\$ 6,968,322</b>	<b>100</b>	<b>\$ 6,447,578</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 20 and 36)	\$ 1,007,318	15	\$ 744,818	12
Short-term bills payable (Note 20)	29,979	-	29,973	-
Contract liabilities - current (Note 25)	155,573	2	-	-
Notes payable to unrelated parties	3,433	-	4,903	-
Accounts payable to unrelated parties	1,147,103	17	1,036,823	16
Accounts payable to related parties (Note 35)	89,864	1	-	-
Other payables (Note 22)	436,395	6	325,113	5
Current tax liabilities (Notes 4 and 27)	75,938	1	30,185	1
Advanced receipts	-	-	103,550	2
Current portion of bonds payable (Notes 4 and 21)	-	-	289,959	5
Current portion of long-term borrowings (Notes 4, 20 and 36)	16,800	-	83,552	1
Other current liabilities (Note 22)	112,808	2	88,040	1
<b>Total current liabilities</b>	<b>3,075,211</b>	<b>44</b>	<b>2,736,916</b>	<b>43</b>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Notes 4, 20 and 36)	1,417,514	20	1,434,314	22
Deferred tax liabilities (Notes 4 and 27)	1,161	-	614	-
Net defined benefit liabilities - non-current (Notes 4 and 23)	53,756	1	54,547	1
Guarantee deposits received	60	-	60	-
<b>Total non-current liabilities</b>	<b>1,472,491</b>	<b>21</b>	<b>1,489,535</b>	<b>23</b>
<b>Total liabilities</b>	<b>4,547,702</b>	<b>65</b>	<b>4,226,451</b>	<b>66</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
Share capital				
Common stocks	1,864,916	27	2,003,788	31
Certificate of entitlement to new shares from convertible bond	-	-	9,458	-
<b>Total share capital</b>	<b>1,864,916</b>	<b>27</b>	<b>2,013,246</b>	<b>31</b>
Capital surplus	162,547	2	227,236	4
Retained earnings (accumulated deficits)				
Legal reserve	-	-	62,510	1
Accumulated deficits	(19,979)	-	(168,109)	(3)
<b>Total accumulated deficits</b>	<b>(19,979)</b>	<b>-</b>	<b>(105,599)</b>	<b>(2)</b>
Other equity				
Exchange differences arising from translation to the presentation currency	(9,148)	-	(12,840)	-
Unrealized gain/(loss) on financial assets at fair value through other comprehensive income	(5,100)	-	-	-
<b>Total other equity</b>	<b>(14,248)</b>	<b>-</b>	<b>(12,840)</b>	<b>-</b>
Treasury shares	(20,211)	(1)	(170,799)	(3)
<b>Total equity attributable to owners of the Company</b>	<b>1,973,025</b>	<b>28</b>	<b>1,951,244</b>	<b>30</b>
<b>NON-CONTROLLING INTERESTS</b>	<b>447,595</b>	<b>7</b>	<b>269,883</b>	<b>4</b>
<b>Total equity</b>	<b>2,420,620</b>	<b>35</b>	<b>2,221,127</b>	<b>34</b>
<b>TOTAL</b>	<b>\$ 6,968,322</b>	<b>100</b>	<b>\$ 6,447,578</b>	<b>100</b>

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

(With Deloitte & Touche auditors' report dated March 15, 2019)

# EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 25 and 40)	\$ 6,873,561	100	\$ 5,632,913	100
OPERATING COSTS (Notes 13, 26 and 35)	<u>(5,219,802)</u>	<u>(76)</u>	<u>(4,202,214)</u>	<u>(74)</u>
GROSS PROFIT	<u>1,653,759</u>	<u>24</u>	<u>1,430,699</u>	<u>26</u>
OPERATING EXPENSES (Notes 23 and 26)				
Selling and marketing expenses	(653,865)	(9)	(665,063)	(12)
General and administrative expenses	(310,461)	(5)	(282,627)	(5)
Research and development expenses	(462,106)	(7)	(514,269)	(9)
Expected credit loss	<u>(15,245)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>(1,441,677)</u>	<u>(21)</u>	<u>(1,461,959)</u>	<u>(26)</u>
PROFIT (LOSS) FROM OPERATIONS	<u>212,082</u>	<u>3</u>	<u>(31,260)</u>	<u>-</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 26)	33,514	1	22,167	1
Other gains and losses (Note 26)	(23,493)	-	(41,141)	(1)
Finance costs (Note 26)	(35,837)	(1)	(36,255)	(1)
Share of profit or loss of associates (Note 16)	<u>19,469</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating income and expenses	<u>(6,347)</u>	<u>-</u>	<u>(55,229)</u>	<u>(1)</u>
PROFIT (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS	205,735	3	(86,489)	(1)
INCOME TAX EXPENSE (Notes 4 and 27)	<u>(83,757)</u>	<u>(1)</u>	<u>(50,002)</u>	<u>(1)</u>
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	121,978	2	(136,491)	(2)
NET LOSS FROM DISCONTINUED OPERATIONS (Note 14)	<u>-</u>	<u>-</u>	<u>(205)</u>	<u>-</u>
NET PROFIT (LOSS) FOR THE YEAR	<u>121,978</u>	<u>2</u>	<u>(136,696)</u>	<u>(2)</u>

(Continued)

# EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2018		2017	
	Amount	%	Amount	%
<b>OTHER COMPREHENSIVE INCOME</b>				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 23)	\$ (1,330)	-	\$ (6,420)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 27)	1,402	-	662	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>5,206</u>	<u>-</u>	<u>(20,664)</u>	<u>(1)</u>
Other comprehensive income (loss) for the year, net of income tax	<u>5,278</u>	<u>-</u>	<u>(26,422)</u>	<u>(1)</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>	<u>\$ 127,256</u>	<u>2</u>	<u>\$ (163,118)</u>	<u>(3)</u>
<b>NET (LOSS) PROFIT ATTRIBUTABLE TO:</b>				
Owners of the Company	\$ (27,127)	-	\$ (180,219)	(3)
Non-controlling interests	<u>149,105</u>	<u>2</u>	<u>43,523</u>	<u>1</u>
	<u>\$ 121,978</u>	<u>2</u>	<u>\$ (136,696)</u>	<u>(2)</u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Owners of the Company	\$ (21,387)	-	\$ (200,305)	(4)
Non-controlling interests	<u>148,643</u>	<u>2</u>	<u>37,187</u>	<u>1</u>
	<u>\$ 127,256</u>	<u>2</u>	<u>\$ (163,118)</u>	<u>(3)</u>
<b>LOSS PER SHARE (Note 28)</b>				
From continuing and discontinued operations				
Basic	<u>\$ (0.15)</u>		<u>\$ (0.99)</u>	
From continuing operations				
Basic	<u>\$ (0.15)</u>		<u>\$ (0.98)</u>	

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

(With Deloitte & Touche auditors' report dated March 15, 2019)

(Concluded)



**EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

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

Equity Attributable to Owners of the Company (Note 24)

	Share Capital		Retained Earnings (Accumulated Deficits)		Other Equity		Total	Treasury Shares	Non-controlling Interests (Note 24)	Total Equity
	Common Stock	Preference to New Convertible Bond	Legal Reserve	Unappropriated Earnings (Accumulated Deficits)	Unrealized Gain/(Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Exchange Differences on Translating Foreign Operations				
BALANCE AT JANUARY 1, 2017	\$ 1,929,355	\$ -	\$ 54,213	\$ 117,080	\$ 171,213	\$ 3,204	\$ (170,292)	\$ 269,400	\$ 2,488,357	
Appropriation of 2016 earnings	-	-	8,297	(8,297)	-	-	-	-	(92,551)	
Legal reserve	-	-	-	(92,551)	(92,551)	-	-	-	-	
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-	
Adjustment of capital surplus arising from issuing dividends to subsidiaries	-	-	1,213	-	1,213	-	-	-	1,213	
Share-based payments (Note 29)	-	-	967	-	967	-	-	-	967	
Net profit (loss) for the year ended December 31, 2017	-	-	-	(180,219)	(180,219)	-	-	41,523	(136,696)	
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	(4,042)	(4,042)	(16,044)	-	(6,336)	(26,422)	
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	(184,261)	(184,261)	(16,044)	-	37,187	(163,118)	
Convertible bonds converted to common stocks	4,433	-	72	-	4,505	-	-	-	13,963	
Non-controlling interests	-	-	-	-	-	-	-	(27,704)	(27,704)	
BALANCE AT DECEMBER 31, 2017	2,003,788	-	62,510	(168,109)	(105,599)	(12,840)	(170,799)	269,883	2,221,127	
Effect of retrospective application (Note 3)	-	-	-	5,100	5,100	(5,100)	-	-	-	
BALANCE AT JANUARY 1, 2018 AS RESTATED	2,003,788	-	62,510	(163,009)	(100,499)	(12,840)	(170,799)	269,883	2,221,127	
Legal reserve used to cover accumulated deficits	-	-	(63,510)	63,510	-	-	-	-	-	
Capital surplus used to cover accumulated deficits	-	-	-	105,599	105,599	-	-	-	-	
Cancellation of treasury shares	(148,330)	-	261	-	(148,069)	-	148,069	-	-	
Actual disposals of interests in subsidiaries (Note 31)	-	-	-	-	-	-	-	-	-	
Actual disposals of interests in subsidiaries	-	-	34,629	-	34,629	-	-	-	34,629	
Changes in percentage of ownership interests in subsidiaries	-	-	338	-	338	-	-	-	338	
Convertible bonds converted to common stocks	9,458	(9,458)	-	-	-	-	-	-	-	
Recognition of employee share options by the subsidiaries (Note 29)	-	-	-	-	-	-	-	-	-	
Share-based payments (Note 29)	-	-	1,628	-	1,628	-	-	-	1,628	
Net profit (loss) for the year ended December 31, 2018	-	-	-	(27,127)	(27,127)	-	-	149,105	(27,127)	
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	2,048	2,048	3,692	-	(462)	3,278	
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	(25,079)	(25,079)	3,692	-	148,643	(21,387)	
Non-controlling interests	-	-	-	-	-	-	2,419	26,886	29,305	
BALANCE AT DECEMBER 31, 2018	1,864,916	-	162,547	(19,922)	(19,922)	(2,148)	(20,211)	447,595	1,973,623	

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche auditors' report dated March 15, 2019)

# EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) before income tax from continuing operations	\$ 205,735	\$ (86,489)
Loss before income tax from discontinued operations	<u>-</u>	<u>(205)</u>
Income (loss) before income tax	205,735	(86,694)
Adjustments for:		
Depreciation expenses	126,390	129,229
Amortization expenses	7,049	6,469
Expected credit loss recognized	15,245	-
Provision of doubtful accounts	-	1,351
Net gain (loss) on fair value change of financial assets and liabilities designated as at fair value through profit or loss	(13)	2,071
Finance costs	35,837	36,255
Interest income	(4,495)	(5,218)
Share-based payment	7,855	967
Share of profit of associates	(19,469)	-
Loss on disposal of property, plant and equipment	162	13
Write-down of inventories	32,961	62,205
Changes in operating assets and liabilities		
(Increase)/decrease in notes receivable	(979)	3,636
Increase in trade receivables	(97,946)	(117,334)
(Increase)/decrease in other receivables	(83,134)	5,081
Increase in inventories	(509,152)	(195,854)
Decrease in prepayment	2,543	23,430
Decrease/(increase) in other current assets	6,691	(4,229)
Decrease in notes payables	(1,470)	(1,346)
Increase in short-term notes and bills	-	29,973
Increase/(decrease) in trade payables	200,144	(168,973)
Increase/(decrease) in other payables	95,118	(15,852)
Decrease in provisions	-	(1,715)
Increase in other current liabilities (include contract liabilities and advanced receipts)	92,956	51,815
Decrease in net defined benefit liabilities	<u>(792)</u>	<u>(2,840)</u>
Cash generated from (used in) operations	111,236	(247,560)
Interest received	5,700	5,030
Interest paid	(34,390)	(27,411)
Income tax paid	<u>(31,523)</u>	<u>(13,815)</u>
Net cash generated from (used in) operating activities	<u>51,023</u>	<u>(283,756)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets measured at amortized cost	(404)	-
Proceeds from financial assets measured at amortized cost	48,807	-
Purchase of financial assets at fair value through profit or loss	(30,000)	(1,348)
Proceeds from financial assets at fair value through profit or loss	13,998	-
Purchase of financial assets measured at cost	-	(3,000)

