

**ARCADYAN TECHNOLOGY CORPORATION AND
SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017**

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

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Representation Letter

The entities that are required to be included in the combined financial statements of ARCADYAN TECHNOLOGY CORPORATION as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, ARCADYAN TECHNOLOGY CORPORATION and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: ARCADYAN TECHNOLOGY CORPORATION
Chairman: Jui-Tsung Chen (Ray Chen)
Date: March 19, 2019



安侯建業聯合會計師事務所

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Independent Auditors' Report

To the Board of Directors of Arcadyan Technology Corporation:

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 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 with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“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 Certification of Financial Statements by Certified Public Accountants” and the 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 Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Inventory valuation

Please refer to Note (4)(h) and Note (5) for the accounting policy of inventory valuation, as well as the estimation and assumption uncertainly of the valuation of inventory, respectively. Information regarding the inventory is shown in Note (6)(f) of the consolidated financial statements.

Description of key audit matters:

Inventory is measured at the lower of cost and net realizable value. The Group is primarily engaged in the research, development, manufacture and sale of wireless networking products, integrated access devices, and digital home and mobile office multimedia gateway products. The significant change in supply and competitive market of demand may cause fluctuation in product price. Consequently, the book value of inventory may exceed its net realizable value. Therefore, the valuation of inventory is one of the key audit matters.

How the matter was addressed in our audit:

Our principal audit procedures included : assessing the rationality of the Group's accounting policies, such as the policy of provision for inventory loss due to price decline, obsolete, and slow moving inventories; inspecting the Group's inventory aging reports' accuracy and analyzing the changes of inventory aging which are in accordance with the Group's accounting policies; sampling and inspecting the Group's sales price, as well as verifying the calculation of the lower of cost or net realizable value; and assessing the disclosure of provision for inventory valuation and obsolescence was appropriate.

2. Provisions

Please refer to Note (4)(n) and Note (5) for the accounting policy of provisions, as well as the estimation and assumption uncertainty of provisions, respectively. Information regarding the provisions is shown in Note (6)(l) of the consolidated financial statements.

Description of key audit matters:

Assessment of provisions is subject to significant judgment and estimation from management. Accounting estimate and assumption are included in the estimate of provision expenses as a percentage of sales.

How the matter was addressed in our audit:

Our principal audit procedures included : understing the method of estimation of provision, the sources of the data; confirming the policy of Group whether it is in accordance with the accounting principles; confirming whether the accounting estimates were conducted and the disclosure of provision was appropriate; performing retrospective testing for the amount of provision, testing the method of estimation, and recalculating the rationality of amount of provision.

Other Matter

Arcadyan Technology Corporation has prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, 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 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 the 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 of the current period 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 Kuan-Ying Kuo and Hsin-Fu Yen.

KPMG

Taipei, Taiwan (Republic of China)
March 19, 2019

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017		
	Amount	%	Amount	%	Amount	%	Amount	%	
Assets									
Current assets:									
1100 Cash and cash equivalents (note 6(a))	\$ 5,976,053	28	3,811,289	24	2100 Short-term borrowings (note 6(i))	\$ 1,819,915	9	717,073	5
1110 Current financial assets at fair value through profit or loss (note 6(b))	35,744	-	3,192	-	2120 Current financial liabilities at fair value through profit or loss (note 6(i))	3,176	-	20,187	-
1170 Notes and accounts receivable, net(including related parties) (note 6(c), (s) and (7))	5,816,762	27	5,235,397	34	2170 Accounts payable(including related parties) (note (7))	7,246,291	34	3,920,643	25
1200 Other receivables	81,844	-	95,747	1	2230 Current tax liabilities	224,990	1	133,727	1
1310 Inventories, net (note 6(f))	6,400,895	30	3,743,030	24	2250 Current provisions (note 6(i))	210,972	1	230,535	2
1410 Prepayments	226,537	1	197,570	1	2200 Other payables (note (7))	987,020	5	827,740	5
1470 Other current assets (note (8))	100,843	1	34,907	-	2300 Other current liabilities (note 6(k))	1,128,048	5	645,590	4
	18,638,678	87	13,121,132	84		11,620,412	55	6,495,495	42
Non-current assets:					Non-Current liabilities:				
1550 Investments accounted for using equity method (note 6(g))	370,777	2	361,047	2	2640 Non-current net defined benefit liability (note 6(n))	88,565	-	93,679	1
1544 Non-current financial assets at cost (note 6(d))	-	-	48,709	-	2570 Deferred tax liabilities(note 6(o))	68,801	-	66,462	-
1511 Non-current financial assets at fair value through profit or loss (note 6(b) and (8))	45,645	-	-	-	2670 Other non-current liabilities	1,904	-	1,805	-
						159,270	-	161,946	1
1600 Property, plant and equipment (note 6(h) and (8))	1,913,556	10	1,779,566	12		11,779,682	55	6,657,441	43
1780 Intangible assets (note 6(i))	61,033	-	70,862	1	Total liabilities				
1840 Deferred tax assets (note 6(c))	156,547	1	148,588	1	Equity attributable to owners of parent (note 6(p) and (q)):				
1900 Other non-current assets (note (8))	67,244	-	51,944	-	Ordinary share	1,936,190	9	1,891,190	12
	2,614,802	13	2,460,716	16	Capital surplus	2,794,174	13	2,656,323	17
					Retained earnings	4,609,080	22	4,035,172	26
					Exchange differences on translation of foreign financial statements	(53,684)	-	(79,288)	(1)
					Unearned employee benefit	(219,616)	(1)	-	-
						9,066,144	43	8,503,397	54
					Non-controlling interests	407,654	2	421,010	3
					Total equity	9,473,798	45	8,924,407	57
Total assets	\$ 21,253,480	100	15,581,848	100	Total liabilities and equity	\$ 21,253,480	100	15,581,848	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, except net income per share amounts)

	2018		2017	
	Amount	%	Amount	%
4000 Operating revenues (note (6)(s)):	\$ 26,621,262	100	20,110,209	100
5000 Operating costs (note (6)(f) and (12))	<u>23,465,062</u>	<u>88</u>	<u>17,308,220</u>	<u>86</u>
Gross profit from operations	<u>3,156,200</u>	<u>12</u>	<u>2,801,989</u>	<u>14</u>
Operating expenses (notes (7) and (12)):				
6100 Selling expenses	593,099	2	498,198	2
6200 Administrative expenses	404,671	2	352,325	2
6300 Research and development expenses	<u>1,186,987</u>	<u>4</u>	<u>1,032,930</u>	<u>5</u>
Total operating expenses	<u>2,184,757</u>	<u>8</u>	<u>1,883,453</u>	<u>9</u>
Net operating income	<u>971,443</u>	<u>4</u>	<u>918,536</u>	<u>5</u>
Non-operating income and expenses:				
7100 Interest income	43,129	-	19,920	-
7190 Other income	22,223	-	11,815	-
7225 Gains on disposals of investments (note (6)(g))	2,122	-	100,959	1
7230 Foreign exchange gains(losses), net (note (6)(u))	(15,765)	-	764	-
7235 Gains on financial assets (liabilities) at fair value through profit or loss (note (6)(c))	90,480	-	(297,081)	(2)
7370 Share of profit of associates and joint ventures accounted for using equity method (note (6)(g))	42,789	-	64,556	-
7210 Gains on disposals of property, plant and equipment	2,017	-	398	-
7510 Interest expense	(36,447)	-	(13,132)	-
7590 Miscellaneous disbursements (note (6)(g))	(3,967)	-	(1,569)	-
7671 Impairment loss on financial assets (note (6)(d))	-	-	(17,838)	-
	<u>146,581</u>	<u>-</u>	<u>(131,208)</u>	<u>(1)</u>
7900 Profit before tax	1,118,024	4	787,328	4
7950 Less: Tax expense (note (6)(o))	<u>237,841</u>	<u>1</u>	<u>137,018</u>	<u>1</u>
Profit	<u>880,183</u>	<u>3</u>	<u>650,310</u>	<u>3</u>
8300 Other comprehensive income:				
8310 Items that will not be reclassified to profit or loss				
8311 Remeasurements of defined benefit plans	3,924	-	(4,711)	-
8349 Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note (6)(o))	<u>1,056</u>	<u>-</u>	<u>801</u>	<u>-</u>
Total items that will not be reclassified to profit or loss	<u>4,980</u>	<u>-</u>	<u>(3,910)</u>	<u>-</u>
8360 Items that may be reclassified to profit or loss				
8361 Exchange differences on translation	29,966	-	(76,342)	-
8370 Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss (note (6)(g))	(6)	-	20	-
8399 Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note (6)(o))	<u>3,288</u>	<u>-</u>	<u>(12,330)</u>	<u>-</u>
Total items that may be reclassified to profit or loss	<u>26,672</u>	<u>-</u>	<u>(63,992)</u>	<u>-</u>
8300 Other comprehensive income, net	<u>31,652</u>	<u>-</u>	<u>(67,902)</u>	<u>-</u>
Total comprehensive income	<u>\$ 911,835</u>	<u>3</u>	<u>582,408</u>	<u>3</u>
Profit, attributable to:				
Owners of parent	\$ 871,519	3	607,243	3
Non-controlling interests	<u>8,664</u>	<u>-</u>	<u>43,067</u>	<u>-</u>
	<u>\$ 880,183</u>	<u>3</u>	<u>650,310</u>	<u>3</u>
Comprehensive income attributable to:				
Owners of parent	\$ 902,103	3	539,335	3
Non-controlling interests	<u>9,732</u>	<u>-</u>	<u>43,073</u>	<u>-</u>
	<u>\$ 911,835</u>	<u>3</u>	<u>582,408</u>	<u>3</u>
Earnings per share (note (6)(r))				
9750 Basic earnings per share	\$ <u>4.61</u>		\$ <u>3.21</u>	
9850 Diluted earnings per share	\$ <u>4.56</u>		\$ <u>3.18</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										Total equity		
	Retained earnings				Exchange differences on translation of foreign financial statements			Unearned employee benefit and others				Total equity attributable to owners of parent	
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Total retained earnings	Unappropriated retained earnings	Unappropriated retained earnings	Unappropriated retained earnings			
\$	1,891,190	2,655,927	566,921	-	3,602,482	4,169,403	(15,242)	-	-	-	393,885	8,701,278	9,095,163
	-	-	-	-	607,243	607,243	(63,998)	-	-	-	43,067	607,243	650,310
	-	-	-	-	(3,910)	(3,910)	(63,998)	-	-	-	6	(67,908)	(67,902)
	-	-	-	-	603,332	603,332	(63,998)	-	-	-	43,071	539,335	582,408
	-	-	135,747	-	(135,747)	-	-	-	-	-	-	-	-
	-	-	-	15,242	(15,242)	-	-	-	-	-	-	-	-
	-	198	-	-	(737,564)	(737,564)	-	-	-	-	(6,493)	(737,564)	(744,057)
	-	(49)	-	-	-	-	(48)	-	-	-	-	198	198
	-	247	-	-	-	-	-	-	-	-	-	247	247
	-	-	-	-	-	-	-	-	-	-	(9,455)	-	(9,455)
	1,891,190	2,656,323	702,668	15,242	3,317,262	4,035,172	(79,288)	-	-	-	421,010	8,503,397	8,924,407
	-	-	-	-	871,519	871,519	-	-	-	-	8,664	871,519	880,183
	-	-	-	-	4,980	4,980	-	-	-	-	1,068	30,584	31,652
	-	-	-	-	876,499	876,499	25,604	-	-	-	9,732	902,103	911,835
	-	-	60,724	-	(60,724)	-	-	-	-	-	-	-	-
	-	-	-	64,046	(64,046)	-	-	-	-	-	-	-	-
	-	(75,648)	-	-	(302,591)	(302,591)	-	-	-	-	-	(378,239)	(378,239)
	-	5,651	-	-	-	-	-	-	-	-	-	5,651	5,651
	-	(8)	-	-	-	-	-	-	-	-	-	(8)	(8)
	-	-	-	-	-	-	-	-	-	-	(23,088)	-	(23,088)
	45,000	207,856	-	-	-	-	-	(252,856)	-	-	-	33,240	33,240
	-	-	-	-	-	-	-	33,240	-	-	-	33,240	33,240
	1,936,190	2,794,174	763,392	79,288	3,766,400	4,609,080	(53,684)	-	-	-	407,654	9,066,144	9,473,798

Balance on January 1, 2017

Profit for the year ended December 31, 2017

Other comprehensive income for the year ended December 31, 2017

Comprehensive income for the year ended December 31, 2017

Appropriation and distribution of retained earnings:

Legal reserve appropriated

Special reserve appropriated

Cash dividends on ordinary shares

Changes in equity of associates and joint ventures accounted for using equity method

Disposal of subsidiaries or investments accounted for using equity method

Difference between consideration and carrying amount of subsidiaries acquired or disposed

Changes in non-controlling interests

Balance on December 31, 2017

Profit for the year ended December 31, 2018

Other comprehensive income for the year ended December 31, 2018

Comprehensive income for the year ended December 31, 2018

Appropriation and distribution of retained earnings:

Legal reserve appropriated

Special reserve appropriated

Cash dividends on ordinary shares

Changes in equity of associates and joint ventures accounted for using equity method

Difference between consideration and carrying amount of subsidiaries acquired or disposed

