TWSE: 5388

Sercomm Corporation Annual Report 2018

Contents

I. Letter to Shareholders

Dear shareholders,

2018 was a year full of chances and challenges. Affected by the U.S.-China trade conflicts and the increasing cost of component, Sercomm focused on the core value of software and firmware integration by being committed to the optimization of our product portfolio. Our overall business continues steady performance with consolidated net sales of NT$33.4 billion in 2018. Operating profit was NT$900 million, with net income before tax of NT$1,030 million. The net income attributable to owners of parent was NT$ 8.08 million. Based on 243 million weighted average shares, the EPS for 2018 was NT$3.32.

Looking back on 2018, Sercomm continued to invest in new technology sectors while taking a leading position in solutions for IoT, Smart Energy, Smart Medical and LPWA (Low Power Wireless Area) products. In the meanwhile Sercomm expanded global coverage by proactively engaging in emerging markets that included Latin America, Southeast Asia and India. The market share of our telecommunications sector further expanded through the increased application of research, development and improved manufacturing capabilities. In addition, the company actively participated in international exhibitions with partners from top telecommunications service providers around the world that allowed for the exchange of information regarding new technologies.

Sercomm, being an international corporate citizen, focuses on its own business ventures while maintaining its commitment to advancing corporate governance. In the area of corporate governance, Sercomm was presented the award for the "Best Managed Company" by FinanceAsia during the previous four consecutive years and awarded the "Best Small Cap Company" by Asiamoney for the third consecutive year. Moreover, the company was recognized by the Institutional Investor for the "Most Honored Company" and the "Best Investor Relations". In addition, Sercomm's latest

“Corporate Social Responsibility Report” connects with the international standards by adopting the new GRI Standards. Sercomm is also recognized internationally as a sustainable leader in the network communications industry.

For 2019, with the upcoming 5G era, Sercomm is utilizing advance technology in order to be a leader in the market of AIoT (Artificial Intelligent of Things) and M-IoT (Mobile IoT). Sercomm is in a position to launch high value-add products utilizing its experience with system integration of software and firmware. Considering the rapid changes occurring in international politics and economics, as well as technological advances, Sercomm will lean upon its core competencies of research, development, and manufacturing capabilities to ensure superior quality of our products. Sercomm has maintained a firm commitment to continually enhance its corporate governance and social responsibility as we move towards sustainable development in order to obtain a better value for our shareholders, customers, and employees.

James Wang

James Wang

President & CEO

Sercomm Corporation

II. Company Highlight

2.1 Review of 2018 Business Results

Unit: Thousand NTD

Item	2017	2018	Year on Year Change (%)
Wired Product	4,130,729	3,577,928	-13.38%
Wireless Product	33,925,944	29,368,454	-13.43%
Others	543,330	438,559	-19.28%
Total Revenue	38,600,003	33,384,941	-13.51%

2.2 Performance and Profitability Analysis

Item			2017	2018
Financial Structure	Debt over Equity (%)		70.82	70.00
	Long-term Funds to Fixed Assets Ratio (%)		229.73	224.83
Liquidity Analysis	Current Ratio (%)		118.22	117.63
	Quick Ratio (%)		82.25	85.20
Profitability	Return on Assets (%)		5.50	3.77
	Return on Equity (%)		17.66	11.92
	To Paid-in Capital (%)	Operating Income	62.45	36.66
		Pretax Income	64.46	41.95
	Profit Margin (%)		3.33	2.54
	Earning per Share(NTD)		5.38	3.32

2.3 Research and Development Status

At Sercomm, new product R&D projects are formulated in response to market demand based on our core network communications technology, market trends and the evolving IT & communications industry. All research proposals for new products must also undergo a review by R&D, marketing and sales units before R&D resources are invested.

To accelerate the acquisition of new technologies, Sercomm also actively seeks out partnership opportunities in addition to in-house R&D. This has led to the development of various application servers that offer high-performance, ease of administration and integration with the Internet. A total of 5 projects were completed from our 2018 R&D plan.

2.4 Summary of 2019 Business Plan

(1) Business Direction

1. Deliver high performance in management to maintain the Company's high rate of growth and solid profitability.
2. Actively develop all kinds of specialized servers, maintain technical leadership and emphasize long-term cultivation of personnel.
3. Strengthen quality of service, continue the optimization of work processes and improve overall operational efficiency.
4. Consolidate existing gains in the European, American and Japanese markets while actively developing our distribution channels in other regions to establish a global distribution network.
5. Focus on cost and quality control while expanding our production capability to meet market demand.

(2) Projected Sales and Basis

As we look back on 2018, we were faced with industry related obstacles that were met with optimism through the use of our core competencies, allowing us to add value to our products through innovation and customization in order to meet our customer's requirements. We have successfully implemented key broadband technologies in the following industries; home and enterprise networks, telecommunications, IoT, and cloud based applications. With these accomplishments we are considered an excellent technology partner for our global operators.

Due to the impact from the U.S.-China trade dispute, Sercomm has increased overall capacity by raising the production capability of our Chunan, Taiwan factory. In addition, Sercomm plans to establish a third production plant outside of China tariff penalties to increase our global production capacity.

For 2019 with the arrival of the 5G era, M-IoT related applications are rapidly growing. In anticipation of this growth, Sercomm has increased investments in research and development of key telecommunications technologies. This allows Sercomm to help our customers develop new market opportunities through enhancements to our product line.

(3) Major Production and Marketing Policies

1. Carry out sound production and target management while improving production processes.
2. Closely monitor the quality and delivery times of key components as well as supply-and-demand and changes in pricing.
3. Dedicate resources to the development of new products and expand existing product ranges to quickly meet market demand.
4. Actively expand our marketing network and form strategic alliances with brand partners and telecom operators in European, North America and Asia.
5. Strengthen sales management, consolidate market niches and expand developing markets.
6. Stay fully up-to-date on market distribution channels and demand. Strengthen collection of market intelligence.

7. Boost Sercomm's industry profile, establish a sound market reputation and provide high-quality service.
8. Continue to carry out production cost reduction plans to make products more price competitive.
9. Enrich the properties and regions of our clients to avoid the risk of over-concentration.

2.5 Future Development Strategy

1. Expand the company's market value to benefit shareholders and employees.
2. Pay attention to intellectual property and cultivate outstanding personnel.
3. Strengthen technology research and development.
4. Improve market position and become the market leader.
5. Increase operational income and maximize profitability.

2.5.1 The Effects of External Competition, Regulation and the Overall Business Environment

5G Commercial Launch Schedule		
Country	Launch Date	Status
South Korea	December, 2018	South Korea launched the world's first commercial 5G network.
China	2020	China plans for "pre-commercial" 5G deployments in 2019.
US	End of 2018	US commercialized the 5G network with Fixed Wireless Access (FWA) offering.
Europe	2020	EU plans for the member states to have at least one commercial 5G city network by 2020.
Japan	2020	Japan plans to have a full 5G service in place in time for the 2020 Tokyo Olympics.
Taiwan	By 2020 at the soonest	Taiwan will complete the first-stage release of 5G spectrum licenses by 2020.

In the external competition environment, the global 5G technology competition is about to begin. Korea began testing it 5G commercial network during the 2018 Olympics. Europe also began testing its 5G PPP network the same year targeting 2020 for deployment, while Japan is expecting its launch for the 2020 Olympics in Tokyo. That same year Taiwan will hold its auctions for 5G frequencies. Chunghwa Telecom and Far EasTone Telecom have separately released their schedules for pre-commercial and commercial use of 5G, which could be by the end of 2020 at the soonest.

The 3GPP Conference, which is considered the Olympics for setting the global mobile communication standards, convened in Taiwan on January 21st, 2019. The main discussion was the specification of the initial version of 5G standards that will impact this technology worldwide. It is significant that Taiwan will convene the 3GPP using MediaTek to integrate resources from the industry, government, academe and research institutions. The Ministry of Economic Affairs held the Taiwan 5G Commercial Service Use Vision and Development Summit with

TAICS(Taiwan Association of Information and Communication Standards), which intends to plan the deployment blueprint of 5G in Taiwan, leveraging the international development experience in 5G and speeding up the schedule of 5G's commercial use.

Taiwan's telecom operators have also stipulated their schedules for 5G's pre-commercial and commercial use. Chunghwa Telecom first released their 5G development plans for testing at the Taipei Music Center this April. In the second quarter of this year, it will launch interconnection testing between 5G devices for enterprise application. 5G pre-commercial will be launched next year (2020) in the second to third quarter. With all supporting standards in place, the commercial use could be launched as early as the end of 2020 or in the beginning of 2021. FarEastone Telecom also indicates that if the license for 5G is to be issued in the first half of 2020, they will be able to achieve the goal of launching commercial use in 2020.

Ifo, a German Institution for Economic Research, has conducted World Economic Survey (WES) for the 1st quarter of 2019. The survey received responses from 1,293 experts in 122 countries. The indicator dropped from -2.2 points to -13.1 points for the first quarter of 2019, which is a record low since the first quarter of 2012. The world economic situation is 2.6 points, which decreased 9.6 points. The index expectations for the next six months is -27.7 points, which decreased 12.0 points compared with previous quarter. Experts expect weaker growth in private consumption, investment, and world trade.

For the World Economic Climate in major regions, the indicator in advanced economies climate turning negative, which dropped 23.9 points then the previous quarter. Expectations and assessments of the current economic situation dropped significantly, although experts' overall view is still slightly positive. The expectation for the next six months later were declined sharply on the evaluation. The United States in particular saw a slump in expectations and assessments, while in the European Union, experts also revised their estimates significantly downwards. In contrast, the economic climate in emerging and developing countries remained largely unchanged, which slightly decreased 1.0 points. The economic outlook for the next six months continued to be pessimistic, while the assessments for current economic situation in the six months increased 0.3 points than previous quarter. In summary, experts are more pessimistic about the current situation and future developments. These results point to a slower pace of world economic growth.

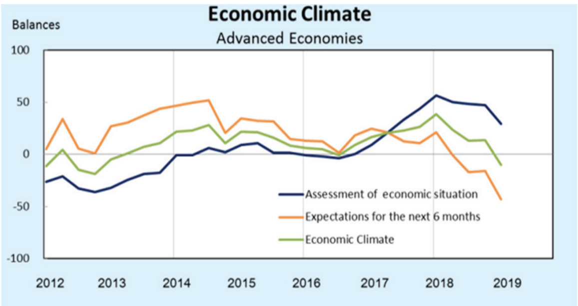
According to Ifo survey, experts expect weaker growth in private consumption, investment, and world trade. Although a large proportion of respondents still expect short- and long-term interest rates to rise, their share has fallen sharply. They expect the US dollar to depreciate worldwide.

World Economy

	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Climate	3.0	13.5	13.2	17.1	26.0	16.5	2.9	2.2	-13.1
Situation	-8.7	5.1	12.5	17.2	28.3	27.4	17.5	12.2	2.6
Expectation	15.5	22.2	14.0	16.9	23.9	6.1	-10.6	-15.7	-27.7

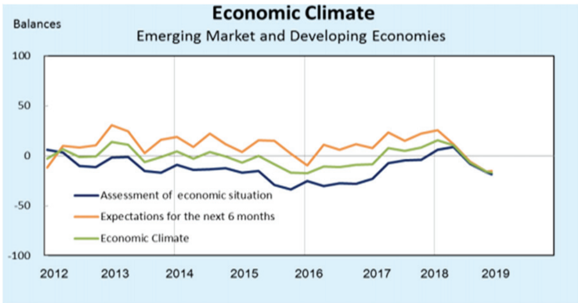
Source : Ifo World Economic Survey (WES) of the 1st quarter 2019.

World Economic Climate in Advanced Economies



Source : Ifo World Economic Survey (WES) of the 1st quarter 2019.

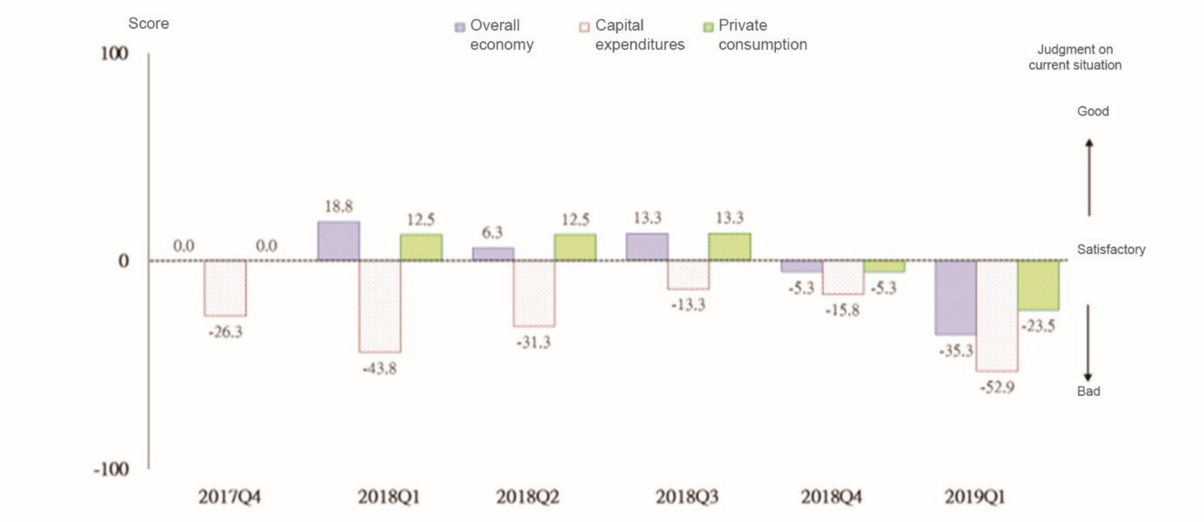
World Economic Climate in Emerging Market and Developing Economies



Source : Ifo World Economic Survey (WES) of the 1st quarter 2019.

Through findings in the survey of Taiwan the current overall economy, capital expenditures and private consumption remain "worse". The expectations of overall economy, capital expenditures and private consumption after six months were thought to be "getting worse". Moreover, the expert expected export/import would turn worse, and the US dollar to appreciate against the New Taiwan dollar. Furthermore, the expert expected decrease in projected inflation rate and short-term interest rates as well as increase in long-term and decrease in the stock price level.

WES Survey Results in Taiwan (evaluation of the current situation)



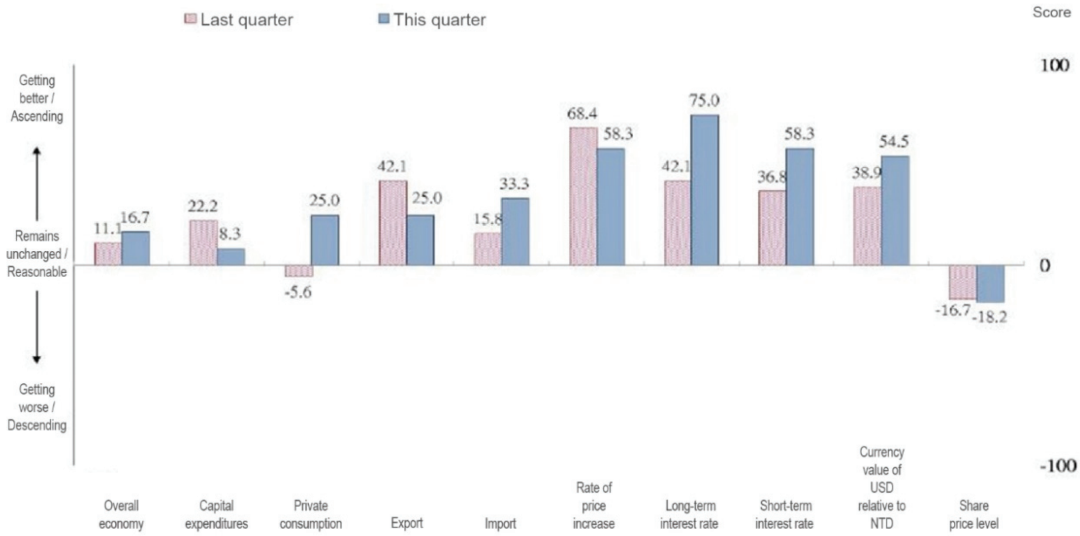
Notes:

1. The survey results in the first quarter of 2019 in Taiwan were preliminary statistics of the questionnaires which the council assisted the Ifo in collecting. For the final result, the full report published by the Ifo shall prevail.

2. WES was a qualitative survey and respondents shall choose an answer from three possible categories: “good”, “satisfactory” and “bad”; The individual replies are combined for each country without weighting as an arithmetic mean of all survey responses in the respective country. Thus, for each qualitative question and for each country the respective percentage shares (+), (=) and (−) are calculated. The balance is the difference between (+)- and (−)-shares. As a result, the balance ranges from -100 points and +100 points. The mid-range lies at 0 points and is reached if the share of positive and negative answers is equal.

   Data Source: National Development Council. The survey period was in January 2019. Completed questionnaires were returned by 17 of the 17 interviewees.

WES Survey Results in Taiwan (expectation after 6 months)



Notes:

1. The survey results in the first quarter of 2019 in Taiwan were preliminary statistics of the questionnaires which the council assisted the Ifo in collecting. For the final result, the full report published by the Ifo shall prevail.

2. WES was a qualitative survey and respondents shall choose an answer from “getting better” (ascending or increasing), “remain unchanged” (constant or reasonable), “getting worse” (descending or decreasing) for each question. After netted the positive replies and the negative replies, and divided through the amount of all received responses and multiplied by 100. The positive answers indicates that the majority expects trends to increase, whereas the negative answers replies the expectation of decreasing trend. While 0 point replies the situation remain unchanged.

Data Source: National Development Council. The survey period was in January 2019. Completed questionnaires were returned by 17 of the 17 interviewees.

Recently, the estimated economic growth rate around the world has been lowered by international organizations such as World Bank, IMF, and IHS Markit. Facing the fiercer risks of an economic downturn, the company’s operations remain cautious and practical. We constantly review the impact arising from the risk to the business operations and plan the necessary corresponding measures to ensure that the operating goals of the company are achieved.

III. Company Overview

3.1 Recent Achievements

Date of Establishment: July 29, 1992

2018

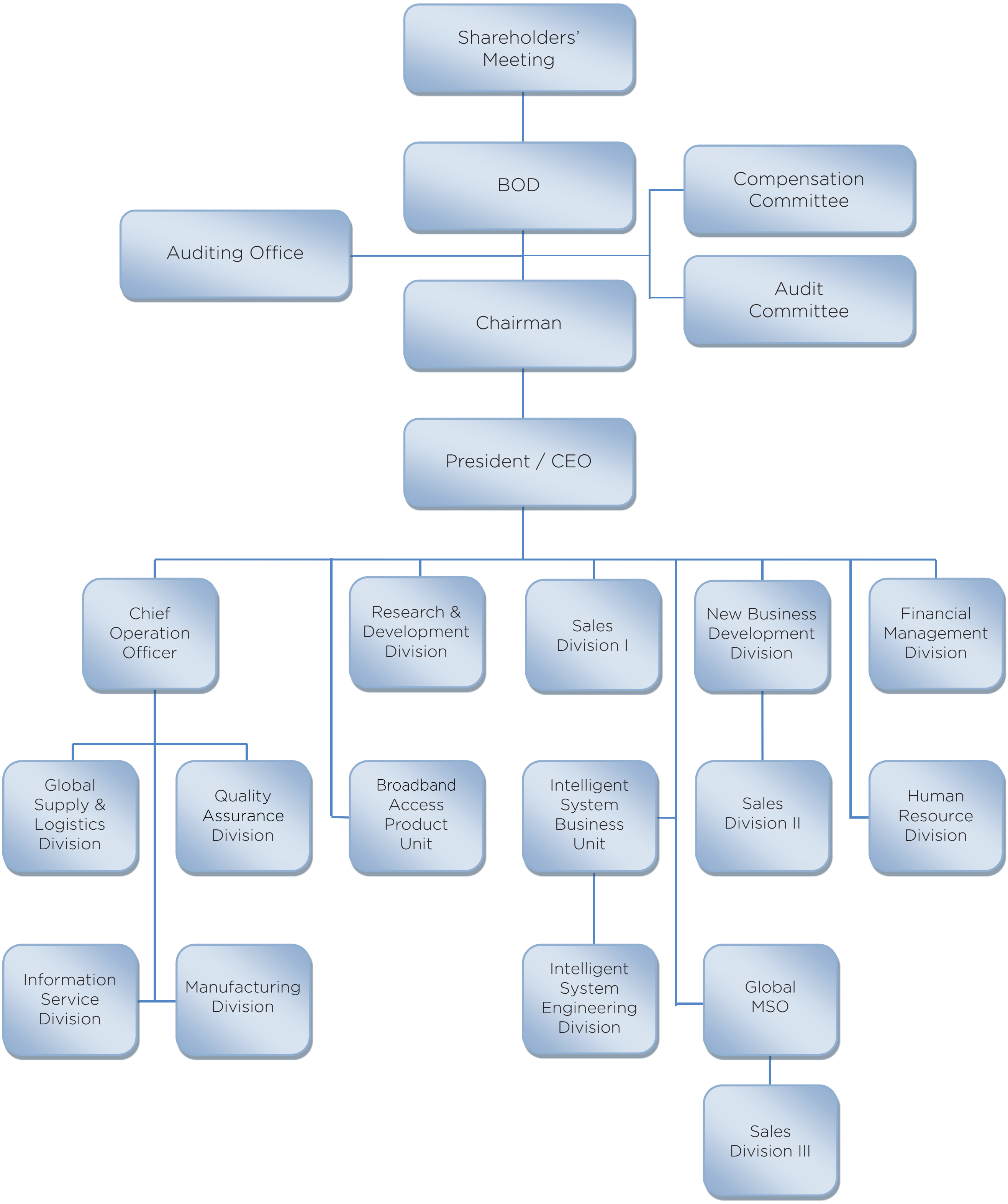
- Participated in “2018 International CES” and displayed the full range of AIoT and LPWA products
- Participated in “Mobile World Congress 2018” and displayed LTE-M solutions
- Announcement to change charted public accountant and accounting firm
- Launched IP Set-top box for smart home solutions
- Participated in “Taipei 5G Summit” and displayed full range of NB-IoT/LTE-M small cell and sensors
- Successful Interoperability Against USA’s Five Leading Spectrum Access System (SAS) Administrators at the Inaugural OnGo™ Interoperability Test Event
- Participated in “2018 Broadband Forum” and showcased full range of Broadband Access & IoT products and live demo ultra broadband technology
- IP Cameras become 'Smarter' with Amazon Kinesis Video Streams and Amazon Web Services Internet of Things
- R&D Achievements
    - Asset Tracker
    - Smart Speaker
    - LTE Battery Camera with Motion Detector
    - Streetlight-powered Small Cell
    - BOB XGS-PON Gateway

2019

- Participated in “2019 International CES” and showcased full range of AIoT and M-IoT products
- Participated in “Mobile World Congress 2019” and demestrated 5G Access, Mobile IoT, Private LTE Network Solution

3.2 Organization

3.2.1 Organization Chart



3.2.2 Major Corporate Functions

Department	Main Responsibilities
President Office	Drafting, planning, implementation and monitoring of company operation plans
Research & Development Division	New Product Research and Development and drafting, planning and implementation for technical blueprints.
Broadband Access Product Unit	Product development project operation, customer services and support etc.
Global MSO	Sales promotion and operation, customer services and support etc.
Sales Division I	Sales promotion and operation, customer services and support etc.
Sales Division II	Sales promotion and operation, customer services and support etc.
Sales Division III	Sales promotion and operation, customer services and support etc.
New Business Development Division	New business promotion and operation, customer services and support etc.
Intelligent System Business Unit	IP Surveillance's sales promotion and operation, customer services and support etc.
Intelligent System Engineering Division	Research and development on Intelligent related products, product operation and product planning
Global Supply & Logistics Division	Production material planning, procurement, management and inventory control.
Manufacturing Division	All product QA-related work, including production implementation, product testing and machine maintenance. Production control, property management and material procurement etc.
Quality Assurance Division	Planning, promotion, implementation and monitoring of quality control procedures
Finance Management Division	Finances and accounting, legal and stock-related operations
Human Resources Division	Creating strategic human resources systems and solutions, including recruitment, salaries and bonuses, professional development, performance management and providing general HR services
Information Service Division	Network management, information system importation, planning, operation and monitoring
Auditing Office	Auditing, maintenance and improvement of internal control systems, offering recommendations and assisting in creating solutions for issues faced by other departments, including improving operations and efficiency.

3.3 Board Members

3.3.1 Information Regarding Board Members

As of April 14, 2019

Name / Position	Nationality	Date Elected	Gender	Yrs	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Education & Experience	Current Position
						Shares	%	Shares	%	Shares	%		
Paul Wang Chairman, Representative of Pacific Venture Partners Co. Ltd.	Taiwan	2016.6.15	Male	3	2004.6.11	3,671,926	1.51	3,671,926	1.49	0	0.00	Carnegie Melon University, PhD in Physics Chairman of Sercomm Corporation	Note 1
Lu, Shyue-Ching Director, Representative of Zhuo Jian Investment Co., Ltd.	Taiwan	2016.6.15	Male	3	2013.6.20	3,472,094	1.43	4,197,094	1.71	0	0.00	University of Hawaii, Ph.D in Electric Engineering Former Chairman of Chunghwa Telecom Co.	Note 2
James Wang Director, President	Taiwan	2016.6.15	Male	3	2001.5.28	959,006	0.48	989,006	0.40	0	0.00	Harvard Business School, MBA Carnegie-Melon University, ME President of Sercomm Corporation	Note 3
Ben Lin Director, Executive VP.	Taiwan	2016.6.15	Male	3	2004.6.11	744,201	0.31	488,201	0.20	736,896	0.30	National Tsing Hua University, MS Director of IBM Subsidiary	Note 4
Shih, Chin-Tay Independent Director	Taiwan	2016.6.15	Male	3	2013.6.20	0	0.00	0	0.00	0	0.00	Princeton University, PhD in Electrical Engineering Stanford University, MS in Management Science and Engineering Dean of the College of Technology Management of National Tsing Hua University	Note 5

Name / Position	Nationality	Date Elected	Gender	Yrs	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Education & Experience	Current Position
						Shares	%	Shares	%	Shares	%		
Steve K. Chen Independent Director	U.S.A	2016.6.15	Male	2	2014.6.17	0	0.00	0	0.00	0	0.00	Harvard University, PhD in Law Active Lawyer	Note 6
Rose Tsou Independent Director	Taiwan	2017.6.22	Female	1	2017.6.22	0	0.00	0	0.00	0	0.00	Northwestern University, Kellogg School of Management, MBA Boston University MS in Mass Communication Head of International, Verizon Media	Note 7

Note： Directors and supervisors are not spouse or within second-degree relative of consanguinity to each other.
Shares under Trust with Discretion Reserved:
Director and President/James Wang – 1,000,000 Shares
Director and Executive VP/Ben Lin – 1,654,439 Shares

Note 1：Chairman and CEO of Sercomm USA Inc.; Director of Prosperity Dielectrics Co., Ltd., and Taiwan Cement Co., Ltd., ; Independent Director of UPC Technology Corp.

Note 2：Independent Director of MiTAC Holdings and Radium Life Tech Co., Ltd., Directors of CTCI ASI Corporation and XR Space

Note 3：Owner of Sercomm Trading Co. and Zealous Investments Ltd.; Chairman of Shukuan Investments Ltd., Zhuo Jian Investment Co., Ltd. and Yun Zhou Investment Co., Ltd.; Independent Director of Creative Sensor Inc.; Director of Sercomm Japan Corp., Sercomm Russia LLC, Hawxeye LLC. and Sercomm Technology Inc.