(Continued)

# EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
Purchase of investments accounted for using the equity method	\$ (31,815)	\$ -
Payments for property, plant and equipment	(58,314)	(156,806)
Proceeds from disposal of property, plant and equipment	991	4,029
Increase in refundable deposits	(436)	-
Decrease in refundable deposits	-	4,918
Payments for intangible assets	(5,936)	(10,183)
Proceeds from intangible assets	1,966	-
Increase in other financial assets	-	(35,139)
Decrease in other financial assets	193,125	-
Increase in other non-current assets	-	(29,056)
Decrease in other non-current assets	<u>31,815</u>	<u>-</u>
Net cash generated from (used in) investing activities	<u>163,797</u>	<u>(226,585)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	262,500	618,318
Repayments of bonds payable	(291,400)	-
Repayments of long-term borrowings	(83,552)	(83,552)
Dividends paid to owners of the Company	(23,425)	(119,042)
Disposal of interests in subsidiaries without a loss of control	56,729	-
Difference in non-controlling interests	<u>31,078</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>(48,070)</u>	<u>415,724</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>4,676</u>	<u>(22,738)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	171,426	(117,355)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		
	<u>708,374</u>	<u>825,729</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		
	<u>\$ 879,800</u>	<u>\$ 708,374</u>

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

(With Deloitte & Touche auditors' report dated March 15, 2019)

(Concluded)

# EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

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### 1. GENERAL INFORMATION

Edimax Technology Co., Ltd. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (“ROC”) in June 1986 and has been listed at the Taiwan Stock Exchange since March 20, 2001. Edimax Technology Co., Ltd. is dedicated to the design, development, manufacture and marketing of a broad range of networking solutions.

The Company and its subsidiaries are hereinafter collectively referred to as “the Group.”

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

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 15, 2019.

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

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

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

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

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

#### Classification, measurement and impairment of financial assets

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

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

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 708,374	\$ 708,374	
Equity securities	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	21,616	21,616	a)
Debt securities	Held-for-trading	Amortized cost	45,650	45,650	b)
Time deposits with original maturities of more than 3 months	Loans and receivables	Amortized cost	7,440	7,440	c)
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	1,276,431	1,276,431	d)
Refundable deposits	Loans and receivables	Amortized cost	11,432	11,432	d)

  

Financial Assets	IAS 39			IFRS 9	Retained Earnings	Other Equity	Remark
	Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	Carrying Amount as of January 1, 2018	Effect on January 1, 2018	Effect on January 1, 2018	
<u>FVTOCI</u>	\$ -						
Add: Reclassification from measured at cost (IAS 39) Equity instruments	-	\$ 21,616	\$ -	\$ 21,616	\$ 5,100	\$ (5,100)	a)
<u>Amortized cost</u>	-						
Add: Reclassification from held-to-maturity (IAS 39)	-	45,650	-	45,650	-	-	b)
	<u>\$ -</u>	<u>\$ 67,266</u>	<u>\$ -</u>	<u>\$ 67,266</u>	<u>\$ 5,100</u>	<u>\$ (5,100)</u>	

- a) The Group elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value.

The Group recognized under IAS 39 impairment loss on certain investments in equity securities previously measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$5,100 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of \$5,100 thousand in accumulated deficits on January 1, 2018.

- b) Debt investments previously classified as held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.

- c) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.
- d) Notes receivable, trade receivables, other receivables and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

The impact in the current year of the initial application is not material.

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

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

The impact in the current year of the initial application is not material.

3) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration.

The impact in the current year of the initial application is not material.

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

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

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

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

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

## 1) IFRS 16 “Leases”

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

### Definition of a lease

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

### The Group as lessee

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

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

The Group expects to apply the following practical expedients:

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

### Anticipated impact on assets, liabilities and equity

	<b>Carrying Amount as of December 31, 2018</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2019</b>
Right-of-use assets	\$ _____ -	\$ 171,424	\$ 171,424
Total effect on assets	\$ _____ -	\$ 171,424	\$ 171,424
Lease liabilities	\$ _____ -	\$ 171,424	\$ 171,424
Total effect on liabilities	\$ _____ -	\$ 171,424	\$ 171,424

## 2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

There is no anticipated impact on assets, liabilities and equity when retrospectively applying IFRIC 23 on January 1, 2019.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group’s financial position and financial performance, and will disclose these other impacts when the assessment is completed.

### c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

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

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

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

### a. Statement of compliance

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



b. Basis of preparation

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

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

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

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

Current assets include:

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

Current liabilities include:

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

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

d. Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisitions up to the effective date of disposal, as appropriate.

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

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

See Note 15 and Table 5 and 6 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

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

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries, associates, joint ventures or branches operations in other countries or currencies used are different from the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss.

f. Inventories

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

g. Investments in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. The Group uses the equity method to account for its investments in associates.

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

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

h. Property, plant and equipment

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

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

i. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized on goodwill is not reversed in subsequent periods.

j. Intangible assets

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

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

k. Impairment of tangible and intangible assets other than goodwill

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

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

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

l. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

2018

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

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 34.

ii. Financial assets at amortized cost

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

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

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

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

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

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

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

2017

Financial assets are classified into the following categories: Held-to-maturity investments and loans and receivables.

i. Held-to-maturity investments

Corporate bonds, which have credit ratings above a specific credit rating and which the Group has a positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

ii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments with no active market) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) as well as investments in debt instruments that are measured at FVTOCI.

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

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

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

2017

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

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

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

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

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

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

c) Derecognition of financial assets

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

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

## 2) Financial liabilities

### a) Subsequent measurement

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

### b) Derecognition of financial liabilities

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

## 3) Convertible bonds

The component parts of compound instruments (i.e. convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or upon the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised; in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issuance of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

## m. Revenue recognition

### 2018

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

#### 1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of electronic equipment and networking telecommunication equipment.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control of materials ownership.

#### 2) Rendering of services

Services income is recognized when services are provided.



### 3) Service revenue

Services income is recognized when cloud services and multimedia applications are provided.

#### 2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale based on the seller's reliable estimate of future returns and recognizes a liability for returns based on past experience and other relevant factors.

#### 1) Sale of goods

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

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

#### 2) Rendering of services

Service income is recognized when services are provided.

#### 3) Dividend income and interest income

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

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

#### n. Leasing

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

#### 1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents arising under operating leases are recognized as an expense in the period in which they are incurred.

o. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

Defined benefit costs (including service cost, net interest and rereasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, and net interest on the net defined benefit liability (asset)) is recognized as employee benefit expense in the period they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

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

3) Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit or the date when the Group recognized any related restructuring costs.

p. Share-based payment arrangements employee share options

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vesting immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

q. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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

## 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized on all taxable temporary differences. Deferred tax assets are generally recognized on all deductible temporary differences, unused loss carryforward, and research and development expenditure to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

## 3) Current tax and deferred tax for the year

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

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

a. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

b. Recognition and measurement of defined benefit plans

The net defined benefit liabilities and the resulting defined benefit costs under the defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rates, rates of employee turnover, future salary increases, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of related expenses and liabilities.

c. Income taxes

As of December 31, 2018 and 2017, no deferred tax assets have been recognized on tax losses of \$682,647 thousand and \$612,890 thousand, respectively, due to the unpredictability of future profit streams. The realizability of deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available for the recovery of the assets. In cases where the actual future profits generated is less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

## 6. CASH AND CASH EQUIVALENTS

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Cash on hand	\$ 1,561	\$ 1,178
Checking accounts and demand deposits	869,024	608,988
Cash equivalents (investments with original maturities of less than 3 months)		
Time deposits	<u>9,215</u>	<u>98,208</u>
	<u>\$ 879,800</u>	<u>\$ 708,374</u>

The market rate intervals of cash in the bank at the end of the reporting periods were as follows:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Demand deposits	0.001%-0.5%	0.001%-0.5%
Time deposits with original maturities less than 3 months	0.6%	0.5%-1.8%

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2018	2017
<u>Financial assets at FVTPL - current</u>		
Financial assets held for trading		
Non-derivative financial assets		
Mutual funds	\$ 16,015	\$ -

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

Investments in equity instruments at FVTOCI

	<b>December 31, 2018</b>
<u>Non-current</u>	
Overseas unlisted ordinary shares	
Bluechip Infotech Pty. Ltd.	\$ 18,616
Domestic unlisted ordinary shares	
Status Internet Co., Ltd.	<u>3,000</u>
	<u>\$ 21,616</u>

The Group acquired ordinary shares of Bluechip Infotech Pty. Ltd. and Status Internet Co., Ltd. for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3 and Note 11 for information relating to their reclassification and comparative information for 2017.

## 9. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	<b>December 31, 2018</b>
<u>Current</u>	
Domestic investments	
Time deposits with original maturity of more than 3 months	<u>\$ 2,054</u>
<u>Non-current</u>	
Domestic investments	
Time deposits with original maturity of more than 3 months	<u>\$ 2,633</u>

The time deposits were classified as debt investments with no active market under IAS 39. Refer to Note 3 and Note 19 for information relating to their reclassification and comparative information for 2017.

Refer to Note 36 for information relating to investments in financial assets at amortized cost pledged as security.

#### 10. HELD-TO-MATURITY FINANCIAL ASSETS - 2017

	<b>December 31, 2017</b>
<u>Current</u>	
Cayman Ton Yi Industrial Holding Limited	\$ <u>45,650</u>
As of February 3, 2018, the bond was expired and retrieved the principal.	

#### 11. FINANCIAL ASSETS MEASURED AT COST - 2017

	<b>December 31, 2017</b>
<u>Non-current</u>	
Overseas unlisted ordinary shares Bluechip Infotech Pty. Ltd.	\$ 18,616
Domestic unlisted ordinary shares Status Internet Co., Ltd.	<u>3,000</u>
	<u>\$ 21,616</u>

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

#### 12. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	2018	2017
<u>Notes receivable</u>		
Notes receivable	\$ <u>15,042</u>	\$ <u>14,063</u>
<u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	\$ 1,362,518	\$ 1,266,404
Less: Allowance for impairment loss	<u>(33,187)</u>	<u>(19,499)</u>
	<u>\$ 1,329,331</u>	<u>\$ 1,246,905</u>
		(Continued)

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
<u>Other receivables</u>		
Factored trade receivables retention (Note 34)	\$ 97,896	\$ -
Others	<u>7,363</u>	<u>23,330</u>
	<u>\$ 105,259</u>	<u>\$ 23,330</u> (Concluded)

## **Trade Receivables**

### In 2018

The average credit period of the Group's sales of goods vary among client. No interest was charged on trade receivables. The Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

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

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

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

### December 31, 2018

	<b>Not Past Due</b>	<b>1 to 30 Days</b>	<b>31 to 90 Days</b>	<b>91 to 180 Days</b>	<b>Over 180 Days</b>	<b>Total</b>
Expected credit loss rate	-	1.99%	6.19%	5.37%	52.75%	
Gross carrying amount	\$ 1,069,169	\$ 167,174	\$ 51,420	\$ 26,931	\$ 47,824	\$ 1,362,518
Loss allowance (Lifetime ECL)	<u>-</u>	<u>(3,328)</u>	<u>(3,185)</u>	<u>(1,445)</u>	<u>(25,229)</u>	<u>(33,187)</u>
Amortized cost	<u>\$ 1,069,169</u>	<u>\$ 163,846</u>	<u>\$ 48,235</u>	<u>\$ 25,486</u>	<u>\$ 22,595</u>	<u>\$ 1,329,331</u>

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

	<b>2018</b>
Balance at January 1, 2018 per IAS 39	\$ 19,499
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	19,499
Add: Net remeasurement of loss allowance	15,245
Less: Amounts written off	(1,832)
Foreign exchange gains and losses	<u>275</u>
Balance at December 31, 2018	<u>\$ 33,187</u>

In 2017

The Group applied the same credit policy in 2018 and 2017. The average credit periods of the Group's sales of goods vary among clients. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss based on historical experience. Allowance for impairment loss is recognized against trade receivables based on estimated irrecoverable amount determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The aging of receivables was as follows:

	<b>December 31, 2017</b>
0-30 days	\$ 1,192,607
31-90 days	51,722
91-180 days	3,806
More than 180 days	<u>18,269</u>
	<u>\$ 1,266,404</u>

The above aging schedule was based on the past due days from end of credit term.