Changes in non-controlling interests

Issuance of shares for employee restricted share

Cost of employee restricted share

Balance on December 31, 2018

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	\$ 1,118,024	787,328
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	218,519	214,766
Amortization expense	29,517	36,937
Expected credit loss (gain) / Provision (reversal of provision) for bad debt expense	30,323	(9,537)
Interest expense	36,447	13,132
Interest income	(43,129)	(19,920)
Net loss (profit) on financial assets or liabilities at fair value through profit or loss	3,064	-
Share-based payments	32,743	1,289
Share of profit of associates and joint ventures accounted for using equity method	(42,789)	(64,556)
Gain on disposal of property, plant and equipment	(2,017)	(398)
Gain on disposal of investments accounted for using equity method	(2,122)	(100,959)
Impairment loss on financial assets	-	17,838
Impairment loss on non-financial assets	-	1,567
Total adjustments to reconcile profit (loss)	<u>260,556</u>	<u>90,159</u>
Changes in operating assets and liabilities:		
Change in financial assets at fair value through profit or loss	-	76,199
Net loss (gain) on financial assets or liabilities mandatorily measured at fair value through profit or loss	(49,563)	-
Decrease (increase) in notes and accounts receivable (including related parties)	(543,505)	352,658
Decrease in other receivable	21,078	14,301
Decrease (increase) in inventories	(2,713,490)	50,362
Increase in prepayments	(28,967)	-
Decrease in other current assets	4,269	44,698
Increase (decrease) in accounts payable (including related parties)	3,325,648	(200,551)
Increase in other payable and other current liabilities	544,827	165,734
Decrease in other operating liabilities	(1,190)	(1,160)
Total changes in operating assets and liabilities	<u>559,107</u>	<u>502,241</u>
Total adjustments	<u>819,663</u>	<u>592,400</u>
Cash inflow generated from operations	1,937,687	1,379,728
Interest received	34,449	18,825
Dividends received	25,453	8,942
Interest paid	(28,987)	(12,523)
Income taxes paid	(153,494)	(319,134)
Net cash flows from operating activities	<u>1,815,108</u>	<u>1,075,838</u>
Cash flows from (used in) investing activities:		
Proceeds from disposal of investments accounted for using equity method	15,374	413,257
Acquisition of property, plant and equipment	(338,384)	(103,259)
Proceeds from disposal of property, plant and equipment	3,436	1,005
Decrease (increase) in refundable deposits	(29,880)	9,086
Acquisition of intangible assets	(19,674)	(16,060)
Net cash flows from (used in) investing activities	<u>(369,128)</u>	<u>304,029</u>
Cash flows from (used in) financing activities:		
Increase in short-term loans	1,102,842	705,208
Cash dividends paid	(378,225)	(737,564)
Acquisition of ownership interests in subsidiaries	(1,803)	(6,493)
Change in non-controlling interests	(20,796)	(10,496)
Other financing activities	99	(235)
Net cash flows from (used in) financing activities	<u>702,117</u>	<u>(49,580)</u>
Effect of exchange rate changes on cash and cash equivalents	16,667	(49,844)
Net increase in cash and cash equivalents	2,164,764	1,280,443
Cash and cash equivalents at beginning of period	3,811,289	2,530,846
Cash and cash equivalents at end of period	<u>\$ 5,976,053</u>	<u>3,811,289</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

Arcadyan Technology Corporation (the “Company”) was incorporated in May 9, 2003 and merged with BroadNet Technology, Inc. on May 1, 2006.

The consolidated financial statements of the Company as of and for the year ended December 31, 2018 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group’s parent company is Compal Electronics Inc.. The Company is primarily engaged in the research, development, manufacture and sale of wireless networking products, integrated access devices, and digital home and mobile office multimedia gateway products. Please refer to note (4) (c) (ii) for related information of the Group primarily business activities.

(2) Approval date and procedures of the consolidated financial statements:

These consolidated financial statements were authorized for issuance by the Board of Directors on March 19, 2019.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sale of the Group’s products, revenue is currently recognized when the goods are delivered to the customers’ premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

For certain contracts that permit a customer to return an item, the Group adjusts the expected return portion when recognizing the income, and recognizes a refund liability and an asset for recovery. Under IFRS 15, the Group will reclassify a refund liability and an asset for recovery.

2) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS15 on the Group’s consolidated financial statements:

	December 31, 2018			January 1, 2018		
	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15
Impacted line items on the consolidated balance sheet						
Notes and accounts receivable, net	\$ 5,765,943	50,819	5,816,762	5,235,397	66,678	5,302,075
Inventories, net	6,443,609	(42,714)	6,400,895	3,743,030	(55,625)	3,687,405
Other current assets	58,129	42,714	100,843	34,907	55,625	90,532
Impact on assets		50,819			66,678	
Other current liabilities	\$ 1,077,229	50,819	1,128,048	645,590	66,678	712,268
Impact on liabilities		50,819			66,678	

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Impacted line items on the consolidated statement of cash flows</u>	<u>For the year ended December 31, 2018</u>		
	<u>Balance without adoption of IFRS 15</u>	<u>Impact of changes in accounting policies</u>	<u>Balance with adoption of IFRS 15</u>
Cash flows from (used in) operating activities:			
Adjustments:			
Decrease in notes and accounts receivable, net	\$ (559,364)	15,859	(543,505)
Increase in inventory	(2,700,579)	(12,911)	(2,713,490)
Decrease (increase) in other current assets	(8,642)	12,911	4,269
Increase in other payable and other current liabilities	560,686	<u>(15,859)</u>	544,827
Impact on net cash flows from (used in) operating activities		<u><u>-</u></u>	

(ii) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group’s approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note (4)(g).

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note (4)(g).

3) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9, which requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy, and apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts to hedge the variability in its cash flows arising from the changes in foreign exchange rates relating to foreign currency borrowings, receivables, sales and inventory purchases. The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity.

Under IAS 39, the change in fair value of the forward element of the forward exchange contracts (‘forward points’) was recognized immediately in profit or loss. However, under IFRS 9, the forward points are separately accounted for as a cost of hedging; they are recognized in OCI and accumulated in a cost of hedging reserve as a separate component within equity.

Under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as reclassification adjustment in the same period as the hedged expected cash flows affected the profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast inventory purchases, the amounts accumulated in the cash flow hedge reserve are instead included directly in the initial cost of the inventory item when it is recognized. The same approaches also apply under IFRS 9 to the amounts accumulated in the costs of hedging reserve.

For an explanation of how the Group applies hedge accounting under IFRS 9, please see note (4)(g).

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on its asset will not increase significantly since its initial recognition.
- All hedging relationships designated under IAS 39 on December 31 2017 met the criteria for hedge accounting under IFRS 9 on January 1, 2018, and are therefore, regarded as continuing hedging relationships.

5) Classification of financial assets on the date of initial application of IFRS 9

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

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and equivalents	Loans and receivables	3,811,289	Amortized cost	3,811,289
Derivative instruments	Designated as at FVTPL	3,192	Mandatorily at FVTPL	3,192
Debt securities	Financial assets at cost (note 1)	48,709	Mandatorily at FVTPL	48,709
Trade and other receivables	Loans and receivables (note 2)	4,239,437	Amortized cost	4,239,437
	Loans and receivables (note 3)	995,960	FVOCI	995,960
Other financial assets (Guarantee deposits paid)	Loans and receivables	95,747	Amortized cost	95,747
Financial Liabilities				
Derivative instruments	Designated as at FVTPL	20,187	Mandatorily at FVTPL	20,187

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note1: These equity securities (including financial assets measured at cost) represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVTPL.

Note2: Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

Note3: The corporate debt securities was categorized as amortized cost under IAS 39. The Group assesses that these securities are held within a business model whose objective is achieved by both collecting the contractual cash flows and by selling securities. Consequently, the Group has designated these investments at the date of initial application as measured at FVOCI.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 3,192	-	-		-	-
Additions – equity instruments:						
From financial assets measured at cost	-	48,709	-		-	-
Total	<u>\$ 3,192</u>	<u>48,709</u>	<u>-</u>	<u>51,901</u>	<u>-</u>	<u>-</u>
Beginning balance of fair value through other comprehensive income (IAS 39)	\$ -	-	-		-	-
Additions – From FVTPL -- required reclassification based on classification criteria	-	995,960	-		-	-
Total	<u>\$ -</u>	<u>995,960</u>	<u>-</u>	<u>995,960</u>	<u>-</u>	<u>-</u>
Amortized cost						
Beginning balance of cash and cash equivalents, bond investment without an active market, trade and other receivables, and other financial assets (IAS 39)	\$ 9,191,142	-	-		-	-
Subtractions:						
To FVOCI – required reclassification based on classification criteria	-	(995,960)	-		-	-
To FVTPL -- fair value option elected	-	(48,709)	-		-	-
Total	<u>\$ 9,191,142</u>	<u>(1,044,669)</u>	<u>-</u>	<u>8,146,473</u>	<u>-</u>	<u>-</u>

(iii) Amendments to IAS 7 “Disclosure Initiative”

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note (6)(x).

(iv) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Loss”

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

There was no material impact on the consolidated financial reports.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

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

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Group estimated that the right-of-use assets and the lease liabilities to increase by \$153,149 thousand and \$153,149 thousand respectively, as well as the retained earnings to decrease by \$0 thousand on January 1, 2019. No significant impact is expected for the Group's finance leases. Besides, The Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant. Also, the Group is not required to make any adjustments for leases where the Group is the intermediate lessor in a sub-lease.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

The actual impact of adopting the standards may change depending on the economic conditions and events which may occur in the future.

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

Those which may be relevant to the Group are set out below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
October 31, 2018	Amendments to IAS 1 and IAS 8 "Definition of Material"	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

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

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(4) Summary of significant accounting policies:

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on the historical cost basis:

- 1) Financial instruments (including derivative financial instruments) measured at fair value through profit or loss are measured at fair value;
- 2) Hedging financial assets are measured at fair value;
- 3) The defined benefit liability (or assets) is recognized as the fair value of plan assets less the present value of the defined benefit obligation and the effect of the asset ceiling (please refer to note 4(q)).

(ii) Functional and presentation currencies

The functional currency of each Group entities is determined based on the primary economic environment in which the entities operate. The consolidated financial statements are presented in New Taiwan Dollars, which is the Company’s functional currency. All financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change, and any considerations received or paid, are adjusted to or against the Group reserves.

(ii) List of subsidiaries in the consolidated financial statements

Investor	Name of Subsidiary	Nature of operation	Percentage ownership		Description
			December 31, 2018	December 31, 2017	
The Company	Arcadyan Technology N.A. Corp. ("Arcadyan USA")	Sale of wireless networking products	100 %	100 %	
"	Arcadyan Germany Technology GmbH ("Arcadyan Germany")	Sale and technical support of wireless networking products	100 %	100 %	
"	Arcadyan Technology Corporation Korea ("Arcadyan Korea")	Sale of wireless networking products	100 %	100 %	
"	Arcadyan Holding (BVI) Corp. ("Arcadyan Holding")	Investment	100 %	100 %	
The Company and ZHI-PAL	Arcadyan do Brasil Ltda	Sale of wireless networking products	100 %	100 %	
The Company	ZHI-PAL Technology Inc. ("ZHI-PAL")	Investment	100 %	100 %	
"	Tatung Technology Inc. ("TTI")	Research and sale of digital home products	61 %	61 %	
"	AcBel Telecom Inc. ("AcBel Telecom")	Investment	51 %	51 %	
"	Arcadyan Technology (Arcadyan UK)	Technical support of wireless networking products	100 %	100 %	
"	Arcadyan Technology Australia Pty Ltd (Arcadyan AU)	Sale of wireless networking products	100 %	100 %	Note 1
Arcadyan Holding	Sinoprime Global Inc. ("Sinoprime")	Investment	100 %	100 %	
"	Arcadyan Technology (Shanghai) Corp. ("SVA")	Research and sale of wireless networking products	100 %	100 %	
"	Arch Holding (BVI) Corp. ("Arch Holding")	Investment	100 %	100 %	

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Investor</u>	<u>Name of Subsidiary</u>	<u>Nature of operation</u>	<u>Percentage ownership</u>		<u>Description</u>
			<u>December 31, 2018</u>	<u>December 31, 2017</u>	
Arch Holding	Compal Networking (Kunshan) Co., Ltd. ("CNC")	Manufacturing of wireless networking products	100 %	100 %	
TTI	Quest International Group Co., Ltd. ("Quest")	Investment	100 %	100 %	
TTI	Tatung Technology of Japan Co., Ltd. ("TTJC")	Sale of digital home products	100 %	100 %	Note 2
Quest	Exquisite Electronic Co., Ltd. ("Exquisite")	Investment	100 %	100 %	
Exquisite	Tatung Home Appliances (Wujiang) Co., Ltd. ("TCH")	Manufacturing of household electronics products	100 %	100 %	
AcBel Telecom	Leading Images Ltd. ("Leading Images")	Investment	100 %	100 %	
"	Great Arch Group Ltd. ("Great Arch")	Sale of wireless networking products	- %	100 %	Note 3
Leading Images	Astoria Networks GmbH ("Astoria GmbH")	Sale of wireless networking products	100 %	100 %	

Note 1: The subsidiary was incorporated and acquired on March 28, 2017.

Note 2: The subsidiary was incorporated and acquired on November 22, 2017.

Note 3: The subsidiary has completed the procedure of liquidation on April 23, 2018.

(d) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Foreign currency differences arising on retranslation are recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- Fair value through other comprehensive income (Available-for-sale) equity investment;
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- Qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Group's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income.

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash comprise cash on hand and demand deposits. Cash equivalents are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

The time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are reclassified as cash equivalents.

Bank overdrafts are part of cash management from the Group and should be repaid immediately. Therefore, the Group recognized them as cash and cash equivalents in its statements of cash flow.

(g) Financial instruments

(i) Financial assets (policy applicable from January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Group, therefore, those receivables are measured at FVOCI and presented as accounts receivable.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, leases receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI, accounts receivable and contract assets.

The Group measures loss allowances at an amount equal to life time expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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Loss allowance for trade receivables and contract assets are always measured at an amount equal to life time ECL.

Life time ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

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·it is probable that the borrower will enter bankruptcy or other financial reorganization;
or

·the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Group recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income", in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

On derecognition of a part of debt instrument in which the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

(ii) Financial assets (policy applicable before January 1, 2018)

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

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1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. This type of financial asset is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Investments in equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured, are measured at their cost less impairment loss, and are included in financial assets at cost.

2) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in non-operating income and expenses.

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprised trade receivables, other receivables, and refundable deposits. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Interest income is recognized in profit or loss, and it is included in non-operating income and expenses.

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4) Impairment of financial assets

A financial asset is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

The objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment was recognized at the reversal date.

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Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables is included in operating expense, others are included in non-operating income and expense.

5) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in non-operating income or expenses.

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss, and is included in non-operating income or expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

Interest related to the financial liability is recognized in profit or loss, and is included in non-operating income or expenses. On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as such on initial recognition.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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Financial liabilities are classified as held for trading if acquired principally for the purpose of selling in the short term.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and included in statement of comprehensive income. Unless it is a financial liability designated as at fair value through profit or loss for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, expect for an accounting mismatch in profit or loss.

3) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss are measured at fair value, plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income or expenses.

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income or expenses.

5) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iv) Derivative financial instruments and hedge accounting (policy applicable from January 1, 2018)

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

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Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the non-financial asset's host contract are not closely related to the embedded derivatives and the host contract is not measured at FVTPL.

The Group designates its hedging instruments, including derivatives, embedded derivatives, and nonderivative instruments for a hedge of a foreign currency risk, as a fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation. Foreign exchange risks of firm commitments are treated as fair value hedges.

At initial designated hedging relationships, the Group documents the risk management objectives and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged items and hedging instrument are expected to offset each other.

The Group shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised.

1) Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in "other equity—gains (losses) on hedging instruments". The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss, and is presented in the line item of non-operating income and expenses in the statement of comprehensive income.

The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of the forward exchange contracts is separately accounted for as a cost of hedging and accumulated in a separate component within equity.

When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or in the periods during which the hedged item affects the profit or loss, and is presented in the same accounting item with the hedged item recognized in the consolidated statement of comprehensive income. However, for a cash flow hedge of a forecast transaction recognized as a nonfinancial asset or liability, the amount accumulated in "other equity—gains (losses) on hedging instruments" and retained in other comprehensive income is reclassified as the initial cost of the nonfinancial asset or liability. In addition, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in future periods, it shall immediately reclassify the amount in profit or loss.

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When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the cash flow hedge reserve (and costs of hedging) remains in equity until the hedged future cash flows are no longer expected to occur. Otherwise, that amount would be adjusted within the carrying amount of the non-financial item. For other cash flow hedges, it is reclassified to profit or loss in the same period or in the periods as the hedged expected future cash flows affect the profit or loss. However, if the hedged future cash flows are no longer expected to occur, the amount shall immediately be reclassified from cash flow reserve (and the cost of hedging reserve) to profit or loss.

- (v) Derivative financial instruments, including hedge accounting (policy applicable before January 1, 2018)

Except for the following items, the Group applies the same accounting policies as applicable from January 1, 2018.

For all cash flow hedges, including hedges of transactions resulting in the recognition of non-financial items, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affected profit or loss. Furthermore, for cash flow hedges that were terminated before January 1, 2018, forward points were recognized immediately in profit or loss.

- (h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted-average-cost principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less, the estimated costs of completion and selling expenses.

- (i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition, less, any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases. When the associates incur changes in equity arising from non-profit-or-loss items and other comprehensive income, the Group recognizes the changes in equity proportionately to shareholding percentage as capital surplus.

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Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized in profit or loss, under net other income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

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The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- 1) Buildings: 50 years
- 2) Machinery and equipment: 3~10 years
- 3) Research equipment: 3~6 years
- 4) Modeling equipment: 2~3 years
- 5) Other equipment: 1~10 years

The main construction of property, plant and equipment are factory buildings and firefighting facilities. All facilities are depreciated by using the useful life depreciation method.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change(s) is accounted for as a change in an accounting estimate.

(k) Lease

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent rent is recognized as expense in the periods in which it is incurred.

(l) Intangible assets

(i) Goodwill

- 1) Initial recognition

Goodwill arising from acquisition of subsidiaries is included in intangible assets.

- 2) Subsequent measurement

Goodwill is measured at cost, less, any accumulated impairment losses.

Goodwill related to an associate or a joint venture is included in the carrying amount of the investment, and not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or joint venture.

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(ii) Research & Development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

- 1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- 2) Its intention to complete the intangible asset and use or sell it.
- 3) Its ability to use or sell the intangible asset.
- 4) How the intangible asset will generate probable future economic benefits.
- 5) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- 6) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditure is measured at cost, less, accumulated amortization and any accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost, less, accumulated amortization and any accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(v) Amortization

The amortizable amount is the cost of an asset or other amount substituted for cost, less, its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with all indefinite useful life, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

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- 1) Copyright: 10 years
- 2) Authorization fee: amortized over the contract period by using the straight-line method.
- 3) Computer software: 1~10 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(m) Impairment – non-derivative financial assets

The Group assesses non-derivative financial assets (other than inventories, deferred tax assets, assets arising from employee benefits and non-current assets classified as held for sale) for impairment for and estimates the recoverable amounts for any impaired assets at the end of each reporting period. If it is not possible to determine the recoverable amount (fair value, less, cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less, costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss.

The Group assesses goodwill and intangible assets, which have indefinite useful lives and are not available for use, on an annual basis and recognizes an impairment loss on excess of carrying value over the recoverable amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or group of units. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Under the first-time adoption of IFRIC 21 "Levies", the Group recognized liabilities when the activity that triggers payment of the levy in accordance with the relevant legislation occurs.

(o) Revenue from contracts with customers (policy applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(i) Sale of goods—electronic components

The Group manufactures and sells broadband network products, wireless network products, digital home appliance. The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Revenue (policy applicable before January 1, 2018)

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

(q) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the pension cost incurred from the portion of the increased benefit relating to past service by the employees is recognized in profit or loss. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period. Net interest expense and other expenses related to the defined benefit plans are recognized in retained earnings.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation.

(iii) Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed when related service are provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(r) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of award that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and settlement date. Any changes in the fair value of the liability are recognized as personnel expenses in profit or loss.

(s) Income Taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations, or those recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate; they also include tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the following exceptions:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to be applied to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and they shall be adjusted based on the probability that the future taxable profit that will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

The 10% surtax on unappropriated earnings is recoded as current tax expense in the following year after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Business combination

Goodwill is measured as an aggregation of the consideration transferred (which generally is measured at fair value at the acquisition date) and as an amount of any non-controlling interest in the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value). If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

All the transaction costs incurred for business combination are recognized immediately as the Group's expenses when incurred, except for the issuance of debt or equity instruments.

If the business combination is achieved in stages, the Group shall measure any non-controlling equity interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the Group shall re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Group may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the Group had disposed directly of the previously held equity interest. If the disposal of the equity interest required a reclassification to profit or loss, such an amount shall be reclassified to profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group shall retrospectively adjust the provisional amounts recognized at the acquisition date, or recognize additional assets or liabilities to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

The Group should recognized all the business combination cost as current expense except for issuance bond or equity instruments.

(u) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee stock options, restricted employee shares and employee compensation and remuneration not yet approved by the Board of Directors.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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(v) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

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

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

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

There are no critical judgments in applying the accounting policies that have significant effects on the amounts recognized in the consolidated financial statements.

Information about assumptions and estimation uncertainties made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(a) Inventory valuation

As inventories are supposed to be measured based on the lower of cost or net realizable value, which is based on the estimated sales price; therefore, the value of inventories may vary due to the nature of the industry. Please refer to note (6)(f) of the consolidated financial statement for inventory valuation.

(b) Recognition and measurement of provisions

Provision for warranty is estimated when product revenue is recognized. The estimate has been made based on the estimate of provision expenses as a percentage of sales. The Group reviews regularly the basis of the estimate, and if necessary, amends it as appropriate. There could be a significant impact on the provision for warranty for any changes in the basis of the estimate. Please refer to note (6)(l) of the consolidated financial statement for recognition and measurement of provisions.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash Equivalents

	December 31, 2018	December 31, 2017
Cash on hand	\$ 2,061	2,276
Checking accounts and demand deposits	3,513,270	2,763,608
Time deposits	<u>2,460,722</u>	<u>1,045,405</u>
	<u>\$ 5,976,053</u>	<u>3,811,289</u>

Please refer to note 6(u) for the interest rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

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

(i) Details are as follows:

	December 31, 2018	December 31, 2017
Current financial assets mandatorily measured at fair value through profit or loss:		
Derivative instruments not used for hedging		
Forward exchange contracts	\$ 10,168	-
Currency swap contracts	2,045	-
Financial assets held for trading:		
Stocks listed on domestic markets	23,531	-
Derivative instruments not used for hedging	-	3,192
Total	<u>\$ 35,744</u>	<u>3,192</u>
Non-current financial assets mandatorily measured at fair value through profit or loss:		
Non-derivative financial assets:		
Fund unlisted on domestic markets	<u>\$ 45,645</u>	<u>-</u>
Current financial liabilities mandatorily measured at fair value through profit or loss:		
Derivative instrument not used for hedging:		
Forward exchange contracts	\$ 3,176	-
Financial liabilities held for trading:		
Derivative instruments not used for hedging	-	20,187
Total	<u>\$ 3,176</u>	<u>20,187</u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Derivative financial instruments not designated as hedging instruments:

The Group uses derivative financial instruments to hedge foreign exchange risk the Group is exposed to arising from its operating activities. The Group held the following derivative financial instruments not designated as hedging instruments presented as held-for-trading financial assets. The following derivative financial instruments were classified as mandatorily measured financial assets at fair value through profit or loss on December 31, 2018 and held-for-trading financial instruments in December 31, 2017:

	December 31, 2018		
	Contract amount (in thousands)	Currency	Maturity date
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange sold	EUR 30,200	EUR to USD	January 14, 2019~ March 28, 2019
Swap contracts:			
Currency swap	USD 27,300	USD to NTD	February 14, 2019
Derivative financial liabilities:			
Foreign exchange contracts:			
Forward exchange sold	EUR 16,000	EUR to USD	February 26, 2019~ March 28, 2019
	December 31, 2017		
	Contract amount (in thousands)	Currency	Maturity date
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange purchased	USD 2,000	USD to MXN	January 30, 2018
Derivative financial liabilities:			
Foreign exchange contracts:			
Forward exchange sold	EUR 40,000	EUR to USD	January 12, 2018~ April 13, 2018

Please refer to note 6(u) for the exposure to credit risk of the financial instruments.

As of December 31, 2018 and 2017, the Group did not provide any aforementioned financial assets as collaterals.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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(c) Derivative financial instruments used for hedging

(i) Cash flow hedge

Foreign exchange risk

The Group's strategy is to enter into forward exchange contracts to hedge its foreign currency exposure risk in relation to the forecast sales. As of December 31, 2018 and 2017, the Group did not enter into any hedge contract.

(ii) Adjustments on reclassification from other comprehensive income

As of December 31, 2018 and 2017, the details of adjustments on reclassification from other comprehensive income were as follows:

	2018	2017
Cash flow hedge		
Profit (loss) in current year	\$ 3,655	(141,364)
Less: Net income (loss) of adjustments on reclassification from other comprehensive income which belongs to net income (loss)	3,655	(141,364)
	\$ -	-

(iii) For the years ended in 2018 and 2017, the ineffective portion of cash flow hedge recognized in loss amounted of \$559 and \$53,182, recorded under the "Gain (losses) on financial assets (liabilities) at fair value through profit or loss".

(iv) For the years ended December 31, 2018 and 2017, gain or loss of adjustments from reclassification of other equity, deriving from the changes of fair-value hedge instruments, were recognized under sales in comprehensive income statement.

(d) Financial assets carried at cost – noncurrent

	December 31, 2017
Fund unlisted in domestic markets	\$ 48,709

(i) The aforementioned stock unlisted on domestic and foreign markets held by the Group are measured at cost less accumulated impairment losses on December 31, 2017. These investments were classified as financial assets at fair value through profit or loss on December 31, 2018, please refer to 6(b).

(ii) At of December 31, 2017, parts of the value of the Group's financial assets carried at cost had indications of impairment losses; therefore, the Group recognized the impairment loss of \$17,838, which was recorded under "Non-operating income and Expenses".

(iii) As of December 31, 2017, the Group did not provide any financial assets carried at cost–noncurrent as collaterals.

(iv) For credit risk and market risk, please refer to note 6(u).

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable from operating activities	\$ 41,446	152,671
Accounts receivable – measured at amortized cost	5,697,347	5,121,103
Accounts receivable – fair value through other comprehensive income	124,286	-
	5,863,079	5,273,774
Less: allowance for uncollectible accounts	(46,317)	(17,499)
allowance for sales return	-	(20,878)
	\$ 5,816,762	5,235,397

The Group has assessed a portion of its accounts receivable that was held within a business model whose objective is achieved by selling financial assets; therefore, such accounts were measured at fair value through other comprehensive income since January 1, 2018.

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. To measure the expected credit losses, notes and accounts receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including macroeconomic and relevant industry information. The loss allowance provision in Taiwan as of December 31, 2018 was determined as follows:

Credit rating	Gross carrying amount	Weighted- average loss rate	Loss allowance provision	Credit impaired
Level A	\$ 1,550,848	0.01%	82	No
Level B	3,034,119	0.11%	3,194	No
Level C	1,247,546	1.00%	12,475	No
Level D~E	-	-	-	-
Level F	30,566	100%	30,566	Yes
Total	\$ 5,863,079		46,317	

The aging analysis of notes and accounts receivable was as follows:

	December 31, 2018
Overdue 1~30 days	\$ 750,727
Overdue 31~60 days	119,525
Overdue 61~90 days	55
Overdue 91~180 days	9,259
Overdue over 181 days	41,364
	\$ 920,930

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

As of December 31, 2017, the Group applies the incurred loss model to consider the loss allowance provision of notes and accounts receivable, and the aging analysis of notes and accounts receivable, which were past due but not impaired, was as follows:

	December 31, 2017
Overdue 1~30 days	\$ 505,024
Overdue 31~60 days	107,805
Overdue 61~90 days	32,345
Overdue 91~180 days	-
Overdue over 181 days	<u>16,068</u>
	<u>\$ 661,242</u>

The movement of allowance for notes and accounts receivable for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017	
		Individually assessed impairment	Collectively assessed impairment
Balance at January 1, 2018 and 2017 per IAS 39	\$ 17,499	7,827	19,209
Adjustment on initial application of IFRS 9	<u>-</u>		
Balance at January 1, 2018 per IFRS 9	17,499		
Impairment loss recognized (Reversal of Impairment)	<u>28,818</u>	<u>(7,827)</u>	<u>(1,710)</u>
Balance at December 31, 2018 and 2017	<u>\$ 46,317</u>	<u>-</u>	<u>17,499</u>

As of December 31, 2018 and 2017, the Group did not provide any aforementioned notes and accounts receivable as collaterals.