Note 4：Owner of Smart Trade Inc.; Director of Shukuan Investments Ltd., Sercomm USA Inc., Sercomm Japan Corp., Sercomm Russia LLC, Hawxeye LLC., Zhen Bang Investment Co., Ltd. and Sercomm Technology Inc. ; Supervisor of Yun Zhou Investment Co., Ltd.

Note 5：Independent Director of Vanguard International Semiconductor Corporation and FocalTech Systems Co.,Ltd., Supervisor of TEN Incubation Corporation

Note 6：Executive Director of TriMax & Companies LLC and DNF Asset Management LLC; Director of Spatial Digital Systems Inc., StemBios Technologies, Inc. and Bloominous Inc.; Chairman of eGtran Corporation, EZconn Corporation, Oak Analytics Inc. and PhazrIO Inc.

Note 7：Director of Hong Kong Television Entertainment Company Limited and FundRich Securities Co. Ltd.

3.3.2 Major Institutional Shareholders

April 14, 2019

Name of Institutional Shareholder	Primary Shareholder of Institutional Shareholder	Shareholding
Pacific Venture Partners Co. Ltd.	Su Yi	62.50%
	DaYuan Management Consulting Co. Ltd.	35.00%
Zhuo Jian Investment Co., Ltd.	An-Bang Lin	25.48%
	James Wang	17.34%
	Zhu-Xian Lin	12.33%

3.3.3 Major Shareholders of the Major Shareholders that Are Juridical Persons

April 14, 2019

Name of Juridical Persons	Major Shareholders of the Juridical Persons	Shareholding
DaYuan Management Consulting Co. Ltd.	Honesty Ventures Limited	75.00%
	5388 SUNRISE INC.	25.00%

3.3.4 Professional Qualifications and Independence Analysis of Directors and Supervisors

Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria(Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Paul Wang Representative of Pacific Venture Partners Co. Ltd.			✓				✓		✓	✓	✓	✓		1
Lu, Shyue-Ching Representative of Zhuo Jian Investment Co., Ltd.	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		2
James Wang			✓			✓	✓	✓	✓	✓	✓	✓	✓	1
Ben Lin			✓			✓	✓	✓	✓	✓	✓	✓	✓	0
Shih, Chin-Tay	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Steve K. Chen		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Rose Tsou			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note：Please tick the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.

4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.3.5 Remuneration to Directors

Unit: Thousand NTD

Name / Position	Base Compensation (A)		Bonus to Directors (C)		Allowances (D)		Ratio of total remuneration to Net Income (%) A+C+D		Salary, Bonuses & Allowances (E)		Severance Pay (F)		Profit Sharing-Employee Bonus (G)				Ratio of Compensation to Net Income (%) A+C+D+E+F+G	
	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm		Consolidated Subsidiaries		Sercomm	Consolidated Subsidiaries
													Cash Bonuses	Stock Bonuses	Cash Bonuses	Stock Bonuses		
Paul Wang Chairman and Subsidiaries CEO, Representative of Pacific Venture Partners Co. Ltd.	0	0	8,076	8,076	30	30	1.00	1.00	1,400	4,280	0	0	0	0	0	0	1.18	1.53
James Wang Director, President	0	0	3,230	3,230	42	42	0.41	0.41	4,900	9,530	192	192	13,135	0	13,135	0	2.66	3.24
Ben Lin Director, Executive VP	0	0	3,230	3,230	42	42	0.41	0.41	3,850	6,665	66	66	8,381	0	8,381	0	1.93	2.28
Lu, Shyue-Ching Director, Representative of Zhuo Jian Investment Co., Ltd. Shih, Chin-Tay Independent Director Steve K. Chen Independent Director Rose Tsou Independent Director	7,200	7,200	3,230	3,230	156	156	1.31	1.31	0	0	0	0	0	0	0	0	1.31	1.31

Compensation Range	Name of Director			
	Total Amount A+C+D		Total Amount A+C+D+E+F+G	
	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries
Below NTD 2,000,000				
NTD 2,000,000 ~ NTD 5,000,000	Lu, Shyue-Ching - Representative of Zhuo Jian Investment Co., Ltd , James Wang, Ben Lin, Shih, Chin-Tay, Steve K. Chen, Rose Tsou	Lu, Shyue-Ching - Representative of Zhuo Jian Investment Co., Ltd , James Wang, Ben Lin, Shih, Chin-Tay, Steve K. Chen, Rose Tsou	Lu, Shyue-Ching - Representative of Zhuo Jian Investment Co., Ltd., Shih, Chin-Tay; Steve K. Chen, Rose Tsou	Lu, Shyue-Ching - Representative of Zhuo Jian Investment Co., Ltd.,Shih, Chin-Tay, Steve K. Chen, Rose Tsou
NTD 5,000,000 ~ NTD 10,000,000	Paul Wang-Representative of Pacific Venture Partners Co. Ltd.	Paul Wang-Representative of Pacific Venture Partners Co. Ltd.	Paul Wang-Representative of Pacific Venture Partners Co. Ltd	
NTD 10,000,000 ~ NTD 15,000,000				Paul Wang-Representative of Pacific Venture Partners Co. Ltd.
NTD 15,000,000 ~ NTD 30,000,000			James Wang, Ben Lin	James Wang, Ben Lin
NTD 30,000,000 ~ NTD 50,000,000				
NTD 50,000,000 ~ NTD 100,000,000				
Over NTD 100,000,000				
Total	7	7	7	7

3.4 Management Team

3.4.1 Information Regarding Management Team

As of April 7, 2019

Name / Position	Nationality	Gender	Elected Date	Current Shareholding		Spouse & Minor Shareholding		Education & Experience	Current Position
				Shares	%	Shares	%		
James Wang CEO / President	Taiwan	Male	2000.01.24	989,006	0.40	0	0.00	Harvard Business School, MBA Carnegie-Melon University, ME President of Sercomm Corporation	Note 1
Ben Lin Executive VP.	Taiwan	Male	1992.07.29	488,201	0.20	736,896	0.30	National Tsing Hua University, MS Director of IBM Subsidiary	Note 2
Leo Chen VP	Taiwan	Male	2001.10.15	0	0.00	0	0.00	University of Illinois, MSA Director of Lite-On Group	Note 3
Jemmy Lee VP	Taiwan	Male	2002.04.24	240,000	0.10	0	0.00	Vice President of Proview Company China	-
Hawk Wu VP	Taiwan	Male	2007.03.01	440,000	0.18	0	0.00	Director of Quanta Computer Corp.	-
Colette Chen VP	Taiwan	Female	2013.02.01	240,000	0.10	0	0.00	Tamkang University, MS in European Studies Sales Manager of Veccom Co., Ltd.	-
Vicky Lin VP	Malaysia	Female	2013.02.01	385,000	0.16	0	0.00	National Taiwan University BS in Economics Sales VP of Ayecom Technology	-
Genevieve Lu VP	Taiwan	Female	2015.05.14	244,000	0.10	0	0.00	University of California, MBA Human Resources VP of Yahoo!	-

Name / Position	Nationality	Gender	Elected Date	Current Shareholding		Spouse & Minor Shareholding		Education & Experience	Current Position
				Shares	%	Shares	%		
Dean Wang Senior VP	Taiwan	Male	2018.07.16	600,000	0.24	0	0.00	State University of New York, Dual M.S. Field of Study Mechanical Engineering & Management and Policy President of Foxconn (Shenzhen) Technology Group	
Winnie Hsieh Director Auditing Office	Taiwan	Female	2007.06.15	150,406	0.06	0	0.00	Tamkang University, BS in Finance and Banking Special Assistant of WeiTai Corp.	-

Note： Shares under Trust with Discretion Reserved:
CEO and President/James Wang – 1,000,000 Shares
Executive VP/Ben Lin –1,654,439 Shares

Note 1：Owner of Sercomm Trading Co. and Zealous Investments Ltd.; Chairman of Shukuan Investments Ltd., Zhuo Jian Investment Co., Ltd. and Yun Zhou Investment Co., Ltd.; Independent Director of Creative Sensor Inc.; Director of Sercomm Japan Corp., Sercomm Russia LLC, Hawxeye LLC. and Sercomm Technology Inc.

Note 2：Owner of Smart Trade Inc.; Director of Shukuan Investments Ltd., Sercomm USA Inc., Sercomm Japan Corp., Sercomm Russia LLC, Hawxeye LLC., Zhen Bang Investment Co., Ltd. and Sercomm Technology Inc. ; Supervisor of Yun Zhou Investment Co., Ltd.

Note 3：Director of Shukuan Investments Ltd., Owner of WeiYun Co., Ltd

3.4.2 Compensation of President and Vice President

Unit: Thousand NTD

Name / Title	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing-Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)	
	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries	Sercomm		Consolidated Subsidiaries		Sercomm	Consolidated Subsidiaries
							Cash Bonuses	Stock Bonuses	Cash Bonuses	Stock Bonuses		
James Wang CEO/ President Ben Lin Executive Vice President Dean Wang Senior Vice President Leo Chen Vice President Jemmy Lee Vice President Hawk Wu Vice President Vicky Lin Vice President Colette Chen Vice President Genevieve Lu Vice President	23,081	27,617	1,180	1,180	8,250	13,225	*	0	*	0	4.03	5.20

∗Note : The compensation for employees and directors has not yet been decided and cannot be estimated on April 30. 2019. The compensation for last year was NT$ 53,926,200.

Compensation Range	Name of President and Vice President	
	Sercomm	Consolidated Subsidiaries
Under NT$ 2,000,000		
NT$2,000,000 ~ NT$5,000,000	Ben Lin, Leo Chen, Jemmy Lee, Hawk Wu, Vicky Lin, Colette Chen, Genevieve Lu	Leo Chen, Jemmy Lee, Hawk Wu, Vicky Lin, Colette Chen, Genevieve Lu
NT$5,000,000 ~ NT$10,000,000	James Wang, Dean Wang	James Wang, Ben Lin, Dean Wang
NT$10,000,000 ~ NT$15,000,000		
NT$15,000,000 ~ NT$30,000,000		
NT$30,000,000 ~ NT$50,000,000		
NT$50,000,000 ~ NT$100,000,000		
Over NT$100,000,000		
Total	9	9

3.4.3 Employee Profit Sharing Granted to Management Team

Unit: Thousand NTD

Title	Name	Stock Bonus	Cash Bonus	Total Employee Profit Sharing	Total Employee Profit Sharing Paid to Management Team as a % of 2018 Net Income
CEO/ President	James Wang	0	53,926	53,926	6.68%
Executive Vice President	Ben Lin				
Senior Vice President	Dean Wang				
Vice President	Leo Chen				
Vice President	Jemmy Lee				
Vice President	Hawk Wu				
Vice President	Vicky Lin				
Vice President	Colette Chen				
Vice President	Earl Liao				
Vice President	Genevieve Lu				

∗Note : The compensation for employees and directors has not yet been decided on April 30, 2019. The above compensation estimates are based on previous year.

3.4.4 Comparison of Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents

The ratio of total remuneration paid by the company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, presidents and vice presidents of the Company, to the net income

Title	2017		2018	
	Sercomm	Consolidated Subsidiaries	Sercomm	Consolidated Subsidiaries
Directors Supervisors Presidents and Vice Presidents	7.6%	9.2%	11.1%	13.6%

	Directors / Supervisors	President / Vice President
1. Remuneration policy	Applied in accordance with Article 18 and 29 of the Articles of Incorporation	Applied in accordance with Regulations Governing the Salary and Remuneration, and the Implementation Rules for employees' performance evaluation.
2. Standards and combinations	Compensation for directors and supervisors, traveling expenses	Base salary, duty allowance, food allowance, employees bonus
3. The procedures for determining remuneration	Applied in accordance with the effective Articles of Incorporation after the resolution by the Annual Shareholders Meeting	Salaries are contracted by education, experience, and years of service, and approved by the Company's delegation of authorization.
4. Association of operational performance	Based on the Company's profits	Compensation was given by the rate of target completion, operational performance, and contributions.
5. Association of future risks	Fulfill duties of operation and supervision, and develop business policies turning a crisis into an opportunity	Enhance employees' coherence to achieve the goal of sharing profit and loss between employers and employees.

3.5 Corporate Governance

3.5.1 Board of Directors

The Board of Directors held 7 meetings in 2018. The attendance of Directors were as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Chairman	Paul Wang Chairman Representative of Pacific Venture Partners Co. Ltd.	5	0	71	
Director	Lu, Shyue-Ching Representative of Zhuo Jian Investment Co., Ltd.	7	0	100	
Director	James Wang	7	0	100	
Director	Ben Lin	7	0	100	
Independent Director	Shih, Chin-Tay	7	0	100	
Independent Director	Steve K. Chen	6	1	100	
Independent Director	Rose Tsou	6	1	100	

Annotations:

1. (1) Securities and Exchange Act §14-3 resolutions

Date of Board Meeting	Resolution	Individual Directors' Opinions	Company's Response
2018.3.12	1. Amendment to the Operational Procedures for Loaning of Company Funds 2. Approval to make fund lending for Hawxeye Inc. 3. Announcement to change Charted Public Accountant and Accounting firm	None	1. None 2. None 3. New CPA partner starting from 2018 is PricewaterhouseCoopers (PwC) Taiwan
2018.4.23	The issuance of new common shares for cash or domestic convertible bonds in private placement	None	Proposed to the shareholders meeting on 2018/6/5
2018.8.9	Approval to make fund lending for Sernet (Suzhou) Technology Ltd.	None	None
2018.11.12	Investment of Hitron Technologies	None	The company submitted to the next Board meeting for ratification, due to the acquisition of Hitron Technologies Inc. common shares with total amount over NT$300 million,

(2) There were no other written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in 2018.

2. Recusals of Directors due to conflicts of interests in 2018 : Directors recused themselves from the discussion and voting of their compensation resolution.

3. Measures taken to strengthen the functionality of the Board :
Following the establishment of the Audit Committee, Sercomm board by-election of one Independent Director. To implement the spirit of corporate governance, the Company complies all the requirements and fully discloses Sercomm's business and financial information on the company website, in the annual report, and through the Market Observation Post System to effectively enhance the transparency of information.

3.5.2 Audit Committee

The Audit Committee held 5 meetings in 2018.The attendance of Independent Directors were as follows:

Title	Name	Attendance in Person	Attendance Rate (%)	Remarks
Independent Director	Steve K. Chen	5	100	
Independent Director	Shih, Chin-Tay	5	100	
Independent Director	Rose Tsou	5	100	

Annotations:

1. (1) Securities and Exchange Act §14-5 resolutions

Date of Board Meeting	Resolution	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
2018.3.12	1. Ratification of 2017 Internal Control System Statement 2. Amendment to the Operational Procedures for Loaning of Company Funds 3. Approval to make fund lending for Hawxeye Inc. 4. Announcement to change Charted Public Accountant and Accounting firm	None
2018.4.23	The issuance of new common shares for cash or domestic convertible bonds in private placement	
2018.8.9	Approval to make fund lending for Sernet (Suzhou) Technology Ltd.	
2018.11.12	Investment of Hitron Technologies	

(2) There was no other resolutions which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2018.

2. If there are Individual Directors' avoidance of motions in conflict of interest, the Individual Directors' names, contents of motion, causes for avoidance and voting should be specified : None

3. Descriptions of the communications between the Independent Directors, the Internal Auditors, and the Independent Auditors in 2018 (which should include the material items, channels, and

results of the audits on the corporate finance and/or operations, etc.) :

(1) The Company's independent auditors have presented the findings of their quarterly review or audits on the Company's financial results. Under applicable laws and regulations, the independent auditors are also required to immediately communicate to the Audit Committee any material matters that they have discovered. During 2018, the Company's independent auditors did not report any irregularity.

Meeting Dates	Communications between the Independent Directors and the Independent Auditors
2018.3.12	1. Reviewing the 2017 financial statement, audit scope, key audit matter, journal entry adjustment 2. Reviewing IFRS regulatory developments and Securities and Exchange Act updates 3. Audit test of controls 4. Reviewing CPA Independent Assurance Report 5. Communicating the matters to the audit committee
2018.5.3	1. Reviewing the 2018 Q1 financial statement, audit scope, key audit matter, journal entry adjustment 2. Reviewing IFRS regulatory developments 3. Reviewing CPA Independent Assurance Report 4. Communicating the matters to the audit committee
2018.8.9	1. Reviewing the 2018 Q2 financial statement, audit scope, key audit matter, journal entry adjustment 2. Reviewing CPA Independent Assurance Report 3. Communicating the matters to the audit committee
2018.11.12	1. Reviewing the 2018 Q3 financial statement, audit scope, key audit matter, journal entry adjustment 2. Annual audit plan discussion 3. Reviewing CPA Independent Assurance Report 4. Communicating the matters to the audit committee

(2) The internal auditors have sent the audit reports to the members of the Audit Committee periodically, and presented the findings of all audit reports in the quarterly meetings of the Audit Committee. The head of Internal Audit will immediately report to the members of the Audit Committee any material matters. During 2018, the head of Internal Audit did not report any such material matters.

Meeting Dates	Communications between the Independent Directors and the Independent Auditors
2018.3.12	1. Reviewing the result of auditing review for 2017 2. Reviewing the Internal Control System Statements for 2017
2018.5.3	1. Reviewing the result of auditing review for 2018 Q1
2018.8.9	1. Reviewing the result of auditing review for 2018 Q2
2018.11.12	1. Reviewing the result of auditing review for 2018 Q3 2. Reviewing and approving the 2019 Internal audit plan

3.5.3 Taiwan Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
1. Does Company follow “Taiwan Corporate Governance Implementation” to establish and disclose its corporate governance practices?		V	Sercomm has not yet defined a “Corporate Governance Code of Practice”.	Not regulated
2. Shareholding Structure & Shareholders’ Rights (1) Does Company have Internal Operation Procedures for handling shareholders’ suggestions, concerns, disputes and litigation matters. If yes, have these procedures been implemented accordingly?	V		Sercomm has set up an investor relations department to deal with shareholder issues. Furthermore, there are investor relations section and stakeholders’ engagement section on the Company website that provide links to each relevant business department for investors’ and shareholders’ references.	None
(2) Does Company possesses a list of major shareholders and beneficial owners of these major shareholders?	V		Sercomm keeps track of the shareholding conditions of the directors, supervisors, managers and shareholders who possess more than 10% of the Company’s shares at any time	None
(3) Has the Company built and executed a risk management system and “firewall” between the Company and its affiliates?	V		Sercomm and its subsidiaries formulate relevant management measures according to relevant provisions.	None
(4) Has the Company established internal rules prohibiting insider trading on undisclosed information?	V		Sercomm has established Procedures for Handling Inside Information Material.	None
3. Composition and Responsibilities of the Board of Directors (1) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?	V		Selection guidelines for the Company's directors: The candidates for directors should be nominated, and the review criteria and procedures for the candidates will be fully disclosed at MOPS. The selected directors should have diversified professional backgrounds, experience, and excellent vision. Also, guidelines are being formulated for diversified membership of the board of directors, considering the organization culture, business model and long-term development.	None

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
			With total seven directors of the company, each directors' hold professional backgrounds compose the board of directors of the Company, which includes professors, CPAs, lawyers and industry leaders. Currently, there are three independent directors (including one female director), and one of the directors is located in the United States. The number of directors who have no managing responsibility in this Company is up to half of the board of directors.	
(2) Other than the Compensation Committee and the Audit Committee which are required by law, does the Company plan to set up other Board committees?		V	Sercomm's Compensation Committee consists of four members, including Hongshou Chen and three independent directors, Chin-Tay Shih, Steve K. Chen and Rose Tsou, wherein Chin-Tay Shih serves as the convener. The meeting shall held at least one regular meeting each quarter. Audit Committee consists of three independent directors,Steve K. Chen, Chin-Tay Shih and Rose Tsou. The meeting shall held at least one regular meeting each quarter.	None
(3) Has the Company established methodology for evaluating the performance of its Board of Directors, on an annual basis?		V	Sercomm has not yet established a methodology for evaluating the performance of its Board of Directors.	Not regulated
(4) Does the Company regularly evaluate its external auditors' independence?	V		The Board of Directors evaluates the independence of external auditors annually. The evaluation was approved by the Board meeting on 03/12/2018. The accountants of PricewaterhouseCoopers (PwC) through our evolution have met the standard of independence and no conflicting interests with the Company. Please refer *note 1* for the Assessment of Accountant's Audit independence and Eligibility.	None

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
4. Does the Company established a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnish information required for business execution by directors, handle matters relating to board meetings and shareholders' meetings according to laws, handle corporate registration and amendment registration, produce (or record?) minutes of board meetings and shareholders meetings, etc.	V		The Investor Relations Department of the Company is responsible for corporate governance. Their responsibilities include: concentrating on shareholders' interests, integrating the rules and systems regarding corporate governance from various departments to ensure full information disclosure, conducting corporate briefings and symposia on business performance, participating in investment forums occasionally, and maintaining a proper communication channel with investors. Besides, the Financial Accounting Department is the unit of the board of directors meetings and provides the information needed by the directors and supervisors used in conducting their business, and also prepares the most updated regulatory developments related to company operation in order to assist the directors and supervisors in regulatory compliance.	None
5. Has the Company established a means of communicating with its Stakeholders or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on corporate responsibilities?	V		Sercomm has a stakeholders' engagement section on the Company website to address our corporate social responsibilities and any other issues. Moreover, the Company provides investor relations, customer and corporate social responsibility related department communication channels for stakeholders.	None
6. Has the Company appointed a professional registrar for its Shareholders' Meetings?	V		The Company has appointed Taishin International Bank Stock Affairs Division to deal with shareholder affairs.	None
7. Information Disclosure (1) Has the Company established a corporate website to disclose information regarding its financials, business and corporate governance status?	V		Sercomm has set up a Chinese/English website (http://www.Sercomm.com) to disclose the information regarding the Company's financials, business and corporate governance status.	None

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
(2) Does the Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investor's conference etc.)?	V		In addition to the spokespersons and investor relations department, the Company's website contains company information in both Chinese and English. The website is maintained and updated by dedicated personnel. The Company also provides related information in the Market Observation Post System according to the regulations, and holds regular investor conferences to report the Company's operational status.	None
8. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors)?	V		Please refer to the Sercomm website and annual report for more information. (http://www.Sercomm.com)	None
9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange: Sercomm was ranked on 21%~35% in Corporate Governance Evaluation in 2018. Regarding the non-scoring items, the company will proposed action plan and reviewed periodically. Furthermore, the company aims to enhance information transparency on company website, annual report and corporate social responsibility report. In future, the company will maintain an effective mechanism of corporate governance, strengthen information transparency and encourage stakeholder participation.				

Notes 1:

Assessment of Accountant's Audit independence and Eligibility

Items	Assessment Results	Accountant Independence
Does the accountant have any direct or indirect material financial interest in the Company?	No	Yes
Does the accountant engage in any financing or guaranteeing with the Company's directors?	No	Yes
Does the accountant have any close business relationships and potential employment relationships with the Company?	No	Yes
Whether the accountant or any of audit team members currently or for the last two years has acted as a director, management, or been in a position which had a significant impact on the audit work in the Company?	No	Yes
Does the accountant provide the Company with non-audit services that may directly affect the audit work	No	Yes
Whether the accountant is a broker for the stocks or other securities issued by the Company?	No	Yes
Whether the accountant serves as the defender of the Company or, on behalf of the Company, deal the conflict between other third parties?	No	Yes
Does the accountant have a kinship relationship with any person who acts as a director, management, or is in the position which has a significant impact on the audit work in the Company?	No	Yes

3.5.4 Compensation Committee

Compensation Committee Members' Professional Qualifications and Independent Analysis

Criteria / Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note)								Number of Other Taiwanese Public Companies Concurrently Serving as a Compensation Committee Member in Taiwan
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	
Shih, Chin-Tay Independent Director	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Steve K. Chen Independent Director		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Rose Tsou Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Hilo Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	4

Note：Compensation Committee Members, during the two years before being elected or during the term of office, meet any of the following situations; please tick the appropriate corresponding boxes:

1. Not an employee of the company or any of its affiliates.
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary in which the company holds, directly or indirectly, more than 50 percent of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs.

5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as of its top five shareholders.

6. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company.

7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof.

8. Not been a person of any conditions defined in Article 30 of the Company Law.

3.5.5 Compensation Committee Meeting Status

1. Compensation Committee consists of four members. The tenure is from June 15, 2016 to June 14, 2019.
2. Compensation Committee convened four regular meetings in 2018. The Committee members' attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chair	Shih, Chin-Tay	4	0	100%	
Member	Hilo Chen	3	1	75%	
Member	Steve K. Chen	4	0	100%	
Member	Rose Tsou	3	1	75%	

Notes：

1. There was no recommendation of the Compensation Committee which was not adopted or was modified by the Board of Directors in 2018.
2. There were no written or otherwise recorded resolutions on which a member of the Compensation Committee had a dissenting opinion or qualified opinion.