The movements in the allowance for doubtful trade receivables were as follows:

	<b>Individually Assessed for Impairment</b>	<b>Collectively Assessed for Impairment</b>	<b>Total</b>
Balance at January 1, 2017	\$ -	\$ 18,450	\$ 18,450
Add: Impairment losses recognized on receivables	-	1,351	1,351
Foreign exchange translation gains and losses	<u>-</u>	<u>(302)</u>	<u>(302)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 19,499</u>	<u>\$ 19,499</u>

Factored trade receivable is disclosed in Note 34.



### 13. INVENTORIES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Raw materials	\$ 1,150,285	\$ 772,536
Finished goods	191,690	168,518
Work-in-process	356,790	283,072
Merchandise	<u>192,055</u>	<u>188,861</u>
	<u>\$ 1,890,820</u>	<u>\$ 1,412,987</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was \$5,219,588 thousand and \$4,167,813 thousand, respectively.

The cost of goods sold for the years ended December 31, 2018 and 2017 included inventory write-downs of \$32,961 thousand and \$62,205 thousand, respectively.

### 14. DISCONTINUED OPERATIONS

Global Automation Technology Inc. (“Global Automation”) was incorporated in June 2013. Global Automation was engaged in networking equipment wholesale. As profit targets were not achieved and prospects were not as good as envisioned, the board of directors approved to dissolve Global Automation on October 19, 2017, and it has liquidated in November 2017. The financial information of Global Automation for the year ended December 31, 2017 is summarized as follows:

	<b>For the Year Ended December 31, 2017</b>
<u>Loss from discontinued operations</u>	
Revenue	\$ 4
Cost of sales and expenses	<u>(209)</u>
Loss before tax	(205)
Income tax expense	<u>-</u>
Loss for the year from discontinued operations	<u>\$ (205)</u>
Loss for the year from discontinued operations attributable to: Owners of the Company	<u>\$ (205)</u>
<u>Cash flows from discontinued operations</u>	
Net cash outflows from operating activities	\$ (205)
Net cash outflows from investing activities	-
Net cash outflows from financing activities	<u>-</u>
Net cash outflows	<u>\$ (205)</u>

The assets and liabilities of the Company at the date of disposal are disclosed in Note 30.

## 15. SUBSIDIARIES

### a. Subsidiaries included in the consolidated financial statements

Investor	Investee	Nature of Activities	Proportion of Ownership		Remark
			2018	2017	
The Company	Edimax Computer Co. (“Edimax USA”)	Networking equipment wholesale	100.00%	100.00%	
The Company	Edimax Technology Europe B.V. (“Edimax Europe”)	Networking equipment wholesale	100.00%	100.00%	
The Company	Edimax Technology (BVI) Co., Ltd. (“Edimax BVI”)	Networking equipment wholesale	100.00%	100.00%	
The Company	ABS Telecom Inc. (“ABS Telecom”)	Telecommunication equipment wholesale, transmission and rental	100.00%	100.00%	
The Company	Edimax Technology Australia Pty, Ltd. (“Edimax AU”)	Networking equipment wholesale	100.00%	100.00%	
The Company	Global Automation Technology Inc. (“Global Automation”)	Networking equipment wholesale	-	-	1)
The Company	Edimax Technology (SE Asia) Pte. Ltd. (“Edimax SE”)	Networking equipment wholesale	100.00%	100.00%	
The Company	PT. Edimax Network Communication (“Edimax NETWORK”)	Networking equipment wholesale	-	100.00%	2)
The Company	SMAX Technology Co., Ltd. (“SMAX Technology”)	Wired and wireless telecommunication equipment for manufacturing	99.16%	99.16%	
The Company	Comtrend Corporation (“Comtrend”)	Cable and telecommunication transmission equipment	41.74%	46.95%	3)
Edimax Europe	Edimax Technology (UK) Ltd. (“Edimax UK”)	Networking equipment wholesale	100.00%	100.00%	
Edimax Europe	Edimax Technology Poland. Sp. Zo.o. (“Edimax Poland”)	Networking equipment wholesale	100.00%	100.00%	
Edimax BVI	Datamax (HK) Co., Ltd. (“Datamax HK”)	Investing	100.00%	100.00%	
ABS Telecom	ABST Information International Inc. (“ABST”)	Investing	100.00%	100.00%	
Comtrend	Comtrend Corporation, USA (“CUSA”)	Wholesale, retail sale, and international trade	100.00%	100.00%	
Comtrend	Interchan Global Limited (“Interchan Global”)	Investing	100.00%	100.00%	
Comtrend	Comtrend Technology (Netherlands) B.V. (“CTBV”)	Wholesale, retail sale, and international trade	100.00%	100.00%	
Datamax HK	Edimax Electronic (Dongguan) Co., Ltd.	Networking production and marketing	100.00%	100.00%	
Datamax HK	Datamax Technology Shanghai Inc.	Networking equipment wholesale	-	100.00%	4)
ABST	ABST Information Telecom Service Inc.	Telecommunication equipment wholesale, transmission and rental	100.00%	100.00%	
Interchan Global	Just Top Limited (“Just Top”)	Telecommunication construction and wholesale	100.00%	100.00%	
Interchan Global	Interchan Taiwan (“8086”)	Telecommunication construction and wholesale	100.00%	100.00%	
Just Top	PT Interchan	Telecommunication construction and wholesale	-	100.00%	5)
Just Top	PHP Interchan	Telecommunication construction and wholesale	100.00%	100.00%	
CTBV	Comtrend Central Europe S.R.O. (“CCE”)	Cable and cables transmission equipment wholesale, retail sale and international trade, etc.	100.00%	100.00%	
CTBV	Comtrend Iberia S.L. (“Comtrend Iberia”)	Cable and noncable transmission service	100.00%	100.00%	

- 1) The Group finished the liquidation procedures of Global Automation in October 2017.
- 2) The Group finished the liquidation procedures of Edimax Network in December 2018.
- 3) For the changes in the proportion of ownership hold by the Group, please refer to Note 31 for additional information.
- 4) The Group finished the liquidation procedures of Datamax Technology Shanghai Inc. in April 2018.

5) The Group finished the liquidation procedures of PT Interchan in February 2018.

As of December 31, 2018 and 2017, the Group held 41.74% and 46.95% of Comtrend's voting shares, respectively, but the Group has the practical ability to direct the relevant activities of Comtrend; thus, Comtrend was listed as a subsidiary of the Group.

b. Details of subsidiaries that have material non-controlling interests

Name of Subsidiary	Principal Place of Business	Proportion of Ownership and Voting Rights Held by Non-controlling Interests	
		December 31	
		2018	2017
Comtrend	Taiwan	58.26%	53.05%

  

Name of Subsidiary	Profit (Loss) Allocated to Non-controlling Interests		Accumulated Non-controlling Interests	
	For the Year Ended December 31		December 31	
	2018	2017	2018	2017
Comtrend	\$ 149,103	\$ 43,495	\$ 447,388	\$ 269,679

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Comtrend and subsidiaries:

	December 31	
	2018	2017
Current assets	\$ 1,689,840	\$ 1,051,333
Non-current assets	92,122	96,791
Current liabilities	(959,586)	(588,588)
Non-current liabilities	<u>(5,800)</u>	<u>(960)</u>
Equity	<u>\$ 816,576</u>	<u>\$ 558,576</u>
Equity attributable to:		
Owners of Comtrend	\$ 340,839	\$ 262,251
Non-controlling interests of Comtrend	<u>475,737</u>	<u>296,325</u>
	<u>\$ 816,576</u>	<u>\$ 558,576</u>

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Revenue	<u>\$ 3,656,074</u>	<u>\$ 1,966,212</u>
Net profit for the year	\$ 267,754	\$ 81,989
Other comprehensive income (loss) for the year	<u>(2,431)</u>	<u>(15,920)</u>
Total comprehensive income (loss) for the year	<u>\$ 265,323</u>	<u>\$ 66,069</u>
Profit attributable to:		
Owners of Comtrend	\$ 118,651	\$ 38,494
Non-controlling interests of Comtrend	<u>149,103</u>	<u>43,495</u>
	<u>\$ 267,754</u>	<u>\$ 81,989</u>
Total comprehensive income (loss) attributable to:		
Owners of Comtrend	\$ 114,706	\$ 31,019
Non-controlling interests of Comtrend	<u>150,617</u>	<u>35,050</u>
	<u>\$ 265,323</u>	<u>\$ 66,069</u>
Net cash inflow (outflow) from:		
Operating activities	\$ 267,453	\$ (79,520)
Investing activities	(29,918)	(31,183)
Financing activities	(20,882)	22,459
Effect of exchange rate	<u>3,634</u>	<u>(6,659)</u>
Net cash inflow (outflow)	<u>\$ 220,287</u>	<u>\$ (94,903)</u>

## 16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<b>December 31, 2018</b>
Associates that are not individually material	<u>\$ 52,085</u>
	<b>For the Year Ended December 31, 2018</b>
The Group's share of	
Net profit for the year	\$ 19,469
Other comprehensive income	<u>801</u>
Total comprehensive income for the year	<u>\$ 20,270</u>

The Group acquired a 30% interest in Crystal Centre Int'l Corp. ("Crystal") on February 23, 2018.

Refer to Table 5 "Information on Investees" for the nature to activities, principal place of business and countries of incorporation of the associates.

Investments were accounted for using the equity method and the share of profit or loss and other comprehensive income of those investment were calculated base on financial statements with have been audited.

## 17. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>					
Balance at January 1, 2017	\$ 1,302,636	\$ 933,172	\$ 384,073	\$ 512,732	\$ 3,132,613
Additions	3,644	3,789	47,152	102,221	156,806
Disposals	-	-	(3,787)	(20,557)	(24,344)
Effect of foreign currency exchange differences	(497)	(1,326)	(3,819)	(1,629)	(7,271)
Balance at December 31, 2017	<u>\$ 1,305,783</u>	<u>\$ 935,635</u>	<u>\$ 423,619</u>	<u>\$ 592,767</u>	<u>\$ 3,257,804</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2017	\$ -	\$ 40,680	\$ 279,477	\$ 357,838	\$ 677,995
Depreciation expense	-	20,696	29,922	78,611	129,229
Disposals	-	-	(3,163)	(17,139)	(20,302)
Effect of foreign currency exchange differences	-	(762)	(2,830)	(3,965)	(7,557)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 60,614</u>	<u>\$ 303,406</u>	<u>\$ 415,345</u>	<u>\$ 779,365</u>
Carrying amounts at December 31, 2017	<u>\$ 1,305,783</u>	<u>\$ 875,021</u>	<u>\$ 120,213</u>	<u>\$ 177,422</u>	<u>\$ 2,478,439</u>
<u>Cost</u>					
Balance at January 1, 2018	\$ 1,305,783	\$ 935,635	\$ 423,619	\$ 592,767	\$ 3,257,804
Additions	-	-	12,219	46,095	58,314
Disposals	-	-	(1,711)	(20,542)	(22,253)
Effect of foreign currency exchange differences	191	512	(7,854)	(2,353)	(9,504)
Balance at December 31, 2018	<u>\$ 1,305,974</u>	<u>\$ 936,147</u>	<u>\$ 426,273</u>	<u>\$ 615,967</u>	<u>\$ 3,284,361</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2018	\$ -	\$ 60,614	\$ 303,406	\$ 415,345	\$ 779,365
Depreciation expense	-	20,749	33,311	72,330	126,390
Disposals	-	-	(1,804)	(19,296)	(21,100)
Effect of foreign currency exchange differences	-	292	(5,963)	(2,201)	(7,872)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 81,655</u>	<u>\$ 328,950</u>	<u>\$ 466,178</u>	<u>\$ 876,783</u>
Carrying amounts at December 31, 2018	<u>\$ 1,305,974</u>	<u>\$ 854,492</u>	<u>\$ 97,323</u>	<u>\$ 149,789</u>	<u>\$ 2,407,578</u>

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

Building	35-50 years
Machinery and equipment	2-13 years
Other equipment	1-10 years

Property, plant and equipment pledged as collateral for bank borrowings and issuing of bonds were set out in Note 36.