The Group entered into accounts receivable factoring agreements with banks. Based on the agreements, the Group is not responsible for guaranteeing the ability of the account receivable obligor to make payment when it is affected by credit risk. Thus, this is non-recourse accounts receivable factoring. After the transfer of the accounts receivable, the Group can request partial proceeds, while the interest calculated at an agreed rate is paid to the bank until the account receivable is paid. The remaining amounts are received when the accounts receivable are paid by the customers. As of December 31, 2018 there was no unreceived balance of discounted accounts receivable. As of December 31, 2017 the proceeds not yet received amounted to \$17,247 and they are accounted for as other receivables.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The details of the factored accounts receivable were as follows:

		December 31, 2017				
Purchaser	Object	Accounts receivable factored (gross)	Proceed received	Collateral	Significant transfer of conditions	Amount derecognized
Non-related parties	Financial institutions	\$ <u>159,527</u>	<u>142,280</u>	-	-	<u>159,527</u>

During the year ended December 31, 2017, the agreed interest rate is 0.8%~1.8%, in the contract mentioned above.

(f) Inventories

(i) A summary of the Group's financial information for inventions at the reporting date were as follows:

	December 31, 2018	December 31, 2017
Raw materials	\$ 1,855,646	1,950,986
Work in progress	549,252	202,758
Finished goods	<u>3,995,997</u>	<u>1,589,286</u>
	<u>\$ 6,400,895</u>	<u>3,743,030</u>

(ii) Inventory cost recognized as cost of sales for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
Cost of sales	\$ 23,431,010	17,252,340
Inventory valuation loss and obsolescence	<u>34,052</u>	<u>55,880</u>
	<u>\$ 23,465,062</u>	<u>17,308,220</u>

In 2018 and 2017, the write-downs of inventories to net realizable value amounted to \$34,052 and \$55,880, respectively.

(iii) As of December 31, 2018 and 2017, the Group did not provide any inventories as collaterals.

(g) Investments accounted for using equity method

(i) A summary of the Group's financial information for equity-accounted investees at the reporting date were as follows:

	December 31, 2018	December 31, 2017
Associates	\$ <u>370,777</u>	<u>361,047</u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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(ii) The following is the related information of significant associate

Name	Nature of the relationship	Principal place of business/ Country of incorporation	Effective ownership interest and voting right	
			December 31, 2018	December 31, 2017
Compal Broadband Network Inc. ("CBN")	Manufacturing and sale of broadband networking product	Taiwan	20%(Note 1)	23%(Note 2)

Note 1: The Group disposed 3% of CBN's equity on December 6, 2018, and the total disposal price was \$15,374. The gains on disposals amounted to \$2,122, and were recorded under gains on disposals of investments. The aforementioned gains on disposals include the amount recorded under other comprehensive income and capital surplus reclassified to profit or loss.

Note 2: The Group disposed 23% of CBN's equity on September 29, October 31, and December 25, 2017, respectively, and the total disposal price was \$413,257. The gains on disposals amounted to \$100,959, and were recorded under gains on disposals of investments. The aforementioned gains on disposals include the amount recorded under other comprehensive income and capital surplus reclassified to profit or loss.

The following table summarizes the information of the Group's material associate adjusted for any differences in accounting policies and reconciles the information to the carrying amount of the Group's interest in the associate.

1) Summarized financial information of Compal Broadband Network Inc.

	December 31, 2018	December 31, 2017
Current assets	\$ 2,908,124	4,147,391
Non current assets	241,869	285,032
Current liabilities	(1,335,206)	(2,884,239)
Non current liabilities	(115)	(71)
	<u>\$ 1,814,672</u>	<u>1,548,113</u>
Net assets belongs to non-controlling interest	<u>\$ -</u>	<u>-</u>
Net assets belongs to investee company	<u>\$ 1,814,672</u>	<u>1,548,113</u>
	<u>2018</u>	<u>2017</u>
Revenue	\$ 5,316,072	6,817,464
Profit from continuing operations	184,370	182,145
Other comprehensive income	(18)	124
Total comprehensive income	<u>\$ 184,352</u>	<u>182,269</u>
Other comprehensive income belongs to non-controlling interest	<u>\$ -</u>	<u>-</u>
Other comprehensive income belongs to investee company	<u>\$ 184,352</u>	<u>182,269</u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>2018</u>	<u>2017</u>
Beginning balance of net assets owned by the Group	\$ 361,047	613,392
Capital increase by cash dividend	(25,453)	(8,942)
Comprehensive income attributable to the Group	42,784	68,747
Disposal	(13,252)	(312,298)
Changes on net value from investment in associates by equity method	<u>5,651</u>	<u>148</u>
Share of net assets of affiliates (the carrying amount of the Group's interests)	<u>\$ 370,777</u>	<u>361,047</u>

- (iii) The Group's equity-accounted investment in all individually immaterial associates and the Group's share of the operating results are summarized below:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
The carrying amount of the Group's interests in all individually immaterial associates	<u>\$ -</u>	<u>-</u>

The Group's share of the net income (loss) of associates:

	<u>2018</u>	<u>2017</u>
Profit from continuing operations	\$ -	(4,171)
Total comprehensive income	<u>\$ -</u>	<u>(4,171)</u>

Parts of the value of the Group's associates accounted for using equity method had indications of impairment losses; therefore, the Group recognized the impairment loss of \$1,567 in 2017, which was recorded under "Non-operating income and expense".

- (iv) As of December 31, 2018 and 2017, the Group did not provide any investment accounted for using equity method as collateral for its loans.

(h) Property, plant and equipment

The cost, depreciation, of the property, plant and equipment and of the Group for the years ended December 31, 2018 and 2017 were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Research and development equipment</u>	<u>Molding equipment</u>	<u>Leasehold improvement and other equipment</u>	<u>Under construction and prepayment for purchase of equipment</u>	<u>Total</u>
Cost or deemed cost:								
Balance at January 1, 2018	\$ 463,262	826,069	1,614,388	365,684	229,685	377,300	12,972	3,889,360
Additions	-	-	239,984	54,868	12,420	14,887	22,636	344,795
Reclassifications	-	2,059	12,969	-	2,175	(1,009)	(19,565)	(3,371)
Disposals and derecognitions	-	-	(62,198)	(12,467)	(7,376)	(4,348)	-	(86,389)
Effect of movements in exchange rates	-	-	54,094	1,005	-	4,258	46	59,403
Balance at December 31, 2018	<u>\$ 463,262</u>	<u>828,128</u>	<u>1,859,237</u>	<u>409,090</u>	<u>236,904</u>	<u>391,088</u>	<u>16,089</u>	<u>4,203,798</u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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	Land	Buildings and construction	Machinery and equipment	Research and development equipment	Molding equipment	Leasehold improvement and other equipment	Under construction and prepayment of equipment	Total
Balance at January 1, 2017	\$ 463,262	826,069	1,730,539	342,917	206,348	388,991	8,842	3,966,968
Additions	-	-	32,282	26,373	19,489	10,904	15,488	104,536
Reclassifications	-	-	-	726	3,848	6,612	(11,337)	(151)
Disposals and derecognitions	-	-	(30,989)	(2,337)	-	(17,295)	-	(50,621)
Effect of movements in exchange rates	-	-	(117,444)	(1,995)	-	(11,912)	(21)	(131,372)
Balance at December 31, 2017	<u>\$ 463,262</u>	<u>826,069</u>	<u>1,614,388</u>	<u>365,684</u>	<u>229,685</u>	<u>377,300</u>	<u>12,972</u>	<u>3,889,360</u>
Depreciation and impairment loss:								
Balance at January 1, 2018	\$ -	46,436	1,404,829	281,086	190,916	186,527	-	2,109,794
Depreciation	-	18,104	99,595	34,250	24,927	41,643	-	218,519
Reclassifications	-	-	(33)	-	-	(174)	-	(207)
Disposals and derecognitions	-	-	(61,682)	(11,762)	(7,319)	(4,207)	-	(84,970)
Effect of movements in exchange rates	-	-	43,273	817	-	3,016	-	47,106
Balance at December 31, 2018	<u>\$ -</u>	<u>64,540</u>	<u>1,485,982</u>	<u>304,391</u>	<u>208,524</u>	<u>226,805</u>	<u>-</u>	<u>2,290,242</u>
Balance at January 1, 2017	\$ -	27,727	1,438,222	252,480	163,741	167,867	-	2,050,037
Depreciation	-	18,709	92,282	32,450	27,175	44,150	-	214,766
Reclassifications	-	-	(132)	-	-	-	-	(132)
Disposals and derecognitions	-	-	(30,479)	(2,330)	-	(17,205)	-	(50,014)
Effect of movements in exchange rates	-	-	(95,064)	(1,514)	-	(8,285)	-	(104,863)
Balance at December 31, 2017	<u>\$ -</u>	<u>46,436</u>	<u>1,404,829</u>	<u>281,086</u>	<u>190,916</u>	<u>186,527</u>	<u>-</u>	<u>2,109,794</u>
Carrying amounts:								
Balance at December 31, 2018	<u>\$ 463,262</u>	<u>763,588</u>	<u>373,255</u>	<u>104,699</u>	<u>28,380</u>	<u>164,283</u>	<u>16,089</u>	<u>1,913,556</u>
Balance at January 1, 2018	<u>\$ 463,262</u>	<u>779,633</u>	<u>209,559</u>	<u>84,598</u>	<u>38,769</u>	<u>190,773</u>	<u>12,972</u>	<u>1,779,566</u>
Balance at December 31, 2017	<u>\$ 463,262</u>	<u>779,633</u>	<u>209,559</u>	<u>84,598</u>	<u>38,769</u>	<u>190,773</u>	<u>12,972</u>	<u>1,779,566</u>
Balance at January 1, 2017	<u>\$ 463,262</u>	<u>798,342</u>	<u>292,317</u>	<u>90,437</u>	<u>42,607</u>	<u>221,124</u>	<u>8,842</u>	<u>1,916,931</u>

As of December 31, 2018 and 2017, part of the Group's property, plant and equipment are provided as collateral for long-term borrowings. Please see note 8.

(i) Intangible Assets

Changes in cost and accumulated amortization of intangible assets for the years ended December 31, 2018 and 2017, were as follows:

	Goodwill	Authorization fee	Copyright	Computer software and others	Total
Cost:					
Balance at January 1, 2018	\$ 6,556	120,277	18,496	106,193	251,522
Additions	-	-	-	17,236	17,236
Reclassifications	-	-	-	2,438	2,438
Disposals	-	(7,173)	-	(10,948)	(18,121)
Balance at December 31, 2018	<u>\$ 6,556</u>	<u>113,104</u>	<u>18,496</u>	<u>114,919</u>	<u>253,075</u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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	<u>Goodwill</u>	<u>Authorization fee</u>	<u>Copyright</u>	<u>Computer software and others</u>	<u>Total</u>
Balance at January 1, 2017	\$ 6,556	124,677	18,496	103,700	253,429
Additions	-	-	-	16,060	16,060
Disposals	-	(4,400)	-	(13,567)	(17,967)
Balance at December 31, 2017	<u>\$ 6,556</u>	<u>120,277</u>	<u>18,496</u>	<u>106,193</u>	<u>251,522</u>
Accumulated amortization:					
Balance at January 1, 2018	\$ -	90,386	17,810	72,464	180,660
Amortization	-	7,451	686	21,380	29,517
Disposals	-	(7,173)	-	(10,948)	(18,121)
Effects of movement in exchange rate	-	-	-	(14)	(14)
Balance at December 31, 2018	<u>\$ -</u>	<u>90,664</u>	<u>18,496</u>	<u>82,882</u>	<u>192,042</u>
Balance at January 1, 2017	\$ -	85,031	15,069	61,553	149,348
Amortization	-	9,755	2,741	24,441	36,937
Disposals	-	(4,400)	-	(13,567)	(17,967)
Effects of movement in exchange rate	-	-	-	37	37
Balance at December 31, 2017	<u>\$ -</u>	<u>90,386</u>	<u>17,810</u>	<u>72,464</u>	<u>180,660</u>
Book value:					
Balance at December 31, 2018	<u>\$ 6,556</u>	<u>22,440</u>	<u>-</u>	<u>32,037</u>	<u>61,033</u>
Balance at December 31, 2017	<u>\$ 6,556</u>	<u>29,891</u>	<u>686</u>	<u>33,729</u>	<u>70,862</u>
Balance at January 1, 2017	<u>\$ 6,556</u>	<u>39,646</u>	<u>3,427</u>	<u>42,147</u>	<u>91,776</u>

(i) Amortization expenses

The amortization of intangible assets is included in the statements of comprehensive income:

	<u>2018</u>	<u>2017</u>
Cost of sales	<u>\$ 1,781</u>	<u>2,833</u>
Operating expenses	<u>\$ 27,736</u>	<u>34,104</u>

(ii) As of December 31, 2018 and 2017, the Group did not provide any intangible assets as collaterals.

(j) Short-term borrowings

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Credit loans	<u>\$ 1,819,915</u>	<u>717,073</u>
Unused credit line for short-term borrowings	<u>\$ 6,067,529</u>	<u>6,263,298</u>
Annual interest rates	<u>0.45%~3.5%</u>	<u>0.69%~2.14%</u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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For the information on the Group's interest risk, foreign currency risk and liquidity risk, please see note (6)(u).

(k) Other current liabilities

	December 31, 2018	December 31, 2017
Collection of royalties	\$ 1,003,342	598,748
Refund liabilities-current	50,819	-
Others	<u>73,887</u>	<u>46,842</u>
	<u>\$ 1,128,048</u>	<u>645,590</u>

(l) Provisions

	Warranties
Balance at January 1, 2018	\$ 230,535
Provisions made	290,973
Provisions used	(295,520)
Provisions reversed	<u>(15,016)</u>
Balance at December 31, 2018	<u>\$ 210,972</u>
Balance at January 1, 2017	\$ 234,820
Provisions made	268,391
Provisions used	(234,142)
Provision reversed	<u>(38,534)</u>
Balance at December 31, 2017	<u>\$ 230,535</u>

Provisions related to sales of products are assessed based on the historical experience.

(m) The Group as lessee

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2018	December 31, 2017
Less than one year	\$ 107,374	101,450
Between two and five years	<u>65,160</u>	<u>137,302</u>
	<u>\$ 172,534</u>	<u>238,752</u>

The Group leased office places, warehouse and plants under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the leases after that date. For the years ended December 31, 2018 and 2017, expenses recognized in profit or loss under operating leases amounted to \$131,622 and \$102,398, respectively.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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The aforementioned leases were entered into many years ago as combined leases of land and buildings. The Group determined that the land and building elements of the leases are operating leases. The rent paid to the landlord is increased to market rent at regular intervals, and the Group does not participate in the residual value of the land and buildings. As a result, it was determined that substantially, all the risks and rewards of the land and buildings are undertaken by the landlord.