3.5.6 Social Responsibility Implementation Status as Required by the Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status: Y	Implementation Status: N	Implementation Status: Explanation	Non-implementation and its reason(s)
1. Implementation of Corporate Governance (1) Does the Company have a corporate social responsibility policy and evaluate its implementation?		V	CSR policy is under discussion according to related regulations.	Not regulated
(2) Does the Company hold regular CSR training?	V		Sercomm regularly devotes resources to employee CSR training and cultivation, and also provides senior managers with information advocating an understanding of the importance of CSR.	None
(3) Does the Company have a dedicated (or ad-hoc) CSR organization with Board of Directors authorization for senior management, which reports to the Board of Directors?		V	Sercomm has created a department which is responsible for CSR matters, in order to comply with the regulations.	Report to Chairman and President
(4) Does the Company set a reasonable compensation policy, integrate employee appraisal with CSR policy, and set clear and effective incentive and disciplinary policies?	V		Sercomm offers its employees the most competitive total compensation to attract and retain talented individuals who will become the best momentum of sustainable corporate growth. The Company's overall compensation package includes: basic salaries, rewards and employee bonuses. Employee's total compensation is based on the overall assessment of professional knowledge and skills, work responsibilities, performance.	None
2. Environmentally Sustainable Development (1) Is the Company committed to improving resource efficiency and to the use of renewable materials with low environmental impact?	V		To pursue the balance between environmental protection and business sustainability, Sercomm actively participates in global environmental protection programs, such as the Carbon Disclosure Project (CDP), the Hazardous Substances Free (HSF) and Lead-free Process, etc.	None
(2) Has the Company set an Environmental management system designed to industry characteristics?	V		Sercomm's factories in Chunan and Suzhou have obtained certifications of Environmental Management System (ISO 14001) and Occupational Health and Safety Management System (OHSAS 18001). The Company is dedicated to pollution prevention, energy and resource saving, waste reduction and accident prevention with the aim of providing a comfortable and safe working environment.	None

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Non-implementation and its reason(s)</th></tr>
<tr><th>Y</th><th>N</th><th>Explanation</th></tr>
<tr><td>(3) Does the Company track the impact of climate change on operations, carry out greenhouse gas inventories, and set energy conservation and greenhouse gas reduction strategy?</td><td>V</td><td></td><td>Sercomm values the environmental sustainability topic, and continues to implement and maintain various management systems (e.g. ISO 9001 and ISO 14001, et al.), and various regulations applicable internationally (e.g. RoHS and conflict minerals, et al.). Sercomm is committed to comply with various EHS laws and regulations and continues to fulfill the environmental protection policy.
• Emissions Management :
- Delivering production quantities of lead-free devices
- The waste solution of various organic solvents (flux and detergent) applied in the production lines is handled by the legal cleaning service provider contracted by the factories.
• Waste Management :
Sercomm reduces the consumption of energy and resource and mitigates the environmental impact caused during the product campaign and service. Sercomm strictly implements garbage sorting and reduction of waste at its factory premises, installs the storage area for the waste in accordance with the relevant requirements, and contracts the qualified waste disposition service provider to dispose of the waste. Meanwhile, it will conduct an audit on the site from time to time.
• Carbon Emissions Management :
Since 2014, Sercomm has set the boundary of organization per the customer's need and performed the greenhouse gas inspection by phase. Meanwhile, it set 2014 as the record year and the annual carbon emission is expected to increase <10%.
Please refer to Sercomm CSR report Chapter 4 "Enviromental Sustainability" for more detail.</td><td>None</td></tr>
<tr><td>3. Promotion of Social Welfare
(1) Does the Company set policies and procedures in compliance with regulations and internationally recognized human rights principles?</td><td>V</td><td></td><td>Sercomm believes in that human resource is the key to maintaining its core competitiveness and, therefore, spares no effort to train its employees and strictly comply with various requirements under the labor laws and the Responsible Business Alliance (RBA), formerly the Electronic Industry Citizenship Coalition (EICC). In light of the philosophy of "human resources are the foundation for innovation", the Company is dedicated to recruiting professionals for</td><td>None</td></tr>
</table>

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
			all positions available. Sercomm assigns employees adequately and properly based on their specialties and professions, regardless of race, gender, age, religion, political affiliation, social class, language, thoughts, birthplace, marriage, physical or mental disability. All employees are entitled to the same rights of work, salary and benefits. Meanwhile, the Company forbids any form of discrimination, including age, race, skin color, gender or religious bias. We believe that new ideas can be generated through the interaction among employees of different cultures, backgrounds and experiences. In addition, the Company follows the existing relevant national laws, including the Labor Standards Act, the Employment Services Act and the Act of Gender Equality in Employment, etc., to ensure that applicants and employees are treated equally with respect to recruitment, assignment, development, evaluation and reward, and to prohibit child labor, forced labor, and violations of human rights. To implement Sercomm's RBA (EICC) policy, the company regularly estimates the risks. On September,2018 conducted training for its employees and suppliers.	
(2) Has the Company established appropriately managed employee appeal procedures?	V		An Employee Opinion Box provides a channel for employees to express their suggestions or opinions. (Sexual harassment, fraud or ethics violations mailbox: HR_Help@sercomm.com)	None
(3) Does the Company provide employees with a safe and healthy working environment, with regular safety and health training?	V		Sercomm's ESH (Environment and Employee Safety and Health Protection) policy is focused on establishing a safe working environment and keeping employees healthy. The Company periodically provides a full medical examination to all employees and irregular training for emergency personnel.	None
(4) Has the Company established a mechanism for regular communication with employees and use reasonable measures to notify employees of operational changes which may	V		Sercomm ensures every employee has a smooth internal communication path with management. Furthermore, the Company has established the Employee Welfare Committee to protect employees' rights to their benefits. Annual staff meetings ensure that every employee understands the Company's operations and performance expectations.	None

Assessment Item	Implementation Status Y	N	Explanation	Non-implementation and its reason(s)
cause significant impact to employees?				
(5) Has the Company established effective career development training plans?	V		Sercomm believes that human resources are the foundation for innovation. The Company combines corporate needs and each individual's career development as a main corporate orientation. The Company actively promotes relevant educational training and divides the training framework into 5 major systems to enhance the cultivation of talent in a targeted and systematic way.	None
(6) Has the Company set polices and consumer appeal procedures in its R&D, purchasing, production, operations, and service processes?	V		Sercomm endeavors to understand stakeholders' opinions and recommendations, and to build a good communication channel to ensure mutual understanding and respect. Stakeholders can submit their concerns via sc5388@sercomm.com.	None
(7) Does the Company follow regulations and international standards in the marketing and labeling of its products and services?	V		Sercomm complies with the environmental laws and requirements of the International Covenant in order to maintain its status as a green corporation implementing sustainable development and abides by the International Covenant's voluntary commitments in the areas of environmental health and safety and energy conservation.	None
(8) Does the Company evaluate environmental and social track records before engaging with potential suppliers?	V		Sercomm screens new suppliers based not only on general items, such as quality, cost, delivery and service, but also on Sercomm's specifications and requirements for green products. Each candidate needs to sign a "Product Quality Guarantee Agreement" and to pass a green product audit prior to becoming a qualified supplier. The Company regularly reviews suppliers through assessments to evaluate supplier performance.	None
(9) Does the Company's contracts with major suppliers include termination clauses if they violate CSR policy and cause significant environmental and social impact?	V		Sercomm works closely with all suppliers. Through effective communication, tracking and management, Sercomm ensures the exclusion of components containing banned or restricted chemical materials and maintains links to a component approval process. Sercomm also demands all suppliers sign a "Product Quality Guarantee Agreement" wherein the content clearly states Sercomm's requirements and regulations for green products. No material containing environmentally hazardous materials is allowed, including raw materials defined under the commitment of the	None

Assessment Item	Implementation Status Y	N	Explanation	Non-implementation and its reason(s)
			European Union Restriction of Hazardous Substances (RoHS) protocol and the Registration, Evaluation, Authorization and Restriction of Chemical Substances protocol (REACH).	
4. Enhanced Information Disclosure Does the Company disclose relevant and reliable CSR information on its website and the Taiwan Stock Exchange website?	V		Sercomm has published a "Corporate Social Responsibility Report" which is also published on the Company website. Please refer to Sercomm website for more details.	None

5. If the Company has established its corporate social responsibility code of practice according to "Listed Companies Corporate Social Responsibility Code of Practice," please describe the operational status and differences: Sercomm has not yet defined a Corporate SocialResponsibility Code of Practice.

6. Other important information to facilitate better understanding of the Company's implementation of corporate social responsibility:

Since Sercomm was founded, its social participation has been rooted in its core value. Sercomm has been dedicated to "Care for Rural Area Education" and "Training of Young Talents" as the major elements of its social participation. Sercomm exerts the strength gathered by employees from inside out, expands its social participation, provides feedback to the community, and services to people in the hopes of building a society which is innovative and diversified and that shows care for the society and environmental sustainability.

- Care for Rural Area Education and Promote Social Mobility
  Sercomm has worked with the public welfare group, "Teach for Taiwan," since 2015. Under the two-year full-time teacher project, TFT recruited young educators with the sense of mission to work for the rural area elementary schools which need the educational resources. Sercomm provided them with the training and support system on an on-going basis. As a result, TFT has became the promoter of fine-quality education and has exerted its influence permanently in Taiwan. In addition to sponsoring the salary and training of rural area teachers, Sercomm also organizes the volunteer workers' groups, and has each volunteer worker's group propose its teacher supporting plan to provide the ad hoc assistance per the need of each teacher or school. Sercomm volunteer workers' groups help rural area teachers solve any difficulty met by them in the process of teaching by organizing activities with the aid of software and hardware and routine communication and by utilizing the enterprise's resources as their strong backup. Sercomm expects to enable the rural area children to receive the education they deserve and thereby affect the school's teaching effects positively through the rural teachers supporting plan.

- Cultivation of Talents and Student Programs
  Sercomm has played the role responsible for bridging the internal and external society charity groups to gather the charity and care, expand resources, and provide help. In order to care for the vulnerable groups in the community, Sercomm donates a fixed fund to orphanages and rural area schools each year and founded the "Sercomm Scholarship." By upholding the spirit of feedback to the community and society, Sercomm has its R&D supervisors nominate excellent junior high school students from the supervisors' hometown to receive the incentives granted by Sercomm in order to encourage the students to study hard and enable the young people and poor students to mitigate their economic burden and help their family's economy. Sercomm supports rural children in the hopes that the students may complete studies to help themselves and others and later contribute to society.

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
7. Other information regarding the “Corporate Responsibility Report ” which are verified by certification bodies: PwC Taiwan has been engaged to perform assurance procedures on the sustainability performance information identified by Sercomm Corporation in accordance with the Statement of Assurance Engagements Standards No. 1, “Assurance Engagements other than Audits or Reviews of Historical Financial Information” in the Republic of China.				

3.5.7 Taiwan Corporate Conduct and Ethics Implementation as Required by the Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures (1) Does the Company have bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and the commitment regarding implementation of such policy from the Board of Directors and the management team?	V		All important policies relating to the operation, investment, acquisition or disposition of assets, the lending of funds, articles of guarantee or endorsement, and financing from banks are subject to the study and assessment of the competent authorities of the Company and to the resolution of the Board.	None
(2) Does the Company establish relevant policies which are duly enforced to prevent unethical conduct and provide implementation procedures, guidelines, consequence of violation and complaint procedures in such policies?	V		Sercomm established an “Operating Procedures for Handling Internal Material Information” for employee to comply with these relevant regulations. The company holds new employee orientation quarterly, including confidential information, internal transactions practice..etc. And provide e-learning system for employee who are not able to attend.	None
(3) Does the Company establish appropriate compliance measures for the business activities prescribed in Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and any other such activities associated with high risk of unethical conduct?	V		All Sercomm employees and suppliers are required to sign a “Declaration of Integrity”.	None

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
2. Ethic Management Practice (1) Does the Company assess the ethics records of those it has business relationships with and include business conduct and ethics related clauses in the business contracts?	V		Sercomm requires that every supplier must complete and sign business and ethics clauses as part of the Supplier's Undertakings.	None
(2) Does the Company set up a unit which is dedicated to or tasked with promoting the Company's ethical standards and reports directly to the Board of Directors with periodical updates on relevant matters?	V		The Company advocates ethical corporate management and has appointed a designated department to ensure the implementation of decisions of the Board in such matters. Related documents are subject to approval across the corporate hierarchy and require proper authorization. The HR representatives of ethical corporate management report to the Board quarterly.	None
(3) Does the Company establish policies to prevent conflict of interests provide appropriate communication and complaint channels and implement such policies properly?	V		The Company has established a policy requiring the avoidance of any conflict of interest. This policy on ethical business practices is inserted into agreements with the employees and suppliers. In addition, the Company also provides channels to report unethical practices and keeps the identity of the informants in strict confidence. The e-mail for filing complaints is: audit@sercomm.com	None
(4) To implement relevant policies on ethical conducts, does the Company establish effective accounting and internal control systems that are audited by internal auditors or CPAs periodically?	V		The accounting of all transactions is reviewed under established accounting principles. In cases of materiality, or in questionable cases, the Company will consult with CPAs for verification and confirmation.	None
(5) Does the Company provide internal and external ethical conduct training programs on a regular basis?	V		The Company holds an orientation for new employees, provides general managerial and developmental training regularly, and advocates the ethical corporate management policy of the Company.	Not regulated

Assessment Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Explanation	
3. Implementation of Complaint Procedures (1) Does the Company establish specific complaint and reward procedures, set up conveniently accessible complaint channels, and designate responsible individuals to handle the complaint received? (2) Does the Company establish standard operation procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner? (3) Does the Company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?	V		The Company has established a stakeholders' engagement section on Company websites and has designated a department for responding to the queries and communications of stakeholders (or related parties) .The stakeholders (or related parties) may report on or file complaints relating to questionable matters. All reports and complaints are handled in accordance with standard operation procedures which maintain principles of confidentiality and non-disclosure. The e-mail for report and complaints is: sc5388@sercomm.com	None
4. Information Disclosure Does the Company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System ("MOPS")?		V	Sercomm has not yet disclosed its guidelines on business ethics on the Market Observation Post System ("MOPS").	None
5. If the Company has established corporate governance policies based on TWSE Corporate Conduct and Ethics Best Practice Principles, please describe any discrepancy between the policies and their implementation. Sercomm has not yet established the "Corporate Conduct and Ethics Best Practice Principles".				
6. Other important information to facilitate better understanding of the Company's corporate conduct and ethics compliance practices (e.g., review the company's corporate conduct and ethics policy): None				

3.6 Internal Control System Execution Status

Sercomm Corporation

Statement of Declaration of Internal Control

Date: March 18, 2019

Sercomm Corporation has conducted internal audits in accordance with its Internal Control Regulations for the period ended December 31st, 2018, and hereby declares the following:

1. The Company acknowledges and understands that the establishment, nforcement, and preservation of internal control systems are the responsibility of the Board and that the managers and the Company have already established such systems. The purpose is to reasonably ensure the effectiveness (including profitability, performance, and security of assets), the reliability, timeliness, transparency of financial reporting, and legal and regulation compliance.

2. Internal control systems have limitations, no matter how perfectly they are designed. As such, effective internal control systems may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls systems. The internal control systems of the Company feature certain self-monitoring mechanisms. The company will take immediate corrective actions once any shortcomings are identified.

3. The Company judges the effectiveness of the internal control systems in design and enforcement according to the “Criteria for the Establishment of Internal Control Systems of Public Offering Companies” (hereinafter referred to as “the Criteria”). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control systems. There are five components for effective internal control as specified by the Criteria with which the procedures for effective internal controls are composed: (1) Control environment, (2) Risk evaluation, (3) Control operation, (4) Information and communication, and (5) Monitoring. Each of the elements in turn contains certain audit items, and the Criteria shall be referred to for details.

4. The Company has adopted the aforementioned internal control systems for an internal assessment of the effectiveness of internal control design and enforcement.

5. Based on the aforementioned audit findings, the Company holds that within the aforementioned period, its internal control procedures (including the procedures to monitor subsidiaries), effectiveness and efficiency of operations, reliability, timeliness, transparency of reporting, and compliance with relevant legal regulations, and design and enforcement of internal controls, are effective. The aforementioned goals can be achieved with reasonable assurance.

6. This statement of declaration shall form an integral part of the annual report and prospectus of the Company and shall be made public. If there is any fraud, concealment, or unlawful practices discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, 32, 171, and 174 of the Securities and Exchanges Act.

7. This statement of declaration has been approved by the Board on March 18, 2019 with all Directors in session under unanimous consent.

Sercomm Corporation

Paul Wang
Chairman

James Wang
President and CEO

3.7 Major Resloutions of Board Meetings and Shareholders' Meeting

3.7.1 Major Resolutions of Board Meetings

Date	Major Resolutions
2018.3.12	1. Ratification of bank line of credit 2. Ratification of 2017 internal control system statement 3. Ratification of amendment of the operational procedures for loaning of company funds 4. Approval of 2017 business report and 2018 business plan 5. Approval of 2017 remuneration to directors and supervisors, employee profit sharing, and management bonus 6. Approval of 2017 profit distribution 7. Approval of 2017 financial statement 8. Approval of amendment of the operational procedures for loaning of company funds 9. Approval of convening 2018 annual shareholders meeting 10. Approval to provide the endorsement and guarantee for hawxeye inc. 11. Approval of amendment of the rules of procedure for board of directors meetings 12. Approval of amendment of the audit committee charter 13. Approval of change accounting firm and charted public accountant
2018.4.23	1. Approval of revised 2017 profit distribution 2. Approval of the issuance of new common shares for cash or domestic convertible bonds in private placement 3. Approval of resolved to convene the 2018 annual shareholders' meeting supplementary notice
2018.5.3	1. Ratification of bank line of credit 2. Approval of directors and officers liability insurance
2018.8.9	1. Ratification of bank line of credit 2. Ratification of new hiring 3. Approval of compensation committee for board of director compensation 4. Approval of make fund lending for sernet (suzhou) technologies corporation
2018.9.11	1. Approval of share repurchase program
2018.11.12	1. Ratification of bank line of credit 2. Ratification of hitron technology invesment 3. Approval of compensation committee for management bonus and employee profit sharing 4. Approval of 2019 internal audit plan 5. Approval of revision"9^{th} share repurchase program for employee"
2018.12.14	1. Approval of "9^{th} share repurchase program for employee"

Date	Major Resolutions
2019.3.18	1. Ratification of bank line of credit 2. Ratification of 2018 internal control system statement 3. Approval of 2018 business report and 2019 business plan 4. Approval to terminate the private placement offering approved by 2018 shareholders' meeting 5. Approval of 2018 remuneration to directors and supervisors, employee profit sharing, and management bonus 6. Approval of 2018 profit distribution 7. Approval of 2018 financial statement 8. Approval of amendments to articles of incorporation 9. Approval of amendment of the operational procedures for loaning of company funds 10. Approval of the issuance of new common shares for cash or overseas/domestic convertible bonds in private placement 11. Approval of re-election of board directors of the company 12. Approval of convening 2019 annual shareholders meeting 13. Approval of the issuance of 1st domestic corporate bond 14. Approval of cpa independence and audit service remuneration
2019.4.8	1. Approval of nomination of director and independent director candidates 2. Approval of removing non-competition restrictions on managerial officers, directors and representatives

3.7.2 Major Resolutions of Shareholders' Meeting and Implementation Status

Date	Major Resolutions	Implementation Status
2018.06.05	Report Items 1. 2017 business report	Approved
	2. 2017 audit committee's review report	Approved
	3. 2017 distributable compensation for employees and directors	Approved
	Matters for Ratification 1. Adoption of the 2017 business report and financial statements	Approved
	2. Adoption of the proposal for distribution of 2017 profits	Approved a cash dividend per share of NT$3.75 and cash dividend payment date was August, 2, 2018.
	Discussion Items 1. Amendment to the operational procedures for loaning of company funds	Approved
	2. The issuance of new common shares for cash or domestic convertible bonds in private placement	Approved

3.8 Certified Public Accountant (CPA) Information

(1) If non-audit fees paid to CPAs, their accounting firm and its affiliates are more than one-fourth of audit fees, specify the amount of audit and non-audit fees, as well as the scope of non-audit services:

CPA Service Fees

Accounting Firm	Name of CPA	Period covered by CPA's audit	Note
PricewaterhouseCoopers (PwC) Taiwan	Liang, Yi-Chang Wu, Yu-Lung	2018/01/01 ~ 2018/12/31	None

Unit: Thousand NTD

	Range of CPA service fee	Audit fee	Non-audit fee	Total
1	Under NT$ 2,000		949*	949
2	NT$2,000 ~ NT$4,000			
3	NT$4,000 ~ NT$6,000	3,773		3,773
4	NT$6,000 ~ NT$8,000			
5	NT$8,000 ~ NT$10,000			
6	NT$10,000 and above			

*Note：corporate social report assurance report, treasury stock opinion, advance payment,

(2) For CPA changes, if the audit fee in the first year is lower than that of the prior year, specify the audit fee before and after the change and the reasons: Not applicable

(3) If audit fees dropped by more than 15%, specify the amount and percentage of decline and reasons: Not applicable

(4) Information on CPA changes:

A. Former CPAs

Date of Change	Approved by BOD on March 12, 2018		
Reasons and Explanation of Changes	Internal management needs		
State Whether the Appointment is Terminated or Rejected by the Consignor or CPAs	Clients / Status	CPA	Consignor
	Appointment terminated automatically		V
	Appointment rejected (discontinued)		
The Opinions other than Unmodified Opinion Issued in the Last Two Years and the Reasons for the Said Opinions (Note)	None		
Is there any Disagreement in Opinion with the Issuer	None		
Supplementary Disclosure (Disclosures Specified in Article 10.6.1.4~7 of the Standards)	None		

B. Succerssor CPAs

Accounting Firm	PricewaterhouseCoopers (PwC) Taiwan
CPA	Liang, Yi-Chang Wu, Yu-Lung
Date of Engagement	Approved by BOD on March 12, 2018
Prior to the Formal Engagement, Any Inquiry or Consultation on the Accounting Treatment or Accounting Principles for Specific Transactions, and the Type of Audit Opinion that Might be Rendered on the Financial Report	None
Written Opinions from the Successor CPAs that are Different from the Former CPA's Opinions	None

C. The Reply of Former CPAs on Article 10.6.1 and Article 10.6.2.3 of the Standards: None.

(5) Company Chairman, President or finance/accounting manager held positions in the Company's audit firm or its affiliates within the past year: Not applicable

3.9 Changes in Share Positions among Directors, Supervisors, Managers

Unit: Shares

Title	Name	2018 Shareholding Increase / Decrease	2018 Stock Mortgage	Current Year to April 14 Shareholding Increase / Decrease	Current Year to April 14 Stock Mortgage
Chairman	Paul Wang Representative of Pacific Venture Partners Co. Ltd	0	0	0	0
Director & President	James Wang	760,000	750,000	(750,000)	(750,000)
Director & Executive VP	Ben Lin	194,000	450,000	(450,000)	(450,000)
Director	Lu, Shyue-Ching Representative of Zhuo Jian Investment Co., Ltd.	0	300,000	0	0
Independent Director	Shih, Chin-Tay	0	0	0	0
Independent Director	Steve K. Chen	0	0	0	0
Vice President	Leo Chen	225,000	225,000	(225,000)	(225,000)
Vice President	Jemmy Lee	200,000	120,000	(42,171)	120,000
Vice President	Hawk Wu	250,000	150,000	80,000	150,000
Vice President	Colette Chen	104,000	120,000	56,000	120,000
Vice President	Vicky Lin	115,000	75,000	75,000	75,000
Vice President	Genevieve Lu	125,000	75,000	75,000	75,000
Senior Vice President	Dean Wang	300,000	300,000	300,000	300,000
Auditing Supervisor	Winnie Hsieh	105,000	45,000	45,000	45,000

3.9.1 Stock Trade with Related Party

Unit: Shares

Name	Reason of the Transfer	Transfer Date	Transferee	Relation with the Transferer	Shares	Transfer Price
Ben Lin	Disposition of Shares	2018.10.03	Zhen Bang Investment Co., Ltd.	Wife serves as transferee's owner	1,756,000	69
Ben Lin	Disposition of Shares	2019.03.06	Yun Zhou Investment Co., Ltd.	Serve as Supervisor	900,000	61.4
James Wang	Disposition of Shares	2019.03.06	Yun Zhou Investment Co., Ltd.	Serve as Chariman	1,500,000	61.4

3.10 Information of the Company's Top Ten Shareholders

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders	
	Shares	%	Shares	%	Shares	%	Name	Relation
Owner of Fubon Life Insurance Co., Ltd. - Richard M.Tsai	13,565,000	5.52%	0	0.00%	0	0.00%	-	-
Owner of Yun Chuan Investment Ltd. - Bo-Lu Lin	10,750,360	4.38%	0	0.00%	0	0.00%	-	-
Pear Tree Polaris Foreign Value Small Cap Fund	7,261,000	2.96%	0	0.00%	0	0.00%		
Owner of Taiwan Life Insurance Co., Ltd. - Su-Guo Huang	5,150,000	2.10%	0	0.00%	0	0.00%	-	-
Owner of TransGlobe Life Insurance Inc. - Teng De Peng	5,131,000	2.09%	0	0.00%	0	0.00%		
Su Yi	4,809,322	1.96%	0	0.00%	0	0.00%	-	-
Owner of Cathay Life Insu rance Co., Ltd. - Diao-kuei, Huang	4,585,763	1.87%	0	0.00%	0	0.00%		
Owner of Zhuo Jian Investment Co., Ltd. - James Wang	4,197,094	1.71%	0	0.00%	0	0.00%	-	-
Swedbank Robur Globalfond	4,000,000	1.63%	0	0.00%	0	0.00%		
Vanguard Emerging Markets Stock Index Fund	3,709,000	1.51%	0	0.00%	0	0.00%		

3.11 Long-Term Investments Ownership

Investee	Sercomm Investment		Total Investment	
	Investment Amount	%	Investment Amount	%
Sercomm USA Inc.	650,000 shares	100.00%	650,000 shares	100.00%
Shukuan Investments Ltd.	2,800,000 shares	100.00%	2,800,000 shares	100.00%
Sercomm Trading Co., Ltd.	USD$ 46,800,000	100.00%	USD$ 46,800,000	100.00%
Zealous Investments Ltd.	USD$ 30,956,000	100.00%	USD$ 30,956,000	100.00%
Sernet (Suzhou) Technology Ltd.	USD$ 29,900,000	100.00%	USD$ 29,900,000	100.00%
Smart Trade Inc.	USD$ 16,000,000	100.00%	USD$ 16,000,000	100.00%
DWNet Technology Ltd.	USD$ 16,000,000	100.00%	USD$ 16,000,000	100.00%
Sercomm Japan Corp.	9,800 shares	100.00%	9,800 shares	100.00%
Sercomm France SARL	1,000 shares	100.00%	1,000 shares	100.00%
Sercomm Italian SRL	10,000 shares	100.00%	10,000 shares	100.00%
Sercomm Deutschland GmbH	EUR$ 100,000	100.00%	EUR$ 100,000	100.00%
Sercomm Russia LLC	RUB$ 10,000	100.00%	RUB$ 10,000	100.00%
Huayi (Suzhou) Telecommunication Technologies Ltd.	RMB$ 500,000	100.00%	RMB$ 500,000	100.00%
HawXeye LLC.	USD $ 157,000	55.00%	USD $ 157,000	55.00%
Suzhou FemTel Communications	RMB$ 6,500,000	100.00%	RMB$ 6,500,000	100.00%
Nanjing FemTel Communications	RMB$ 2,500,000	100.00%	RMB$ 2,500,000	100.00%
Sercomm Technology Inc.	5,000,000 Shares	100.00%	5,000,000 Shares	100.00%

IV. Capital & Shares

4.1 Capital & Shares

4.1.1 Capitalization

Unit: Shares, as of December 31, 2018

Type of Share	Authorized Shares		
	Issued Shares	Un-issued Shares	Total Shares
Common Stock	245,653,767	74,346,233	*320,000,000

4.1.2 History of Capitalization

Unit: Shares/ NTD, as of December 31, 2018

Year/ Month	Issue Price	Authorized		Paid-In Capital		Source of Capital
		Shares	Amount	Shares	Amount	
2017/12	10	*320,000,000	*3,200,000,000	245,653,767	2,456,537,670	Stock Options

* The amendments to Articles of Incorporation of authorized share capital was approved by General Shareholders Meeting on June 26th, 2012. However, there are no changes in registered capital temporality.

4.1.3 Status of Shareholders

As of April 14, 2019

Type of Shareholders	Government Agencies	Financial Institutions	Other Legal Entities	Foreign Institutions	Individual	Total
Number of Shareholders	3	46	100	160	21,454	21,763
Shareholding	3,750,000	29,067,825	50,504,555	55,682,504	106,648,883	245,653,767
Ownership%	1.53%	11.83%	20.56%	22.67%	43.41%	100.00%

4.1.4 Distribution Profile of Ownership

Unit: Shares, as of April 14, 2019

Class of Shareholding	Number of Shareholders	Shareholding (share)	%
1 ~ 999	3,191	592,734	0.24%
1,000 ~ 5,000	15,162	29,966,591	12.20%
5,001 ~ 10,000	1,815	14,734,669	6.00%
10,001 ~ 15,000	496	6,417,816	2.61%
15,001 ~ 20,000	317	5,870,907	2.39%
20,001 ~ 30,000	275	7,156,026	2.91%
30,001 ~ 40,000	96	3,494,361	1.42%
40,001 ~ 50,000	80	3,760,791	1.53%
50,001 ~ 100,000	143	10,464,748	4.26%
100,001 ~ 200,000	73	10,875,042	4.43%
200,001 ~ 400,000	42	11,828,707	4.82%
400,001 ~ 600,000	22	11,093,876	4.52%
600,001 ~ 800,000	10	6,960,020	2.83%
800,001 ~ 1,000,000	5	4,643,572	1.89%
Over 1,000,001	36	117,793,907	47.95%
Total	21,763	245,653,767	100.00%

4.1.5 Major Shareholders

Unit: Shares, as of April 14, 2019

Name of Shareholders	Shareholding	%
Fubon Life Insurance Co., Ltd.	13,565,000	5.52%
Yun Chuan Investment Ltd.	10,750,360	4.38%
Pear Tree Polaris Foreign Value Small Cap Fund	7,261,000	2.96%
Taiwan Life Insurance Co., Ltd.	5,150,000	2.10%
TransGlobe Life Insurance Inc.	5,131,000	2.09%
Su Yi	4,809,322	1.96%
Cathay Life Insurance Co., Ltd.	4,585,763	1.87%
Zhuo Jian Investment Co., Ltd.	4,197,094	1.71%
Swedbank Robur Globalfond	4,000,000	1.63%
Vanguard Emerging Markets Stock Index Fund	3,709,000	1.51%

4.1.6 Market Price, Net Worth, Earnings and Dividends per Share

Unit: NTD/ Thousand Shares

Item			2017	2018	March 31, 2019
Market Price	Highest		89.30	89.6	71.20
	Lowest		73.50	43	60.70
	Average		79.74	67.78	66.17
Net Value per Share	Before Distribution		29.66	28.53	30.72
	After Distribution		29.42	-	-
Earnings per Share	Weighted Average Shares		243,616	243,273	244,996
	Earning per Shares		5.38	3.32	0.86
Dividends per Share (Note 1)	Cash Dividend		3.75	2.50	-
	Stock Dividend	From Retained Earnings	0	0	-
		From Capital Surplus	0	0	-
	Accumulative Undistributed Dividends		-	-	-
Return on Investment (Note 2)	Price / Earning Ratio		14.82	20.42	19.24
	Price / Dividend Ratio		21.26	27.11	-
	Cash Dividend Yield Rate		4.70	3.69	-

Note1： Pending for Shareholder's approval

Note2：Price / Earning Ratio = Average market price / Earnings per share;
Price / Dividend Ratio= Average market price / Cash dividend per share;
Cash Dividend Ratio = Cash dividend per share / Average market price

4.1.7 Dividend Policy

The appropriations of the Company's earnings are base on the annual net income. The dividend amount is determined by the profit earning condition, financial condition and future operating needs for cash. In principle, dividends could be distributed in cash and/or in the form of stock; nevertheless, cash dividends shall be no less than 10% of the aggregate amount distributed.