## 18. INTANGIBLE ASSETS

	Goodwill	Computer Software	Total
<u>Cost</u>			
Balance at January 1, 2017	\$ 31,842	\$ 52,682	\$ 84,524
Additions	-	10,183	10,183
Effect of foreign currency exchange differences	-	(58)	(58)
Balance at December 31, 2017	<u>\$ 31,842</u>	<u>\$ 62,807</u>	<u>\$ 94,649</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2017	\$ 8,611	\$ 46,422	\$ 55,033
Amortization expense	-	6,469	6,469
Balance at December 31, 2017	<u>\$ 8,611</u>	<u>\$ 52,891</u>	<u>\$ 61,502</u>
Carrying amounts at December 31, 2017	<u>\$ 23,231</u>	<u>\$ 9,916</u>	<u>\$ 33,147</u>
<u>Cost</u>			
Balance at January 1, 2018	\$ 31,842	\$ 62,807	\$ 94,649
Additions	-	5,936	5,936
Disposals	-	(1,966)	(1,966)
Effect of foreign currency exchange differences	-	(6)	(6)
Balance at December 31, 2018	<u>\$ 31,842</u>	<u>\$ 66,771</u>	<u>\$ 98,613</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2018	\$ 8,611	\$ 52,891	\$ 61,502
Amortization expense	-	7,049	7,049
Balance at December 31, 2018	<u>\$ 8,611</u>	<u>\$ 59,940</u>	<u>\$ 68,551</u>
Carrying amounts at December 31, 2018	<u>\$ 23,231</u>	<u>\$ 6,831</u>	<u>\$ 30,062</u>

Intangible assets are amortized on a straight-line basis over the estimated useful life as follows:

Computer software	1-11 years
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## 19. OTHER ASSETS

	<u>December 31</u>	
	2018	2017
<u>Current</u>		
Time deposits with original maturity of more than 3 months	\$ -	\$ 5,211
Reimbursement account	<u>6</u>	<u>198,582</u>
	<u>\$ 6</u>	<u>\$ 203,793</u>
<u>Non-current</u>		
Time deposits with original maturity of more than 3 months	\$ -	\$ 2,229
Pension reserve fund	54,729	48,692
Pledged time deposits	<u>-</u>	<u>586</u>
	<u>\$ 54,729</u>	<u>\$ 51,507</u>

Note 1: The intervals of market interest rates of time deposits with original maturity of more than 3 months was 0.53%-1.80% per annum as of December 31, 2017.

Note 2: The pension reserve fund comprises pension contributions to the pension fund of managerial personnel of the Company.

Note 3: Other financial assets comprise the deposits pledged by the Group to secure debt instruments. Refer to Note 36 for information relating to debt instruments with other financial assets as security.

## 20. BORROWINGS

### a. Short-term borrowings

	<u>December 31</u>	
	2018	2017
<u>Secured borrowings</u>		
Bank loans (Notes 1 and 2)	\$ 1,000	\$ 1,000
<u>Unsecured borrowings</u>		
Bank loans (Note 1)	<u>1,006,318</u>	<u>743,818</u>
	<u>\$ 1,007,318</u>	<u>\$ 744,818</u>

Note 1: The range of weighted average effective interest rate on bank loans was 1.10%-1.60% and 1.00%-2.99% per annum as of December 31, 2018 and 2017, respectively.

Note 2: The bank borrowings were secured by the Group's buildings and promissory notes; please referred to Note 37 for additional information.

b. Short-term bills payable

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Commercial paper	\$ 30,000	\$ 30,000
Less: Unamortized discounts on bills payable	<u>(21)</u>	<u>(27)</u>
	<u>\$ 29,979</u>	<u>\$ 29,973</u>

The interest rate of the short-term bills payable were both 1.038% respectively as of December 31, 2018 and 2017.

c. Long-term borrowings

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Secured borrowings</u>		
Bank loans	\$ 1,434,314	\$ 1,517,866
Less: Current portions	<u>(16,800)</u>	<u>(83,552)</u>
Long-term borrowings	<u>\$ 1,417,514</u>	<u>\$ 1,434,314</u>

The bank borrowings are secured by the Group's land and buildings; please refer to Note 36 for additional information. The maturity date is February 1, 2036 and the effective annual interest rate is 1.36%. The purpose of the borrowings is to purchase land and buildings for operation.

## 21. BONDS PAYABLE

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Secured domestic convertible bonds</u>		
Total convertible bonds issued		
Sixth issuance of secured convertible bonds	\$ -	\$ 400,000
Amount converted	-	(108,600)
Discount on bonds payable	-	(1,441)
Current portion of puttable bonds	<u>-</u>	<u>(289,959)</u>
	<u>\$ -</u>	<u>\$ -</u>

Conditions of issuance of aforementioned convertible bonds were as follows:

The sixth issuance of secured domestic bonds was decided by the board of directors on December 3, 2012, approved by the Securities and Futures Bureau on January 24, 2013, and completed on February 25, 2013. The major terms of issuance were as follows:

- a. Issue denomination: NT\$400,000 thousand.
- b. Coupon rate: 0%
- c. Type of bond: Sixth issuance of secured domestic convertible bonds.



d. Issue period: 5 years (February 27, 2013 to February 27, 2018).

e. Circumstances of security:

The Company's convertible bonds are secured by CTBC Bank and KGI Bank, with each securing 50% of the amount.

According to the contract signed with CTBC Bank and KGI Bank, the Company-owned portion of buildings 577 and 599, Shishing section, Zhubei City, Hsinchu County and the land No. 53 at which the buildings are located, should be levied, and the maximum amount of mortgage of \$75 million should be set out to CTBC Bank and KGI Bank at first cis-position.

f. The Company's call option:

1) The Company should redeem the bonds at face value on the redemption date of the convertible bonds, except for those already converted or redeemed.

2) Redemption price before the maturity date

a) From one month after the issuance date to 40 days before the maturity date, if the closing price of the Company's shares on the Taipei Exchange is higher than 130% of the conversion price for 30 consecutive trading days, the Company may redeem the remaining bonds at their face value by cash in 30 trading days after the redemption date.

b) From one month after the issuance date to 40 days before the maturity date, if the value of outstanding convertible bonds is less than \$40,000 thousand (10% of initial issued bonds), the Company may redeem the remaining bonds at their face value by cash any time after the redemption date.

g. Bondholders' put options:

From 30 days until 3 years after the issuance date, bondholders may request the Company to repurchase the bonds at their face value plus interest (103.0301% of face value).

h. Conversion:

1) Conversion subject: The Company's shares.

2) Conversion period: From one month after the issuance date to 10 days before the maturity date.

3) Conversion price and adjustment:

Conversion price is calculated as either one of the average price on 1, 3 and 5 trading days before the conversion price date, which is February 20, 2013, times the premium rate of 103.00%. The conversion price approved by the Securities and Futures Bureau is \$13.60. However, in the event of change in the number of the Company's issued shares after the issuance of the bonds, the conversion price will be adjusted according to the terms of issuance. As of December 31, 2017, the conversion price was \$10.15.

i. According to the contract signed with CTBC Bank and KGI Bank, during the existence of the bonds payable, the Company should open an account reserved for debt repayment fund, with the carrying amount of the fund held in accordance with the contract. As of the maturity date of convertible bonds the Company has deposited \$198,575 thousand to the fund account, recognized as other financial assets - non-current. Please refer to Note 19.

- j. As of the maturity date of convertible bonds, the Company's convertible bonds from the sixth issuance of convertible bonds with face value of \$108,600 thousand have been converted to 9,093 thousand shares, and the capital surplus amounted to \$7,830 thousand.
- k. The convertible bonds has been repaid on maturity date.

## 22. OTHER LIABILITIES

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Other payables		
Payable for royalties	\$ 7,180	\$ 3,386
Payable for labor fee	16,532	13,704
Payable for salaries	137,074	109,757
Payable for employees' bonuses and directors' remuneration	34,393	18,810
Payable for freight and customs fee	16,478	6,564
Output VAT	74,198	22,618
Others	<u>150,540</u>	<u>150,274</u>
	<u>\$ 436,395</u>	<u>\$ 325,113</u>
Other liabilities		
Refund liability	\$ 26,220	\$ 24,031
Temporary credit	29,918	7,066
Receipts under custody	55,202	55,412
Others	<u>1,468</u>	<u>1,531</u>
	<u>\$ 112,808</u>	<u>\$ 88,040</u>

## 23. RETIREMENT BENEFIT PLANS

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Defined contribution plans	\$ 30,878	\$ 30,975
Defined benefit plans	<u>22,878</u>	<u>23,572</u>
	<u>\$ 53,756</u>	<u>\$ 54,547</u>

### a. Defined contribution plans

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

The Company contributes a certain percentage of total monthly salaries and wages of managerial personnel to a pension reserve fund account (classified as other financial assets - non-current) from July 2005. Refer to Note 19 for information relating to the pension reserve fund. As of December 31, 2018 and 2017, the fund both amounted to zero pension payment.

The employees of the Group's subsidiary in China are members of a state-managed retirement benefit plan operated by the government of China. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

The defined benefit plan adopted by the Company, Comtrend and ABS Telecom of the Group in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company, Comtrend and ABS Telecom contribute a certain percentage of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

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

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Present value of defined benefit obligation	\$ 97,760	\$ 94,406
Fair value of plan assets	<u>(74,882)</u>	<u>(70,834)</u>
Net defined benefit liability	<u>\$ 22,878</u>	<u>\$ 23,572</u>

Movements in net defined benefit liability (asset) were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
Balance at January 1, 2017	\$ <u>89,119</u>	\$ <u>(71,225)</u>	\$ <u>17,894</u>
Service cost			
Current service cost	1,230	-	1,230
Net interest expense (income)	<u>1,096</u>	<u>(1,235)</u>	<u>(139)</u>
Recognized in profit or loss	<u>2,326</u>	<u>(1,235)</u>	<u>1,091</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	274	274
Actuarial loss - changes in demographic assumptions	823	-	823
Actuarial loss - changes in financial assumptions	2,524	-	2,524
Actuarial loss - experience adjustments	<u>2,799</u>	<u>-</u>	<u>2,799</u>
Recognized in other comprehensive income	<u>6,146</u>	<u>274</u>	<u>6,420</u>
Contributions from the employer	-	(1,960)	(1,960)
Benefits paid	(3,185)	3,185	-
Others	<u>-</u>	<u>127</u>	<u>127</u>
Balance at December 31, 2017	<u>94,406</u>	<u>(70,834)</u>	<u>23,572</u>

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
Service cost			
Current service cost	\$ 274	\$ -	\$ 274
Net interest expense (income)	<u>1,106</u>	<u>(1,284)</u>	<u>(178)</u>
Recognized in profit or loss	<u>1,380</u>	<u>(1,284)</u>	<u>96</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(644)	(644)
Actuarial loss - changes in demographic assumptions	477	-	477
Actuarial gain - changes in financial assumptions	(1,822)	-	(1,822)
Actuarial loss - experience adjustments	<u>3,319</u>	<u>-</u>	<u>3,319</u>
Recognized in other comprehensive income	<u>1,974</u>	<u>(644)</u>	<u>1,330</u>
Contributions from the employer	<u>-</u>	<u>(2,120)</u>	<u>(2,120)</u>
Balance at December 31, 2018	<u>\$ 97,760</u>	<u>\$ (74,882)</u>	<u>\$ 22,878</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Selling and marketing expenses	\$ (16)	\$ (70)
General and administrative expenses	199	1,309
Research and development expenses	<u>(87)</u>	<u>(148)</u>
	<u>\$ 96</u>	<u>\$ 1,091</u>

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

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

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Discount rate(s)	1.05%-1.125%	1.15%-1.38%
Expected rate(s) of salary increase	2.00%-3.00%	2.00%-2.75%
Turnover rate	5.94%-12.79%	6.78%-12.79%

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Discount rate		
0.5% increase	<u>\$ (3,710)</u>	<u>\$ (3,497)</u>
0.5% decrease	<u>\$ 3,868</u>	<u>\$ 3,654</u>
Expected rate of salary increase		
0.5% increase	<u>\$ 3,802</u>	<u>\$ 3,546</u>
0.5% decrease	<u>\$ (3,586)</u>	<u>\$ (3,421)</u>