(n) Employee benefits

(i) Defined benefit plans

The present value of the defined benefit obligations and the fair value adjustments of plan assets for the Company were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	\$ 201,154	198,032
Fair value of plan assets	<u>(112,589)</u>	<u>(104,353)</u>
	<u>\$ 88,565</u>	<u>93,679</u>

The Company makes defined benefit plan contributions to the pension fund account at the Bank of Taiwan that provides pensions for employees upon retirement. The plans (cover by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$112,589 at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Company were as follows:

	<u>2018</u>	<u>2017</u>
Balance at January 1	\$ 198,032	189,401
Current service costs and interest	4,577	4,325
Actuarial gains (losses)	<u>(1,455)</u>	<u>4,306</u>
Balance at December 31	<u>\$ 201,154</u>	<u>198,032</u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company were as follows:

	<u>2018</u>	<u>2017</u>
Fair value of plan assets at January 1	\$ 104,353	99,273
Contributions made	4,067	4,102
Expected return on plan assets	1,700	1,383
Actuarial gains (losses)	<u>2,469</u>	<u>(405)</u>
Fair value of plan assets at December 31	<u>\$ 112,589</u>	<u>104,353</u>
Actual return on plan assets	<u>\$ 4,169</u>	<u>978</u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 1,388	1,731
Actuarial gains (losses)	3,189	2,594
Expected return on plan assets	<u>(1,700)</u>	<u>(1,383)</u>
	<u>\$ 2,877</u>	<u>2,942</u>
Cost of sales	\$ 381	434
Selling expenses	241	335
Administrative expenses	485	376
Research and development expenses	<u>1,770</u>	<u>1,797</u>
	<u>\$ 2,877</u>	<u>2,942</u>

5) Actuarial gains and losses recognized in other comprehensive income

The Company's actuarial gains and losses recognized in other comprehensive income, before tax for the years ended December 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Cumulative amount at January 1	\$ 61,372	56,661
Recognized	<u>(3,924)</u>	<u>4,711</u>
Cumulative amount at December 31	<u>\$ 57,448</u>	<u>61,372</u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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6) Actuarial assumptions

a) The following are the Company's principal actuarial assumptions:

i) Present value of defined benefit obligations

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate as of December 31	1.375 %	1.625 %
Future salary increasing rate	3.000 %	3.000 %

ii) Defined benefit plan cost

	<u>2018</u>	<u>2017</u>
Discount rate as of December 31	1.625 %	1.375 %
Future salary increasing rate	3.000 %	3.000 %

The expected allocation payment made by the Company to the defined benefit plans for the one year period after the reporting date was \$4,066.

The weighted-average duration of the defined benefit obligation is 15.58 years.

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	<u>Increased 0.25%</u>	<u>Decreased 0.25%</u>
December 31, 2018		
Discount rate	(5,928)	6,182
Future salary increasing rate	5,967	(5,755)
December 31, 2017		
Discount rate	(5,844)	6,103
Future salary increasing rate	5,899	(5,684)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2017.

8) There were no payment for pension made by the Company for the years ended December 31, 2018 and 2017.

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(ii) Defined contribution plans

The Company and all subsidiaries in domestic allocate 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

The Company and all subsidiaries in domestic recognized the pension costs under the defined contribution method amounting to \$39,546 and \$36,951 for the years ended December 31, 2018 and 2017, respectively. Payment was made to the Bureau of Labor Insurance.

Other subsidiaries recognized the pension expense, basic endowment insurance expense, and social welfare expenses amounting to \$58,896 and \$53,232 for the years ended December 31, 2018 and 2017, respectively.

(o) Income taxes

The Company According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018.

(i) Income tax expense (benefit)

- 1) The amount of income tax for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Recognized during the period	\$ 247,126	124,692
10% surtax on unappropriated earnings	21,758	45,658
Adjustment for prior periods	<u>(23,191)</u>	<u>(33,349)</u>
	<u>245,693</u>	<u>137,001</u>
Origination and reversal of temporary differences	<u>(7,852)</u>	<u>17</u>
	<u>(7,852)</u>	<u>17</u>
Income tax expense	<u><u>\$ 237,841</u></u>	<u><u>137,018</u></u>

- 2) The amount of income tax recognized in other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Foreign currency translation differences for foreign operations	\$ 3,288	(12,330)
Defined benefit plan actuarial gains (losses)	<u>(1,056)</u>	<u>(801)</u>
	<u><u>2,232</u></u>	<u><u>(13,131)</u></u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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- 3) Reconciliation of income tax and profit before tax for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
	<u>Amount</u>	<u>Amount</u>
Profit excluding income tax	\$ 1,118,024	787,328
Income tax using the Company's domestic tax rate	248,548	170,099
Effect of tax rates in foreign jurisdiction	7,638	9,720
Adjustment in tax rate	(11,719)	-
Tax-exempt income	(37,321)	(80,016)
Changes in unrecognized temporary differences	1,538	4,009
Under (over) provision in prior periods	(20,269)	(33,349)
10% surtax on unappropriated earnings	21,758	45,658
Other	27,668	20,897
	<u>\$ 237,841</u>	<u>137,018</u>

(ii) Deferred tax assets and liabilities

- 1) Unrecognized deferred tax liabilities: None.
- 2) Unrecognized deferred tax assets:

Details of unrecognized under deferred tax assets are as follows:

	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
Tax effect of deductible temporary differences	\$ 31,867	29,257
Tax effect of loss carryforward	469	3,558
	<u>\$ 32,336</u>	<u>32,815</u>

The tax losses mentioned above could be used to offset future taxable income. Because of the uncertainty of future taxable income, the Company did not recognize the deferred tax assets arising from the tax losses. The ROC Income tax Act allows losses for tax purposes, as assessed by the tax authorities, to be offset against taxable income in the following ten years. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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3) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2018 and 2017 were as follows:

	Investment income recognized under the equity method method (overseas)	Foreign currency translation adjustment	Defined benefit plans	Reserve for loss on outward investment	Others	Total
Deferred Tax Liabilities:						
Balance at January 1, 2018	\$ 56,363	-	-	-	10,099	66,462
Recognized in profit or loss	11,972	-	-	-	(10,081)	1,891
Recognized in other comprehensive income	-	448	-	-	-	448
Balance at December 31, 2018	<u>68,335</u>	<u>448</u>	<u>-</u>	<u>-</u>	<u>18</u>	<u>68,801</u>
Balance at January 1, 2017	\$ 42,503	-	-	-	12	42,515
Recognized in profit or loss	13,860	-	-	-	10,087	23,947
Balance at December 31, 2017	<u>\$ 56,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,099</u>	<u>66,462</u>

	Defined benefit plans	Foreign currency translation adjustment	Loss on inventory valuation	Unrealized exchange losses, net	Loss carryforward	Others	Total
Deferred Tax Assets:							
Balance at January 1, 2018	\$ 10,430	15,725	22,091	34,640	15,242	50,460	148,588
Recognized in profit or loss	-	-	7,736	9,079	(11,332)	4,260	9,743
Recognized in other comprehensive income	1,056	(2,840)	-	-	-	-	(1,784)
Balance at December 31, 2018	<u>11,486</u>	<u>12,885</u>	<u>29,827</u>	<u>43,719</u>	<u>3,910</u>	<u>54,720</u>	<u>156,547</u>
Balance at January 1, 2017	\$ 9,629	3,395	20,238	21,001	14,801	42,463	111,527
Recognized in profit or loss	-	-	1,853	13,639	441	7,997	23,930
Recognized in other comprehensive income	801	12,330	-	-	-	-	13,131
Balance at December 31, 2017	<u>10,430</u>	<u>15,725</u>	<u>22,091</u>	<u>34,640</u>	<u>15,242</u>	<u>50,460</u>	<u>148,588</u>

- (iii) The ROC tax authorities have examined the income tax expenses of the Company, through 2015, TTI through 2016, Acbel Telecom and ZHI-PAL through 2017. The relevant approved differences are listed as determining the annual income tax adjustment.
- (iv) The ROC Income Tax Act allows losses for tax purposes, as assessed by the tax authorities, to offset taxable income over a period of ten years. Acbel Telecom estimated tax losses which can be used to offset future taxable income as of December 31, 2018, were as follows:

Year of loss	Unused amount	Expiry year
2008	\$ <u>2,345</u>	2018

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(p) Capital and other equities

As of December 31, 2018 and 2017, the authorized common stocks were both \$2,500,000, of which \$193,619 and \$189,119 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

(i) Ordinary shares

Reconciliation of shares outstanding for 2018 and 2017 were as follows:

(in thousands of shares)	Ordinary shares	
	2018	2017
Balance on January 1	\$ 189,119	189,119
Issue of employee restricted share	4,500	-
Balance on December 31	\$ 193,619	189,119

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2018	December 31, 2017
Additional paid-in capital	\$ 2,575,896	2,651,544
Difference between consideration and carry amount of subsidiaries disposed	3,698	3,706
Changes in equity of associates and joint ventures accounted for using equity method	6,724	1,073
Issue of employee restricted share	207,856	-
	\$ 2,794,174	2,656,323

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

The resolution of shareholders' meeting decided to distribute the cash dividends amounting to \$75,648 (\$0.4 per share) through capital surplus on June 21, 2018.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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(iii) Retained earnings

The Company's article of incorporation stipulate that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve. The legal reserve can be exempted if it equals the paid-in capital, besides, special reserves are supposed to be set aside or reversed in accordance with the relevant regulations or as required by the government. And then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

According to the Company's stable dividend policy, the type of dividends should be determined after considering the business environment, operating performance, financial structure, etc. Cash dividends to stockholders shall not be lower than 10% of total cash and stock dividends.

1) Legal reserve

In accordance with the Company Act as amended, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

2) Special reverse

A portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the total net current-period reduction of other shareholders' equity resulting from the carrying amount of special earnings reserve as stated above. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(iv) Earnings distributed

Earnings distribution for 2017 and 2016 was approved by the shareholders during their annual meeting held on June 21, 2018 and June 13, 2017, respectively. The relevant dividend distribution to shareholders, employee bonus and the directors' remuneration were as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Amount per share</u>	<u>Total amount</u>	<u>Amount per share</u>	<u>Total amount</u>
Cash dividends distributed to common shareholders	\$ 1.60	<u><u>302,591</u></u>	3.9	<u><u>737,564</u></u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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(q) Share-based payment

(i) The Company—Employee restricted share

At the meeting held on June 21, 2018, the Company's Board of Directors decided to issue 4,500,000 shares of employee restricted shares to the Company's full-time employees who meet certain requirements. The restricted shares have been registered with and approved by the Securities and Futures Bureau of FSC. The Board of Directors decided to issue all the restricted shares on November 6, 2018, which is also the effective date of the share issuance.

3,500,000 shares of the aforementioned restricted shares are issued without consideration. 30%, 30% and 40% of the 3,500,000 restricted shares are vested respectively, when the employees continue to provide service for at least 2 years, 3 years and 4 years from the registration and the effective date, and at the same time, meet the performance requirement. In addition, when earnings per share in two continuous and complete fiscal years from the registration and effective date are no less than 4 New Taiwan dollars and at the same time, the employees with the restricted shares meet the performance requirement, the other 1,000,000 shares of the restricted shares are vested 100% at the date the shareholders approved the financial statements for the second fiscal year. If the earnings per share in continuous and complete fiscal years from the registration and effective date are between 3 to 4 New Taiwan Dollars and at the same time, the employees with the restricted shares to meet the performance requirement, the restricted shares are vested 75% at the date the shareholders approved the financial statements for the second fiscal year. If the earnings per share in two continuous and complete fiscal years from the registration and effective date are less than 3 New Taiwan Dollars, the employees with the restricted shares, whether or not meet the performance requirement, the restricted shares are vested 0% at the date the shareholders approved the financial statements for the second fiscal year. The earnings per share mentioned above are calculated based on the profit approved by the shareholders, and the weighted average number of ordinary shares outstanding at the date of the restricted shares have been approved by the authority.

After the issuance, the restricted shares are kept in a trust, which is appointed by the Company, before they are vested. These restricted shares shall not be sold, transferred, pledged, gifted or by any other means of disposal to third parties during the custody period. The voting rights of these shares are executed by the custodian, and the custodian shall act based on the law and regulations. If the shares remain unvested after the vesting period, the Company will redeem all the unvested shares without consideration and cancel the shares thereafter. Restricted shares could receive cash and stock dividends, and could join cash injection. The aforementioned new shares are not considered as restricted shares.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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The information of the Company's restricted share is as follows:

Unit: in thousands of shares

	2018
Outstanding unit at January 1	-
Granted during the period	4,500
Outstanding unit at December 31	4,500

Employee restricted shares are evaluated by the market price of \$57.4 as their fair value on the granted date, accordingly, will increase the capital surplus amounting to \$252,856. As of December 31, 2018, the unearned employee benefit was \$219,616.

The compensation cost related to the restricted share amounted to \$33,240 for the year ended December 31, 2018.

(ii) TTI—employee stock options

The information about share-based payment of TTI in 2018 and 2017 was as follows:

	Employee stock options
Grant date	2015.10.29
Granted amount (thousands)	1,000
Contract period	7 years
Granted object	Employees of TTI
Vested condition	Please refer to the issuance terms of the stock options.

The issuance terms of the stock options are as follows:

- 1) Exercise price: NT\$13.5 per share.
- 2) Exercisable duration: The employees who received stock options that exceed two years and meet the performance requirements can exercise a specific percentage in each period as below. The exercisable duration of the options is seven years. No transfer is allowed except for inheritance.

Exercisable percentage	Period and performance requirements to exercise options
40 %	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 2 years after the issuance of the right. (2) Upon vesting, the average earnings per share of the Company for the past 2 years must exceed NT\$3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to 3 years; under this extension, the average of the earnings per share of any 2 years within the 3 year period must exceed NT\$3.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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<u>Exercisable percentage</u>	<u>Period and performance requirements to exercise options</u>
30 %	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 3 years after the issuance of the right. (2) Upon vesting, the performance requirements need to be met, otherwise, the earnings per share of the Company for the following year must exceed NT\$3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to another 1 year; the earnings per share must exceed NT\$3 during the extension period.
30 %	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 4 years after the issuance of the right. (2) Upon vesting, the performance requirements need to be met, otherwise, the earnings per share of the Company for the following year must exceed NT\$3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to another 1 year; the earnings per share must exceed NT\$3 during the extension period.
	The total measurement periods mentioned above may not exceed 6 years.