4.1.8 Dividends Paid

Year	EPS NT$	Cash Dividend NT$ per share
2018	3.32	2.50
2017	5.38	3.75
2016	6.02	4.20
2015	5.57	4.00
2014	4.21	3.00
2013	4.19	3.00
2012	3.90	2.75
2011	3.29	2.39
2010	1.88	1.47
2009	1.24	1.00
2008	1.88	1.50

4.1.9 Distribution of Profit

Sercomm's Board of Directors adopted a proposal for 2018 profit distribution. This proposal is subject to approval by shareholders at the annual general meeting, scheduled for June 12, 2019.

4.1.10 Proposal of Profit Distribution for 2018

Unit: NTD

Cash dividend	$2.50 per share
Cash bonus to employees	$197,233,104
Remuneration to Directors and Supervisors	$17,766,896

4.1.11 Buyback of Treasury Stock

Treasury stocks: Batch Order	9th Batch
Purpose of buy-back	For employee
Timeframe of buy-back	2018/09/12 – 2018/11/05
Price range	34.3~86.3
Class, quantity of shares bought back	Common stock, 10,000,000 shares
Value of shares bought-back (in NT$ thousands)	NT$ 496,186,692
Average repurchase price per share	NT$ 49.62
Shares sold/transferred	9,242,000 shares
Cumulative number of own shares held	10,000,000 shares
Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company's issued shares (%)	4.07%

4.1.12 Issuance of Employee Stock Options

As of March 31, 2019

Category	1st Employee Stock Options
Date of Approval by Regulatory Authority	2015/5/25
Issue Date	2015/5/27
Number of Shares Issued (Share)	10,000,000
Number of Shares Issued / Total Issued Shares (%)	4.12%
Exercise Period	10 years
Method of Provision	Issue of new shares
Vesting Schedule	After 2 full years have elapsed from the time the stock option holder is allocated the employee stock options, the option holder may exercise the share purchase rights according to the schedule set out below. The duration of the stock options is 10 years. The stock options and rights and interests therein may not be transferred, pledged, given to others, or disposed in any other manner, except by succession. After the expiration of the duration of the employee stock options, any unexercised options shall be deemed forfeited, and the stock option holder may not make any further claim to share purchase rights. Percentage of share purchase rights that may be exercised according to the time elapsed since the allocation of the stock options (cumulative) Two full years have elapsed: 50% Three full years have elapsed: 75% Four full years have elapsed: 100%
Number of Shares in Exercised Options (Share)	2,734,000
Total Amount in Exercised Options (NTD)	149,003,000
Number of Shares In Unexercised Options (Share)	7,266,000
Price per Share In Unexercised Options (NTD)	51.6
Number of Shares In Unexercised Options as Share of Total Issued Shares (%)	2.96%
Impact on Shareholders' Equity (%)	4.98%

4.1.13 List of Executives Receiving Employee Stock Options and the Top Ten Employees with Stock Options

As of March 31, 2019

Title	Name	No. of Stock Options	Stock Options as a Percentage of Shares Issued	Exercised				Unexercised			
				No. of Shares Converted	Strike Price (NT$)	Amount (NT$ thousands)	Converted Shares as a Percentage of Shares Issued	No. of Shares Converted	Strike Price (NT$)	Amount (NT$ thousands)	Converted Shares as a Percentage of Shares Issued
President	James Wang	2,092,000	0.85	419,000	54.5	22,836	0.17	1,673,000	54.5	91,178	0.68
Executive VP	Ben Lin										
Subsidiary CEO	Paul Wang										
VP	Leo Chen										
VP	Jemmy Lee										
VP	Hawk Wu										
VP	Colette Chen										
VP	Vicky Lin										
VP	Genevieve Lu										
Director	Winnie Hsieh										

V. Business Overview

5.1 Business Activities

5.1.1 Business Scope

Item	2017	2018
Wired Product	10.70%	10.72%
Wireless Product	87.89%	87.97%
Others	1.41%	1.31%
Total	100.00%	100.00%

5.1.2 Main Products

(1) Fixed-Mobile Products

(2) Home Gateway

(3) Enterprise Products

(4) IoT Products

5.1.3 New Products under Developing

(1) 5G CPE

(2) 5G CRAN Small Cell

(3) 4G CRAN RRH

(4) 4G Relay Small Cell

(5) Smart Door Bell

(6) Asset Tracker

(7) Smart Home Small Cell

(8) Streetlight-powered Small Cell

(9) Pre-5G Small Cell

(10) DPoE 10G-EPON

(11) Integrated DOCSIS 3.1/WiFi 6 IoT Gateway

(12) High Output Power Outdoor Small Cell

5.2 Industry Overview

5.2.1 Industry Status and Development

Mobile communications technology has evolved from 1G, where only voice was supported, to adding support for text messaging under 2G. Next data services were added under 3G, followed by a significant increase in speed of data service with the current 4G technology. The market generally considers 2019 to be the first year of 5G, because the communication carriers will conduct testing of commercial use of 5G in related markets.

5G's official name is the 5th generation mobile networks, which refers to the fifth generation of mobile communication technology. In addition to the faster connection speeds, it will be widely used in AR (Augmented Reality), VR (Virtual Reality), IoT, broadcasting, AI, auto-pilot and lifeline communications during natural disasters. According to the IMT-2020 request of ITU, the estimated peak transfer rate of 5G could reach 20 Gbps, which is about 20 times more than the 4G. Real-time transfer rate is about 100 Mbps for 5G, which is a lot higher than 10Mbps for 4G. In addition, the end-to-end network latency for 5G is 1 microsecond according to ITU's request and it is 10 microseconds for 4G. However, the wavelength of the 5G is shorter than the 4G, thus its diffraction ability is inferior to that of 4G. The scope originally covered by a 4G cell site will need to be covered with six to eight 5G cell sites.

Following the digitalization and globalization, each industry faces the industrial changes motivated by Information and Communication Technology(ICT). According to the report in 2026, ICT players will generate USD 3. 3 trillion in eight key industries including financial services, public transportation, medical care and industrial business due to the promotion of 5G. Furthermore, Ericsson's report indicated that the business opportunities of 5G can be divided into three areas including data services, IoT and fixed network. The market of these three areas, combined together, will be at least USD 1.1 trillion. In 2026, there will be an anticipated USD 619 billion revenue opportunity for telecom operators addressing industry digitalization with 5G technology in 10 specific businesses including manufacturing, energy and public business, public safety, medical care, public transportation, cars, media and entertainment, financial service, retail and agriculture.

With 5G being the next big advancement in wireless networking, it will require capital investment many times more than that of 4G. In addition, 5G cell phones may have problems such as low standby times due to higher power consumption, coupled with higher research and development costs. As a result, the major data services will still be dependent on 4G for the next few years before the transition is complete.

In the process of developing 5G, we expect the businesses to benefit the most will be information technology (telecommunications equipment, cell phones, software and big data), communications (telecommunication carriers and media) and REITs (cell site rental). The investment opportunities for each of these businesses will be encouraged by the development of 5G. Initially cell site-related equipment, central office equipment, and network equipment will be in high demand. This is especially true for suppliers in Europe and the U.S. that would profit from national security considerations. Secondly, chip manufacturers, telecom carriers, software integration and big data, user-end equipment and cell phone businesses are expected to benefit at a time closer to the commencement of 5G's commercial use.

5.2.2 The Relationship between the Upstream, Midstream and Downstream Parts of the Industry

The major business of this company is the manufacture of broadband and data service equipment, which include all sorts of network transmission equipment and is a midstream manufacturer in the telecommunications equipment industry. The upstream of the industry chain is mainly module and parts suppliers. The downstream terminal service providers include: telecommunication operators, Multiple System Operator, Network Services Platform, Enterprise System Integrator and other service providers.

Upstream	Midstream	Downstream
CPU	FTTx, DOCSIS, xDSL, Home Router, WIFI Extender, STB	Networking Equipment
RF IC/Module	Small Cell, Mobile CPE	Telecom Operator
Memory	Enterprise AP/ Controller, Enterprise Router, Enterprise Swith	Multiple System Operator
Active/ Passive component	IoT device, IoT geteway, IP camera	Network Services Platform
PCB		Other Service Provider
Plastic and metal components		Enterprise System Integrator
Wire		
Power supply		
Others		

5.2.3 Products Development and Competition

Evolution of wireless technologies			
1980s	1G	Mobile telephony	Technology：Analog celluar technology Standard：AMPS, TACS Bandwidth：2Kbit/s
1990s	2G	Digital voice, short messaging	Standard：GSM, PDC, IDEN Bandwidth：40Kbit/s Frequency：Narrow band
2000s	3G	Ingetrated high quality audio, video and data	Standard：W-CDMA, CDMA2000, TD-SCDMA Bandwidth：300K- 2Mbit/s Frequency：Broadband
2010s	4G	Dynamic information access, varible devices	Standard：FDD-LTE, TD-LTE, WiMAX Bandwidth：150Mbit/s Frequency：Mobile broadband
2020s	5G	IoT	Standard：TBD Bandwidth：10Gbit/s Frequency：Ultra high frequency

To satisfy the three key elements of 5G communications (high speed transmission, low latency, and wide coverage), the new infrastructure of radio access network equipment is called 5G New Radio (5G NR). The development schedule of 5G completed the Release 15 5G Standalone (5G SA) standards in June, 2018. According to IMT-2020, Release 15 includes 5G's NSA (Non Standalone Networks) and NR technologies, which will be provided to carriers for deployment, planning and the commencement of 5G network field testing. Some countries will start the commercial use of Phase I in 2019 by providing strengthened broadband service and completing the Rel-16 standard before 2020.

Since 5G SA regulations have been confirmed, it allows telecommunication carriers to form a network using a 5G core with existing 4G networks to make up the coverage. With the technology extension of NB-IoT, there will be a massive increase in the number of connected devices. However, 5G SA will require multiple antenna arrays and speedy allocation of cell site resources, as well as the network slicing technology established by NFV/SDN, in order to meet the requirement of 1 million nodes per square kilometer. Therefore, M2M connections would still be primarily NB-IoT in the short term.

In 2019 home service networks will be focused on the development of mobile broadband utilizing 5G, along with data services that deliver nearly 1Gbps compared with fixed broadband networks. Telecommunication carriers, who first plan a new generation of FWA (Fixed Wireless Access) services to the home, are hoping to replace part of the existing wired broadband networks. In addition, equipment needed to meet the Wi-Fi6 (802. 11ax) standards will be announced in the latter half of 2019 to compete against fixed broadband service providers.

As the number of new users diminish and access to Gigabit networks become more prevalent, mainstream providers (DSL/Cable/FTTH) will be seeking ways to increase their number of subscribers.

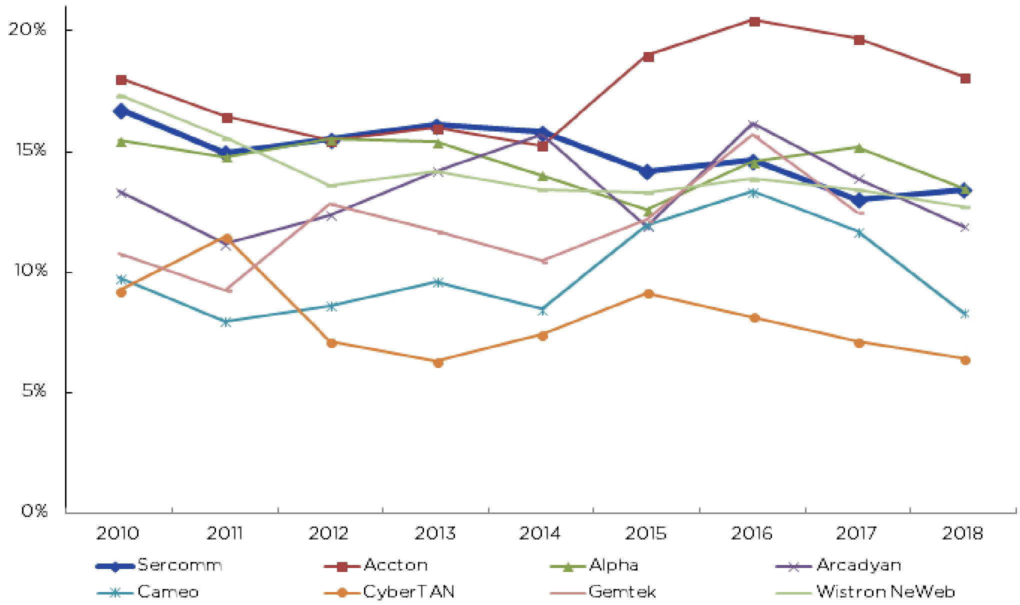
Senior Industry Analyst Hsu Tzu-Ming, associated with the Institute for Information Industry, has indicated an increase in use cases for 5G FWA in several countries, with the amount of development effort varying by country. However competition between 5G FWA and fixed broadband will be based on how well they meet the users needs. It is expected that once 5G is used for commercial used that it will open the competition for residential networks.

5G will allow for edge computing to lead to a serverless environment, which is expected to be able to respond to more diverse and complicated scenarios. This will allow edge computing to realize many more IoT applications dependent on real-time response. For example in factory automation it would be advantageous to have low latency communication with robotics in order to better control production. Autonomous cars and drones are examples of other areas that would benefit.

Another development trend of edge computing is it allows for a more customized, flexible architecture from client-side logic. In the past, the supplier provided a complete solution in traditional cloud computing, which had a high price but did not necessarily match the needs of the customer. In the future, there will be need for more "small and smart" product customization. In the future, suppliers will turn towards edge computing away from cloud computing to address a wider target market. From the business aspect, the number of small servers and small data centers will grow significantly and the needs for system integration and micro service will be elevated. This will be in response to the need for more diverse and complicated real-time scenarios to meet applications that are small and smart.

Cellular IoT technology includes 3G, 4G, 5G and LPWA technology, such as NB-IoT and LTE-M. Based on the launch of the IoT network in accordance with 3GPP standards, cellular IoT provides global coverage, reliable connectivity of IoT equipment, and low-cost hardware for connection to cellular IoT. Cellular IoT can be quickly deployed with the existing cell site resources and be applied to projects such as smart city, public utilities, smart architecture, and smart agriculture. All of which will promote the cellular IoT market with longer distance signal transmission and battery life spans that can be as long as 10 years. According to the latest market report by Persistence Market Research, the cellular market for IoT in 2017 was around USD 1.15 billion with a compound growth rate estimated to be 26.7% between 2018 to 2026.

Trends in Gross Margin Rate for Taiwanese Networking Vendors



Source: M.O.P.S

The company focuses on software and firmware integration, and maintains its leading position in the research and development of communications technology. We have a relative advantage in smart home, telematic, cloud application or other IoT application, which allows us to maintain certain profit earning while pursuing growth of income.

5.2.4 Research & Development Expenses

Unit: Thousand NTD

Item	2018	2019 Q1
R&D Expenses	1,751,190	448,449
Net Sales	33,384,941	6,479,720
R&D/Net Sales (%)	5.25	6.92

5.2.5 R&D Achievements:

(1) Asset Tracker

(2) Smart Speaker

(3) LTE Battery Camera with Motion Detector

(4) Streetlight-powered Small Cell

(5) BOB XGS-PON Gateway

5.3 Long-term and Short-term Business Development Plans

5.3.1 Long-term Development Plans

For many years, Sercomm devoted to research, development and integration ability. Through differentiation strategy, the company grows a role in global telecommunications industry and builds a long-term partnership with international operators. The company invests research and development resources to co-develop with our clients in the initial stage of design for many new technologies and new products due to our commitment and sense of responsibility to our clients. Meanwhile, we improve customer satisfaction by optimizing the efficiency and quality in manufacturing, quality control and customer service.

5.3.2 Short-term Development Plans

(A) Marketing strategy

We are devoted to elevating the added value of our hardware products with abundant software technology and to improve our competitiveness by differentiating values and to provide all around telecommunications broadband solutions. Our clients are first-tier international telco operators, and service providers, networking companies and system integrators and we have successfully positioned Sercomm as an international supplier. Our marketing strategy focuses on global technical support, which is based on customized solutions and delve into the direct supply chain of our telecommunication carrier clients with close technical support provided through our service centers around the world. We have established branch offices in more than ten countries including the U.S., Japan, China, France, Germany, Italy and Russia, where we will continue to expand our market and clients.

(B) Production strategy

Strengthen product planning and production process management. Provide employees with re-training as well as implement budget and cost control measures to increase productivity and reduce production costs. Fully implement quality assurance and inspection measures.

5.4 Market, Production and Sales Outlook

5.4.1 Revenue Breakdown by Geography

Unit: Thousand NTD

Region	2017		2018	
	Amount	%	Amount	%
Taiwan	102,792	0.27	75,995	0.23
Europe	9,284,213	24.05	11,505,485	34.46
North America	15,556,022	40.30	13,461,538	40.32
Asia ex-Taiwan	13,524,538	35.04	8,341,923	24.99
Other	132,438	0.34	0	0
Total	38,600,003	100.00	33,384,941	100.00

5.4.2 Future Supply and Demand in the Market and Potential for Growth

(1) 4G arrived not only changed the way people network also the demand emerged in IoT. 5G not only elevates the connection speed, but it also considers the trend of IoT and telematic that will include in the standard regulations. We hope to achieve three service scenarios of high speed transmission, low latency and wide coverage with a new structure and to improve the efficiency of frequency and energy resources.

(2) In 2017, 4G has made up 60% of the mobile broadband users and it is expected that the CAGR of users in 2017-2023 will be 12%. 5G is expected to reach commercial use in 2020 with approximately 55 million users around the world. In 2023, the number will be 1. 1 billion users with the CAGR being 109.72%. Research expected the areas where 4G users constitute over 90% of the users will be switched to 5G first, among which the U.S., China, Korea and Japan will construct the relevant facilities first.

(3) IHS Markit estimates that 5G will reach 550 million users globally in 2022, while producing new goods and services worth some USD 12.3 trillion worldwide. The global 5G industry value chain contributes USD 3.5 trillion while Taiwan will achieve more than 130 billion in 2035 and bring about 510,000 job opportunities.

(4) High speed transmission requires broad bandwidth but because the frequency fragmentation is severe, it is very difficult to find a continuous spectrum of broad bandwidth. 5G can only develop by reaching higher frequency. However, high frequency is weaker in transmission and small cells may play an important role in improving indoor coverage. Research estimate that the small cells will grow at an annual compound rate of 26.39%.

(5) According to IDC, the average annual compound growth rate of global IoT market scale was 3.8% in 2015-2017. With AI applications, It will develop at 24.2% in 2017-2020 with an estimated scale of USD 1.29 trillion. This year, the business opportunities deriving from IoT could achieve USD 772.5 billion and USD 1 trillion next year, which will bring it up to the trillion-dollar industry. The key role is the AIoT combining artificial intelligence and IoT. This trend will elevate the computing ability of IoT devices, so it will be able to make decisions based on information in addition to the traditional function of delivering messages. After manufacture, retails and finance adopts AIoT to assist their business, they will have a new motive for growth.

5.4.3 Competitive Niche

Providing All Round Telecom Broadband Solutions

In many years, Sercomm devotes to the innovative research and development in the field of telecom broadband, and focuses on research and development of new communication technologies in order to strengthen our core competitive advantages. Furthermore, we constantly release innovative products ahead of our competitors in the same industry. With our strong research and development team, the company has excellent performance in integrated development in software, hardware and firmware. We also strive to optimize the effectiveness, functions and cost structure of our products. With the our optimized and competitive design, firmware and hardware from the beginning to the product production, comprehensive testing, quality guaranteed at manufacturing, global technical support and network level management technology after sales, Sercomm provides all around telecom broadband solutions to meet different clients' needs. The excellent innovation research and development result also earned Sercomm affirmation from first-tier international clients and made us the major development partner.

Concentration on the Research and Development of Internet Protocol

On Secomm's basis of research and development in software and firmware, it is devoted to the research and development of core technologies of Internet Protocol in the beginning of its establishment. Meanwhile, it continues to accumulate intellectual properties to create differentiation in values and improve the company's competitiveness. In response to the new era of digital convergence, the company will continue to create, research and develop to apply new broadband technologies in all aspects of life and to assist our clients to gain more market share with excellent software integration technologies used to improve the hardware products' added values.

High Efficiency Manufacturing System of Advanced Manufacturing Process

Our factories are equipped with the series of advanced manufacturing processes and automatic equipment. By using a highly efficient operation management system, we continue to improve our manufacturing yield. Because of the great benefits of economies of scale, the manufacturing process can sufficiently utilize each area's complete electronic parts supply chain to timely provide clients broadband solutions that has effect and cost competitiveness and to improve the client's market advantages. In response to the blooming business opportunities brought by mobile broadband, the entire production ability will continue to expand to further elevate the company's business scale and to sufficiently prepare for future growth.

Lowering the Possibility of Sudden Crises by Utilizing All Hedging Instrument

Sercomm purchased account payable insurance, where more than 90% of accounts payable are covered by insurance to prevent clients' payment failures. We also purchased directors' and supervisors' liability insurance, product liability insurance, transportation insurance, and property insurance. Furthermore, we utilize forward contract to avoid risks of exchange rate changes to enable the company could conservatively respond to all risks in business operation.

Insistence on Quality Management and Environmental Sustainability

Efficient production and quality management have always been insisted by the company. The rigorous quality control process commences from the material procurement, which lays a good foundation for superior quality. Meanwhile, we have established a designated environmental materials testing laboratory to ensure that the materials and parts do not contain 6 major environmental restricted substances. Products of the entire series comply with safety standards of multiple countries and our factories in two places have passed many international standard certification, including ISO9001, ISO14001, TL9000, OHSAS18001, RoHS and C-TPAT. Good quality guarantee system, except for pro-active prevention of quality issues, we conduct all around rigorous examinations on production lines to achieve high quality and high efficiency production.

5.4.4 Positive and Negative Factors in Long-Term Development

(A)Positive Factors

a. High level of flexibility in product combinations

As Sercomm considers its own long-term development strategy and market positioning, the path forward points towards an operational mode of placing equal emphasis on both commodity and niche products, consolidating the existing market and customers, and pursuing a stable growth of operations. The company's business strategy will be to make timely adjustments in relation to the growth of the profits and revenue, and thereby expand its economic scale and enhance its market position. Sercomm's business portfolio is divided into large-scale volume production of lower-margin products and custom higher-margin niche products. It is Sercomm's intention to maintain a business model that balances volume commodity/niche products after taking the company's long-term strategy and market positioning into account. Primary focus is given to consolidating existing markets and customers with the goal of pursuing steady growth while maintaining profit margins. This approach is aimed at strengthening and reinforcing the company's operations. The company's business strategy will also adjust profits and revenues as necessary in order to build up Sercomm's economies of scale and boost its market standing.

b. System integration ability

For many years, Sercomm devoted to research, development and integration ability. Through differentiation strategy, the company grows a role in global telecommunications industry and builds a long-term partnership with international operators. The company invests research and development resources to co-develop with our clients in the initial stage of design for many new technologies and new products due to our commitment and sense of responsibility to our clients. Meanwhile, we improve customer satisfaction by optimizing the efficiency and quality in manufacturing, quality control and customer service.

c. Advantage of Sufficient Application of AI Manufacturing

The company implement AI in production lines by integrating software and hardware as well as the design and manufacture. In the past 5 years, the production per person in China factories has increased several times. For instance, the product testing on the production line was conducted entirely by hand in 2012 but transform to automatic in 2017. In the future, if the production lines are moved to other areas, it will be able to maintain the same quality.

d. Transformation of Business Model

We have cultivated our ability to integrate software and firmware with our long-term collaboration with SI suppliers and telecommunication carriers. To better serve our telecommunication carrier clients and to elevate service effect, we now have enough engineers to timely resolve problems for clients and we have the ability to directly serve our telecommunication carrier clients in places including Europe, China and Asia.

Therefore, we could gradually replace SI suppliers and income proportion of direct sales to the telecommunication carrier clients has steadily increased.

e. Diversity and International Talents

Our global offices has expanded rapidly since 2015. Currently, we have 14 offices in the U.S., Japan, China, France, Germany, Russia and others with a global staff of more than 6000 people and 18 different nationalities to provide technical support to our customers. Under the diverse cultures, we hope to recruit the right talent for the positions, and we look forward to discovering and cultivating more potential talents by investing diverse resources to face the new 5G era.

(B) Unfavorable Factors and Countermeasures

The U.S. -China trade war seems to be alleviated but another huge potential negative current is affecting manufacturing now and the problems deriving from the trade war is about to emerge. Globalization has brought manufacturers great synergies in the past 20 years, especially Taiwanese manufacturers who leverage the economy scale of Mainland China in the past to enjoy the huge synergy in all markets globally. In the coming 5 years, each country will start to build their own trade barriers due to the anti-globalization, which is a result of the subversion led by the U.S.

In response to this wave of anti-globalization, the company considers the solution to be “digging into the market”. By digging, we meant to be closer to local customers in all aspects, including research and development, manufacturing, and services. We will put our resources to the front as much as possible to be closer to our customers and to recruit local talents in each place to provide better service and to evaluate the possibility and necessity to research, develop and manufacture locally.