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
The expected contributions to the plan for the next year	<u>\$ 2,125</u>	<u>\$ 2,229</u>
The average duration of the defined benefit obligation	9.97 years	10.63 years

## 24. EQUITY

### a. Share capital

#### Ordinary shares

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Number of shares authorized (in thousands)	<u>300,000</u>	<u>300,000</u>
Shares authorized	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>186,492</u>	<u>200,378</u>
Shares issued	<u>\$ 1,864,916</u>	<u>\$ 2,003,788</u>
Certificate of entitlement to new shares from convertible bond	<u>\$ -</u>	<u>\$ 9,458</u>

On August 31, 2018 and November 9, 2018, the Company's board of directors resolved to cancel treasury shares totalling 5,000 thousand and 9,833 thousand ordinary shares, respectively, which were not transferred to employees. The base date of the share reduction was September 4, 2018 and December 1, 2018, respectively. The paid-up capital was \$1,864,916 thousand after the reduction in the share capital, and the amendments to the registration were completed on September 13, 2018 and December 25, 2018, respectively.

b. Capital surplus

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Premium from issuance of common shares	\$ 57,957	\$ 62,571
Premium from conversion of bonds	24,662	77,175
Treasury share transactions	4,875	-
The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	34,639	312
<u>May be used to offset a deficit only</u>		
Changes in percentage of ownership interest in subsidiaries (2)	338	5,808
Treasury share transactions	-	2,707
Others	33,437	44,259
<u>May not be used for any purpose</u>		
Employee share options of the subsidiaries	1,698	-
Employee share options	4,941	967
Share warrants	-	<u>33,437</u>
	<u>\$ 162,547</u>	<u>\$ 227,236</u>

- 1) Such capital surplus may be used to offset a deficit; when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).
- 2) Such capital surplus arises from the effect of changes in ownership interest in a subsidiary that resulted from equity transactions other than actual disposal or acquisition, or from changes in capital surplus of subsidiaries accounted for by using equity method.

c. Retained earnings and dividend policy

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 26 (g).

Under the dividend policy of the Company, no less than 20% of the undistributed retained earnings should be distributed as dividends to shareholders unless undistributed retained earnings is less than 20% of outstanding ordinary shares. The dividends can be distributed by shares or cash, but the cash dividends should not be less than 10% of total dividends. The Company determines the dividend distribution based on the consideration of investment environment, capital demand, financial structure, earnings, domestic and international competition and shareholders' interest and future development plan.

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

Items referred to under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The deficit compensation and appropriations of earnings for 2017 and 2016 were approved in the shareholders' meetings on June 14, 2018 and June 13, 2017, respectively, were as follows:

	<b>Appropriation of Earnings (Deficit Compensation)</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Legal reserve used to cover used to cover accumulated deficits	\$ 62,510	\$ -		
Capital surplus used to cover accumulated deficits	105,599	-		
Legal reserve	-	8,297		
Cash dividends	-	92,551	\$ -	\$ 0.50

The deficit compensation for 2018 are subjected to the resolution in the shareholders' meeting to be held on June 13, 2019.

d. Treasury shares

<b>Purpose of Buy-back</b>	<b>Shares Transferred to Employees (In Thousands of Shares)</b>	<b>Shares Cancelled (In Thousands of Shares)</b>	<b>Shares Held by Its Subsidiaries (In Thousands of Shares)</b>	<b>Total (In Thousands of Shares)</b>
Number of shares at January 1, 2018	14,833	-	2,425	17,258
Increase during the year	-	-	-	-
Decrease during the year	(14,833)	-	(269)	(15,102)
Number of shares at December 31, 2018	-	-	2,156	2,156

(Continued)

<b>Purpose of Buy-back</b>	<b>Shares Transferred to Employees (In Thousands of Shares)</b>	<b>Shares Cancelled (In Thousands of Shares)</b>	<b>Shares Held by Its Subsidiaries (In Thousands of Shares)</b>	<b>Total (In Thousands of Shares)</b>
Number of shares at January 1, 2017	14,833	-	2,425	17,258
Increase during the year	-	-	-	-
Decrease during the year	-	-	-	-
Number of shares at December 31, 2017	<u>14,833</u>	<u>-</u>	<u>2,425</u>	<u>17,258</u> (Concluded)

The Company's shares held by its subsidiaries at the end of the reporting periods were as follows:

<b>Name of Subsidiary</b>	<b>Number of Shares Held (In Thousands of Shares)</b>	<b>Carrying Amount</b>	<b>Market Price</b>
<u>December 31, 2018</u>			
Comtrend	2,156	\$ 20,211	\$ 20,291
<u>December 31, 2017</u>			
Comtrend	2,425	22,730	23,599

Comtrend held 5,166 thousand ordinary shares of the Company, and the Company recognized 2,156 thousand and 2,425 thousand treasury shares based on the ownership percentage of 41.74% and 46.95% as at December 31, 2018 and 2017, respectively.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote. The subsidiaries holding treasury shares, however, retain shareholders' rights, except the rights to participate in any share issuance for cash and to vote.

e. Non-controlling interests

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Balance at January 1	\$ 269,883	\$ 260,400
Share of profit for the year	149,105	43,523
Other comprehensive income/(loss) during the year		
Exchange difference arising on translation of foreign entities	1,514	(4,620)
Remeasurement on defined benefit plans	(2,780)	(2,067)
Related income tax	804	351
Dividends from subsidiaries	(23,425)	(27,704)
Employee share options of the subsidiaries	2,183	-
		(Continued)



	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Capital increased by cash of the subsidiaries	\$ 30,740	\$ -
Partial disposal of interests in subsidiaries transferred to non-controlling interests (Note 31)	22,090	-
Share of changes in capital surplus of subsidiaries	<u>(2,519)</u>	<u>-</u>
Balance at December 31	<u>\$ 447,595</u>	<u>\$ 269,883</u> (Concluded)

## 25. REVENUE

### a. Contract information

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Revenue from the sale of goods	\$ 6,823,863	\$ 5,585,972
Revenue from the rendering of services	49,587	45,470
Other income	<u>111</u>	<u>1,471</u>
	<u>\$ 6,873,561</u>	<u>\$ 5,632,913</u>

### b. Contract balances

	<b>December 31, 2018</b>
Trade receivable (Note 12)	<u>\$ 1,329,331</u>
Contract liabilities - current	<u>\$ 155,573</u>

The changes in the balance of contract liabilities primarily result from the timing difference between the Group's performance and respective customer's payment.

## 26. NET PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS) FROM CONTINUING OPERATIONS

### a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Interest income		
Bank deposits	\$ 4,495	\$ 5,218
Dividends		
Financial assets measured at cost	-	688
Investment in equity instruments at FVTOCI	656	-
Others	<u>28,363</u>	<u>16,261</u>
	<u>\$ 33,514</u>	<u>\$ 22,167</u>

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Loss on disposal of property, plant and equipment	\$ (162)	\$ (13)
Net foreign exchange loss	(15,169)	(35,712)
Fair value changes of financial assets and financial liabilities		
Financial assets mandatorily classified as at FVTPL	13	-
Financial liabilities held for trading	-	(2,071)
Others	<u>(8,175)</u>	<u>(3,345)</u>
	<u>\$ (23,493)</u>	<u>\$ (41,141)</u>

c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Interest on bank loans	\$ 34,396	\$ 27,411
Interest on convertible bonds	<u>1,441</u>	<u>8,844</u>
	<u>\$ 35,837</u>	<u>\$ 36,255</u>

d. Impairment losses recognized

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Trade receivables	<u>\$ 15,245</u>	<u>\$ 1,351</u>
Inventories (included in operating costs)	<u>\$ 32,961</u>	<u>\$ 62,205</u>

e. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Property, plant and equipment	\$ 126,390	\$ 129,229
Intangible assets	<u>7,049</u>	<u>6,469</u>
	<u>\$ 133,439</u>	<u>\$ 135,698</u>
An analysis of depreciation by function		
Operating costs	\$ 44,735	\$ 41,888
Operating expenses	<u>81,655</u>	<u>87,341</u>
	<u>\$ 126,390</u>	<u>\$ 129,229</u>
An analysis of amortization by function		
Operating costs	\$ 2,579	\$ 3,466
Operating expenses	<u>4,470</u>	<u>3,003</u>
	<u>\$ 7,049</u>	<u>\$ 6,469</u>

f. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Post-employment benefits (see Note 23)		
Defined contribution plans	\$ 28,165	\$ 30,459
Defined benefit plans	<u>96</u>	<u>1,091</u>
	<u>28,261</u>	<u>31,550</u>
Share-based payments		
Equity-settled	<u>7,855</u>	<u>967</u>
Termination benefits	<u>279</u>	<u>278</u>
Other employee benefits	<u>1,160,209</u>	<u>1,135,832</u>
Total employee benefits expense	<u>\$ 1,196,604</u>	<u>\$ 1,168,627</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 306,639	\$ 271,899
Operating expenses	<u>889,965</u>	<u>896,728</u>
	<u>\$ 1,196,604</u>	<u>\$ 1,168,627</u>

g. Employees' compensation and remuneration of directors and supervisors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates no less than 5% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors.

There was no employees' compensation and remuneration of directors and supervisors estimated as the Company reported net loss before tax for the years ended December 31, 2018 and 2017.

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2016.

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

h. Gain or loss on foreign currency exchange

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Foreign exchange gains	\$ 326,819	\$ 180,695
Foreign exchange losses	<u>(341,988)</u>	<u>(216,407)</u>
	<u>\$ (15,169)</u>	<u>\$ (35,712)</u>

## 27. INCOME TAXES RELATING TO CONTINUING OPERATIONS

### a. Income tax recognized in profit or loss

Major components of income tax expense are as follows:

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Current tax		
In respect of the current year	\$ 73,344	\$ 24,302
Income tax on unappropriated earnings	3,092	-
Adjustments for prior periods	<u>(564)</u>	<u>(5,487)</u>
	<u>75,872</u>	<u>18,815</u>
Deferred tax		
In respect of the current year	16,862	31,187
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>(8,977)</u>	<u>-</u>
	<u>7,885</u>	<u>31,187</u>
Income tax expense recognized in profit or loss	<u>\$ 83,757</u>	<u>\$ 50,002</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Profit (loss) before tax from continuing operations	<u>\$ 205,735</u>	<u>\$ (86,489)</u>
Income tax expense calculated at the statutory rate	\$ 89,194	\$ 10,103
Nondeductible expenses in determining taxable income	10,319	768
Tax-exempt income	(400)	(664)
Additional income tax on unappropriated earnings	3,092	-
Realization of investment losses	(450)	(6,440)
Reduction of loss carryforwards approved by tax administrations	1,545	6,697
Loss carryforwards	25,019	20,344
Unrecognized loss carryforwards/deductible temporary differences	(35,021)	24,681
Adjustments to deferred tax attributable to changes in tax rates and laws	(8,977)	-
Adjustments for prior years' tax	<u>(564)</u>	<u>(5,487)</u>
Income tax expense recognized in profit or loss	<u>\$ 83,757</u>	<u>\$ 50,002</u>

In 2017, the applicable corporate income tax rate used by the Group entities in the ROC was 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other Group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

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

b. Income tax recognized in other comprehensive income

**For the Year Ended December 31**  
**2018**                      **2017**

Deferred tax

Effect of change in tax rate	\$ 447	\$ -
In respect of the current year:		
Remeasurement of defined benefit plans	955	662
Total income tax recognized in other comprehensive income	\$ 1,402	\$ 662

c. Current tax assets and liabilities

**December 31**  
**2018**                      **2017**

Current tax assets		
Tax refund receivable	\$ 427	\$ 353
Current tax liabilities		
Income tax payable	\$ 75,938	\$ 30,185

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Defined benefit plans	\$ 162	\$ (492)	\$ 1,402	\$ 1,072
Loss on market price decline of inventories	1,884	6,226	-	8,110
Unrealized profits from downstream transactions	5,362	325	-	5,687
Unrealized exchange losses	113	(113)	-	-
Others	5,310	5,870	-	11,180
	12,831	11,816	1,402	26,049
Loss carryforwards	44,463	(19,154)	-	25,309
	\$ 57,294	\$ (7,338)	\$ 1,402	\$ 51,358
<u>Deferred tax liabilities</u>				
Unrealized exchange gains	\$ 614	\$ 547	\$ -	\$ 1,161