The earnings per share mentioned above are based on the financial statements that had been audited and certified by a certified public accountant.

- 3) Exercise method: TTI would issue new shares as the options is exercised.
- 4) Exercise procedure: In accordance with TTI's issuance and exercise rules. After receiving the payment for share options, the entitlement certification of share options exercised is registered as ordinary shares.

The information on total options issued were as follow:

	<u>2018</u>		<u>2017</u>	
	Weighted- average exercise price (NT dollars)	(thousands) Shares	Weighted- average exercise price (NT dollars)	(thousands) Shares
Balance at January 1, outstanding shares	13.5	1,000	13.5	1,000
Current shares issued	13.5	-	13.5	-
Current shares for feinted	13.5	(400)	13.5	-
Current shares exercised	13.5	-	13.5	-
Current shares expired	13.5	-	13.5	-
Balance at December 31, outstanding units	13.5	<u>600</u>	13.5	<u>1,000</u>
Balance at December 31, exercisable units	13.5	<u>-</u>	13.5	<u>-</u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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The exercise price range of TTI's outstanding employee stock options and weighted-average remaining contractual life of the outstanding options are as follows:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Range of exercise price	13.5	13.5
Weighted average of remaining contractual period	3.83	4.83

The compensation cost related to the share-based payment amounted to \$(496) and \$1,289 for the years ended December 31, 2018 and 2017, respectively.

(r) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the year 2018 and 2017 were as follows:

1) Profit attributable to ordinary shareholders of the Company

	<u>2018</u>	<u>2017</u>
Profit attributable to ordinary shareholders of the Company	<u>\$ 871,519</u>	<u>607,243</u>

2) Weighted-average number of ordinary shares (thousands)

	<u>2018</u>	<u>2017</u>
Weighted-average number of ordinary shares at December 31	<u>189,119</u>	<u>189,119</u>
Basic earnings per share (dollars)	<u>\$ 4.61</u>	<u>3.21</u>

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the year 2018 and 2017 was as follows:

1) Profit attributable to ordinary shareholders of the Company (diluted)

	<u>2018</u>	<u>2017</u>
Profit attributable to ordinary shareholders of the Company(basic) (diluted)	<u>\$ 871,519</u>	<u>607,243</u>

2) Weighted-average number of ordinary shares (diluted) (thousands)

	<u>2018</u>	<u>2017</u>
Weighted-average number of outstanding ordinary shares (basic)	189,119	189,119
Effect of employee bonuses	1,659	1,859
Effect of employee restricted shares unvested	<u>470</u>	<u>-</u>
Weighted-average number of ordinary shares (diluted)	<u>191,248</u>	<u>190,978</u>
Diluted earnings per share (dollars)	<u>\$ 4.56</u>	<u>3.18</u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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(s) Revenue from contracts with customers

(i) Details of revenue

	2018		Total
	Networking Product Segment	Digital Set Top Box Product Segment	
Primary geographical markets			
Europe	\$ 12,256,798	4,337,230	16,594,028
America	3,208,017	207,170	3,415,187
Asia and others	<u>6,456,918</u>	<u>155,129</u>	<u>6,612,047</u>
	<u>\$ 21,921,733</u>	<u>4,699,529</u>	<u>26,621,262</u>
Major products:			
Networking products	\$ 18,081,453	-	18,081,453
Digital Set-top-box products	3,374,881	4,677,622	8,052,503
Materials and others	<u>465,399</u>	<u>21,907</u>	<u>487,306</u>
	<u>\$ 21,921,733</u>	<u>4,699,529</u>	<u>26,621,262</u>

(ii) Contract balances

	December 31, 2018	January 1, 2018
Accounts receivable	\$ 5,863,079	5,319,574
Less: allowance for impairment	<u>(46,317)</u>	<u>(17,499)</u>
Total	<u>\$ 5,816,762</u>	<u>5,302,075</u>

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

(t) Remuneration to employees and directors

Based on the Company's articles of incorporation, if there is any profit in a fiscal year, it shall be distributed to employees as remuneration in an amount of not less than five percent (5%) and to directors as remuneration in an amount of not more than two percent (2%) of such profits. In the event that the Company has accumulated losses, the Company shall reserve an amount to offset its accumulated losses. Employees who are entitled to receive the above mentioned employee remuneration, in share or cash, include the employees of the subsidiaries of the Company who meet certain specific requirement.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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For the years ended December 31, 2018 and 2017, the Company accrued and recognized its employee remuneration of \$104,047 and \$71,221, and directors' remuneration of \$8,643 and \$6,673, respectively. The estimated amounts mentioned above are based on the net profit before tax without the remuneration to employees and directors of each respective ending period, multiplied by the percentage of remuneration to employees and directors as specified in the Company's articles. The estimations were recorded under operating expenses during 2018 and 2017.

The Company accrued its remuneration to employee and directors amounting to \$71,221 and \$6,673 in 2017, respectively. There were no differences between the amounts approved by the Board of Directors' meeting and those recognized in the 2017 financial statements. Related information can be accessed through the Market Observation Post System website.

(u) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration of credit risk

The Group's customers are mainly from the high-tech industry; therefore, the Group does not concentrate on a specific customer and the sales regions are widely spread, thus, there should be no concern on the significant concentrations of accounts receivable credit risk. And in order to mitigate accounts receivable credit risk, the Group constantly assesses the financial status of its customers, wherein it does not require its customers to provide any collateral.

(ii) Credit risk

For credit risk exposure of note and trade receivables, please refer to note (6)(e).

Other financial assets at amortized cost include other receivables and time deposits. All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note (4)(g). In addition, the counterparties of the time deposits held by the Group are the financial institutions with investment grade credit ratings. Therefore, the credit risk is considered to be low.

The loss allowance provision as of December 31, 2018 was determined as follows:

Balance on January 1 per IFRS 9	<u>Other receivable</u> \$ -
Impairment loss recognized	<u>1,505</u>
Balance on December 31	<u>\$ 1,505</u>

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payments.

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>1 ~ 2 years</u>	<u>Over 2 years</u>
December 31, 2018					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 1,819,915	(1,819,915)	(1,819,915)	-	-
Notes and accounts payable	7,246,291	(7,246,291)	(7,246,291)	-	-
Other payables	426,378	(426,378)	(426,378)	-	-
Derivative financial liabilities					
Forward exchange contracts:	3,176				
Outflow	-	(563,200)	(563,200)	-	-
Inflow	-	562,837	562,837	-	-
	<u>\$ 9,495,760</u>	<u>(9,492,947)</u>	<u>(9,492,947)</u>	<u>-</u>	<u>-</u>
December 31, 2017					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 717,073	(717,073)	(717,073)	-	-
Notes and accounts payable	3,920,643	(3,920,643)	(3,920,643)	-	-
Other payables	331,292	(331,292)	(331,292)	-	-
Derivative financial liabilities					
Forward exchange contracts:	20,187				
Outflow	-	(1,422,800)	(1,422,800)	-	-
Inflow	-	(1,407,687)	(1,407,687)	-	-
	<u>\$ 4,989,195</u>	<u>(7,799,495)</u>	<u>(7,799,495)</u>	<u>-</u>	<u>-</u>

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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(iv) Currency risk

1) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD	\$ 195,843	USD/TWD =30.715	6,015,318	131,250	USD/TWD =29.760	3,906,000
EUR	86,173	EUR/TWD =35.20	3,033,290	69,566	EUR/TWD =35.57	2,474,463
Financial liabilities						
USD	270,832	USD/TWD =30.715	8,318,605	121,911	USD/TWD =29.760	3,628,071
EUR	30,986	EUR/TWD =35.20	1,090,707	19,335	EUR/TWD =35.57	687,746

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables (including related parties), loans and borrowings, accounts payable (including related parties) and other payables (including related parties) that are denominated in foreign currency. The analysis assumes that all other variables remain constant. A strengthening (weakening) 5% of each foreign currency against the functional currency on December 31, 2018 and 2017 would have affected the net profit before tax as follows. The analysis is performed on the same basis for both periods:

	December 31, 2018	December 31, 2017
USD (against the TWD)		
Strengthening 5%	\$ (115,164)	13,896
Weakening 5%	115,164	(13,896)
EUR (against the TWD)		
Strengthening 5%	\$ 97,129	89,336
Weakening 5%	(97,129)	(89,336)

3) Exchange gains and losses of monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. In 2018 and 2017, the foreign exchange gain or loss, including both realized and unrealized, amounted to \$(15,765) and \$764, respectively.

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(v) Interest rate analysis

The Group's risk exposure to interest rate on financial assets and liabilities was as follows:

	Book value	
	December 31, 2018	December 31, 2017
Fixed rate financial instrument:		
Financial assets	\$ 2,460,722	1,045,405
Financial liabilities	(1,389,905)	(717,073)
	\$ 1,070,817	328,332
Variable rate financial instrument:		
Financial assets	\$ 3,513,212	2,763,572
Financial liabilities	(430,010)	-
	\$ 3,083,202	2,763,572

The following sensitivity analysis is based on the risk exposure to interest rate on the non-derivative financial instruments on the reporting date. Regarding the assets and liabilities with variable interest rates, the analysis is on the basis of the assumption that the amount of assets and liabilities outstanding at the reporting date were outstanding throughout the year. The rate of change is expressed as the interest rate increase or decrease by 0.25% when reporting to management internally, which also represents management of the Group's assessment on the reasonably possible interval of interest rate change.

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decreased by \$7,708 and \$6,909 for the years ended December 31, 2018 and 2017, respectively, which would be mainly resulted from the bank savings and borrowings with variable interest rates.

(vi) Fair value

1) The kinds of financial instruments and fair value

The carrying amount and fair value of the Group's financial assets and liabilities financial instruments used for hedging, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

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	December 31, 2018				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:					
Derivative financial assets	\$ 12,213	-	12,213	-	12,213
Non derivative financial assets mandatorily measured at fair value through profit or loss	<u>69,176</u>	23,531	-	45,645	69,176
Subtotal	<u>81,389</u>				
Financial assets measured at fair value through other comprehensive income:					
Notes and accounts receivable, net	<u>124,286</u>	-	124,286	-	124,286
Subtotal	<u>124,286</u>				
Financial assets measured at amortized cost:					
Cash and cash equivalents	5,976,053	-	-	-	-
Notes and Accounts receivable, net	5,692,476	-	-	-	-
Other receivables	<u>81,844</u>	-	-	-	-
Subtotal	<u>11,750,373</u>				
Total	<u>\$ 11,956,048</u>				
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	\$ <u>3,176</u>	-	3,176	-	3,176
Financial liabilities measured at amortized cost					
Short-term borrowings	1,819,915	-	-	-	-
Notes and Accounts payable	7,246,291	-	-	-	-
Other payables	<u>426,378</u>	-	-	-	-
Subtotal	<u>9,492,584</u>				
Total	<u>\$ 9,495,760</u>				

	December 31, 2017				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets	\$ <u>3,192</u>	-	3,192	-	3,192
Financial asset at cost	<u>48,709</u>	-	-	48,709	48,709
Subtotal	<u>51,901</u>				
Loans and receivables					
Cash and cash equivalents	3,811,289	-	-	-	-
Notes and Accounts receivable, net	5,235,397	-	-	-	-
Other receivables	<u>95,747</u>	-	-	-	-
Subtotal	<u>9,142,433</u>				
Total	<u>\$ 9,197,526</u>				

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	December 31, 2017				Total
	Book value	Fair Value			
	Level 1	Level 2	Level 3		
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	\$ 20,187	-	20,187	-	20,187
Financial liabilities at amortized cost through profit or loss					
Short-term borrowings	717,073	-	-	-	-
Notes and Accounts payable	3,920,643	-	-	-	-
Other payables	331,292	-	-	-	-
Subtotal	4,969,008				
Total	\$ 4,989,195				

2) Fair value valuation techniques of financial instruments not measured at fair value

The Group's estimates financial instruments that not measured at fair value by methods and assumptions as follows:

- a) Financial assets measured at amortized cost (debt instrument Investment without on active market) and financial liabilities measured at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

3) Fair value valuation technique of financial instruments measured at fair value

- a) Non-derivative financial instruments

Financial instruments trade in active markets are based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a basis to determine the fair value of the listed companies' equity instrument and debt instrument of the quoted price in an active market.

Fair value measured by a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation technique including a model using observable market data at the reporting date.

The Group holds the unquoted equity investments of financial instruments without an active market. The measurement of fair value of the equity instruments is based on the Guideline Public Company method, which mainly assumes the evaluation by the price to book value ratio of similar public company and by the discount for lack of marketability. The estimation has been adjusted by the effect resulting from the discount for lack of marketability of the securities.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
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b) Derivative financial instruments

Measurement of fair value of derivative instruments is based on the valuation techniques that are generally accepted by the market participants. For instance, discount method or option pricing models. Fair value of forward currency exchange is usually determined by using the forward currency rate.

There were no transfers from one level to another in 2018 and 2017.

4) Transfers between Level 1 and Level 2

There were no transfers from one level to another in 2018 and 2017.

5) Reconciliation of Level 3 fair values

	At fair value through profit or loss
	Non derivative mandatorily measured at fair value through profit or loss (held-for-trading financial assets
Opening balance, January 1, 2018	\$ -
Total gains and losses recognized:	
In profit or loss	(3,064)
Reclassified	48,709
Ending Balance, December 31, 2018	\$ 45,645

For the years ended December 31, 2018 and 2017, total gains and losses that were included in “unrealized gains and losses from financial assets(liabilities) at fair value through profit or loss” were as follows:

	2018
Total gains and losses recognized:	
In profit or loss, and including “unrealized gains and losses from financial assets(liabilities) at fair value through profit or loss”	(3,064)

6) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Group’s financial instruments that use Level 3 inputs to measure fair value include “financial assets measured at fair value through profit or loss – debt investments”.

The majority of the Group's fair value is classified as a third level with only a single significant unobservable input value, and only an equity instrument investment without an active market has multiple significant unobservable inputs. The significant unobservable inputs of equity instrument investments in an inactive market are independent of each other and therefore are not interrelated.