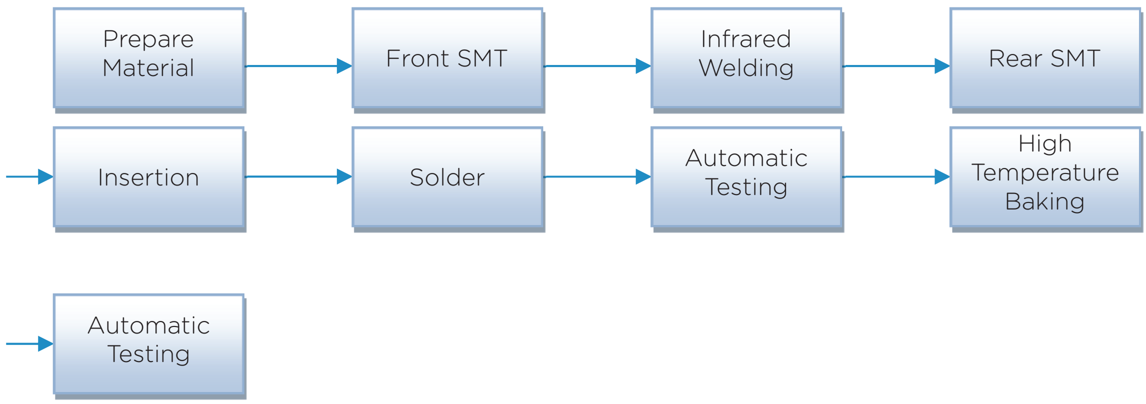
5.5 Main Product Applications

With its strength in integration of network communication products accumulated after many years, Sercomm has not only become the leading supplier of world-class WLAN equipment but also controls the critical technology for Next-Generation Networks after the continuous R&D in network communication technology. To deal with the emerging network applications integrated into homes, Sercomm created value-added network communication products with its high-level software and hardware product integration technology. The whole series of high-performance, high-quality and diversified professional broadband network communication products include broadband network communication access points, Integrated Access Device, Enterprise & SMB products, FTTx Products and Smart Home Control/ Surveillance. No matter whether at home or in the office, they may satisfy customers' demands for diversified and all-in-one digital integration network communication.

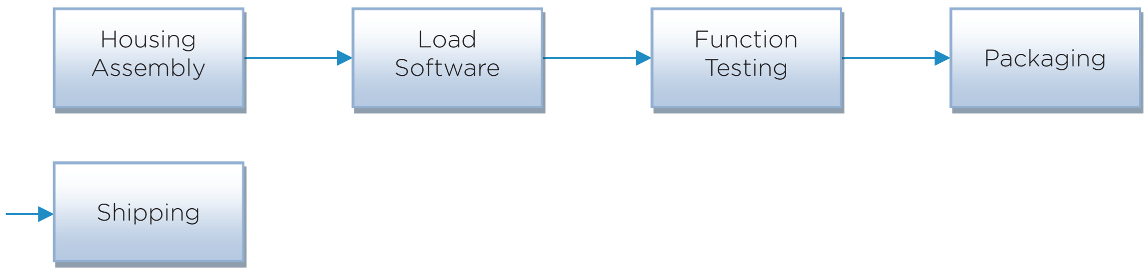
5.5.1 Product Manufacturing Process

The manufacturing processes for our company's products are divided into PCB assembly and final product assembly.

PCB assembly includes the SMT process and the DIP insertion process. The process is as follows:



The final product assembly process is as follows:



5.5.2 Customers that Accounted for at Least 10% of Annual Consolidated Net Revenue

Unit: Thousand NTD

2017				2018				2019 First Quarter			
Customers	Sales Revenue	As % of 2017 Total Net Revenue	Relations to Sercomm	Customers	Sales Revenue	As % of 2018 Total Net Revenue	Relations to Sercomm	Customers	Sales Revenue	As % of 2019 Q1 Total Net Revenue	Relations to Sercomm
Customer A	11,328,142	29.35	None	Customer A	7,813,763	23.41	None	Customer D	813,956	12.56	None
Customer B	5,346,168	13.85	None	Customer C	3,411,821	10.22	None	Customer C	776,707	11.99	None
Customer C	3,350,076	8.68	None					Customer E	696,071	10.74	None
Others	18,575,617	48.12		Others	22,159,357	66.37		Others	4,192,986	64.71	
Total Sales Revenue	38,600,003	100.00		Total Sales Revenue	33,384,941	100.00		Total Sales Revenue	6,479,720	100.00	

Production - A

Unit: Unit / Thousand NTD

Main Products	2017			2018		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Wired Product	10,000,000	8,026,887	3,792,341	10,000,000	5,256,841	2,696,116
Wireless Product	28,000,000	26,726,243	31,937,946	28,000,000	24,959,043	27,987,699
Total	38,000,000	34,753,130	35,730,287	38,000,000	30,215,884	30,683,815

Production - B

Unit: Unit / Thousand NTD

Main Products	2017				2018			
	Export		Domestic		Export		Domestic	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Wired Product	7,877,581	4,130,230	1,481	499	5,087,392	3,563,470	15,926	14,458
Wireless Product	24,784,365	33,859,572	11,047	66,371	23,917,841	29,323,322	21,660	45,132
Others	0	507,408	0	35,923	0	422,154	0	16,405
Total	32,661,946	38,497,210	12,528	102,793	29,005,233	33,308,946	37,586	75,995

5.6 Environmental Expenditure

Total value of losses or penalties due to environmental pollution in the most recent year and up to the date of publication: None

Future response strategies and potential expenditure

The company belongs to the electronic high-tech industry, and the major production process is assembly, testing and packing of finished and semi-finished products. There is no release of wastewater and air pollution during the production process, and the noise is minimal without public nuisance also without the restriction and violation against relevant environmental laws and regulations. According to the waste management policies and procedures, Sercomm improves waste reduction and pollution prevention in order to achieve the goal of green design, production and management.

Based on the balance between environmental protection and sustainable operations of the company, Sercomm is actively devoted to the global environmental protection project. We not only introduced the strict non-lead production process in all aspects, and excluded restricted substances by adopting “green design” in the research and development stage, but also achieved the goal of lowering environmental impact by complying with the 3R principles(reduce, recycle and reuse) set by EU. In the meantime, we extended our requirements for environmental protection to parts and raw materials through “green procurement” and introduce the management and evaluation of green product management of suppliers. Through the green procurement, Sercomm extends the environmental protection requirements to components, product utilization process and disposition of the waste in order to comply with the international environmental protection standards and to fulfill the green manufacturing policy.

5.7 Employer-employee Relationships

5.7.1 Employees

Year		2017	2018	2019/04/30
Headcount		4,861	4,254	4,442
Average Age		33.1	33.2	33.5
Average Seniority (years)		3.7	4.6	4.7
As Total Employees %	Ph. D.	0%	0%	0%
	Master	8%	10%	10%
	College	39%	43%	42%
	Senior High School	52%	43%	44%
	Junior High School or Lower	1%	4%	4%

The implementation of an employee welfare policy, continuing education and training, retirement system, and labor-management coordination and the protection of the rights of the employees:

Employee welfare policy

The Company provides the National Health Insurance, labor insurance and group insurance in accordance with Labor Standards Act and relevant laws /regulations to increase the protection of the rights of the employees. The premiums are undertaken by the Company. Additionally, budget is planned every year for employees' education and training. The company established the Employee Welfare Committee, which was approved by the Department of Labor, Taipei City Government in October 1996.

For compensation & benefits, not only marriage, funeral and maternity subsidies are provided to employees, but also company outings and various recreational activities are regularly organized for employees with physical and mental relaxation.

Learning and Development

Sercomm believes that it is the responsibility of the Company to provide appropriate educational and training opportunities for employees, and to encourage the self-training of employees so that they can continue to realize their potential. Therefore, the Company's consistent policy is to improve its staff's skills through various training and development programs so that the performance of its employees will not only meet the Company's business needs, but also help them achieve their personal goals. The Company has an education and training system, and prepares an annual budget for colleagues' education and training. In 2018, the number of employees who engaged in advanced study was 23,304, and the number of man hours was 66,860 hours.

Pension plan and implementation situation

The Company has formulated a pension plan for the employees who are formally employed, and since February 4, 1997 has maintained a Business Entity Supervisory Committee of Labor Retirement Reserve in accordance with the Labor Standards Act. It appropriates labor pension reserve funds at a certain percentage of the total monthly wages of the company's employees and deposits this amount in a designated pension fund account at the Central Trust of China. The Labor Pension Act came into force in July 1, 2005, and adopted a defined contribution plan. As a result of the implementation of the Act, employees may choose to apply the provisions in respect to pensions prescribed in the Labor Standards Act. The amount of labor pension borne by the employer shall not be less than six percent of the worker's monthly wage.

Labor-management consultation

The rights and obligations of both parties of the workers and employers shall be governed by the Labor Standards Act and its relevant laws and regulations, as well as the provisions of the Company's administrative regulations. Since its establishment the Company has maintained good worker-employer relationships. In order to maintain good worker-employer relationships, the Company implements a humanistic management approach and works hard to strengthen two-way communication between employees and the employer to create a better future.

Employee interests maintenance measures

The Company established a labor retirement reserve fund committee and holds worker-employer coordination meetings with the labor representatives elected by the employees to discuss relevant affairs and operations. Meanwhile, the Company provides employees with health examinations every two years and, for staff engaged in special operations, adds special health examination items. The Company also established and promulgated the Sexual Harassment Prevention Act, and grants employees paternity leave and unpaid parental leave in accordance with the Gender Equality in Employment Act. For employees whose work is not considered satisfactory, the Company will give them appropriate work improvement plans, and if they fail to meet the job requirements again, will transfer them to other positions depending on the actual situation, or will proceed with the termination of their employment according to the law.

VI. Financial Review and Analysis

6.1 Condensed Balance Sheet - IFRSs (Consolidated)

Unit: Thousand NTD

Item		2014	2015	2016	2017	2018	As of March 31, 2019
Current Assets		13,912,947	18,029,817	19,472,018	20,457,851	18,891,528	17,854,366
Property, Plant and Equipment		3,321,363	3,380,603	3,265,690	3,248,680	3,250,139	3,052,097
Intangible Assets		131,845	307,021	285,607	297,551	359,339	352,805
Other Assets		622,242	810,542	755,738	763,364	866,820	1,402,701
Total Assets		17,988,397	22,527,983	23,779,053	24,767,446	23,367,826	22,661,969
Current Liabilities	Before Distribution	11,652,110	15,328,506	16,141,585	17,304,180	16,060,512	14,600,325
	After Distribution	12,339,764	16,256,848	17,161,848	18,225,382	-	-
Noncurrent Liabilities		277,340	261,842	280,400	236,970	297,538	527,143
Total Liabilities	Before Distribution	11,929,450	15,590,348	16,421,985	17,541,150	16,358,050	15,127,468
	After Distribution	12,617,104	16,517,690	17,442,248	18,462,352	-	-
Equity Attributable to Shareholders of the Parent							
Capital Stock		2,299,623	2,413,636	2,429,198	2,456,538	2,456,538	2,456,538
Capital Surplus		1,390,698	1,529,471	1,617,572	1,764,717	1,800,214	1,801,933
Retained Earning	Before Distribution	2,029,514	2,637,393	3,158,215	3,443,101	3,331,273	3,542,529
	After Distribution	1,341,860	1,709,051	2,137,952	2,521,899	-	-
Others		333,022	358,567	153,979	-412,962	-381,413	-244,447
Treasury Shares		0	0	0	0	-196,383	-22,713
Noncontrolling Interests		6,090	-1,432	-1,896	-25,098	-453	661
Total Equity	Before Distribution	6,058,947	6,937,635	7,357,068	7,226,296	7,009,776	7,534,501
	After Distribution	5,371,293	6,009,293	6,336,805	6,305,094	-	-

6.2 Condensed Balance Sheet - IFRSs (Unconsolidated)

Unit: Thousand NTD

Item		2014	2015	2016	2017	2018
Current Assets		5,546,441	7,509,151	8,740,147	8,297,609	9,333,085
Property, Plant and Equipment		1,533,665	1,514,622	1,628,637	1,666,095	1,635,663
Intangible Assets		116,262	197,796	196,862	268,732	331,460
Other Assets		4,044,730	4,986,770	5,187,526	5,791,181	6,155,688
Total Assets		11,241,098	14,208,339	15,753,172	16,023,617	17,455,896
Current Liabilities	Before Distribution	4,898,414	7,011,002	8,122,086	8,526,012	10,134,669
	After Distribution	5,586,068	7,939,344	9,142,349	9,447,214	-
Noncurrent Liabilities		289,827	258,270	272,122	246,211	310,998
Total Liabilities	Before Distribution	5,188,241	7,269,272	8,394,208	8,772,223	10,445,667
	After Distribution	5,875,895	8,197,614	9,414,471	9,693,425	-
Equity Attributable to Shareholders of the Parent						
Capital Stock		2,299,623	2,413,636	2,429,198	2,456,538	2,456,538
Capital Reserve		1,390,698	1,529,471	1,617,572	1,764,717	1,800,214
Retained Earning	Before Distribution	2,029,514	2,637,393	3,158,215	3,443,101	3,331,273
	After Distribution	1,341,860	1,709,051	2,137,952	2,521,899	-
Others		333,022	358,567	153,979	-412,962	-381,413
Treasury Shares		0	0	0	0	-196,383
Noncontrolling Interests		0	0	0	0	0
Total Equity	Before Distribution	6,052,857	6,939,067	7,358,964	7,251,394	7,010,229
	After Distribution	5,365,303	6,009,293	6,338,701	6,330,192	-

6.3 Condensed Statement of Income - IFRSs (Consolidated)

Unit: Thousand NTD

Item	2014	2015	2016	2017	2018	As of March 31, 2019
Operating Revenue	23,192,689	35,011,966	36,701,734	38,600,003	33,384,941	6,479,720
Gross Profit From Operations	3,654,987	4,983,969	5,368,728	5,027,843	4,477,652	1,159,719
Net Operating Income	1,180,417	1,664,706	1,770,910	1,534,204	900,461	206,764
Non-operating Income and Expenses	8,521	-81,391	31,873	49,354	129,959	63,721
Income Before Tax	1,188,938	1,583,315	1,802,783	1,583,558	1,030,420	270,485
Net Income	949,059	1,297,000	1,455,295	1,288,158	848,305	212,372
Other Comprehensive Income	239,821	12,380	-208,929	-573,152	33,265	124,235
Total Comprehensive Income	1,188,880	1,309,380	1,246,366	715,006	881,570	351,525
Net Income, Attributable to Owners of Parent	949,302	1,304,508	1,461,654	1,311,868	807,586	211,256
Net Income, Attributable to Non-controlling of Interests	-243	-7,508	-6,359	-23,710	40,719	1,116
Comprehensive Income Attributable to Owners of Parent	1,188,877	1,316,902	1,252,556	738,208	840,922	350,411
Comprehensive Income Attributable to Non-controlling of Interests	3	-7,522	-6,190	-23,202	40,648	1,114
Basic Earnings per share	4.21	5.57	6.02	5.38	3.32	0.86

6.4 Condensed Statement of Income - IFRSs (Unconsolidated)

Unit: Thousand NTD

Item	2014	2015	2016	2017	2018
Operating Revenue	19,230,890	25,807,240	27,842,239	29,285,814	26,573,478
Gross Profit From Operations	2,045,112	2,621,986	3,001,062	2,773,723	2,512,969
Net Operating Income	682,126	735,810	927,979	831,798	472,372
Non-operating Income and Expenses	319,440	676,802	717,016	605,319	487,734
Income Before Tax	1,001,566	1,412,612	1,644,995	1,437,117	960,106
Net Income	949,302	1,304,508	1,461,654	1,311,868	807,586
Other Comprehensive Income	239,575	12,394	-209,098	-573,660	33,336
Total Comprehensive Income	1,188,877	1,316,902	1,252,556	738,208	840,922
Basic Earnings per share	4.21	5.57	6.02	5.38	3.32

6.5 Financial Analysis - IFRSs

	Item	2014		2015		2016		2017		2018		As of March 31, 2019
		Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Consolidated
Financial Ratio (%)	Total Liabilities to Total Assets	46.15	66.32	51.16	69.20	53.29	69.06	54.75	70.82	59.84	70.00	66.75
	Long-term Funds to Property, Plant, Equipment	413.56	190.77	475.19	212.96	468.56	233.87	450.01	229.73	447.60	224.83	264.13
Liquidity (%)	Current Ratio	113.23	119.4	107.11	117.62	107.61	120.63	97.32	118.22	92.09	117.63	122.29
	Quick Ratio	78.42	86.39	63.30	81.44	70.25	84.86	63.55	82.25	68.00	85.20	85.04
	Time Interest Earned	32.06	15.43	41.42	22.17	37.16	25.96	27.13	27.66	14.53	15.24	12.60
Operating Performance	AR Turnover (Times)	14.76	6.59	14.64	6.40	9.17	5.38	8.00	5.38	7.26	4.86	4.43
	AR Turnover (Days)	24.72	55.38	24.94	57.02	39.78	67.89	45.63	67.84	50.25	75.12	82.41
	Inventory Turnover (Times)	12.86	6.24	10.29	6.67	8.60	5.76	9.61	5.80	9.70	5.22	4.14
	AP Turnover (Times)	6.89	3.49	8.46	3.80	7.46	3.25	7.08	3.13	5.44	2.71	2.34
	Inventory Turnover (Days)	28.39	58.51	35.47	54.69	42.43	63.35	37.98	62.93	37.62	69.99	88.22
	Property, Plant, Equipment Turnover (Times)	12.91	7.06	16.93	10.45	17.72	11.04	17.78	11.88	16.10	10.27	8.23
	Total Assets Turnover (Times)	1.81	1.48	2.03	1.73	1.86	1.59	1.84	1.55	1.59	1.39	1.13
Profitability	Return on Assets (%)	9.17	6.48	10.48	6.71	10.01	6.54	8.54	5.50	5.16	3.77	4.00
	Return on Equity (%)	17.61	17.60	20.08	19.96	20.45	20.36	17.96	17.66	11.33	11.92	11.68
	Pre-Tax Income to Pay-in Capital(%)	43.55	51.7	58.53	65.60	67.72	72.90	58.5	64.46	39.08	41.95	44.04
	Net Income / Sales (%)	4.94	4.09	5.05	3.70	5.25	3.97	4.48	3.33	3.04	2.54	3.28
	EPS (NTD)	4.21	4.21	5.57	5.57	6.02	6.02	5.38	5.38	3.32	3.32	0.86
Cash Flow	Cash Flow Ratio (%)	2.77	6.70	-1.34	10.38	4.26	15.45	4.06	14.69	11.38	5.10	2.56
	Cash Flow Adequacy Ratio (%)	68.53	62.37	45.55	69.58	42.5	88.06	46.7	79.80	49.20	83.12	95.45
	Cash Reinvestment Ratio (%)	-7.21	2.26	-10.42	10.13	-7.31	16.14	9.31	17.05	3.06	-1.11	3.71
Leverage	Operating Leverage	3.72	2.86	4.41	3.00	3.90	2.97	4.42	3.42	5.42	3.89	3.43
	Financial Leverage	1.05	1.08	1.05	1.05	1.05	1.04	1.07	1.04	1.18	1.09	1.13

1. Financial Ratio

(1) Total Liabilities to Total Assets = Total Liabilities / Total Assets

(2) Long-term Funds to Property, Plant, and Equipment = (Total Equity + Non-current Liabilities) / Property, Plant, and Equipment

2. Ability to Pay Off Debt

(1) Current Ratio = Current Assets / Current Liability

(2) Quick Ratio = (Current Assets - Inventory - Prepaid Expenses) / Current Liability

(3) Interest Protection = Net Income Before Income Tax and Interest Expense / Interest Expense

3. Ability to Operate

(1) Account Receivable (including Account Receivable and Notes Receivable from Operation) Turnover = Net Sales / the Average of Account Receivable (including Account Receivable and Notes Receivable from Operation) Balance

(2) A/R Turnover Day = 365 / Account Receivable Turnover

(3) Inventory Turnover = Cost of Goods Sold / the Average of Inventory

(4) Account Payable (including Account Payable and Notes Payable from Operation) Turnover = Cost of Goods Sold / the Average of Account Payable (including Account Payable and Notes Payable from Operation) Balance

(5) Inventory Turnover Day = 365 / Inventory Turnover

(6) Fixed Assets Turnover = Net Sales / Net Fixed Assets

(7) Total Assets Turnover = Net Sales / Total Assets

4. Earning Ability

(1) Return on Assets = 〔PAT + Interest Expense×(1 - Interest Rate)〕 / the Average of Total Assets

(2) Return on Equity = PAT / the Average of Net Equity

(3) Net Income Ratio = PAT / Net Sates

(4) EPS = (Profit Attributable to Owners of Parent - Dividend from Prefer Stock) / Weighted Average Outstanding Shares

5. Cash Flow

(1) Cash Flow Ratio = Cash Flow from Operating Activities / Current Liability

(2) Net Cash Flow Adequacy Ratio = Most Recent 5-year Cash Flow from Operating Activities / Most Recent 5-year (Capital Expenditure + the Increase of Inventory + Cash Dividend)

(3) Cash Investment Ratio = (Cash Flow from Operating Activities - Cash Dividend) / (Property, Plant, and Equipment + Long-term Investment + Other Non-current Assets + Working Capital)

6. Leverage

(1) Operating Leverage = (Net Revenue - Variable Cost of Goods Sold and Operating Expense) / Operating Income

(2) Financial Leverage = Operating Income / (Operating Income - Interest Expenses)

6.6 2018 Audit Committee's Review Report

Audit Committee's Review Report

The Board of Director has prepared the Company's 2018 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of PricewaterhouseCoopers(PwC) Taiwan was retained to audit Sercomm's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements and profit allocation proposal have been reviewed and determined to be correct and accurate by the Audit Comaumittee members of Sercomm Corporation. According to Article 219 of the Company Law, we hereby submit this report.

To Sercomm Corporation 2018 Annual Shareholders' Meeting

Chairman of the Audit Committee
Steve K. Chen

March 18, 2019

6.7 Financial Status and Operating Results

6.7.1 Financial Position

Unit: Thousand NTD

Item	2017	2018	Difference	Change
Current Assets	20,457,851	18,891,528	-1,566,323	-7.66%
Non-Current Assets	4,309,595	4,476,298	166,703	3.87%
Total Assets	24,767,446	23,367,826	-1,399,620	-5.65%
Current Liabilities	17,304,180	16,060,512	-1,243,668	-7.19%
Non-Current Liabilities	236,970	297,538	60,568	25.56%
Total Liabilities	17,541,150	16,358,050	-1,183,100	-6.74%
Capital Stock	2,456,538	2,456,538	0	0.00%
Capital Surplus	1,764,717	1,800,214	35,497	2.01%
Retained Earnings	3,443,101	3,331,273	-111,828	-3.25%
Other Equity Interest	-412,962	-381,413	31,549	-7.64%
Total Shareholders' Equity	7,226,296	7,009,776	-216,520	-3.00%

6.7.2 Operating Results

Unit: Thousand NTD

Item	2017	2018	Difference	Change
Operating Revenues	38,600,003	33,384,941	-5,215,062	-13.51%
Operating Costs	33,572,160	28,907,289	-4,664,871	-13.90%
Gross Profit from Operations	5,027,843	4,477,652	-550,191	-10.94%
Operating Expenses	3,493,639	3,577,191	83,552	2.39%
Operating Profit	1,534,204	900,461	-633,743	-41.31%
Non-Operating Income and Expenses	49,354	129,959	80,605	163.32%
Income before Tax	1,583,558	1,030,420	-553,138	-34.93%

– Analysis of Deviation over 20% :

- Decrease in operating income : due to decrease in sales revenue and increase in expense
- Decrease in non-operating income and expenses : due to increase in liabilities reversal
- Decrease in income before tax : due to decrease in operating income

6.7.3 Cash Flow Analysis

Item	2017	2018	Change
Cash Flow Ratio (%)	14.69	5.10	-65.28%
Cash Flow Adequacy Ratio (%)	79.80	83.12	4.16%
Cash Reinvestment Ratio (%)	17.05	- 1.11	-106.51%

6.7.4 Projected Cash Flow

Unit: Thousand NTD

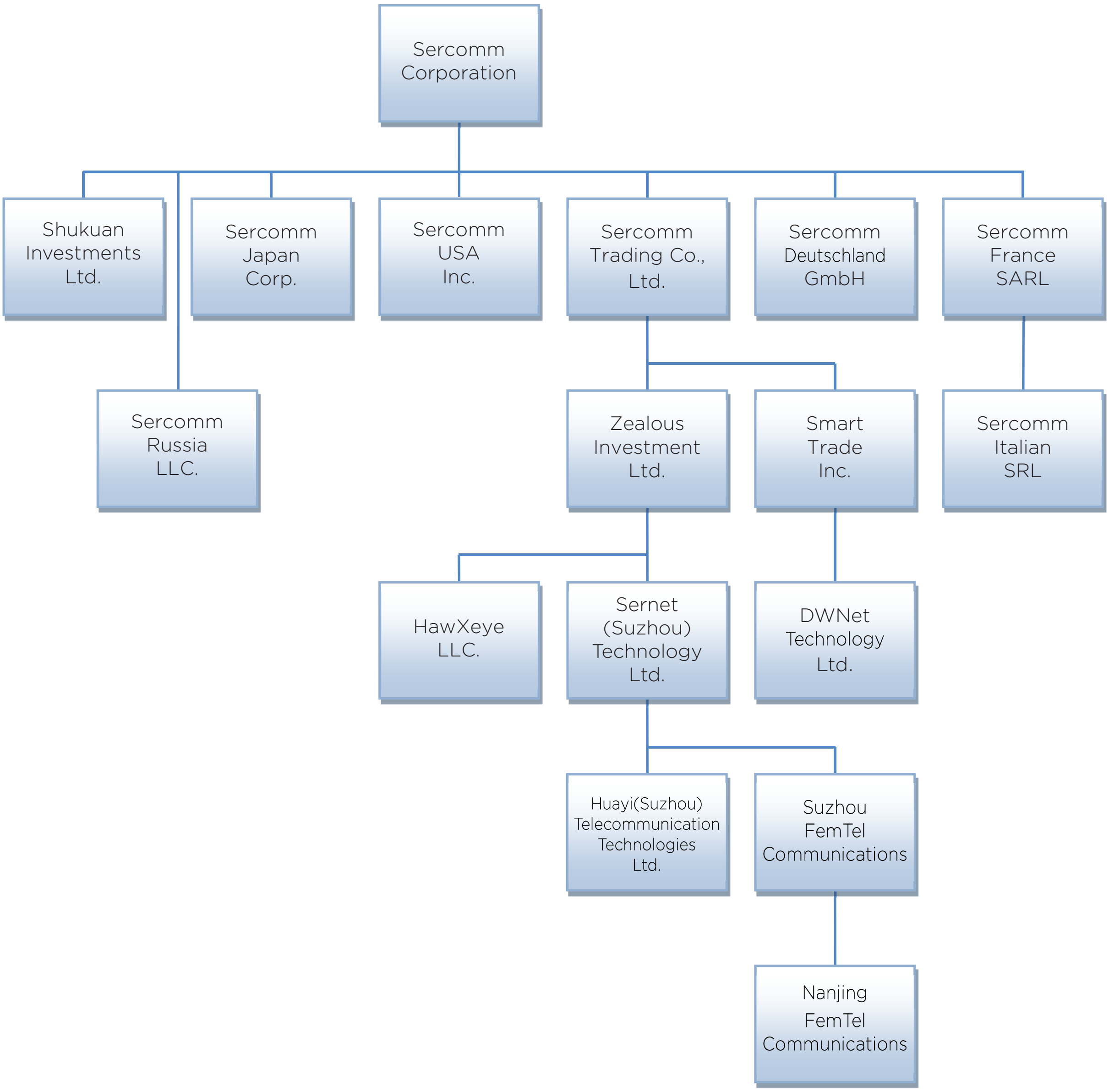
Beginning Cash Balance	Cash Flows from Operating Activities	Cash Flows from Investing & Financing Activities	Projected Ending Cash Balance	Source of Funding for Cash Shortfall	
				Investing Plan	Financing Plan
5,357,910	1,144,463	953,865	5,548,508	-	Issuing Bond