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Defined benefit plans	\$ -	\$ -	\$ 162	\$ 162
Allowance for doubtful accounts	8,427	(8,427)	-	-
Loss on market price decline of inventories	610	1,274	-	1,884
Unrealized provisions	291	(291)	-	-
Unrealized profits from downstream transactions	5,737	(375)	-	5,362
Unrealized exchange losses	-	113	-	113
Others	2,109	3,201	-	5,310
	17,174	(4,505)	162	12,831
Loss carryforwards	71,485	(27,022)	-	44,463
	<u>\$ 88,659</u>	<u>\$ (31,527)</u>	<u>\$ 162</u>	<u>\$ 57,294</u>
<u>Deferred tax liabilities</u>				
Defined benefit plans	\$ 470	\$ 30	\$ (500)	\$ -
Unrealized exchange gains	862	(248)	-	614
Gain on fair value change of financial instrument designated as at fair value through profit or loss	122	(122)	-	-
	<u>\$ 1,454</u>	<u>\$ (340)</u>	<u>\$ (500)</u>	<u>\$ 614</u>

- e. Deductible temporary differences, unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Loss carryforwards	\$ 472,996	\$ 381,027
Deductible temporary differences	<u>209,651</u>	<u>231,863</u>
	<u>\$ 682,647</u>	<u>\$ 612,890</u>

- f. Information about unused loss carryforward

Loss carryforwards as of December 31, 2018 comprised of:

Unused Amount	Expiry Year
\$ 42,818	2021
52,157	2022
35,609	2023
20,771	2024
24,419	2025
97,366	2026
198,363	2027
<u>128,038</u>	2028
<u>\$ 599,541</u>	

g. Income tax assessments

As of December 31, 2018, the tax returns of the Company and its subsidiaries have been assessed as follows:

	<b>Last Assessed Tax Year</b>
The Company	2016
Edimax Electronic (Dongguan) Co., Ltd	2017
Comtrend	2016
CUSA	2017
CTBV	2016
CCE	2017
Comtrend Iberia	2017
8086	2016
ABS Telecom	2017
SMAX Technology	2016

**28. LOSS PER SHARE**

**Unit: NT\$ Per Share**

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Basic loss per share		
From continuing operations	\$ (0.15)	\$ (0.98)
From discontinued operations	<u>-</u>	<u>(0.01)</u>
Total basic loss per share	<u>\$ (0.15)</u>	<u>\$ (0.99)</u>

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

**Net Loss for the Year**

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Loss for the year attributable to owners of the Company	\$ (27,127)	\$ (180,219)
Less: Loss for the year from discontinued operations used in the computation of basic losses per share from discontinued operations	<u>-</u>	<u>(205)</u>
Loss for the year from continuing operations used in the computation of basic losses per share	<u>\$ (27,127)</u>	<u>\$ (180,014)</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	<u>For the Year Ended December 31</u>	
	2018	2017
Weighted average number of ordinary shares in computation of basic losses per share	<u>184,218</u>	<u>182,906</u>

Since the Company reported loss for the years ended December 31, 2018 and 2017, they are anti-dilutive and excluded from the computation of diluted loss per share.

## 29. SHARE-BASED PAYMENT ARRANGEMENTS

### a. Employee share option plan of the Company

Qualified employees of the Company were granted 8,000 thousand options on September 30, 2017. Each option entitles the holder to subscribe for one thousand common shares of the Company. The options granted are valid for 6 years and exercisable at certain percentages after the second anniversary from the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	<u>For the Year Ended December 31</u>			
	<u>2018</u>		<u>2017</u>	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance at January 1	8,000	\$10.25	-	
Options forfeited	-		-	
Options granted	-		8,000	\$10.25
Options exercised	-		-	
Balance at December 31	<u>8,000</u>	10.25	<u>8,000</u>	10.25
Options exercisable, end of year	<u>-</u>		<u>-</u>	

Information about outstanding options as of December 31, 2018 and 2017 was as follows:

	<u>December 31</u>	
	2018	2017
Range of exercise price (NT\$)	\$10.25	\$10.25
Weighted-average remaining contractual life (years)	4.75	5.75



Options granted in September 2017 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	<b>September 2017</b>
Grant-date share price (\$)	\$10.25
Exercise price (\$)	\$10.25
Expected volatility	26.73%
Expected life (years)	6 years
Risk-free interest rate	0.6669%

Compensation cost recognized were \$3,974 thousand and \$967 thousand for the years ended December 31, 2018 and 2017, respectively.

b. Employee share option plan of the subsidiaries

Qualified employees of the subsidiary, Comtrend were granted 4,000 thousand options on January 25, 2018. The options granted are valid for 5 years and exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the closing price of Comtrend's ordinary shares listed on the grant date. For any subsequent changes in Comtrend's capital surplus, the exercise price is adjusted accordingly. The exercise price of the options issued on January 25, 2018 were adjusted to \$11.27 on July 18, 2018.

Information on employee share options is as follows:

	<b>For the Year Ended December 31, 2018</b>	
	<b>Number of Options (In Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>
Balance at January 1	-	\$ -
Options granted	4,000	11.27
Options forfeited	(81)	11.27
Options exercised	<u>-</u>	-
Balance at December 31	<u>3,919</u>	11.27
Options exercisable, end of period	<u>-</u>	

Information on outstanding options as of December 31, 2018 is as follows:

	<b>December 31, 2018</b>
Range of exercise price (NT\$)	\$11.27
Weighted-average remaining contractual life (in years)	4.07 years

Options granted in January 2018 were priced using the binomial option pricing model, and the inputs to the model are as follows:

	<b>January 2018</b>
Grant-date share price (NT\$)	\$12.48
Exercise price (NT\$)	11.27
Expected volatility	33.22%
Expected life (in years)	5 years
Expected dividend yield	-
Risk-free interest rate	0.69%

Compensation costs recognized by the subsidiary was \$3,881 thousand for the year ended December 31, 2018.

### 30. DISPOSAL OF SUBSIDIARIES

In 2017, the Group disposed of Global Automation. The assets and liabilities of Global Automation at the date of disposal were listed as below:

2017

	<b>Global Automation</b>
Current assets	
Cash and cash equivalents	\$ <u>1,569</u>
Net assets disposed of	\$ <u>1,569</u>

### 31. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On February 21, 2018, the Group subscribed for additional new shares of Comtrend Limited at a percentage different from its existing ownership percentage, and reduced its continuing interest from 46.95% to 44.60%.

In August 2018, the Group disposed of 2.86% of its interest in Comtrend, and reduced its continuing interest from 44.60% to 41.74%.

The above transactions were accounted for as equity transactions since the Group did not cease to have control over the subsidiary.

	<b>Comtrend</b>
Cash consideration received	\$ 56,729
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests	<u>(22,090)</u>
Difference recognized from equity transaction	\$ <u>34,639</u>
<u>Line item adjusted for equity transaction</u>	
Capital surplus - difference between consideration received or paid and the carrying amount of the subsidiary net assets upon actual disposal or acquisition	\$ <u>34,639</u>

### 32. OPERATING LEASE ARRANGEMENTS

As of December 31, 2018 and 2017, refundable deposits paid under operating leases amounted to \$5,491 thousand and \$3,688 thousand, respectively.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Not later than 1 year	\$ 33,262	\$ 31,095
Later than 1 year and not later than 5 years	<u>71,406</u>	<u>74,533</u>
	<u>\$ 104,668</u>	<u>\$ 105,628</u>

### 33. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. Key management personnel of the Group review the capital structure on an annual basis. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the number of new shares issued, and the amount of new debt issued or existing debt redeemed.

### 34. FINANCIAL INSTRUMENTS

- a. Fair value of financial instruments that are not measured at fair value

Management believes the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

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

- 1) Fair value hierarchy

December 31, 2018

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial assets at FVTPL - current</u>				
Mutual funds	<u>\$ 16,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,015</u>
<u>Financial assets at FVTOCI - non-current</u>				
Investment in equity instruments at FVTOCI				
Foreign unlisted shares	\$ -	\$ -	\$ 18,616	\$ 18,616
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>3,000</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,616</u>	<u>\$ 21,616</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
<u>Current held to maturity investments-current</u>				
Bond investments held-to-maturity	\$ _____ -	\$ 45,650	\$ _____ -	\$ 45,650

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Valuation techniques and inputs applied for Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Unlisted debt securities - ROC	Discounted cash flow.
	Future cash flows are discounted at a rate that reflects current borrowing interest rates of the bond issuers at the end of the reporting period.

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

The fair values of unlisted equity securities - ROC were determined using the asset approach.

c. Categories of financial instruments

	<u>December 31</u>	
	2018	2017
<u>Financial assets</u>		
Financial assets at FVTPL		
Mandatorily classified as at FVTPL	\$ 16,015	\$ -
Held-to-maturity investments	-	45,650
Loans and receivables (1)	-	2,259,404
Financial assets at amortized cost (2)	2,400,722	-
Financial assets measured at cost	-	21,616
Financial assets at FVTOCI		
Equity instruments	21,616	-
<u>Financial liabilities</u>		
Amortized cost (3)	4,148,466	3,949,515

1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivable, other receivables, other financial assets, and refundable deposits.

2) The balances included financial assets at amortized cost, which comprise cash and cash equivalents, financial assets measured at cost, notes receivable, trade receivable, other receivables, other financial assets, and refundable deposits.

- 3) The balances included financial liabilities measured at amortized cost, which comprise short-term loans, short-term bills payable, notes payable, trade payable, trade payable to related parties, other payables, bonds payable (included current portions), long-term loans (included current portions), and guarantee deposits.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, trade receivable, trade payables, and borrowings. The Group's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

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

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

a) Foreign currency risk

Several subsidiaries of the Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 38.

Sensitivity analysis

The Group was mainly exposed to the currencies USD, EUR and RMB.

The following table details the Group's sensitivity to a 1% increase and decrease in the functional currency against the relevant foreign currencies. A change of 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A negative number below indicates a decrease in pre-tax profit and other equity when New Taiwan dollars or other functional currency weakened by 1% against the relevant foreign currency. Conversely, a positive number is increase in pre-tax profit when the functional currency strengthened by 1% against the relevant foreign currency.

	<u>Currency USD Impact</u>		<u>Currency EUR Impact</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Profit or loss	\$ (12,676) (i)	\$ (8,861) (i)	\$ (886) (ii)	\$ (778) (ii)

<b>Currency RMB Impact</b>	
<b>For the Year Ended</b>	
<b>December 31</b>	
<b>2018</b>	<b>2017</b>

Profit or loss	\$ (16) (iii)	\$ (461) (iii)
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- i. This was mainly attributable to the exposure of outstanding USD receivables and payables, which were not hedged at the end of the reporting period.
- ii. This was mainly attributable to the exposure of outstanding EUR receivables and payables, which were not hedged at the end of the reporting period.
- iii. This was mainly attributable to the exposure of outstanding RMB payables, which were not hedged at the end of the reporting period.

b) Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring that the most cost-effective hedging strategies are applied.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Fair value interest rate risk		
Financial assets	\$ 13,902	\$ 106,234
Financial liabilities	2,471,611	2,582,616
Cash flow interest rate risk		
Financial assets	923,759	856,262

Sensitivity analysis

The sensitivity analysis below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets, the analysis was prepared assuming the amount of the asset outstanding at the end of the reporting period was outstanding for the whole year. A change of 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would increase/decrease by \$9,238 thousand and \$8,563 thousand, respectively.

The Group's sensitivity to interest rates has no material difference during the current period and past period.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure

to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation and financial guarantees provided by the Group could arise from:

- a) The carrying amount of the respective recognized financial assets as stated in the balance sheets; and
- b) The maximum amount the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral and factoring of trade receivables, where appropriate, as a means of mitigating the risk of financial loss from defaults.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The Group's transactions are done with a large number of unrelated customers; thus, no concentration of credit risk was observed.