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Quantified information of significant unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets measured at fair value through profit or loss –(Available for sale financial assets)- equity investment without an active market	Net Asset Value Method	Net Asset Value	Not applicable

(v) Financial risk management

(i) Briefings

The Group is exposed to the following risks arising from financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

In this note expressed the information on risk exposure and objectives, policies and procedures of risk measurement and management. For detailed information, please refer to the related notes of each risk.

(ii) Structure of risk management

The Group's risk management policies are set for identifying and analyzing the risk that the Group confronts for setting the appropriate amount of the risk and complying with the policies. The Group continually reviews the risk management policies to reflect the market condition and the changes of the Group's operation. The Group develops a disciplined and constructive environment and makes employees understand their rules and obligations through training, management guidelines, and operating procedures.

Audit Committee ensures that the monitoring of the management is in compliance with the Group's risk management policies and procedures, and reviews the appropriateness of the related risk management framework. The Group's internal auditors assist the Audit Committee to supervise and review the control and procedures of the risk management periodically and aperiodically, and report the findings to the Audit Committee and the Board of Directors.

(iii) Credit risk

Credit risk is the risk on the financial loss to the Group if a customer or a counterparty fails to meet its contractual obligations. It rises principally from the Group's receivables from customers and investment in debt securities.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Accounts receivable and other receivables

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and these limits are reviewed periodically.

The Group's customers are mainly from the communications industry. And in order to monitor the credit risk of accounts receivable, the Group constantly assesses the financial status of the customers, and requests the customers to provide guarantee or security if necessary. The Group regularly assesses the collectability of accounts receivable and recognizes the allowance for accounts receivable. The impairment losses are always within management's expectation.

The Group set the allowance for bad debt account to reflect the estimated losses for trade and other receivables. The allowance for bad debt account is based on extensive analysis for customers' creditworthiness and historical collection record.

2) Investments

The credit risks exposure in the bank deposits and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transaction counterparties and the contractually obligated counterparties are banks, financial institutes and corporate organizations with good credits, there are no compliance issues, and therefore, no significant credit risk.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements. The loans and borrowings from the bank form an important source of liquidity for the Group. As of December 31, 2018 and 2017, for the information of the unused credit lines of short-term, please see note (4)(g).

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

In order to manage market risk, there are some financial liabilities incurred by the Group from its buying and selling of derivatives. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the Group, primarily USD and EUR.

The Group designates the spot element of forward foreign exchange contracts to hedge its currency risk. Most of these contracts have a maturity of less than one year from the reporting date. The forward elements of forward exchange contracts are excluded from designation as the hedging instrument and are separately accounted for as a cost of hedging, which is recognized in equity in a cost of hedging reserve. The Group's policy is for the critical terms of the forward exchange contracts to align with the hedged item.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Group's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- changes in the timing of the hedged transactions.

2) Interest rate risk

The Group borrows funds with a stable combination of fix and variable interest rates to maintain its interest rate risk. The Group periodically assess these hedge activities to provide the best cost effect and risk assessment.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are :

- the effect of the counterparty and the Group's own credit risk on the fair value of the swaps which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and
- differences in repricing dates between the swaps and the borrowings.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(w) Capital management

The Group maintains the capital based on the current operating characteristics of the industry, future development and changes in external environment to assure there is financial resource and operating plan to support working capital, capital expenditures, research & development expense, debt redemption and dividend payment and so on. The management decides the optimized capital structure by using the appropriate debt-to-equity ratio. To maintain a strong capital base, the Group enhances the return on equity by optimizing debt-to-equity ratio. The Company's debt-to-equity ratio at the end of the reporting date is as follows:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Total liabilities	\$ 11,779,682	6,657,441
Total equity	9,473,798	8,924,407
Debt-to-equity ratio	124 %	75 %

As of December 31, 2018, there were no changes in the Group's approach to capital management.

As of December 31, 2018, the debt-to-equity ratio raised because the accounts payable increased by the demand for material preparation in response to the growth of sales orders.

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

The Group's investing and financing activities which did not affect the current cash flow in the years ended December 31, 2018 and 2017, and reconciliation of liabilities arising from financing activities were as follows:

	<u>January 1,</u> <u>2018</u>	<u>Cash flows</u>	<u>December 31,</u> <u>2018</u>
Short-term borrowings	\$ 717,073	1,102,842	1,819,915
Guarantee deposits received	1,805	99	1,904
Total liabilities from financing activities	<u>\$ 718,878</u>	<u>1,102,941</u>	<u>1,821,819</u>

(7) Related-party transactions:

(a) Parent company and ultimate controlling party

Compal Electronics Inc. is both the parent company of the consolidated entity and the ultimate controlling party of the Group. It owns 35 percent of all shares outstanding of the Company, and it has issued the Consolidated Financial Statements Available for Public Use.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Name and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<u>Name of related party</u>	<u>Relationship with the Group</u>
Kinpo Group Management Service Company	The chairman of the entity's ultimate parent company is the same as that of the Company.
Compal Electronics, INC.	Parent company
AcBel Polytech Inc.	The chairman of the entity's ultimate parent company is the same as that of the Company.
Compal Display Electronics (Kunshan) Co., Ltd.	The chairman of the entity's ultimate parent company is the same as that of the Company.

(c) Significant related party transactions

(i) Sale of goods to related parties

The amounts of significant sales transactions between the Group and related parties were as follows:

	<u>2018</u>	<u>2017</u>
Other related parties	\$ <u>21,881</u>	<u>-</u>

Sales prices for other related parties were similar to those of the third-party customers. The collection period was 90 days for the aforementioned related parties.

(ii) Purchase of goods from related parties

The amounts of significant purchase transactions between the Group and related parties were as follows:

	<u>2018</u>	<u>2017</u>
Other related parties	\$ <u>110,758</u>	<u>-</u>

Purchase prices from related parties were similar to those from third-party suppliers. The payment period was 90~120 days for related parties.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Other expenditures

Parent company and other related parties provided technical support, professional services and other services for the Group, and the related expenses for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Parent company	\$ 3,561	8,148
Other related parties	<u>1,116</u>	<u>1,309</u>
	<u>\$ 4,677</u>	<u>9,457</u>

(iv) Receivable from relate parties

The receivables from related parties were as follows:

<u>Account</u>	<u>Related party categories</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	Other related parties	<u>\$ 9,411</u>	<u>-</u>

(v) Payable to related parties

The payables to related parties were as follows:

<u>Account</u>	<u>Related party categories</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts payable	Other related parties	<u>\$ 79,458</u>	<u>-</u>
Other payable	Other related parties	<u>\$ 259</u>	<u>154</u>

(d) Key management personnel compensation

Key management personnel compensation comprised:

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 75,467	65,275
Post-employment benefits	1,222	1,169
Share-based payments	<u>12,616</u>	<u>-</u>
	<u>\$ 89,305</u>	<u>66,444</u>

Please refer to note (6)(q) for further explanations related to share-based payment transactions.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) Pledged assets:

The carrying values of pledged assets were as follows:

<u>Assets</u>	<u>Subject</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other current asset	Bail for court mandatory execution	\$ 41,090	26,510
Property-land	Long-term loans (note)	463,262	463,262
Other non-current asset	Customs Deposit	-	13,210
		<u>\$ 504,352</u>	<u>502,982</u>

Note: Long-term loans had been settled in 2015, but the assets of property-land still were pledged as collaterals.

(9) Commitments and contingencies:None**(10) Losses Due to Major Disasters:None****(11) Subsequent Events:None****(12) Other:**

- (a) A followings are the summary statement of current period employee benefits, depreciation and amortization expenses by function:

By function	2018			2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	826,777	1,113,000	1,939,777	716,651	967,388	1,684,039
Labor and health insurance	9,058	84,131	93,189	8,845	75,588	84,433
Pension	57,338	43,981	101,319	51,837	41,288	93,125
Others	264,891	82,030	346,921	145,705	73,002	218,707
Depreciation	137,273	81,246	218,519	132,572	82,194	214,766
Amortization	1,781	27,736	29,517	2,833	34,104	36,937

- (b) Seasonal operation:

The operation of the Group is not affected by seasonal or cyclical factors.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other disclosures:**(a) Information on significant transactions:**

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group for 2018:

(i) Loans to other parties:

Unit: thousand dollars

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (note 1)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits (note 2)	Maximum limit of fund financing (note 2)	Note
													Item	Value			
0	The Company	Arcadyan do Brasil Ltda	Other receivables	Yes	245,720 (USD8,000)	245,720 (USD8,000)	33,787 (USD1,100)	1	1	307,150 (USD10,000)	-	-	-	-	245,720	3,626,457	The transactions had been eliminated in the consolidated financial statements.
0	"	Arcadyan Technology Australia Pty Ltd	"	Yes	122,860 (USD4,000)	122,860 (USD4,000)	-	1	1	1,535,750 (USD50,000)	-	-	-	-	1,228,600	3,626,457	"
1	Arcadyan Holding	CNC	"	Yes	522,155 (USD17,000)	522,155 (USD17,000)	-	1	2	-	Operating demand	-	-	-	970,670	970,670	"

Note 1: Number 1 represents the business relationship with the Company; number 2 represents the short-term financing facility, if necessary.

Note 2: According to the policy of the Company on Lending Funds to Other Parties, the amount of loans to others shall not exceed 40% of the net worth of the Company. To borrowers having business relationship with the Company, the total amount of loans to the borrower shall not exceed 80% of the transaction amount in the last fiscal year or the expected amount for the current year, which shall not exceed 20% of the net worth of the Company. Also, the amount shall be combined with the Company's endorsements/guarantees for the borrower upon calculation. When a short-term financing facility is deemed necessary, only the investees of the Company are allowed to borrow. The total amount of loans to the borrower shall not exceed 80% of the net worth, nor shall it exceed 20% of the net worth of the Company, and it shall be combined with the Company's endorsements/guarantees for the borrower upon calculation.

Note 3: According to the policy of Arcadyan Holding on Lending Funds to Others, the amount of loans to others shall not exceed the net worth of Arcadyan Holding. When a short-term financing facility with Arcadyan Holding is deemed necessary, only the investees of Arcadyan Holding are allowed to borrow. The total amount for lending the borrower shall not exceed its net worth, and it shall be combined with the Company's endorsements/guarantees for the borrower upon calculation.

Note 4: The amounts in New Taiwan Dollars were translated at the exchange rate of \$30.715 based on the year-end date.

(ii) Guarantees and endorsements for other parties:

Unit: thousand dollars

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/guarantees to third parties on behalf of subsidiary (note 2)	Subsidiary endorsements/guarantees to third parties on behalf of parent company (note 2)	Endorsements/guarantees to third parties on behalf of companies in Mainland China (note 2)
		Name	Relationship with the Company										
0	The Company	Arcadyan do Brasil Ltda	100% Owned subsidiary	1,208,819	245,720 (USD8,000)	245,720 (USD8,000)	-	-	2.71 %	3,626,457	Y	N	N

Note 1: According to the policy of the Company for Endorsements and Guarantee, the total amount shall not exceed 40% of the net worth of the latest financial statements audited or reviewed by Certified Public Accountants, and the amount for a single company shall not exceed 1/3 of the total amount.

Note 2: Fill in "Y" if applicable, or "N" if not applicable.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Securities held as of (excluding investment in subsidiaries, associates and joint ventures):

Unit: thousand dollars/thousand shares

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares/Units (thousand)	Percentage of ownership (%)	
The Company	Geo Things Inc.	-	Financial assets at fair value through profit or loss-noncurrent	200	-	8.94 %	-	200	8.94 %	
"	AirHop Communication, Inc.	-	"	1,152	-	6.61 %	-	1,152	6.61 %	
"	Adant Technologies Inc.	-	"	349	-	5.51 %	-	349	5.51 %	
"	IOT Eye, Inc.	-	"	60	-	6.00 %	-	60	6.00 %	
"	TIEF Fund, L.P.	-	"	-	45,645	7.49 %	45,645	-	7.49 %	
"	Hitron Technologies	-	Financial assets at fair value through profit or loss-current	543	10,426	0.24 %	10,426	543	0.24 %	
"	Richwave Technology	-	"	110	5,115	0.18 %	5,115	110	0.18 %	
"	Wistron Neweb Corporation	-	"	100	7,990	0.03 %	7,990	100	0.03 %	

Note 1: The carrying amount included the cumulative impairment.

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Unit: thousand dollars

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Arcadyan Germany	Subsidiary	(Sales)	(2,457,020)	(11)%	Net 120 days from delivery	-	-	805,017	14 %	Note 2
"	Arcadyan USA	"	(Sales)	(496,199)	(2)%	Net 60 days from the end of the month of delivery	-	-	104,031	2 %	Note 2
"	Arcadyan AU	"	(Sales)	(1,329,743)	(6)%	Net 45 days from the end of the month of delivery	-	-	727,600	13 %	Note 2
"	CNC	"	Purchases	11,249,751	35 %	"	According to cost plus pricing	-	(3,404,030)	(40)%	Note 1 - 2

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
CNC	The Company	Parent company	(Sales)	(11,249,751)	(100)%	Net 45 days from the end of the month of delivery	According to cost plus pricing	-	3,404,030	98 %	Note 1、2
"	TCH	With the same ultimate parent company	(Sales)	(164,591)	(1)%	Net 90 days from the end of the month of delivery	-	-	64,808	2 %	Note 1、2
"	Acbel Polytech	The chairman of the entity's ultimate parent company is the same as that of the Company	Purchases	108,030	1 %	Net 120 days from the end of the months of delivery	-	-	(79,455)	(2)%	Note 1、2
Arcadyan Germany	The Company	Parent company	Purchases	2,457,020	100 %	Net 120 days from delivery	-	-	(805,017)	(100)%	Note 2
Arcadyan USA	"	"	Purchases	496,199	100 %	Net 60 days from the end of the month of delivery	-	-	(104,031)	(100)%	Note 2
Arcadyan AU	"	"	Purchases	1,329,743	100 %	Net 45 days from the end of the month of delivery	-	-	(727,600)	(100)%	Note 2
TCH	TTI	With the same ultimate parent company	(Sales)	(383,948)	(100)%	Net 60 days from the end of the month of delivery	According to cost plus pricing	-	351,268	100 %	Note 1、2
"	CNC	"	Purchases	164,591	3 %	Net 90 days from the end of the month of delivery	-	-	(64,808)	(59)%	Note 1、2
TTI	TCH	"	Purchases	383,948	4 %	Net 60 days from the end of the month of delivery	-	-	(351,268)	(28)%	Note 1、2

Note 1: The ending balance derived from the transactions on processing and sales of raw material.
Note 2: The transactions had been eliminated in the consolidated financial statements.

(viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Unit: In Thousands of TWD and USD

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period (note 3)	Allowance for bad debts
					Amount	Action taken		
The Company	Arcadyan Germany	Subsidiary	805,017	3.08	-	-	581,083	-
"	Arcadyan USA	"	104,031	4.32	-	-	11,688	-
"	Arcadyan AU	"	727,600	3.54	-	-	521,951	-
"	TTI	"	172,161	0.11	-	-	169,496	-
CNC	The Company	Parent company	3,404,030 (Note 2)	2.46	-	-	2,311,269	-
TCH	TTI	With the same ultimate parent company	351,268 (Note 1)	10.14	-	-	351,268	-
TTI	TCH	"	207,119 (Note 2)	12.43	-	-	207,119	-

Note 1: The ending balance was accounts receivable derived from processing raw material.

Note 2: The ending balance was other receivable derived from purchasing on behalf of related parties.

Note 3: Balance as of February 27, 2019.

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ix) Trading in derivative instruments :Please refer to notes (6)(b) and (6)(c)

(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			Percentage of the consolidated net revenue or total assets
				Account name	Amount	Trading terms	
0	The Company	Arcadyan Germany	1	Sales Revenue	2,457,020	There is no significant difference of price between general customers'. The credit period is net 120 days from delivery.	9.23 %
"	"	"	1	Accounts Receivable	805,017	"	3.79 %
"	"	TTI	1	Other Receivable	172,161	The price is based on the operating cost. The credit period is net 90 days from the end of the month of delivery.	0.81 %
"	"	Arcadyan USA	1	Sales Revenue	496,199	There is no significant difference of price between general customers'. The credit period is net 60 days from the end of the month of delivery.	1.86 %
"	"	"	1	Accounts Receivable	104,031	"	0.49 %
"	"	Arcadyan AU	1	Sales	1,329,743	There is no significant difference of price between general customers'. The credit period is net 45 days from delivery.	5.00 %
"	"	"	1	Accounts Receivable	727,600	"	3.42 %
2	CNC	The Company	3	Processing Revenue	11,249,751	The price is based on the operating cost. The credit period is net 45 days from the end of the month of delivery and depended on funding demand.	42.26 %
2	"	"	3	Accounts Receivable	3,404,030	"	16.02 %
"	"	TCH	3	Processing Revenue	164,591	The price is based on the operating cost. The credit period is net 90 days from the end of the month of delivery.	0.62 %
"	"	"	3	Accounts Receivable	64,808	"	0.30 %
3	TTI	TCH	3	Other Receivable	207,119	There is no significant difference of price between general customers'. The credit period is net 90 days from the end of the month of delivery and depended on funding demand.	0.97 %

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ARCADYAN TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
5	TCH	TTI	3	Processing Revenue	383,948	The price is based on the operating cost. The credit period is net 60 days from the end of the month of delivery.	1.44 %
"	"	"	3	Accounts Receivable	351,268	"	1.65 %

Note 1: The numbers filled in as follows:

- 1.0 represents the Company.
2. Subsidiaries are sorted in a numerical order starting from 1.

Note 2: Transactions labeled as follows:

- 1 represents transactions between the parent company and its subsidiaries.
- 2 represents transactions between the subsidiaries and the parent company.
- 3 represents transactions between subsidiaries.

(b) Information on investees:

The following is the information on investees for the year 2016 (excluding information on investees in Mainland China):

Unit: thousand dollars

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			The highest holdings in the period		Net Income (Losses) of the Investee	Investment Income (losses)	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value	Shares (in Thousands)	Percentage of Ownership			
The Company	Arcadyan Holding	British Virgin Islands	Investment activities	1,240,526	962,291	32,780	100%	1,221,252	32,780	100 %	59,092	55,317	Note 2 - 5
The Company	Arcadyan USA	USA	Selling of wireless networking products	23,055	23,055	1	100%	51,226	1	100 %	4,547	4,547	"
The Company	Arcadyan Germany	Germany	Selling and technical support of wireless networking products	1,125	1,125	0.5	100%	64,388	0.5	100 %	11,439	11,439	"
The Company	Arcadyan Korea	Korea	Selling of wireless networking products	2,879	2,879	20	100%	7,789	20	100 %	3,116	3,116	"
The Company and ZHI-PAL	Arcadyan Brasil	Brasil	Selling of wireless networking products	81,593	81,593	968	100%	14,381	968	100 %	(25,526)	(25,526)	Note 2 - 5
The Company	ZHI-PAL	Taipei City	Investment activities	48,000	48,000	34,980	100%	450,366	34,980	100 %	40,042	40,042	"
The Company	TTI	Taipei City	Research and development, and selling digital home appliance	308,726	306,925	25,028	61%	583,890	25,028	61 %	45,883	28,760	"
The Company	AcBel Telecom	Taipei City	Investment activities	23,000	23,000	4,494	51%	33,952	4,494	51 %	(18,989)	(9,700)	"
The Company	Arcadyan UK	England	Technical support of wireless networking products	1,988	1,988	50	100%	2,683	50	100 %	317	317	"
The Company	Arcadyan AU	Australia	Selling of wireless networking products	1,161	1,161	50	100%	6,200	50	100 %	5,296	5,296	"

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Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			The highest holdings in the period		Net Income (Losses) of the Investee	Investment Income (losses)	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value	Shares (In Thousands)	Percentage of Ownership			
The Company	CBN	Hsinchu City	Manufacturing and selling of broadband network products	11,925	11,925	533	1%	14,460	533	1%	184,352	1,614	Note 3
The Company	Golden Smart home Technology	Taipei City	Selling of hardware and software integration of high-tech systems products	15,692	15,692	1,229	16%	-	1,229	16%	(30,339)	-	Note 3
Arcadyan Holding	Sinoprime	British Virgin Islands	Investment activities	277,971 (USD9,050)	1,536 (USD50)	9,050	100%	278,800 (USD9,077)	9,050	100%	874 (USD29)	Investment gain(losses) recognized by Arcadyan Holding	Note 2 & 5
"	Arch Holding	British Virgin Islands	Investment activities	338,203 (USD11,011)	338,203 (USD11,011)	35	100%	834,649 (USD27,714)	35	100%	52,580 (USD1,744)	"	"
TTI	Quest	Samoa	Investment activities	36,858 (USD1,200)	36,858 (USD1,200)	1,200	100%	65,774	1,200	100%	25,977	Investment gain(losses) recognized by TTI	"
TTI	TTJC	Japan	Selling digital home appliance	1,341	1,341	-	100%	765	-	100%	(610)	"	"
Quest	Exquisite	Samoa	Investment activities	35,937 (USD1,170)	35,937 (USD1,170)	1,170	100%	72,272 (USD2,353)	1,170	100%	25,958 (USD861)	Investment gain(losses) recognized by Quest	"
AcBel Telecom	Leading Images	British Virgin Islands	Investment activities	1,536 (USD50)	1,536 (USD50)	50	100%	9,931	50	100%	(18,420)	Investment gain(losses) recognized by AcBel Telecom	"
AcBel Telecom	Great Arch	British Virgin Islands	Selling of wireless networking products	-	1,536 (USD50)	-	-%	-	50	100%	(6)	"	Note 2 & 5 & 6
Leading Images	Astoria GmbH	Germany	Selling of wireless networking products	880 (EUR25)	880 (EUR25)	25	100%	9,522 (USD310)	25	100%	(60) (USD2)	Investment gain(losses) recognized by Leading Images	Note 2 & 5
ZHI-PAL	CBN	Hsinchu City	Manufacturing and selling of broadband network products	36,272	38,032	13,140	19.67%	356,317	13,640	23%	184,352	Investment gain(losses) recognized by ZHI-PAL	Note 3 & 4

Note 1: The amounts in New Taiwan Dollars were translated at the exchange rate of \$US30.149 / EUR\$35.606 based on the yearly average exchange rate for net income(losses) of the investees, others were translated at the exchange rate of US\$30.715/EUR\$35.2 based on the year-end date.

Note 2: The Group has owner control.

Note 3: The Group has significant influence.

Note 4: ZHI-PAL disposed 500 thousand shares on December 6, 2018. The Company and ZHI-PAL disposed 3,250 thousand shares on September 29, 2017, respectively. The Company also disposed 4,000 thousand shares and 1,500 thousand shares on October 31 and December 25, 2017, respectively.

Note 5: The transactions had been eliminated in the consolidated financial statements.

Note 6: The subsidiary has complete the procedure of liquidation in April, 2018.

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(c) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars US Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period	Note
					Outflow	Inflow							
SVA	Research and sale of wireless networking products	402,367 (USD13,100)	note 1	(Note 4) 565,770 (USD18,420)	-	-	565,770 (USD18,420)	7,175 (USD238)	100%	7,175 (USD238)	126,607 (USD4,122)	-	Note 3
CNC	Manufacturing of wireless networking products	382,402 (USD12,450)	"	(Note 5) 338,203 (USD11,011)	-	-	338,203 (USD11,011)	52,580 (USD1,744)	100%	52,580 (USD1,744)	834,649 (USD27,174)	-	"
TCH	Manufacturing of household electronics products	102,895 (USD3,350)	notes 1 and 7	35,322 (USD1,150)	-	-	35,322 (USD1,150)	25,958 (USD861)	100%	25,958 (USD861)	71,750 (USD2,336)	-	"

Note 1: Investment in Mainland China through companies registered in a third region.

Note 2: The amounts in New Taiwan Dollars were translated at the exchange rate of US\$30.149 based on the yearly average exchange rate for net income(losses) of the investees, others were translated at the exchange rate of US\$30.715 based on the year-end date.

Note 3: The amounts are according to the financial statements which have been audited and certified by parent company's independent external CPA.

Note 4: The Company paid US\$18,420 thousands and acquired 100% shares of SVA Arcadyan from Accton Asia through Arcadyan Holding in 2010.

Note 5: The Company paid US\$8,561 thousands and acquired 100% shares of CNC from Just through Arcadyan Holding in 2007.

Note 6: SVA decreased its capital amounting to US\$15,000 thousands to offset its accumulated losses in March 2009.

Note 7: The Company's subsidiary, TTT, obtained control over TCH for US\$1,150 thousands on February 28, 2013 (base date of stock transferring).

- (ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
939,303 (USD30,581)	939,303 (USD30,581)	5,439,686

Note: The amounts in New Taiwan Dollars were translated at the exchange rate of \$30.715 on December 31, 2018.

- (iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China for the year ended December 31, 2018, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".

(14) Segment information:

- (a) General information

The Group's reportable segments are the networking product segment and the digital set-top box product segment. The networking product segment is primarily engaged in the research, development, manufacture and sale of wireless networking products, integrated access devices, and digital home and mobile office multimedia gateway products. The digital set-top box product segment is primarily engaged in the research, development, and sale of set-top boxes and related products. The above segments are managed independently, thus they are single operating segments.

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(b) Reportable segments and operating segment information

Accounting policies for the operating segments correspond to those stated in note 4.

The operating segment information was as follows:

	For the years ended December 31, 2018			
	Networking Product Segment	Digital Set Top Box Product Segment	Adjustment & Elimination	Total
Revenue				
Revenue from external customers \$	21,921,733	4,699,529	-	26,621,262
Revenue from segments	176,306	-	(176,306)	-
Interest revenue	38,800	4,329	-	43,129
Total revenue	<u>\$ 22,136,839</u>	<u>4,703,858</u>	<u>(176,306)</u>	<u>26,664,391</u>
Interest expense	26,143	10,304	-	36,447
Depreciation and amortization	214,558	33,478	-	248,036
Investment gain	42,789	-	-	42,789
Gain on disposals of investments	2,122	-	-	2,122
Reportable segment profit	<u>\$ 1,053,528</u>	<u>64,496</u>	<u>-</u>	<u>1,118,024</u>
	For the years ended December 31, 2017			
	Networking Product Segment	Digital Set Top Box Product Segment	Adjustment & Elimination	Total
Revenue				
Revenue from external customers \$	15,256,331	4,853,878	-	20,110,209
Revenue from segments	138,076	-	(138,076)	-
Interest revenue	19,134	786	-	19,920
Total revenue	<u>\$ 15,413,541</u>	<u>4,854,664</u>	<u>(138,076)</u>	<u>20,130,129</u>
Interest expense	5,194	7,938	-	13,132
Depreciation and amortization	227,752	23,951	-	251,703
Investment gain	64,556	-	-	64,556
Gain on disposals of investments	100,959	-	-	100,959
Reportable segment profit	<u>\$ 666,700</u>	<u>120,628</u>	<u>-</u>	<u>787,328</u>

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(c) Products information

The information of revenue from external customers:

<u>Products and services</u>	<u>2018</u>	<u>2017</u>
Networking products	\$ 18,081,453	11,764,008
Digital Set-top-box products	8,052,503	7,914,810
Materials and others	<u>487,306</u>	<u>431,391</u>
	<u>\$ 26,621,262</u>	<u>20,110,209</u>

(d) Geographic information

Stated below are the geographic information on the Group's sales presented by destination of sales and non-current assets presented by location.

(i) Revenue from external customers:

<u>Country</u>	<u>2018</u>	<u>2017</u>
Germany	\$ 7,269,974	4,959,268
France	2,823,508	1,957,778
UK	2,181,037	1,149,473
Others	<u>14,346,743</u>	<u>12,043,690</u>
	<u>\$ 26,621,262</u>	<u>20,110,209</u>

(ii) Non-current assets:

<u>Country</u>	<u>2018</u>	<u>2017</u>
Taiwan	\$ 1,580,320	1,613,551
Mainland China	460,465	287,864
Others	<u>1,048</u>	<u>957</u>
	<u>\$ 2,041,833</u>	<u>1,902,372</u>

Non-current assets include plant, property, and equipment, intangible assets, and other assets, excluding deferred tax assets.

(e) Major customers information

Customer:	<u>2018</u>	<u>2017</u>
D Company from Networking products segments and digital set-top-box products segments	<u>\$ 5,337,385</u>	<u>3,968,234</u>