- Analysis of Cash Flow :
  - NT$1,144,463 thousand net cash generated by operating activities: mainly from increase in gross margin, account receivable day and depreciation and amortization expense
  - NT$741,148 thousand net cash used in investing activities: primarily for purchase fixed asset, intangible asset and long term investment strategy
  - NT$212,717 thousand net cash used in financing activities: primarily for cash dividend payment, inflow from bond capital and repay bank loan
- Remedial Actions for Liquidity Shortfall : None

VII. Special Disclosures

7.1 Subsidaries

7.1.1 Affiliated Companies Chart



7.1.2 Affiliated Companies

Company	Date of Incorporation	Paid-in Capital	Major Business
Sercomm USA Inc	1996/09/25	USD$650,000	Sales of IT Products
Shukuan Investments Ltd.	2002/12/31	NTD$28,000,000	Investment Activity
Sercomm Trading Co., Limited	2002/06/24	USD$46,800,000	Overseas Investment
Zealous Investments Ltd.	1999/08/12	USD$30,956,000	Overseas Investment
Sernet (Suzhou) Technology Ltd.	2000/02/18	USD$29,900,000	Manufacture of Routers, Communication Products, WLAN Products; Sales and After-sales Service
Smart Trade Inc.	2003/03/21	USD$16,000,000	Overseas Investment
DWNet Technology Ltd.	2004/01/14	USD$16,000,000	R&D Center of Software; Sales and After-sales Service
Sercomm Japan Corp.	2010/03/15	JPY$490,000,000	Sales of IT Products and International Trading
Sercomm France SARL	2011/01/27	EUD$100,000	Sales of IT Products and International Trading
Sercomm Italian SRL	2012/02/21	EUD$10,000	Sales of IT Products and International Trading
Sercomm Deutschland GmbH	2012/06/29	EUD$100,000	Sales of IT Products and International Trading
Sercomm Russia LLC.	2013/04/18	RUB$10,000	Sales of IT Products and International Trading
Huayi (Suzhou) Telecommunication Technologies Ltd.	2013/07/15	RMB$500,000	Manufacture of Routers, Communication Products, WLAN Products; Sales and After-sales Service
HawXeye LLC.	2015/04/23	USD$286,000	Development of advanced image analysis technology
Suzhou FemTel Communications	2009/11/20	RMB$6,500,000	Telecom equipment, software development and provide related technology service
Nanjing FemTel Communications	2013/01/16	RMB$2,500,000	Telecom equipment, software development and provide related technology service
Sercomm Technology Inc.	2018/08/29	USD$5,000,000	Sales of IT Products and International Trading

7.1.3 Directors, Supervisors and Presidents of Affiliated Companies

Company	Title	Name / Representative	Shareholdings	
			Investment Amount	%
Sercomm USA Inc.	Owner	Paul Wang	650,000 shares	100%
Shukuan Investments Ltd.	Owner	James Wang	2,800,000 shares	100%
Sercomm Trading Co., Limited	Owner	James Wang	USD$46,800,000	100%
Zealous Investments Ltd.	Owner	James Wang	USD$30,956,000	100%
Sernet (Suzhou) Technology Ltd.	Owner	Vincent Han	USD$29,900,000	100%
Smart Trade Inc.	Owner	Ben Lin	USD$16,000,000	100%
DWNet Technology Ltd.	Owner	Vincent Han	USD$16,000,000	100%
Sercomm Japan Corp.	Owner	James Wang	9,800 shares	100%
Sercomm France SARL	Owner	Michael Lee	1,000 shares	100%
Sercomm Italian SRL	Owner	Michael Lee	10,000 shares	100%
Sercomm Deutschland GmbH	Owner	Michael Lee	EUR$100,000	100%
Sercomm Russia LLC.	Owner	Gleb Fedorov	RUB$10,000	100%
Huayi (Suzhou) Telecommunication Technologies Ltd.	Owner	Charles Chu	RMB$500,000	100%
HawXeye LLC.	Owner	Andy Lin	USD$ 157,000	55%
Suzhou FemTel Communications	Owner	Vincent Han	RMB$6,500,000	100%
Nanjing FemTel Communications	Owner	Denniz Wu	RMB$2,500,000	100%
Sercomm Technology Inc.	Owner	Derek Elder	5,000,000 shares	100%

7.1.4 Operational Highlights of Sercomm Subsidiaries

Unit: Thousand NTD / Year 2018

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Revenue	Operation Income(Loss)	Net Income	Basic EPS
Sercomm USA Inc.	20,739	50,220	23,767	26,453	99,610	5,160	4,012	0.00
Shukuan Investments Ltd.	28,000	28,181	4	28,177	0	-35	332	0.00
Sercomm Trading Co., Limited	1,471,186	5,531,574	16	5,531,558	0	0	462,396	0.00
Zealous Investments Ltd.	989,358	4,507,281	76,477	4,430,804	0	-94,452	424,434	0.00
Sernet (Suzhou) Technology Ltd.	933,252	10,655,915	6,288,711	4,367,204	23,577,046	329,245	466,385	0.00
Smart Trade Inc.	481,829	1,100,588	0	1,100,588	0	0	37,962	0.00
DWNet Technology Ltd.	481,829	3,853,941	2,753,354	1,100,587	6,688,257	89,893	37,962	0.00
Sercomm Japan Corp.	157,721	112,144	114,019	-1,875	271,227	14,925	14,089	0.00
Sercomm France SARL	4,004	27,700	5,642	22,058	61,506	15,032	11,967	0.00
Sercomm Italian SRL	388	7,451	4,909	2,542	26,789	1,262	884	0.00
Sercomm Deutschland GmbH	3,727	14,953	31,320	-16,367	36,407	521	-19,926	0.00
Sercomm Russia LLC.	10	366,601	360,896	5,705	1,018,383	18,390	-11,642	0.00
Huayi (Suzhou) Telecommunication Technologies Ltd.	2,454	1,877	0	1,877	0	-52	-21	0.00
HawXeye LLC.	44,690	39,332	40,342	-1,010	9,240	-6,408	90,675	0.00
Suzhou FemTel Communications	32,599	2,097	23,603	-21,506	23,277	5,834	10,917	0.00
Nanjing FemTel Communications	12,538	6,338	19,880	-13,542	29,178	5,074	5,075	0.00
Sercomm Technology Inc.	153,880	155,113	35,271	119,842	0	-33,406	-33,406	0.00

TWSE:5388

SERCOMM CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2018 AND 2017

Address: 8F, No. 3-1, Yuan Qu St, Nan Kang, Taipei 115, Taiwan, R.O.C
Telephone: 886-2-2655-3988

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

pwc 資誠

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Sercomm Corporation

Opinion

We have audited the accompanying consolidated balance sheets of Sercomm Corporation and subsidiaries (the "Group") as at December 31, 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the year 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 its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audit in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Sercomm Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the 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 year 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

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

Timing of revenue recognition from hub sales

Description

Accounting policies of revenue recognition please refer to Notes 4(32), and details of revenue please refer to Note 6(21).

The Group is mainly engaged in global network communication software and equipment sales activities, and its sales types mainly divided to ship directly from factories and goods picked up from hub. For pick-ups from hub, the Group recognises sales revenue when their customers pick up the goods (satisfy the performance obligation) from hubs. Sercomm Corporation recognises sales revenue based on movements of inventories contained in the statements or other information provided by the hub custodians. As the hubs are located around the world with numerous custodians, the frequency and contents of statements provided by custodians vary, and the process of revenue recognition involves numerous manual procedures, these factors may potentially result in inaccurate timing of sales revenue recognition and discrepancy between physical inventory quantities in the hubs and quantities as reflected in accounting records. As the transaction amounts from hubs prior to and after the balance sheet date are significant to the financial statements, we consider timing of revenue recognition from hub sales as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

A. Assessed and tested the appropriateness of internal controls over hub sales revenue, including understanding and testing the statements between the Group and hub custodians periodically.

B. Obtained the stock details of each hub at the balance sheet date and agreed to respective supporting documents provided by hub custodians.

C. Confirmed inventory quantities held at hubs and agreed to accounting records to validate the revenue recognition in proper period.

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Valuation of inventory

Description

Accounting policies of inventory please refer to Note 4(13), and accounting estimate of valuation of inventory and assumption uncertainty please refer to Note 5. Loss on inventories valuation please refer to Note 6(7). The cost of inventory and loss on inventory of valuation are $ 5,242,931 thousand and $ 218,758 thousand, respectively.

Due to rapid technological innovations and intense competition in the telecom market, there is a higher risk of inventory losses due from market value decline or obsolescence. The Group recognises inventories at the lower of cost and net realisable value, and the net realisable value is estimated based on historical experience, such as inventories aged over a certain period of time or individually identified as obsolete.

Since industry which the Group engaged in changes quickly, and the estimate of net realizable value for obsolete inventory is subject to management's judgment, we consider valuation of inventory as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

A. Assessed the reasonableness of accounting policies and procedures in relation to inventory valuation, including the classification of aged, damaged and obsolete inventory.

B. Reviewed the Group's annual counting plan and conducted their physical counts on inventories to evaluate the control effectiveness on inventory classification.

C. Validated the inventory classification and the amount of net realisable value, recalculated the loss of inventory and further evaluated the rationality.

Other matter – Reference to audits of other independent accountants

The consolidated financial statements of the Group as at and for the year ended December 31, 2017, were audited by another auditor who expressed an unqualified opinion on those statements on March 12, 2018.

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Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Sercomm Corporation as at and for the year ended December 31, 2018.

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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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.

Auditor's 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 auditor's 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 ROC GAAS 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.

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As part of an audit in accordance with ROC GAAS, 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 auditor's 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 auditor's 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 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.

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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 auditor's 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.

Yi-Chang Liang Yu-Lung Wu

For and on behalf of PricewaterhouseCoopers, Taiwan
March 18, 2019

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.
As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 5,357,910	23	$ 6,484,163	26
1110	Financial assets at fair value through profit or loss - current	6(2)	434,889	2	-	-
1120	Financial assets measured at fair value through other comprehensive income - current	6(3)	250,259	1	-	-
1139	Financial assets for hedging - current	6(4)	41,644	-	-	-
1150	Notes receivable, net	6(5)	898,632	4	912,670	4
1170	Accounts receivable, net	6(5)	5,642,324	24	6,287,648	25
1200	Other receivables	6(6)	925,295	4	339,523	1
1220	Current income tax assets		33,925	-	-	-
130X	Inventories	6(7)	5,024,173	22	6,061,829	25
1410	Prepayments		184,252	1	250,451	1
1470	Other current assets	8	98,225	-	121,567	1
11XX	**Total Current Assets**		18,891,528	81	20,457,851	83
	Non-current assets					
1510	Financial assets at fair value through profit or loss - noncurrent	6(2)	41,797	-	24,121	-
1517	Financial assets measured at fair value through other comprehensive income - noncurrent	6(3)	58,870	-	-	-
1523	Available-for-sale financial assets - noncurrent	12(4)	-	-	23,632	-
1543	Financial assets measured at cost - noncurrent	12(4)	-	-	60,120	-
1550	Investments accounted for using equity method	6(8)	9,251	-	-	-
1600	Property, plant and equipment, net	6(9)	3,250,139	14	3,248,680	13
1780	Intangible assets, net	6(10)	359,339	2	297,551	1
1840	Deferred income tax assets	6(27)	397,339	2	301,257	1
1915	Prepayments for business facilities	6(29)	115,339	1	47,526	-
1920	Guarantee deposits paid	8	88,702	-	48,534	-
1980	Other non-current financial assets	9	69,438	-	166,794	1
1985	Long-term prepaid rents		85,051	-	89,936	1
1990	Other non-current assets, others		1,033	-	1,444	-
15XX	**Total non-current assets**		4,476,298	19	4,309,595	17
1XXX	**Total assets**		$ 23,367,826	100	$ 24,767,446	100

(Continued)

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
	Current liabilities					
2100	Short-term borrowings	6(11)	$ 2,692,520	12	$ 1,876,361	8
2120	Financial liabilities at fair value through profit or loss - current	6(2)	560	-	12,606	-
2125	Derivative financial liabilities for hedging - current	12(4)	-	-	217,162	1
2130	Contract liabilities	6(21)	214,498	1	-	-
2150	Notes payable		518,089	2	-	-
2170	Accounts payable		9,331,166	40	11,467,382	46
2200	Other payables	6(12)	2,662,407	11	3,032,039	12
2230	Current income tax liabilities		198,070	1	257,751	1
2250	Provisions for liabilities - current	6(16)	100,615	-	112,956	1
2355	Current lease obligations payable	6(13)	13,922	-	13,647	-
2365	Current refund liabilities	6(21)	177,889	1	-	-
2399	Other current liabilities, others	9	150,776	1	314,276	1
21XX	**Total current Liabilities**		16,060,512	69	17,304,180	70
	Non-current liabilities					
2570	Deferred income tax liabilities	6(27)	138,200	1	60,675	-
2610	Long-term notes and accounts payable	6(13)	99,537	-	114,231	1
2640	Net defined benefit liability, non-current	6(14)	56,864	-	57,810	-
2645	Guarantee deposits received		2,937	-	4,254	-
25XX	**Total non-current liabilities**		297,538	1	236,970	1
2XXX	**Total Liabilities**		16,358,050	70	17,541,150	71
	Equity					
	Equity attributable to owners of parent					
	Share capital	6(17)				
3110	Ordinary share		2,456,538	11	2,456,538	10
	Capital surplus	6(18)				
3200	Capital surplus		1,800,214	7	1,764,717	7
	Retained earnings	6(19)				
3310	Legal reserve		1,025,583	4	894,396	4
3320	Special reserve		412,962	2	131,678	-
3350	Undistributed retained earnings		1,892,728	8	2,417,027	10
	Other equity interest	6(20)				
3400	Other equity interest		(381,413)	(1)	(412,962)	(2)
	Treasury stocks					
3500	Treasury stocks	6(17)	(196,383)	(1)	-	-
31XX	**Total equity attributable to owners of the parent**		7,010,229	30	7,251,394	29
36XX	**Non-controlling interest**		(453)	-	(25,098)	-
3XXX	**Total equity**		7,009,776	30	7,226,296	29
	SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS	9				
3X2X	**Total liabilities and equity**		$ 23,367,826	100	$ 24,767,446	100

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

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

	Items	Notes	2018 AMOUNT	2018 %	2017 AMOUNT	2017 %
4000	**Operating revenue**	6(21) and 12(5)	$ 33,384,941	100	$ 38,600,003	100
5000	**Operating costs**	6(7)	(28,907,289)	(86)	(33,572,160)	(87)
5900	**Gross profit**		4,477,652	14	5,027,843	13
	Operating expenses					
6100	Selling expenses		(1,071,586)	(3)	(1,020,627)	(3)
6200	General & administrative expenses		(750,752)	(3)	(827,423)	(2)
6300	Research and development expenses		(1,751,190)	(5)	(1,645,589)	(4)
6450	Reversal of impairment loss	12(2)	(3,663)	-	-	-
6000	**Total operating expenses**		(3,577,191)	(11)	(3,493,639)	(9)
6900	**Operating profit**		900,461	3	1,534,204	4
	Non-operating income and expenses					
7010	Other income	6(22)	236,030	-	107,708	-
7020	Other gains and losses	6(23)	(33,846)	-	1,040	-
7050	Finance costs	6(24)	(72,361)	-	(59,394)	-
7060	Share of profit of associates and joint ventures accounted for using equity method	6(8)	136	-	-	-
7000	**Total non-operating revenue and expenses**		129,959	-	49,354	-
7900	**Profit before income tax**		1,030,420	3	1,583,558	4
7950	Income tax expense	6(27)	(182,115)	-	(295,400)	(1)
8200	**Profit for the year**		$ 848,305	3	$ 1,288,158	3

Year ended December 31

(Continued)

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

	Items	Notes	2018 AMOUNT	2018 %	2017 AMOUNT	2017 %
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Other comprehensive income, before tax, actuarial losses on defined benefit plans	6(14)	($ 2,267)	-	($ 8,095)	-
8316	Recorded as unrealised gains on valuation of investments in equity instruments measured at fair value through other comprehensive income	6(3)	(70,338)	-	-	-
8317	Losses on hedging instrument	6(20)	(29,936)	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(27)	6,294	-	1,376	-
8310	**Total components of other comprehensive income that will not be reclassified to profit or loss**		(96,247)	-	(6,719)	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations		(128,571)	(1)	(45,155)	-
8362	Unrealised gains on valuation of available-for-sale financial assets	6(20)	-	-	3,109	-
8363	Losses on effective portion of cash flow hedges	6(20)	-	-	(574,225)	(1)
8368	Gain on hedging instruments	6(20)	290,668	1	-	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(27)	(32,585)	-	49,838	-
8360	**Total components of other comprehensive income that will be reclassified to profit or loss**		129,512	-	(566,433)	(1)
8500	**Total comprehensive income for the year**		$ 881,570	3	$ 715,006	2
	Profit (loss), attributable to					
8610	Owners of the parent		$ 807,586	3	$ 1,311,868	3
8620	Non-controlling interest		40,719	-	(23,710)	-
	Total		$ 848,305	3	$ 1,288,158	3
	Comprehensive income attributable to					
8710	Owners of the parent		$ 840,922	3	$ 738,208	2
8720	Non-controlling interest		40,648	-	(23,202)	-
	Total		$ 881,570	3	$ 715,006	2
	Earnings per share	6(28)				
9750	**Basic earnings per share**		$ 3.32		$ 5.38	
9850	**Diluted earnings per share**		$ 3.25		$ 5.24	

Year ended December 31

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

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

		Equity attributable to owners of the parent													
				Retained earnings			Other equity								
	Notes	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Undistributed retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on financial assets at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets	Gain or loss on effective portion of cash flow hedges	Gain or loss on hedging instrument	Treasury shares	Total	Non-controlling interest	Total equity
Year 2017															
Balance at January 1, 2017		$ 2,429,198	$ 1,617,572	$ 748,231	$ 131,678	$ 2,278,306	($ 159,161)	$ -	$ 13,079	$ 300,061	$ -	$ -	$ 7,358,964	($ 1,896)	$ 7,357,068
Profit (loss) for the period		-	-	-	-	1,311,868	-	-	-	-	-	-	1,311,868	(23,710)	1,288,158
Other comprehensive income (loss) for the period	6(20)	-	-	-	-	(6,719)	(50,902)	-	3,109	(519,148)	-	-	(573,660)	508	(573,152)
Total comprehensive income (loss)		-	-	-	-	1,305,149	(50,902)	-	3,109	(519,148)	-	-	738,208	(23,202)	715,006
Appropriation and distribution of retained earnings:															
Legal reserve	6(19)	-	-	146,165	-	(146,165)	-	-	-	-	-	-	-	-	-
Cash dividends	6(19)	-	-	-	-	(1,020,263)	-	-	-	-	-	-	(1,020,263)	-	(1,020,263)
Employee stock options exercised	6(18)	27,340	121,663	-	-	-	-	-	-	-	-	-	149,003	-	149,003
Compensation cost of employee stock options	6(15)	-	24,991	-	-	-	-	-	-	-	-	-	24,991	-	24,991
Adjustments arising from changes in percentage of ownership in subsidiaries	6(18)	-	491	-	-	-	-	-	-	-	-	-	491	-	491
Balance at December 31, 2017		$ 2,456,538	$ 1,764,717	$ 894,396	$ 131,678	$ 2,417,027	($ 210,063)	$ -	$ 16,188	($ 219,087)	$ -	$ -	$ 7,251,394	($ 25,098)	$ 7,226,296
Year 2018															
Balance at January 1, 2018		$ 2,456,538	$ 1,764,717	$ 894,396	$ 131,678	$ 2,417,027	($ 210,063)	$ -	$ 16,188	($ 219,087)	$ -	$ -	$ 7,251,394	($ 25,098)	$ 7,226,296
Effect of adoption of new standards	12(4)	-	-	-	-	2,702	-	13,486	(16,188)	219,087	(219,087)	-	-	-	-
Balance after adjustments at January 1		2,456,538	1,764,717	894,396	131,678	2,419,729	(210,063)	13,486	-	-	(219,087)	-	7,251,394	(25,098)	7,226,296
Profit for the period		-	-	-	-	807,586	-	-	-	-	-	-	807,586	40,719	848,305
Other comprehensive income (loss) for the period		-	-	-	-	(915)	(151,833)	(66,319)	-	-	252,403	-	33,336	(71)	33,265
Total comprehensive income (loss)		-	-	-	-	806,671	(151,833)	(66,319)	-	-	252,403	-	840,922	40,648	881,570
Appropriation and distribution of retained earnings:															
Legal reserve	6(19)	-	-	131,187	-	(131,187)	-	-	-	-	-	-	-	-	-
Special reserve	6(19)	-	-	-	281,284	(281,284)	-	-	-	-	-	-	-	-	-
Cash dividends	6(19)	-	-	-	-	(921,201)	-	-	-	-	-	-	(921,201)	-	(921,201)
Compensation cost of employee stock options	6(15)	-	35,497	-	-	-	-	-	-	-	-	-	35,497	-	35,497
Treasury share acquired		-	-	-	-	-	-	-	-	-	-	(496,187)	(496,187)	-	(496,187)
Treasury share transfer to employees		-	-	-	-	-	-	-	-	-	-	299,804	299,804	-	299,804
Change in non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	(16,003)	(16,003)
Balance at December 31, 2018		$ 2,456,538	$ 1,800,214	$ 1,025,583	$ 412,962	$ 1,892,728	($ 361,896)	($ 52,833)	$ -	$ -	$ 33,316	($ 196,383)	$ 7,010,229	($ 453)	$ 7,009,776

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

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

	Notes	Year ended December 31 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 1,030,420	$ 1,583,558
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(9)(25)	491,533	466,671
Amortisation expense	6(10)(25)	93,055	84,310
Bad debt expense	12(4)	-	1,212
Expected credit losses	12(2)	3,663	-
Net loss on financial assets and liabilities at fair value through profit or loss	6(2)(23)	53,223	10,205
Interest expense	6(24)	72,361	59,394
Interest income	6(22)	(65,087)	(78,405)
Dividend income	6(22)	(32,564)	(342)
Gain on disposal of other liabilities	6(22)	(99,898)	-
Gain on past due payables	6(22)	(4,112)	-
Compensation cost of employee stock options	6(15)	35,497	24,991
Share of profit of associates and joint ventures accounted for using equity method	6(8)	(136)	-
Gain on disposal of property, plant and equipment	6(23)	(496)	(1,806)
Gains on disposals of intangible assets	6(23)	(100,424)	-
Impairment loss-investments accounted for using equity method	6(8)(23)	20,707	-
Impairment loss-financial assets carried at cost	6(23)	-	3,255
Loss on disposal of investment	6(23)	-	1,220
Changes in operating assets and liabilities			
Changes in operating assets			
Note receivables-net		559,342	352,541
Accounts receivable		641,690	(430,214)
Other receivables		(591,325)	132,144
Inventories		1,037,656	(554,860)
Prepayments		67,014	(39,701)
Other current assets		23,791	(35,420)
Other financial assets-non-current		99,000	-
Changes in operating liabilities			
Financial liabilities at fair value through profit or loss - current		36,971	1,603
Contract liabilities		147,086	-
Note payables		65,411	-
Accounts payable		(2,228,842)	1,462,678
Other payables		(381,354)	(159,569)
Provisons		91,081	(48,519)
Refund liabilities-current		74,499	-
Other current liabilities		9,566	(39,639)
Net defined benefit liabilities - non-current		(3,213)	(3,227)
Cash inflow generated from operations		1,146,115	2,792,080
Interest received		68,996	86,830
Interest paid		(70,637)	(60,511)
Payments of income tax		(325,965)	(307,898)
Net cash flows from operating activities		818,509	2,510,501

(Continued)

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

	Notes	Year ended December 31 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets at fair value through profit or loss		($ 545,799)	($ 23,867)
Proceeds from disposal of financial assets at fair value through profit or loss		24,082	-
Aquisition of financial asset at fair value through other comprehensive income		(298,076)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income		2,360	-
Proceeds from disposal of available-for-sale financial assets		-	38,780
Acquisition of investments accounted for using equity method	6(8)	(30,144)	-
Acquisition of property, plant and equipment	6(29)	(566,823)	(426,617)
Proceeds from disposal of property, plant and equipment		2,029	3,982
Increase in guarantee deposit paid		(40,168)	(19,910)
Acquisition of intangible assets	6(29)	(173,467)	(131,498)
Proceeds from disposal of intangible assets		69,887	-
Dividend received		32,564	342
Net cash flows used in investing activities		(1,523,555)	(558,788)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term debts		5,357,781	6,371,117
Settlement of short-term debts		(4,541,622)	(6,630,073)
Increase in guarantee deposits received		(1,317)	(2,025)
Decrease in lease payables	6(13)	(14,419)	(13,969)
Payments of cash dividends	6(19)	(921,201)	(1,020,263)
Employee stock options exercised		-	149,003
Treasury share acquired		(496,187)	-
Treasure share transfer to employee		299,804	-
Change in non-controlling interest		(16,074)	-
Cash received from investment of non-controlling interests in subsidiary's new shares		-	491
Net cash flows used in financing activities		(333,235)	(1,145,719)
Effect of exchange rate changes		(87,972)	(43,172)
Net (decrease) increase in cash and cash equivalents		(1,126,253)	762,822
Cash and cash equivalents at beginning of year		6,484,163	5,721,341
Cash and cash equivalents at end of year		$ 5,357,910	$ 6,484,163

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

SERCOMM CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Expressed in Thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

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

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

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

These consolidated financial statements were authorised for issuance by the Board of Directors on March 18, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

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

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

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

C. IFRS 9, 'Financial instruments'

(a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.

(b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

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

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

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

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

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

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

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

E. Amendments to IAS 7, 'Disclosure initiative'

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

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

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

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

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

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

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

I. Annual improvements to IFRSs 2014-2016 cycle

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

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

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

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

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

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

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

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

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

Explanation:

A. In accordance with IFRS 9, the Group reclassified available-for-sale financial assets and financial assets at cost in the amounts of $23,632 and $60,120, respectively, and made an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, increasing retained earnings and decreasing other equity interest in the amounts of $83,752, $2,702 and $2,702, respectively.

B. Presentation of contract assets and contract liabilities

In line with IFRS 15 requirements, the Group changed the presentation of certain accounts in the balance sheet as follows:

(a) Under IFRS 15, liabilities in relation to expected volume discounts and refunds to customers are recognised as contract liabilities, but were previously presented as current provisions in the balance sheet. As of January 1, 2018, the balance amounted to $103,390.

(b) Under IFRS 15, liabilities in relation to selling contract are recognised as contract liabilities, but were previously presented as ‘other current liabilities - others’ in the balance sheet. As of January 1, 2018, the balance amounted to $67,412.

C. Please refer to Notes 12(4) and (5) for other disclosures in relation to the first application of IFRS 9 and IFRS 15.

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

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

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

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

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

B. IFRS 16, 'Leases'

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

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

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

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

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

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

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

F. Annual improvements to IFRSs 2015-2017 cycle

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

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

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

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

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

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

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

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

When adopting the new standards of IFRS 16, 'Leases', the Group does not intend to restate prior period financial statements by using the modified retrospective approach under IFRS 16. The significant effects of applying the new standards as of January 1, 2019 are summarised below:

Consolidated balance sheet	2018 version IFRSs amount	Effect of adoption of new standards	2019 version IFRSs amount
Affected items			
January 1,2019			
Assets			
Right-of-use assets	$ -	$ 618,428	$ 618,428
Long-term advanced payments	85,051	(85,051)	-
Property, plant and equipments	226,466	(226,466)	-
Liabilities			
Lease liabilities	$ -	$ 420,370	$ 420,370
Lease payables-current	13,922	(13,922)	-
Long-term notes payables	99,537	(99,537)	-

Note: There is no influence on comprehensive income statement when the Group adopts IFRS16.