### 3) Liquidity risk

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

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

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

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

#### December 31, 2018

	<b>Book Value</b>	<b>Less than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>
<u>Non-derivative financial liabilities</u>					
Short-term borrowings	\$ 1,007,318	\$ 706,318	\$ 301,000	\$ -	\$ -
Short-term bills payable	29,979	29,979	-	-	-
Long-term loans payable	1,417,514	-	-	350,725	1,066,789
Notes and trade payables	1,240,400	750,325	489,748	327	-
Other payables	436,395	4,782	397,265	34,348	-
Current portion of long-term loans payable	<u>16,800</u>	<u>4,200</u>	<u>12,600</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,148,406</u>	<u>\$ 1,495,604</u>	<u>\$ 1,200,613</u>	<u>\$ 385,400</u>	<u>\$ 1,066,789</u>

December 31, 2017

	<b>Book Value</b>	<b>Less than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>
<u>Non-derivative financial liabilities</u>					
Short-term borrowings	\$ 744,818	\$ 703,818	\$ 41,000	\$ -	\$ -
Short-term bills payable	29,973	29,973	-	-	-
Long-term loans payable	1,434,314	-	-	334,209	1,100,105
Notes and trade payables	1,041,726	705,970	331,780	3,976	-
Other payables	325,113	243,072	70,672	11,369	-
Current portion of long-term loans payable	83,552	20,888	62,664	-	-
Current portion of corporate bonds payable	<u>289,959</u>	<u>291,400</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,949,455</u>	<u>\$ 1,995,121</u>	<u>\$ 506,116</u>	<u>\$ 349,554</u>	<u>\$ 1,100,105</u>

b) Financing facilities

As of December 31, 2018 and 2017, unused financing facilities amounted to \$1,063,089 thousand and \$1,336,104 thousand, respectively, and unused factoring trade receivables financial facilities amounted to \$71,717 thousand and \$426,840 thousand, respectively.

e. Transfers of financial assets

Factored trade receivables for the years ended December 31, 2018 and 2017 were as follows:

<b>Counterparties</b>	<b>Receivables Sold</b>	<b>Amounts Collected</b>	<b>Advances Received at Year-end</b>	<b>Interest Rates on Advances Received (%)</b>	<b>Credit Line</b>
<u>2018</u>					
Fubon Bank	\$ 727,855	\$ 486,671	\$ 143,288	3.75	\$ 215,005
<u>2017</u>					
Taishin Bank	-	-	-	-	426,840

The above credit lines may be used on a revolving basis.

Pursuant to the Group's factoring agreements, losses from commercial disputes (such as sales returns and discounts) were borne by the Group, while losses from credit risk were borne by the banks. Information about promissory notes issued for the factoring is provided in Note 37.

Factoring agreements for trade receivables retention was \$97,896 thousand at the end of December 31, 2018, which classified as other receivables.



### 35. TRANSACTIONS WITH RELATED PARTY

Balances and transactions between the Company and its subsidiaries, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related party name and category

<u>Related Party Name</u>	<u>Related Party Category</u>
Talent Vantage Limited (ITI)	Related party in substance (since the first quarter of 2018)

b. Purchases of goods

<b>Related Party Category</b>	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Related party in substance - ITI	<u>\$ 714,414</u>	<u>\$ -</u>

There was no significant difference between related parties and third parties regarding transaction terms of purchase prices and payment terms.

c. Payables to related parties

<b>Line Item</b>	<b>Related Party Category</b>	<b>December 31</b>	
		<b>2018</b>	<b>2017</b>
Accounts payable	Related party in substance - ITI	<u>\$ 89,864</u>	<u>\$ -</u>

The outstanding trade payables from related parties are unsecured and will be settled in cash.

d. Acquisitions of property, plant and equipment

<b>Line Item</b>	<b>Related Party Category</b>	<b>For the Year Ended December 31</b>	
		<b>2018</b>	<b>2017</b>
Other equipment	Related party in substance - ITI	<u>\$ 520</u>	<u>\$ -</u>

e. Compensation of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Short-term employee benefits	\$ 58,258	\$ 46,976
Share-based payments	<u>1,162</u>	<u>123</u>
	<u>\$ 59,420</u>	<u>\$ 47,077</u>

The remuneration of directors and key executives was determined based on the performance of individuals and on market trends.

### 36. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowing, issuing convertible bonds and court's provisional attachment of property:

	December 31	
	2018	2017
Other financial assets	\$ 6	\$ 204,453
Pledge deposits (classified as financial assets at amortized cost - non-current)	2,510	-
Property, plant and equipment	<u>2,063,059</u>	<u>2,081,370</u>
	<u>\$ 2,065,575</u>	<u>\$ 2,285,823</u>

### 37. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

- As of December 31, 2018, the Group issued promissory notes with stated amounts of \$1,314,000 thousand and US\$25,000 thousand, as collateral for loaning and taking on foreign exchange forward contracts.
- The Group provided Fubon Bank, the factor, guarantee and promissory notes with stated amounts of US\$7,000 thousand.
- DBS Bank issued to the Taipei Customs Office a guarantee note for customs duties on the bonded warehouse of the Group; the stated amount of the note was \$2,000 thousand as of December 31, 2018. The Group's deposit with DBS Bank for the issue of the guarantee note was NT\$1,200 thousand.
- As of December 31, 2018, the Group made endorsements and guarantees for SMAX Technology and Edimax Europe with stated amounts of \$59,000 thousand and \$70,400 thousand, respectively, and actual borrowings amounted to \$1,000 thousand and \$43,718 thousand.

### 38. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 74,545	30.72 (USD:NTD)	\$ 2,290,022
USD	18,896	6.87 (USD:RMB)	580,535
USD	498	22.58 (USD:CZK)	15,310

(Continued)

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
USD	\$ 13,466	0.87 (USD:EUR)	\$ 412,383
EUR	1,714	35.20 (EUR:NTD)	60,333
EUR	1,147	25.88 (EUR:CZK)	40,371
RMB	361	4.47 (RMB:NTD)	1,614
Non-monetary items			
Investments accounted for using the equity method			
USD	1,050	30.72 (USD:NTD)	52,085
<u>Financial liabilities</u>			
Monetary items			
USD	36,476	30.72 (USD:NTD)	1,120,543
USD	15,948	6.87 (USD:RMB)	489,965
USD	13,718	0.87 (USD:EUR)	420,100
EUR	344	35.20 (EUR:NTD)	12,109
			(Concluded)

December 31, 2017

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 61,569	29.76 (USD:NTD)	\$ 1,832,293
USD	908	21.28 (USD:CZK)	27,036
USD	4,668	0.83 (USD:EUR)	138,631
EUR	2,105	35.57 (EUR:NTD)	74,875
EUR	388	25.54 (EUR:CZK)	13,787
RMB	10,089	4.57 (RMB:NTD)	46,107
<u>Financial liabilities</u>			
Monetary items			
USD	26,027	29.76 (USD:NTD)	774,564
USD	7,516	6.52 (USD:RMB)	223,705
USD	3,817	0.83 (USD:EUR)	113,588
EUR	496	35.57 (EUR:NTD)	10,910

The Group is mainly exposed to USD, EUR and RMB. The following information was aggregated by the functional currencies of the Group entities, and shows the exchange rates between respective functional currencies and the presentation currency and the significant realized and unrealized foreign exchange gains (losses).

Foreign Currencies	For the Year Ended December 31			
	2018		2017	
Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Loss	
NTD	1 (NTD:NTD)	\$ 36,223	1 (NTD:NTD)	\$ (77,840)
USD	30.15 (USD:NTD)	(51,765)	30.43 (USD:NTD)	42,713
EUR	35.61 (EUR:NTD)	<u>373</u>	34.35 (EUR:NTD)	<u>(585)</u>
		<u>\$ (15,169)</u>		<u>\$ (35,712)</u>

### 39. SEPARATELY DISCLOSED ITEMS

#### a. Information about significant transactions and investees:

- 1) Financing provided to others (None).
- 2) Endorsements/guarantees provided (Table 1).
- 3) Marketable securities held (excluding investment in subsidiaries, associates and jointly controlled entities) (Table 2).
- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (None).
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None).
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None).
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 3).
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 4).
- 9) Trading in derivative instruments (None).
- 10) Intercompany relationships and significant intercompany transactions (Table 8).
- 11) Information on investees (Table 5).

#### b. Information on investment in mainland China:

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 6)

- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (Table 7)
  - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
  - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
  - c) The amount of property transactions and the amount of the resultant gains or losses.
  - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
  - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
  - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

#### 40. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Group's reportable segments by business areas were as follows:

##### a. Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	<b>Enterprise, Retail Products and Services</b>	<b>Telecommuni- cation Products and Services</b>	<b>Others</b>	<b>Total</b>
For the year ended <u>December 31, 2018</u>				
Revenues from external customers	<u>\$ 2,917,310</u>	<u>\$ 3,656,074</u>	<u>\$ 300,177</u>	<u>\$ 6,873,561</u>
Segment income/(loss)	<u>\$ (156,463)</u>	<u>\$ 328,951</u>	<u>\$ 39,594</u>	\$ 212,082
Nonoperating income and expense				<u>(6,347)</u>
Profit before tax (continuing operations)				<u>\$ 205,735</u>

(Continued)

	<b>Enterprise, Retail Products and Services</b>	<b>Telecommuni- cation Products and Services</b>	<b>Others</b>	<b>Total</b>
For the year ended <u>December 31, 2017</u>				
Revenues from external customers	<u>\$ 3,403,297</u>	<u>\$ 1,966,212</u>	<u>\$ 263,404</u>	<u>\$ 5,632,913</u>
Segment income/(loss)	<u>\$ (162,270)</u>	<u>\$ 109,464</u>	<u>\$ 21,546</u>	\$ (31,260)
Nonoperating income and expense				<u>(55,229)</u>
Loss before tax (continuing operations)				<u>\$ (86,489)</u> (Concluded)

Segment profit represents the profit before tax earned by each segment without allocation of interest income, gain or loss on disposal of property, plant and equipment, gain or loss on disposal of financial instruments, exchange gain or loss, valuation gain or loss on financial instruments, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations classified by major products and services.

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
Enterprise and consumer communication equipments	\$ 2,917,310	\$ 3,403,297
Telecommunications business communication equipments	3,606,487	1,937,080
Communication services	242,198	226,625
Others	<u>107,566</u>	<u>65,911</u>
	<u>\$ 6,873,561</u>	<u>\$ 5,632,913</u>

c. Geographical information

The Group operates in three principal geographical areas - the Europe (EU), United States (USA) and Asia and others.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	<b>Revenue from</b>		<b>Non-current Assets</b>	
	<b>External Customers</b>			
	<b>Year Ended December 31</b>		<b>December 31</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
EU	\$ 2,188,094	\$ 1,258,983	\$ 675	\$ 4,235
USA	1,088,423	1,015,162	21,855	13,162
Asia and others	<u>3,597,044</u>	<u>3,358,768</u>	<u>2,396,916</u>	<u>2,504,289</u>
	<u>\$ 6,873,561</u>	<u>\$ 5,632,913</u>	<u>\$ 2,419,446</u>	<u>\$ 2,521,686</u>

Non-current assets exclude financial assets at fair value through other comprehensive income - non-current, financial assets at amortized cost - non-current, financial assets measured at cost - non-current, investments accounted for using the equity method, intangible assets, deferred tax assets, and other financial assets - non-current.

d. Information about major customers

Included in revenues from direct sales of communication equipment of \$6,873,561 thousand and \$5,632,913 thousand in 2018 and 2017, respectively, are revenues of approximately \$1,227,365 thousand and \$716,595 thousand which were generated from sales to the Group's largest customer. Otherwise, no other single customer contributed 10% or more to the Group's revenue for both 2018 and 2017.

## EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars)

No.	Endorser/Guarantor	Endorsee/Guaranteee		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated/ Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Relationship										
0	The Company	SMAX Technology Edimax Europe	Subsidiary Subsidiary	\$ 394,605 394,605	\$ 59,000 72,480	\$ 59,000 70,400	\$ 1,000 43,718	\$ - -	2.99 3.57	\$ 986,512 986,512	Y Y	N N	N N
1	Contrend	CCE	Subsidiary	163,315	9,060	-	-	-	-	408,288	Y	N	N

Note 1: The ceiling of guarantee amount to a company shall not exceed twenty percent (20%) of the net worth of the Company.

Note 2: The ceiling of total guarantee amount shall not exceed the lower between fifty percent (50%) of the net worth of the Company.



## EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018			Note
				Shares/Units (In Thousands)	Carrying Amount	Percentage of Ownership	
The Company	Stock Bluechip Infotech Pty Ltd.	None	Financial assets at fair value through other comprehensive income - non-current	300	\$ 18,616	8.18	\$ 18,616
	Status Internet Co., Ltd.	None	Financial assets at fair value through other comprehensive income - non-current	300	3,000	16.67	3,000
Comtrend	Stock EMMT Systems	None	Financial assets at fair value through other comprehensive income - non-current	193	-	0.60	-
	Edimax	Parent company	Financial assets at fair value through other comprehensive income - current	5,166	48,612	2.77	48,612
8086	Stock EscapeX Holding Corporation	None	Financial assets at fair value through other comprehensive income - non-current	3	-	0.06	-
ABST Telecom	Mutual funds Fuh Hwa Money Market Fund	None	Financial assets at fair value through profit or loss - current	1,111	16,015	-	16,015

Note: There was no available information of equity as of December 31, 2018. The Company has recognized impairment loss.

## EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

Buyer	Related Party	Relationship	Transaction Detail		Abnormal Transaction			Notes/Accounts Receivable (Payable)		Note
			Purchases/Sales	Amount	% to Total	Payment Term	Unit Price	Payment Term	Ending Balance	
The Company	Comtrend	Subsidiary	Sales	\$ (1,244,316)	(30.27)	Normal	Normal	\$ 363,507	31.63	
	Edimax BVI	Subsidiary	Processing fee	1,871,446	52.18	Normal	Normal	42,160	3.67	
	Edimax Europe	Subsidiary	Sales	(111,711)	(2.73)	Normal	Normal	38,866	3.38	
Edimax BVI	Edimax Electronic (Dongguan) Co., Ltd.	Related party in substance	Purchase	390,441	10.89			(70,980)	(17.63)	
			Processing fee	1,871,446	52.18	Normal	Normal	42,160	3.67	
Comtrend	CUSA CTBV ITI	Subsidiary Subsidiary Related party in substance	Sales	(429,099)	(12.36)	By operating condition	By operating condition	198,821	29.22	
			Sales	(1,650,284)	(47.53)	By operating condition	By operating condition	417,152	61.30	
			Purchase	323,973	11.33	Normal	Normal	(18,884)	(3.20)	

Note: Except for ITI, the transactions of the related parties have been eliminated in the consolidated financial statements as of and for the year ended December 31, 2018.

## EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Amount	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
						Amount	Action Taken		
The Company	Comtrend	Subsidiary	\$ 363,507	4.60	\$ -	-	\$ 112,298	\$ -	
Comtrend	CUSA CTBV	Subsidiary Subsidiary	198,821 417,152	2.48 5.54	- -	- -	79,813 251,633	- -	

Note: The transactions of the related parties have been eliminated in the consolidated financial statements as of and for the year ended December 31, 2018.

## EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018		Carrying Amount	Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2018	December 31, 2017	Shares (In Thousands)	%				
The Company	Edimax USA	USA	Networking equipment wholesale	\$ 49,803	\$ 49,803	17	100.00	\$ 15,255	\$ 4,799	\$ 6,596	Subsidiary (Note 2)
	Edimax BVI	British Virgin Islands	Networking equipment wholesale	287,735	287,735	8,966	100.00	224,133	(76,108)	(76,108)	Subsidiary
	Edimax Europe	Holland	Networking equipment wholesale	125,867	125,867	2,000	100.00	408	(17,536)	(16,536)	Subsidiary (Note 3)
	Edimax AU	Australia	Networking equipment wholesale	22,641	22,641	800	100.00	778	184	671	Subsidiary (Note 4)
	ABS Telecom	Taiwan	Telecommunication equipment wholesale, transmission and rental	66,000	66,000	10,500	100.00	154,948	32,810	32,709	Subsidiary (Note 5)
	Edimax Network	Indonesia	Networking equipment wholesale	-	2,250	-	-	-	232	232	Subsidiary
	Edimax SE	Singapore	Networking equipment wholesale	6,874	6,874	300	100.00	-	(370)	(370)	Subsidiary
	SMAX Technology	Taiwan	Wired/wireless telecommunications equipment manufacturing	137,175	137,175	2,121	99.16	24,379	247	216	Subsidiary (Note 6)
	Comtrend	Taiwan	Wired/wireless telecommunications equipment manufacturing	307,490	329,580	17,650	41.74	338,549	267,754	115,987	Subsidiary (Note 7)
	Crystal	Seychel	Seychelles General import and export trade	31,815	-	1,050	30.00	52,085	64,897	19,469	Related party in substance
Edimax BVI	Datamax HK	Hong Kong	Investing	271,417	271,417	64,906	100.00	101,975	(76,174)	(76,174)	Sub-subsidiary
Edimax Europe	Edimax UK	United Kingdom	Networking equipment wholesale	876	876	16	100.00	(4,251)	259	259	Sub-subsidiary
	Edimax Poland	Poland	Networking equipment wholesale	10,801	10,801	2	100.00	(4,673)	1,728	1,728	Sub-subsidiary
ABS Telecom	ABST	Mauritius	Investing	4,175	4,175	140	100.00	8,085	583	583	Sub-subsidiary
Comtrend	CUSA	USA	Wholesale, retail sale, and international trade, etc.	98,341	98,341	200	100.00	4,773	(1,005)	7,867	Sub-subsidiary (Note 8)
	Interchan	Samoa	Reinvesting business	42,393	42,393	1,299	100.00	32,805	(2,881)	(2,881)	Sub-subsidiary
	CTBV	Holland	Wholesale, retail sale, and international trade, etc.	50,901	50,901	1,518	100.00	62,907	26,098	20,334	Sub-subsidiary (Note 9)
Interchan	8086	Taiwan	Telecommunication construction and wholesale	2,915	2,915	292	100.00	1,119	(395)	(395)	Sub-subsidiary
	Just Top Limited	Hong Kong	Telecommunication construction and wholesale	43	43	-	100.00	6,339	(2,477)	(2,477)	Sub-subsidiary
Just Top Limited	PT Interchan	Indonesia	Telecommunication construction and wholesale	-	4,051	-	-	-	-	-	Sub-subsidiary (Note 10)
	PHP Interchan	Philippines	Telecommunication construction and wholesale	1,825	1,825	-	100.00	106	-	-	Sub-subsidiary
CTBV	CCE	Czech	Wholesale, retail sale, and international trade, etc.	71,438	71,438	-	100.00	47,879	19,456	19,456	Sub-subsidiary
	Iberia	Spain	Wholesale, retail sale, and international trade, etc.	12,294	12,294	-	100.00	5,502	2,180	2,180	Sub-subsidiary

Note 1: Please refer to Table 6 for the information on investments in Mainland China.

Note 2: The share of profits/losses of the investee included net income \$4,799 thousand add the effect of unrealized gross profit \$1,797 thousand on intercompany transactions.

Note 3: The share of profits/losses of the investee included net loss \$17,536 thousand add the effect of unrealized gross profit \$980 thousand on intercompany transactions.

Note 4: The share of profits/losses of the investee included net income \$184 thousand add the effect of unrealized gross profit \$487 thousand on intercompany transactions.

Note 5: The share of profits/losses of the investee included net income \$32,810 thousand less the effect of unrealized gross loss \$101 thousand on intercompany transactions.

Note 6: The share of profits/losses of the investee included net income \$245 thousand less the effect of unrealized gross loss \$29 thousand on intercompany transactions.

Note 7: The share of profits/losses of the investee included net income \$118,651 thousand less the effect of unrealized loss profit \$2,664 thousand on intercompany transactions.

Note 8: The share of profits/losses of the investee included net loss \$1,005 thousand add the effect of unrealized gross profit \$8,872 thousand on intercompany transactions.

Note 9: The share of profits/losses of the investee included net income \$26,098 thousand less the effect of unrealized gross loss \$5,764 thousand on intercompany transactions.

Note 10: PT Interchan finished liquidation in February 2018.

Note 11: Except for Crystal, the transactions of the related parties have been eliminated in the consolidated financial statement as of and for the year ended December 31, 2018.

## EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018	Note 2
					Outward	Inward							
Edimax Electronic (Dongguan)	Networking production and marketing	\$ 257,046	b.	\$ 257,046	\$ -	\$ -	\$ 257,046	\$ (79,447)	100	\$ (79,447)	\$ 101,958	\$ -	2)
Datamax Technology Shanghai	Computer software design and other services	4,254	b.	4,254	-	777	3,477	4,072	-	4,072	-	-	2)
ABST Information Telecom Service	Telecommunication equipment wholesale, transmission and rental	4,175	b.	4,175	-	-	4,175	625	100	625	8,348	-	3)
Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018				Investment Amounts Authorized by Investment Commission, MOEA		Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA							
\$264,698				\$283,121 (Note 3)		\$1,183,815							

Note 1: The methods of making investments in mainland China include the following:

- Direct investment in mainland China.
- Indirectly investment in mainland China through companies registered in a third region.
- Other methods.

Note 2: The investment income (loss) recognized in current period:

- No investment income (loss) was recognized from investment still in development stage.
- The investment income (loss) was determined based on the following:
  - The financial report audited and certified by an international accounting firm in cooperation with an ROC accounting firm.
  - The financial statements audited by the CPA of the parent company in Taiwan.
  - Others.

Note 3: The conversion is based on the spot exchange rate of the balance sheet.

Note 4: The Group has finished the liquidation procedures of Datamax Technology Shanghai Inc. in April 2018.

Note 5: The transactions of the related parties have been eliminated in the consolidated financial statements as of and for the year ended December 31, 2018.

## EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS WITH INVESEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars)

Investee Company	Transaction Type	Purchase/Sale		Price	Transaction Details		Notes/Accounts Receivable (Payable)		Unrealized (Gain) Loss	Note
		Amount	%		Payment Term	Comparison with Normal Transaction	Ending Balance	%		
Edimax Electronic (Dongguan)	Processing fees	\$ 1,871,446	52.18	Normal	By operating conditions	By operating conditions	\$ 42,160	3.67	\$ -	

Note: The transactions with the related parties have been eliminated in the consolidated financial statements as of and for the year ended December 31, 2018.

## EDIMAX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Intercompany Transactions			% to Total Sales or Assets (Note 3)
				Financial Statement Account	Amount	Payment Terms	
0	For the year ended December 31, 2018 The Company	SMAX Technology SMAX Technology Edimax Europe Edimax Europe Edimax USA Edimax USA Edimax BVI Edimax BVI Comtrend Comtrend	a a a a a a a a a a	Sales revenue Accounts receivable Sales revenue Accounts receivable Sales revenue Accounts receivable Accounts receivable Processing fees Sales revenue Accounts receivable	\$ 23,023 11,290 111,711 38,866 26,741 35,301 42,160 1,871,446 1,244,316 363,507	Normal Normal Normal Normal Normal Normal Normal Normal Normal Normal	- - 2 1 - 1 1 27 18 5
1	Edimax BVI	Edimax Electronic (Dongguan) Edimax Electronic (Dongguan)	c c	Processing fees Accounts payable	1,871,446 42,160	Normal Normal	27 1
2	Comtrend	CUSA CUSA CCE Comtrend Iberia CTBV CTBV CTBV	a a a a a a a	Sales revenue Accounts receivable Sales revenue Commission expense Sales revenue Accounts receivable Other operating income	429,099 198,821 49,224 17,461 1,650,284 417,152 11,729	Normal Normal Normal Normal Normal Normal Normal	12 11 1 1 45 23 1

Note 1: Business between the parent and subsidiaries is numbered as follows:

- a. Parent: 0.
- b. Subsidiaries are numbered from 1 in order.

Note 2: Relationship between parties is numbered as follows:

- a. Parent to subsidiary.
- b. Subsidiary to parent.
- c. One subsidiary to another subsidiary.

(Continued)

Note 3: Percentage of consolidated operating revenues or consolidated total assets: For balance sheet account, the percentage is calculated by dividing the ending balance of the account by consolidated total assets; for an income statement account, the percentage is calculated by dividing the ending balance of the account by the consolidated operating revenues.

Note 4: The transactions of the related parties have been eliminated in the consolidated financial statements as of and for the year ended December 31, 2018.

Note 5: The amount of the significant transactions between related parties listed above is over NT\$5 million.

(Concluded)