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

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

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

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

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

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

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

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

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

(a) If sales or contributions of assets constitute a 'business', the full gain or loss is recognised;

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

D. IFRS 17, 'Insurance contracts'

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

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

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

(b) Financial assets and liabilities at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.

(c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

B. Subsidiaries included in the consolidated financial statements:

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

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

Note 2: HawXeye Inc. has changed its name to HawXeye, LLC. in November 2018.

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

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

E. Significant restrictions: None

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

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

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

B. Translation of foreign operations

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

(a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

(c) All resulting exchange differences are recognised in other comprehensive income.

(5) Classification of current and non-current items

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

(a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

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

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.

D. The Group recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

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

(a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and

(b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:

(a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(9) Accounts and notes receivable

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

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

C. The Group's operating pattern of accounts receivable that are expected to be factored is for the purpose of selling, and the accounts receivable are subsequently measured at fair value, with any changes in fair value recognised in profit or loss.

(10) Impairment of financial assets

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

(11) Derecognition of financial assets

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

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

B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.

C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(12) Operating leases (lessor)

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

(13) Inventories

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

(14) Investments accounted for using equity method / associates

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

B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.

D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(15) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

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

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

(16) Leased assets/ operating leases (lessee)

A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset.

(a) A finance lease is recognised as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

(b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

B. Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(17) Intangible assets

A. Computer software and certification cost

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

B. Internally generated intangible assets—research and development expenditures

(a) Research expenditures are recognised as an expense as incurred.

(b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:

i. It is technically feasible to complete the intangible asset so that it will be available for use or sale;

ii. An entity intends to complete the intangible asset and use or sell it;

iii. An entity has the ability to use or sell the intangible asset;

iv. It can be demonstrated how the intangible asset will generate probable future economic benefits;

v. Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

vi. The expenditure attributable to the intangible asset during its development can be reliably measured.

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

C. Goodwill

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

D. Trademark right

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

(18) Impairment of non-financial assets

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognised.

B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.

C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(19) Borrowings

A. Borrowings comprise short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

B. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(20) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial. The Group initially measures notes and accounts payable at fair value.

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

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.

B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

C. If the credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognised in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognising in profit or loss for loan commitments or financial guarantee contracts.

(22) Derecognition of financial liabilities

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

(23) Offsetting financial instruments

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

(24) Non-hedging and embedded derivatives

A. Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

B. Under the financial assets, the hybrid contracts embedded with derivatives are initially recognised as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost based on the contract terms.

C. Under the non-financial assets, whether the hybrid contracts embedded with derivatives are accounted for separately at initial recognition is based on whether the economic characteristics and risks of an embedded derivative are closely related in the host contract. When they are closely related, the entire hybrid instrument is accounted for by its nature in accordance with the applicable standard. When they are not closely related, the derivative is accounted for differently from the host contract as derivative while the host contract is accounted for by its nature in accordance with the applicable standard. Alternatively, the entire hybrid instrument is designated as financial liabilities at fair value through profit or loss upon initial recognition.

(25) Hedge accounting

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

B. The Group designates the hedging relationship as follows:

(a) Fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment.

(b) Cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

C. Fair value hedges

(a) The gain or loss on the hedging instrument is recognised in profit or loss. Whereas the gain or loss is recognised in other comprehensive income if the hedging instrument hedges an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income.

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

D. Cash flow hedges

(a)The cash flow hedge reserve associated with the hedged item is adjusted to the lower of the following (in absolute amounts):

i. the cumulative gain or loss on the hedging instrument from inception of the hedge; and

ii.the cumulative change in fair value of the hedged item from inception of the hedge.

(b)The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income. The gain or loss on the hedging instrument relating to the ineffective portion is recognised in profit or loss.

(c)The amount that has been accumulated in the cash flow hedge reserve in accordance with (a) is accounted for as follows:

i. If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or liability.

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

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

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

(26) Provisions

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

(27) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past service costs are recognised immediately in profit or loss.

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

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

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

(28) Employee share-based payment

A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

B. Restricted stocks:

(a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.

(b) For restricted stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must return the stocks to the Group and the Group must refund their payments on the stocks, the Group recognises the payments from the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the payments from the employees who are expected to be eventually vested with the stocks in 'capital surplus – restricted employee right.'

(29) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(30) Share capital

A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(31) Dividends

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

(32) Revenue recognition

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

The Group has used five steps to determine the revenue recognition:

Step 1: Identify the contract.

Step 2: Identify the obligation in contract.

Step 3: Determine transaction price.

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

Step 5: Recognize revenue when those obligations are satisfied.

B. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected payable to customers in relation to sales made until the end of the reporting period.

C. The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.

D. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(33) Operating segments

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

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

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

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

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand and revolving funds	$ 2,238	$ 2,644
Checking accounts and demand deposits	2,180,581	1,989,841
Time deposits	3,174,037	4,318,904
Cash equivalent	1,054	172,774
	$ 5,357,910	$ 6,484,163

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

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

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

Assets	December 31, 2018	December 31, 2017
Current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Listed stocks	$ 517,751	$ -
Forward foreign exchange contract	4,220	-
Cross currency swap	1,841	-
Valuation adjustment	(88,923)	-
	$ 434,889	$ -
Non-current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Converted corporate bonds	$ 27,834	$ 23,867
Unlisted stocks	33,088	-
Valuation adjustment	(19,125)	254
	$ 41,797	$ 24,121

Liabilities	December 31, 2018	December 31, 2017
Current items:		
Financial liabilities held for trading		
Cross currency swap	$ 560	$ 4,574
Forward foreign exchange contract	-	8,032
	$ 560	$ 12,606

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

	Years ended December 31, 2018	Years ended December 31, 2017
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	($ 88,923)	$ -
Debt instruments	(19,378)	254
Forward foreign exchange contract	(8,516)	(5,885)
Cross currency swap	63,594	-
Financial liabilities held for trading		
Cross currency swap	-	(4,574)
	($ 53,223)	($ 10,205)

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

	December 31, 2018		
	Currency	Contract period	Contract amount
Forward foreign exchange contracts	Buy USD/ Sell RUB	2018/11~2019/01	USD 2,670 thousand
Cross currency swap	Buy USD/ Sell NTD	2018/10~2019/02	USD 40,000 thousand

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

C. Except for item D, the Group's financial assets at fair value through profit or loss were not pledged to others as collateral.

D. In May 2018, the consolidated subsidiary HawXeye, LLC. obtained US2,274 thousand dollars and 3,845 thousand common shares ($33,088) because of the sale of patent rights. For indemnification obligations resulting from the patent rights, some common shares amounting to 1,730 thousand shares ($14,887) are restricted to transfer until November 2019.

E. Information relating to fair value of financial assets at fair value through profit or loss is provided in Note 12(3).

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

Items		December 31, 2018
Current items:		
Designation of equity instruments		
Listed stocks	$	295,716
Valuation adjustment	(	45,457)
	$	250,259
Non-current items:		
Designation of equity instruments		
Unlisted stocks	$	70,819
Valuation adjustment	(	11,949)
	$	58,870

A. The Group has elected to classify investments that are considered to be strategic investments or steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to $309,129 as at December 31, 2018.

B. Amounts recognised in profit or loss and other comprehensive income in relation to the equity instruments at fair value through other comprehensive income are listed below:

	Year ended December 31, 2018
Fair value change recognised in other comprehensive income	($ 70,338)
Dividend income recognised in profit or loss	$ 15,288

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

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

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

(4) Hedging financial assets and liabilities

	December 31, 2018	
	Assets	Liabilities
Cash flow hedges:		
Exchange rate risk		
Forward foreign exchange contracts	$ 41,644	$ -

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

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

December 31, 2018				
Hedged items	Derivative instruments designated as hedges	Fair value of instruments designated as hedges	Period of anticipated cash flow	Period of gain (loss) expected to be recognized in statements of comprehensive income
Expected transaction	Forward foreign exchange contracts	$ 41,644	2019/1~2019/6	2019/1~2019/6

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

	December 31, 2018		
	Currency	Contract period	Contract amount
Forward foreign exchange contracts	Sell EUR / Buy USD	2018/8~2019/6	EUR 30,000 thousand

D. Cash flow hedge:

<u>Other equity - cash flow hedge reserve</u>

At January 1, 2018	($ 219,087)
Add: Losses on hedge effectiveness-amount recognised in other comprehensive income	181,498
Add: Reclassified to profit or loss as the hedged item has affected profit or loss	99,918
Less: Adjusted to inventories as the hedged item has not been sold	(29,013)
At December 31, 2018	$ 33,316

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

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

F. Information as of December 31, 2017 is provided in Note 12(4).

(5) <u>Notes and accounts receivable</u>

	December 31, 2018	December 31, 2017
Notes receivable	$ 898,632	$ 912,670
Accounts receivable	$ 5,654,986	$ 6,296,867
Less: Allowance for loss / bad debts	(12,662)	(9,219)
	$ 5,642,324	$ 6,287,648

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

B. As of December 31, 2018 and 2017, notes receivable were endorsed and transferred to suppliers as payment, which had not reached maturity and were not derecognised, amounting to $100,540 (RMB 22,461 thousand, the approximate fair value). If the issuer or acceptor of a note refuses to pay at maturity, the Group has the obligation to pay as the endorser.

C. As of December 31, 2018 and 2017, the amount of endorsed notes pledged as collateral for the purpose of issuing banker's acceptances was $452,678 and $119,790, respectively.

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

(6) Transfer of financial assets

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

December 31, 2018

Purchaser of accounts receivable	Accounts receivable transferred	Amount derecognised	Facilities	Interest rate range of amount advanced	Interest rate of amount advanced
DBS Bank (Taiwan) Ltd.	$ 2,198,962 (USD 71,550,000)	$ 2,198,962	USD 72,000,000	$ 1,426,853 (USD 46,427,000)	2.17%~3.86%
Taishin International Bank	6,219 (USD 202,000)	6,219	USD 1,000,000	-	-
	$ 2,205,181	$ 2,205,181		$ 1,426,853	

December 31, 2017

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

B. The price that arose from factoring of accounts receivable but not yet received from banks in advance are shown as 'other receivables'.

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

	December 31, 2018	December 31, 2017
Amount derecognised	$ 130,612	$ 1,779,971
	(RMB 29,179,000)	(RMB 388,343,000)

(7) Inventories

	December 31, 2018	December 31, 2017
Raw materials	$ 1,906,188	$ 2,423,716
Work in progress	530,977	507,696
Finished goods	2,581,878	3,020,004
Inventory in transit	5,130	110,413
	$ 5,024,173	$ 6,061,829

The cost of inventories recognised as expense for the year:

	Year ended December 31, 2018	Year ended December 31, 2017
Cost of goods sold	$ 28,885,299	$ 33,371,439
Loss on decline in market value	21,990	200,721
	$ 28,907,289	$ 33,572,160

(8) Investments accounted for using equity method

	2018
At January 1	$ -
Addition of investments accounted for using equity method	30,144
Share of profit or loss of investments accounted for using equity method	136
Impairment loss-Investments accounted for using equity method	(20,707)
Effect of exchange rate changes	(322)
At December 31	$ 9,251

A. The Group acquired 30% of the shares of the associated company MECSware GmbH in March 2018, whose principal place of business is in Germany, its net income of year 2018 was $454.

B. In 2018, the Group recognised an impairment loss of $20,707 due to the decrease in the recoverable value of the investment.

(9) Property, plant and equipment

	Land	Buildings and structures	Machinery and equipment	Development equipment	Office and other equipment	Leased assets	Unfinished construction	Total
January 1, 2018								
Cost	$433,008	$ 1,377,577	$ 2,303,777	$ 722,969	$ 513,892	$ 290,341	$ 23,868	$ 5,665,432
Accumulated depreciation		(230,680)	(1,390,904)	(451,488)	(283,960)	(59,720)	-	(2,416,752)
	$433,008	$ 1,146,897	$ 912,873	$ 271,481	$ 229,932	$ 230,621	$ 23,868	$ 3,248,680
At January 1, 2018	$433,008	$ 1,146,897	$ 912,873	$ 271,481	$ 229,932	$ 230,621	$ 23,868	$ 3,248,680
Additions		-	192,106	121,813	130,067	74,724		518,710
Disposals		-	(1,192)	-	(341)	-	-	(1,533)
Reclassifications		-	-	-	7,371	22,546	(22,546)	7,371
Depreciation charge		(32,783)	(280,329)	(89,745)	(77,654)	(11,022)	-	(491,533)
Net exchange differences		(14,234)	(14,573)	(1,758)	(557)	125	(559)	(31,556)
At December 31, 2018	$433,008	$ 1,099,880	$ 808,885	$ 301,791	$ 288,818	$ 316,994	$ 763	$ 3,250,139
December 31, 2018								
Cost	$433,008	$ 1,359,105	$ 2,400,234	$ 829,054	$ 638,121	$ 387,162	$ 763	$ 6,047,447
Accumulated depreciation		(259,225)	(1,591,349)	(527,263)	(349,303)	(70,168)	-	(2,797,308)
	$433,008	$ 1,099,880	$ 808,885	$ 301,791	$ 288,818	$ 316,994	$ 763	$ 3,250,139

	Land	Buildings and structures	Machinery and equipment	Development equipment	Office and other equipment	Leased assets	Unfinished construction	Total
January 1, 2017								
Cost	$433,008	$ 1,388,124	$ 2,122,715	$ 607,103	$ 429,420	$ 290,341	$ 6,982	$ 5,277,693
Accumulated depreciation		(199,735)	(1,141,772)	(387,402)	(227,528)	(55,566)	-	(2,012,003)
	$433,008	$ 1,188,389	$ 980,943	$ 219,701	$ 201,892	$ 234,775	$ 6,982	$ 3,265,690
At January 1, 2017	$433,008	$ 1,188,389	$ 980,943	$ 219,701	$ 201,892	$ 234,775	$ 6,982	$ 3,265,690
Additions		-	218,583	104,723	82,350	-	23,868	429,524
Disposals		-	5,507	(567)	(7,116)	-	-	(2,176)
Reclassifications		-	378	34,361	21,419	-	(6,890)	49,268
Depreciation charge		(32,544)	(277,424)	(84,604)	(67,945)	(4,154)	-	(466,671)
Net exchange differences		(8,948)	(15,114)	(2,133)	(668)	-	(92)	(26,955)
At December 31, 2017	$433,008	$ 1,146,897	$ 912,873	$ 271,481	$ 229,932	$ 230,621	$ 23,868	$ 3,248,680
December 31, 2017								
Cost	$433,008	$ 1,377,577	$ 2,303,777	$ 722,969	$ 513,892	$ 290,341	$ 23,868	$ 5,665,432
Accumulated depreciation		(230,680)	(1,390,904)	(451,488)	(283,960)	(59,720)	-	(2,416,752)
	$433,008	$ 1,146,897	$ 912,873	$ 271,481	$ 229,932	$ 230,621	$ 23,868	$ 3,248,680

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

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

(10) Intangible assets

	Computer software	Development expenditure	Goodwill	Patents	Total
January 1, 2018					
Cost	$ 390,290	$ 221,541	$ 49,059	$ 10,545	$ 671,435
Accumulated amortisation	(225,010)	(147,890)	-	(984)	(373,884)
	$ 165,280	$ 73,651	$ 49,059	$ 9,561	$ 297,551
At January 1, 2018	$ 165,280	$ 73,651	$ 49,059	$ 9,561	$ 297,551
Additions—acquired separately	129,164	-	-	3,495	132,659
Additions—from internal development	-	24,468	-	-	24,468
Disposals	(201)	-	-	(439)	(640)
Amortisation charge	(63,486)	(27,166)	-	(2,403)	(93,055)
Net exchange differences	(496)	-	(1,148)	-	(1,644)
At December 31, 2018	$ 230,261	$ 70,953	$ 47,911	$ 10,214	$ 359,339
December 31, 2018					
Cost	$ 520,946	$ 246,009	$ 47,911	$ 13,398	$ 828,264
Accumulated amortisation	(290,685)	(175,056)	-	(3,184)	(468,925)
	$ 230,261	$ 70,953	$ 47,911	$ 10,214	$ 359,339

	Computer software	Development expenditure	Goodwill	Patents	Total
January 1, 2017					
Cost	$ 327,513	$ 198,071	$ 49,715	$ -	$ 575,299
Accumulated amortisation	(162,242)	(127,450)	-	-	(289,692)
	$ 165,271	$ 70,621	$ 49,715	$ -	$ 285,607
At January 1, 2017	$ 165,271	$ 70,621	$ 49,715	$ -	$ 285,607
Additions—acquired separately	63,707	-	-	10,545	74,252
Additions—from internal development	-	23,470	-	-	23,470
Amortisation charge	(62,886)	(20,440)	-	(984)	(84,310)
Net exchange differences	(812)	-	(656)	-	(1,468)
At December 31, 2017	$ 165,280	$ 73,651	$ 49,059	$ 9,561	$ 297,551
December 31, 2017					
Cost	$ 390,290	$ 221,541	$ 49,059	$ 10,545	$ 671,435
Accumulated amortisation	(225,010)	(147,890)	-	(984)	(373,884)
	$ 165,280	$ 73,651	$ 49,059	$ 9,561	$ 297,551

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

	Year ended December 31, 2018	Year ended December 31, 2017
Operating costs	$ 28,459	$ 23,507
Operating expenses	64,596	60,803
	$ 93,055	$ 84,310

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

(11) Short-term borrowings

Type of borrowings	December 31, 2018	December 31, 2017
Bank borrowings		
Unsecured borrowings	$ 2,692,520	$ 1,876,361
Interest rate range	0.47%~3.4%	0.47%~4.35%

(12) Other payables

	December 31, 2018	December 31, 2017
Wages and salaries payable	$ 1,116,752	$ 1,050,728
Payables on employees' compensation and directors' remuneration	215,000	295,000
Equipment payable	110,765	100,034
Freight payable	127,995	133,826
Royalty payable	89,721	82,055
Others	1,002,174	1,370,396
	$ 2,662,407	$ 3,032,039

(13) Finance lease liabilities

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

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

	December 31, 2018		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
Current			
Not later than one year	$ 16,298	($ 2,376)	$ 13,992
Non-current			
Later than one year but not later than five years	116,443	(16,906)	99,537
Later than five years	-	(-)	-
	116,443	(16,906)	99,537
	$ 132,741	($ 19,282)	$ 113,459

	December 31, 2017		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
Current			
Not later than one year	$ 16,298	($ 2,651)	$ 13,647
Non-current			
Later than one year but not later than five years	65,193	(7,798)	57,395
Later than five years	67,547	(10,711)	56,836
	132,740	(18,509)	114,231
	$ 149,038	($ 21,160)	$ 127,878

(14) Pensions

A. Defined benefit plans

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

(b) Amounts recognised in balance sheet is as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligation	$ 134,815	$ 134,218
Fair value of plan assets	(77,321)	(76,408)
Net defined benefit liabilities	$ 56,864	$ 57,810

(c) Change of net defined obligation is as follows:

Year 2018	Defined benefit obligation	Fair value of plan assets	Net defined benefit obligation
January 1, 2018	$ 134,218	($ 76,408)	$ 57,810
Current service cost	456	-	456
Interest (expense) income	1,476	(840)	636
	136,150	(77,248)	58,902
Remeasurements:	-	-	-
Change in financial assumptions	2,475	-	2,475
Experience adjustments	1,960	(2,168)	(208)
	4,435	(2,168)	2,267
Pension fund contribution	-	(4,305)	(4,305)
Paid pension	(6,400)	6,400	-
December 31, 2018	$ 134,185	($ 77,321)	$ 56,864

Year 2017	Defined benefit obligation	Fair value of plan assets	Net defined benefit obligation
January 1, 2017	$ 124,202	($ 71,259)	$ 52,943
Current service cost	443	(-)	443
Interest (expense) income	1,738	(997)	741
	126,383	(72,256)	54,127
Remeasurements:	-	-	-
Change in financial assumptions	3,941	-	3,941
Experience adjustments	3,894	260	4,154
	7,835	260	8,095
Pension fund contribution	-	(4,412)	(4,412)
Paid pension	-	-	-
December 31, 2017	$ 134,218	($ 76,408)	$ 57,810

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its 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 the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The assumptions of pensions are as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Discount rate	0.90%	1.10%
Future salary increases	3.00%	3.00%

The assumptions of future mortality rate is based on statistics published by each country and experience estimate. The effect to defined benefit obligation since changing of main actuarial assumptions is as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2018				
Effect to present value of defined benefit obligation	$ 3,083	$ 3,188	$ 2,782	$ 2,710
December 31, 2017				
Effect to present value of defined benefit obligation	$ 3,295	$ 3,411	$ 3,006	$ 2,924

The sensitivity analysis is based on other assumptions that are unchanged to analyse the effect of one assumption that changed. In practice, more than one assumption may change all at once. The method used to calculate the net pension liabilities in the balance sheet and sensitivity analysis is the same. The method used in the preparation of sensitivity analysis in the current period is the as same as in the previous period.

(f) Expected contributions to the defined benefit pension plans of the Company for the year ended December 31, 2019 amounts to $4,389.

(g) As of December 31, 2018, the weighted average duration of the pension plan is ten years. The analysis of timing of the future pension payment was as follows:

Not later than 1 year	$ 4,525
1 to 2 years	9,316
2 to 5 years	24,293
More than 5 years	46,399
	$ 84,533

B. Defined contribution plans

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

(b) The Company's mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.

(c) The Group's other foreign subsidiaries contributed pension to the relevant pension authorities under local regulations.

(d) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017, were $213,310 and $233,681, respectively.

(15) Share-based payment

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

B. The arrangments of share-based payment for the years ended December 31, 2018 and 2017 are as follows:

Type of arrangement	Grant date	Grant quantity (in thousand)	Contract period	Vesting condition
Employee option plan	2015.5.27	10,000	10 years	(Note)
Treasury share to employee plan	2018.11.14	10,000	NA	immediately

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

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

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

	2018		2017	
	No. of options (in thousand)	Weighted-average exercise price (in dollars)	No. of options (in thousand)	Weighted-average exercise price (in dollars)
Options outstanding at January 1	7,266	$ 54.50	10,000	$ 57.6
Options granted	10,000	49.62	-	-
Options exercised	(10,000)	49.62	(2,734)	54.5
Options outstanding at December 31	7,266	51.60	7,266	54.5
Options exercisable at December 31	7,266		7,266	

D. As at December 31, 2018 and 2017, the range of exercise prices of stock options outstanding was NT$51.6 and NT$54.5 (in dollars), respectively; the weighted-average remaining contractual period was 2.875 years and 3.875 years, respectively.

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

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

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

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

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

F. The Company transferred treasury shares to employees, the fair value of the stock options and its detailed information are as follows:

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (in dollars)	Fair value per share (in dollars)
Treasury share to employee plan	2018.11.14	$ 52.20	$49.62	$2.58

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

	Year ended December 31, 2018	Year ended December 31, 2017
Compensation cost	$ 35,497	$ 24,991

(16) Current provisions

	Maintenance Warranties	Sales returns and allowances	Total
At January 1, 2018	$ 9,566	$ 103,390	$ 112,956
Effects of adopting new standards	-	(103,390)	(103,390)
Additional provisions	99,114	-	99,114
Reversal during the period	(8,033)	-	(8,033)
Effect of exchange rate changes	(32)	-	(32)
At December 31, 2018	$ 100,615	$ -	$ 100,615

	Maintenance Warranties	Sales returns and allowances	Total
At January 1, 2017	$ 9,554	$ 159,185	$ 168,739
Additional provisions	31	(53,003)	(52,972)
Effect of exchange rate changes	(19)	(2,792)	(2,811)
At December 31, 2017	$ 9,566	$ 103,390	$ 112,956

A. Maintenance warranties

A provision for maintenance warranties is recognised for expected warranty claims on products sold, based on historical data of warranty and management's judgement. It is expected that $100,615 of provision for warranty will be used during 2019.

B. Information on related disclosure on refund liability for the year ended December 31, 2018 is provided in Note 6(21).

(17) Share capital

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

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

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

	2018(in thousand)	2017(in thousand)
At January 1	245,654	242,920
Employee stock options exercised	-	2,734
Treasury share acquired	(10,000)	-
Treasury share transferred to employees	6,042	-
At December 31	241,696	245,654

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

As of the date of the auditor's audit report, the aforementioned capital increase had not been completed.

C. Treasury shares

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

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

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

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

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

(18) Capital surplus

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

	Additional paid-in capital in excess of par, ordinary share	Conversion premium of convertible corporate bonds	Trade of treasury Share	Employee stock options	Employee restricted stocks	Changes in ownership interests in subsidiaries
At January 1, 2018	$ 293,052	$ 1,382,485	$ -	$ 54,618	$ 25,934	$ 8,628
Compensation cost of employee stock options	-	-	-	35,497	-	-
Transfer treasury share	-	-	15,588	(15,588)	-	-
At December 31, 2018	$ 293,052	$ 1,382,485	$ 15,588	$ 74,527	$ 25,934	$ 8,628

	Additional paid-in capital in excess of par, ordinary share	Conversion premium of convertible corporate bonds	Employee stock options	Employee restricted stocks	Changes in ownership interests in subsidiaries
At January 1, 2017	$ 123,521	$ 1,382,485	$ 77,495	$ 25,934	$ 8,137
Compensation cost of employee stock options	-	-	24,991	-	-
Employee stock options excercised	169,531	-	(47,868)	-	-
Changes in ownership interests in subsidiaries	-	-	-	-	491
At December 31, 2017	$ 293,052	$ 1,382,485	$ 54,618	$ 25,934	$ 8,628

(19) Retained earnings

A. Under the Company's Articles of Incorporation adopted by the shareholders during their meeting, the current year's earnings, if any, shall first be used to pay all taxes and offset accumulated deficit and then 10% of the remaining amount shall be set aside as legal reserve until the amount of legal reserve is equal to the amount of paid-in capital. After the provision or reversal of special reserve, the appropriation of the remaining earnings along with the unappropriated earnings of prior years and current adjustment on unappropriated earnings as distributable retained earnings, and shall be proposed by the Board of Directors and approved by the shareholders, and appropriated in accordance with the proportion of total share amount.

B. The policy for dividend distribution should reflect factors such as current and future investment environment, fund requirements, domestic and international competition and capital budgets, as well as the benefit of stockholders, share bonus equilibrium, and long-term financial planning etc. It could be paid in cash or in the form of share dividends. Accordingly, at least 10% of the dividends must be paid in the form of cash.

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

D. Special reserve

(a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

(c) As of January 1, 2018 and 2017, special reserve set aside for the first-time adoption of IFRSs both amount to $131,678. Furthermore, the Company did not reverse special reserve to retained earnings during the years ended December 31, 2018 and 2017 as a result of the use, disposal or reclassification of related assets. As of December 31, 2018 and 2017, the amount of special reserve set aside for the first-time adoption of IFRSs all amounted to $131,678.

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

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

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

Details of 2018 earnings appropriation resolved by the Board of Directors on March 18, 2019 are as follows:

	Amount	Dividends per share (in dollars)
Legal reserve appropriated	$ 80,759	
Special reserve appropriated	(31,550)	
Cash dividends	612,239	$ 2.50

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

(20) Other equity items

	Currency translation differences	Unrealised gains (losses) on financial assets at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Gains (losses) on hedging instruments	Total
At January 1, 2018	($ 210,063)	$ -	$ 16,188	($ 219,087)	$ -	($ 412,962)
Effects of adopting new standards	-	13,486	(16,188)	219,087	(219,087)	(2,702)
After adjustment on January 1	(210,063)	13,486	-	-	(219,087)	(415,664)
Currency translation differences:						
–Group	(128,500)	-	-	-	-	(128,500)
–Tax on Group	(23,333)	-	-	-	-	(23,333)
Valuation adjustment	-	(70,338)	-	-	-	(70,338)
Revaluation – tax	-	4,019	-	-	-	4,019
Gains (losses) on hedging instruments:						
-Gain (loss) on fair value	-	-	-	-	186,314	186,314
-Tax on fair value gains (losses)	-	-	-	-	(8,329)	(8,329)
-Transfers to sales of goods	-	-	-	-	99,918	99,918
-Transfers to inventories	-	-	-	-	(25,320)	(25,320)
At December 31, 2018	($ 361,896)	($ 52,833)	$ -	$ -	$ 33,316	($ 381,413)

	Currency translation differences	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total
At January 1, 2017	($ 159,161)	$ 13,079	$ 300,061	$ 153,979
Currency translation differences:				
–Group	(45,663)	-	-	(45,663)
–Tax on Group	(5,239)	-	-	(5,239)
Valuation adjustment	-	3,109	-	3,109
Cash flow hedges:				
-Loss on fair value	-	-	(540,622)	(540,622)
-Tax on fair value losses	-	-	55,077	55,077
-Transfers to sales of goods	-	-	(33,603)	(33,603)
At December 31, 2017	($ 210,063)	$ 16,188	($ 219,087)	($ 412,962)

(21) Operating revenue

A. Disaggregation of revenue from contracts with customers

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

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

Year ended December 31, 2018	Taiwan	China	All other segments	Reconciliation and elimination	Total
Revenue from external customer contracts	$25,569,773	$ 6,732,845	$ 1,082,323	$ -	$33,384,941
Inter-segment revenue	1,220,243	23,584,606	207,297	(25,012,146)	-
Total segment revenue	$26,790,016	$30,317,451	$ 1,289,620	($ 25,012,146)	$33,384,941
Merchandise types					
Wireless networking products	$24,084,777	$28,293,757	$ 1,279,679	($ 23,851,200)	$29,807,013
Wired networking products	2,705,239	2,023,694	9,941	(1,160,946)	3,577,928
	$26,790,016	$30,317,451	$ 1,289,620	($ 25,012,146)	$33,384,941

B. Contract liabilities

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

	December 31, 2018
Sales contract	$ 214,498

(a) Significant changes in contract liabilities

The Group's advanced payment from customers for product development is increasing due to the recent application for 5G network technology.

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

	Year ended December 31, 2018
Sales contract	$ 54,739

C. Refund liabilities

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

	December 31, 2018
Refund liabilities	$ 177,889

D. Related disclosures related to operating revenue for the year ended December 31, 2017 operating revenue is provided in Note 12(5).

(22) Other income

	Year ended December 31, 2018	Year ended December 31, 2017
Gain on reversal of other liabilities	$ 99,898	$ -
Interest income	65,087	78,405
Dividend income	32,564	342
Gain on write-off of past due payable	4,112	-
Rent revenue	817	1,025
Others	33,552	27,936
	$ 236,030	$ 107,708

Considering the rapid changes in products and percentage of penalty with regards to recent foreign court rulings for product infringement (please refer to Note 9), the Company adjusted other current liabilities and then recognised gain on write-off of other liabilities.

(23) Other gains and losses

	Year ended December 31, 2018	Year ended December 31, 2017
Gains on disposals of intangible assets	$ 100,424	$ -
Net losses on financial assets/ liabilities at fair value through profit or loss	(53,223)	(10,205)
Net currency exchange (losses) gains	(52,779)	15,926
Impairment loss-Investments accounted for using equity method	(20,707)	-
Gains on disposals of property, plant and equipment	496	1,806
Impairment loss-Financial assets measured at cost	-	(3,255)
Losses on disposals of investments	-	(1,220)
Others	(8,057)	(2,012)
	($ 33,846)	$ 1,040

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

(24) Finance costs

	Year ended December 31, 2018	Year ended December 31, 2017
Interest expense		
-Bank borrowings	$ 69,947	$ 56,696
-Finance lease liabilities	2,414	2,698
	$ 72,361	$ 59,394

(25) Expenses by nature

	Year ended December 31, 2018	Year ended December 31, 2017
Employee benefit expense	$ 3,636,770	$ 3,116,839
Depreciation charges on property, plant and equipment	491,533	466,671
Amortisation charges on intangible assets	93,055	84,310
	$ 4,221,358	$ 3,667,820

(26) Employee benefit expense

	Year ended December 31, 2018	Year ended December 31, 2017
Wages and salaries	$ 3,075,846	$ 2,546,334
Employee compensation cost	35,497	24,991
Labour and health insurance fees	102,764	114,741
Pension costs	214,402	234,865
Directors' remuneration	25,237	34,321
Other personnel expenses	183,024	161,587
	$ 3,636,770	$ 3,116,839

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

B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at $197,233 and $260,294, respectively; directors' remuneration was accrued at $17,767 and $34,706, respectively. The aforementioned amounts were recognised in salary expenses.

For the year ended December 31, 2018, the employees' compensation and directors' remuneration were estimated and accrued based on 16.78% and 1.51% of distributable profit of current year for the year ended December 31, 2018.

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

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

(27) Income tax

A. Income tax expense

(a)Components of income tax expense:

	Year ended December 31, 2018	Year ended December 31, 2017
Current tax:		
Current tax on profits for the period	$ 217,844	$ 319,762
Prior year income tax (over) underestimation	12,016	(50,074)
Total current tax	229,860	269,688

	Year ended December 31, 2018	Year ended December 31, 2017
Deferred tax:		
Origination and reversal of temporary differences	(29,180)	29,214
Deferred tax related with origination and reversal of tax loss and tax credit	-	(9,609)
Decrease of deffered tax assets	-	6,107
Impact of change in tax rate	(18,565)	-
Total deferred tax	(47,745)	25,712
Income tax expense	$ 182,115	$ 295,400

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

	Year ended December 31, 2018	Year ended December 31, 2017
Currency translation differences	$ 23,333	$ 5,239
Hedging instruments (loss) benefits of effective hedging in cash flow hedging	8,329	(55,077)
Remeasurement of defined benefit obligations	(454)	(1,376)
Changes in fair value of financial assets at fair value through other comprehensive income	(3,921)	-
Impact of change in tax rate	(996)	-
	$ 26,291	($ 51,214)

B. Reconciliation between income tax expense and accounting profit

	Year ended December 31, 2018	Year ended December 31, 2017
Tax calculated based on profit before tax and statutory tax rate (note)	$ 299,589	$ 406,245
Expenses disallowed by tax regulation	30,397	17,919
Tax exempt income by tax regulation	(141,378)	(30,402)
Change in assessment of realisation of deferred tax assets	-	(30,157)
Prior year income tax (over) underestimation	12,016	(50,073)
Tax on undistributed earnings	-	29,072
Effect from changes in tax regulation	(18,565)	-
Other effect from adjustments under tax regulation	56	(47,204)
Income tax expense	$ 182,115	$ 295,400

Note: The basis of the applicable tax rate is calculated based on the applicable tax rate of the relevant country.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences and tax losses are as follows:

	January 1, 2018	Recognised in profit or loss	Recognised in other comprehensive income	Translation differences	December 31, 2018
—Deferred tax assets:					
Temporary differences:					
Unrealized bonus and other expenses	$ 222,158	$ 16,503	$ -	($ 2,174)	$ 236,487
Unrealized inventory loss	39,393	(2,100)	-	(564)	36,729
Refund liabilities	18,015	30,997	-	(1,370)	47,642
Current provision	1,738	19,649	-	1,318	22,705
Unrealized loss on financial assets at fair value	3,103	18,018	4,019	(8)	25,132
Unrealized foreign exchange loss	7,023	7,237	-	-	14,260
Net defined benefit liabilities	9,827	193	1,352	-	11,372
Expected credit loss	-	1,229	-	-	1,229
Tax losses	-	1,935	-	(152)	1,783
Subtotal	301,257	93,661	5,371	(2,950)	397,339
—Deferred tax liabilities:					
Temporary differences:					
Income from investment accounted for using equity method	(46,160)	(44,342)	(23,333)	-	(113,835)
Tax difference from research development expenditure	(12,521)	(1,670)	-	-	(14,191)
Urealized gain on hedging instruments	-	-	(8,329)	-	(8,329)
Tax difference from depreciation	(1,890)	(8)	-	53	(1,845)
Unrealized gain on financial assets at fair value	(44)	44	-	-	-
Others	(60)	60	-	-	-
Subtotal	(60,675)	(45,916)	(31,662)	53	(138,200)
Total	$ 240,582	$ 47,745	($ 26,291)	($ 2,897)	$ 259,139

	January 1, 2017	Recognised in profit or loss	Recognised in other comprehensive income	Translation differences	December 31, 2017
—Deferred tax assets:					
Temporary differences:					
Unrealized bonus and other expenses	$ 231,723	($ 8,973)	$ -	($ 592)	$ 222,158
Unrealized inventory loss	25,903	13,702	-	(212)	39,393
Refund liabilities	34,697	(15,984)	-	(698)	18,015
Current provision	1,736	5	-	(3)	1,738
Unrealized loss on financial assets at fair value	78	3,003	-	22	3,103
Unrealized foreign exchange loss	(4,542)	11,565	-	-	7,023
Net defined benefit liabilities	9,000	(549)	1,376	-	9,827
Discount of corporate bond payable	6,107	(6,107)	-	-	-
Subtotal	304,702	(3,338)	1,376	(1,483)	301,257
—Deferred tax liabilities:					
Temporary differences:					
Income from investment accounted for using equity method	(15,799)	(25,122)	(5,239)	-	(46,160)
Tax difference from research development expenditure	(12,293)	(228)	-	-	(12,521)
Urealized gain on hedging instruments	(58,076)	2,999	55,077	-	-
Tax difference from depreciation	(1,973)	56	-	27	(1,890)
Unrealized gain on financial assets at fair value	-	(44)	-	-	(44)
Others	(26)	(35)	-	1	(60)
Subtotal	(88,167)	(22,374)	49,838	28	(60,675)
Total	$ 216,535	($ 25,712)	$ 51,214	($ 1,455)	$ 240,582

D. The amounts of deductible temporary difference that are not recognised as deferred tax assets are as follows:

	December 31, 2018	December 31, 2017
Deductible temporary differences	$ 78,506	$ -

E. The Company has not recognised taxable temporary differences associated with investment in subsidiaries as deferred tax liabilities. As of December 31, 2018 and 2017, the amounts of temporary difference unrecognised as deferred tax liabilities were $748,956 and $539,387, respectively.

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

	Assessment and approval of income tax returns
The Company	2016
Shukuan Investment Ltd.	2016

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

(28) Earnings per share

	Year ended December 31, 2018		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to the parent	$ 807,586	243,273	$ 3.32
Diluted earnings per share			
Assumed conversion of all dilutive potential ordinary shares			
Employees' options	-	1,534	
Employees' bonus	-	3,691	
Profit attributable to the parent plus assumed conversion of all dilutive potential ordinary shares	$ 807,586	248,498	$ 3.25

	Year ended December 31, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to the parent	$ 1,311,868	243,616	$ 5.38
Diluted earnings per share			
Assumed conversion of all dilutive potential ordinary shares			
Employees' options	-	2,322	
Employees' bonus	-	4,355	
Profit attributable to the parent plus assumed conversion of all dilutive potential ordinary shares	$ 1,311,868	250,293	$ 5.24

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

(29) Supplemental cash flow information

Investing activities with partial cash payments:

	Year ended December 31, 2018	Year ended December 31, 2017
Purchase of property, plant and equipment	$ 526,081	$ 478,792
Add: Opening balance of advance payment	55,897	9,162
Less: Ending balance of advance payment	(9,162)	(23,580)
Add: Opening balance of equipment payable	98,645	60,888
Less: Ending balance of equipment payable	(104,638)	(98,645)
Cash paid during the year	$ 566,823	$ 426,617
Purchase of intangible assets	$ 157,127	$ 97,722
Add: Opening balance of advance payment	59,442	38,364
Less: Ending balance of advance payment	(38,364)	(9,707)
Add: Opening balance of euipment payable	1,389	6,508
Less: Ending balance of equipment payable	(6,127)	(1,389)
Cash paid during the year	$ 173,467	$ 131,498

7. RELATED PARTY TRANSACTIONS

Key management compensation

	Year ended December 31, 2018	Year ended December 31, 2017
Short-term employee benefits	$ 232,267	$ 179,475
Post-employment benefits	1,919	1,907
Share-based payment	15,359	36,430
	$ 249,545	$ 217,812

8. PLEDGED ASSETS

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

	Book value		
Pledged asset	December 31, 2018	December 31, 2017	Purpose
Guarantee deposits paid	$ 57,773	$ 8,728	Custom duty guarantee and performance guarantee
Restricted assets-current (shown as other current assets)	74,637	-	Bank acceptance bill
	$ 132,410	$ 8,728	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

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

	December 31, 2018	December 31, 2017
Other non-current financial assets	$ 69,438	$ 166,794
Other current liabilities	57,811	157,709

As of December 31, 2018 and 2017, the accumulated interest of the trust fund assets was recognised as 'other financial assets-noncurrent' in the amounts of $11,627 and $9,085, respectively.

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

	December 31, 2018	December 31, 2017
Not later than one year	$ 90,844	$ 84,348
Later than one year but not later than five years	172,012	148,002
Later than five years	98,097	-
	$ 360,953	$ 232,350

C. As of December 31, 2018, the amount of contracted but not yet paid instruments, equipment and construction was $112,508.

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

	December 31, 2018	December 31, 2017
NTD	$ 23,976	$ 40,192
EUR (in thousands)	1,127	2,627

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

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

(2) Financial instruments

A. Financial instruments by category

	December 31, 2018	December 31, 2017
Financial assets		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	$ 476,686	$ 24,121
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	$ 309,129	$ -
Available-for-sale financial assets		
Available-for-sale financial assets	$ -	$ 23,632
Financial assets at cost	-	60,120
	$ -	$ 83,752
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	$ 5,357,910	$ 6,484,163
Notes receivable	898,632	912,670
Accounts receivable	5,642,324	6,287,648
Other receivables	925,295	339,523
Guarantee deposits paid	88,702	48,534
Other financial assets	69,438	166,794
	$ 12,982,301	$ 14,239,332
Derivative financial assets for hedging	$ 41,644	$ -

	December 31, 2018	December 31, 2017
Financial liabilities		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	$ 560	$ 12,606
Financial liabilities at amortised cost		
Short-term borrowings	$ 2,692,520	$ 1,876,361
Notes payable	518,089	-
Accounts payable	9,331,166	11,467,382
Other payables	2,662,407	3,032,039
Finance lease liabilities (including current portion)	113,459	127,878
Guarantee deposits received	2,937	4,254
	$ 15,320,578	$ 16,507,914
Financial liabilities for hedging	$ -	$ 217,162

B. Financial risk management policies

(a) The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

(b) The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

(c) To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts are used to hedge certain exchange rate risk, and interest rate swaps are used to fix variable future cash flows. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments. Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Notes 6(2) and (4).

C. Significant financial risks and degrees of financial risks

(a) Market risk

<u>Exchange rate risk</u>

i. The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and EUR. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.

ii. The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria.

iii. The Group's risk management policy is to hedge anticipated cash flows from annual sales in EUR and annual purchase in USD for the subsequent year.

iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD, EUR and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2018		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
RMB:NTD	$ 775,042	4.48	$ 3,472,188
USD:NTD	194,475	30.73	5,976,217
EUR:NTD	15,426	35.20	542,995
RUB:NTD	710,324	0.44	312,543
JPY:NTD	579,151	0.28	162,162
Non-monetary items			
USD:NTD	$ 1,318	30.73	$ 40,504
Investments accounted for using equity method			
EUR:NTD	$ 263	35.20	$ 9,251
Financial liabilities			
Monetary items			
RMB:NTD	$ 538,853	4.48	$ 2,414,061
USD:NTD	81,223	30.73	2,495,983
EUR:NTD	16,000	35.20	563,200
USD:RMB	166,499	6.87	1,143,848

	December 31, 2017		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
RMB:NTD	$ 1,099,875	4.58	$ 5,041,302
USD:NTD	224,006	29.85	6,686,112
EUR:NTD	20,751	35.67	740,270
Financial liabilities			
Monetary items			
RMB:NTD	$ 1,122,296	4.58	$ 5,144,086
USD:NTD	258,943	29.85	7,728,919
EUR:NTD	25,000	35.67	891,428

v. It is not applicable to disclose the exchange gains or losses for each functional currency due to the fact that the functional currencies used by the Group's entities are diverse.

vi. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017, amounted to ($52,779) and $15,926, respectively.

vii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

	Year ended December 31, 2018		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 59,762	$ -
EUR:NTD	1%	5,430	-
RUB:NTD	1%	3,141	-
JPY:NTD	1%	1,612	-
Financial liabilities			
Monetary items			
RMB:NTD	1%	24,141	-
USD:NTD	1%	24,960	-
EUR:NTD	1%	5,632	-
USD:RMB	1%	11,438	-

	Year ended December 31, 2017		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 66,861	$ -
EUR:NTD	1%	7,403	-
Financial liabilities			
Monetary items			
RMB:NTD	1%	51,441	-
USD:NTD	1%	77,289	-
EUR:NTD	1%	8,914	-

Price risk

i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

ii. The Group's investments in equity and debt securities comprise shares issued by the domestic and foreign companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity and debt securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the year ended December 31, 2018 would have increased/decreased by $4,623 and $200, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other comprehensive income would have increased/decreased by $3,010 and $236, respectively.

Cash flow and fair value interest rate risk

i. The Group's main interest rate risk arises from short-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. As of December 31, 2018 and 2017, the Group's borrowings at variable rate were mainly denominated in New Taiwan dollars.

ii. The Group's borrowings are measured at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

iii. If the borrowing interest rate had increased/decreased by 1% with all other variables held constant, profit, net of tax for the years ended December 31, 2018 and 2017 would have increased/decreased by $21,540 and $15,574, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost and at fair value through profit or loss.

ii. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain customers' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

iii. Credit risk from balances with banks and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions with high credit rating.

iv. The Group adopted experience of historical transactions to judge whether there is any evidence that the credit risk of financial instruments has been significantly increased after initial recognition. If the contract payments were past due over 90 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition. The default occurs when the contract payments are past due over 270 days.

v. The following indicators are used to determine whether the credit impairment of financial assets has occurred:

(i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;

(ii) Default.

vi. The Group classifies customers' accounts receivable in accordance with customer types. The Group applies the simplified approach using provision matrix or loss rate methodology to estimate expected credit loss.

vii. After recourse procedures, the Group writes-off the amount of the recoverable financial assets which is not reasonably expected to be recovered, but the Group will continue to pursue the legal right of recourse to protect the claims. The Group's claims for write-offs and recourse activities was $2,968 as of December 31, 2018.

viii. The Group used the forecastability of Taiwan Institute of Economic Research report to adjust historical and timely information to assess the default possibility of accounts receivable. On December 31, 2018, the provision matrix is as follows:

	Without past due	Up to 1-90 days	Up to 91 to 180 days	Up to 181 to 270 days	Over 271 days	Total
Group 1						
Expected loss rate	0.06%	1.32%	11.35%	-	-	
Total book value	$ 4,431,131	$ 884,216	$ 62,523	$ -	$ -	$ 5,377,870
Loss allowance	$ 2,783	$ 11,665	$ 7,099	$ -	$ -	$ 21,547
Group 2						
Expected loss rate	0.09%	1.88%	23.84%	100%	100%	
Total book value	$ 262,838	$ 12,188	$ -	$ 1,168	$ 922	$ 277,116
Loss allowance	$ 248	$ 229	$ -	$ 1,168	$ 922	$ 2,567
Total book value	$ 4,693,969	$ 896,404	$ 62,523	$ 1,168	$ 922	$ 5,654,986
Loss allowance	$ 3,031	$ 11,894	$ 7,099	$ 1,168	$ 922	$ 24,114

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

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

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

Considering that the accounts receivable are insured, the Group derecognised the impairment loss amounting to $11,452 as of December 31, 2018.

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

At January 1, 2018_IAS 39	$ 9,219
Adjustments under new standards	-
At January 1, 2018_IFRS 9	9,219
Added in current period	3,663
Reversal of impairment loss	(191)
Effect of exchange rate changes	(29)
At December 31, 2018	$ 12,662

ix. For year ended December 31, 2017, credit risk information is provided in Note 12(4).

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets.

ii. The Group invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

iii. The Group has the following undrawn borrowing facilities:

	December 31, 2018	December 31, 2017
Floating rate:		
Expiring within one year	$ 9,088,573	$ 7,702,197

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

December 31, 2018	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Non-derivative financial liabilities				
Short-term borrowings	$ 2,698,435	$ -	$ -	$ -
Notes payable	518,089			
Accounts payable	9,331,166	-	-	-
Other payables	2,662,407	-	-	-
Finance lease liabilities	16,298	16,298	100,145	-
Derivative financial liabilities				
Cross currency swap	$ 560	$ -	$ -	$ -

December 31, 2017	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Non-derivative financial liabilities				
Short-term borrowings	$ 1,880,552	$ -	$ -	$ -
Accounts payable	11,467,382	-	-	-
Other payables	3,032,039	-	-	-
Finance lease liabilities	16,298	16,298	48,895	67,547
Derivative financial liabilities				
Forward foreign exchange contracts	$ 8,032	$ -	$ -	$ -
Cross currency swap	4,574	-	-	-

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

(3) Fair value information

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

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

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

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

B. Financial instruments not measured at fair value

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

	December 31, 2018			
		Fair value		
	Book value	Level 1	Level 2	Level 3
Financial liabilities:				
Finance lease liabilities (including current portion)	$ 113,459	$ -	$ -	$ 132,741

	December 31, 2017			
		Fair value		
	Book value	Level 1	Level 2	Level 3
Financial liabilities:				
Finance lease liabilities (including current portion)	$ 127,878	$ -	$ -	$ 149,038

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

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

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

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Listed stocks	$ 428,828	$ -	$ -	$ 428,828
Unlisted stocks	-	-	33,088	33,088
Convertible bonds	-	-	8,710	8,710
Forward foreign exchange contracts	-	4,220	-	4,220
Cross currency swap	-	1,841	-	1,841
Financial assets for hedging				
Forward foreign exchange contracts	-	41,644	-	41,644
Financial assets at fair value through other comprehensive income				
Listed stocks	250,259	-	-	250,259
Unlisted stocks	-	-	58,869	58,869
	$ 679,087	$ 47,705	$ 100,667	$ 827,459

December 31, 2018	Level 1	Level 2	Level 3	Total
Liabilities				
Recurring fair value measurements				
Financial liabilities at fair value through profit or loss				
Cross currency swap	$ -	$ 560	$ -	$ 560

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Convertible bonds	$ -	$ -	$ 24,121	$ 24,121
Available-for-sale financial assets				
Equity securities	-	-	23,632	23,632
	$ -	$ -	$ 47,753	$ 47,753
Liabilities				
Recurring fair value measurements				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	$ -	$ 8,032	$ -	$ 8,032
Cross currency swap	-	4,574	-	4,574
Derivative financial liabilities for hedging				
Forward foreign exchange contracts	-	217,162	-	217,162
	$ -	$ 229,768	$ -	$ 229,768

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

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

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

ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).

iii. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, interest rate swap contracts, foreign exchange swap contracts and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.

iv. For high-complexity financial instruments, the fair value is measured by using self-developed valuation model based on the valuation method and technique widely used within the same industry. The valuation model is normally applied to derivative financial instruments, debt instruments with embedded derivatives or securitised instruments. Certain inputs used in the valuation model are not observable at market, and the Group must make reasonable estimates based on its assumptions. The effect of unobservable inputs to the valuation of financial instruments is provided in Note 12(3) I.

v. The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate. Structured interest derivative instruments are measured by using appropriate option pricing models (i.e. Black-Scholes model) or other valuation methods, such as Monte Carlo simulation.

vi. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group’s financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group’s management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

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

D. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

E. The following chart is the movement of Level 3 for the years ended December 31, 2018 and 2017:

	Convertible bonds	Equity securities	Total
At January 1, 2018	$ 24,121	$ 23,632	$ 47,753
Effects of adoption of new standards	-	60,120	60,120
Balance at January 1 after adjustment	24,121	83,752	107,873
Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income	-	(24,883)	(24,883)
Other gain and loss in book	(19,378)	-	(19,378)
Acquired during the period	3,967	33,088	37,055
At December 31, 2018	$ 8,710	$ 91,957	$ 100,667

	Convertible bonds	Equity securities	Total
At January 1, 2017	$ -	$ 25,672	$ 25,672
Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income	-	(2,040)	(2,040)
Other gain and loss in book	254	-	254
Acquired during the period	23,867	-	23,867
At December 31, 2017	$ 24,121	$ 23,632	$ 47,753

F. For the years ended December 31, 2018 and 2017, there was no transfer into or out from Level 3.

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

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

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

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

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

			December 31, 2018			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instruments	Liquidity	±5%	$ -	$ -	$ 8,456	$ 8,456
Hybrid instrument	Volatility	±5%	676	676	-	-
			$ 676	$ 676	$ 8,456	$ 8,456

			December 31, 2017			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instruments	Liquidity	±5%	$ -	$ -	$ 1,390	$ 1,390
Hybrid instrument	Volatility	±5%	1,918	1,279	-	-
			$ 1,918	$ 1,279	$ 1,390	$ 1,390

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

A. Summaries of adopting significant accounting policies for the year ended December 31, 2017

(a) Financial instruments

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

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

i. Financial assets

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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

(i) it eliminates or significantly reduces a measurement or recognition inconsistency; or

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

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

Available-for-sale financial assets

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

Other loss events include:

(i) significant financial difficulty of the issuer or obligor; or

(ii) A breach of contract, such as a default or delinquency in interest or principal payments; or

(iii) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(iv) the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

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

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

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

ii. Financial liabilities and equity instruments

Classification between liabilities or equity

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

Equity instruments

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

Compound instruments

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

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

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

Recognition and Measurement.

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

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:

(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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

(i) it eliminates or significantly reduces a measurement or recognition inconsistency; or

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

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

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

iii. Derivative financial instruments

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

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

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

iv. Hedge accounting

The Group uses derivative financial instruments to hedge for:

(i) Classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (Fair value hedge)

(ii) Assets or liabilities recognised, and highly expected transaction related to cash flow (Cash flow hedge)

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

<u>Cash flow hedges</u>

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

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

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

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

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

Under IAS 39, because the equity instruments, which were classified as: available-for-sale financial assets and financial assets at cost, amounting to $23,632 and $60,120, respectively, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" amounting to $83,752, increased retained earnings and decreased other equity interest in the amounts of $2,702 and $2,702, respectively, on initial application of IFRS 9.

C. Summaries of adopting significant accounting policies on December 31, 2017 as below:

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

	December 31, 2017
Stocks	$ 7,444
Valuation adjustment	16,188
	$ 23,632

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

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

	December 31, 2017
Available-for-sale financial assets	
Stocks	$ 63,375
Less: Accumulated impairment	(3,255)
	$ 60,120

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

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

(c) Derivative financial liabilities for hedging – current

	December 31, 2017
Derivative financial assets for hedging	$ -
Derivative financial liabilities for hedging	($ 217,162)

i. The items hedged by foreign currency forwards are highly probable forecast transactions denominated in foreign currency, and are expected to occur on unspecified dates in the next twelve months. Adjustments included in other comprehensive income as of December 31, 2017, are expected to be reclassified to profit or loss when the effect of the acquired hedged asset or the assumed hedged liability on profit or loss is recognised. The majority of the Group's cash flow hedges are effective hedges. As a result, the gains or losses recognised on ineffective cash flow hedges for year ended December 31, 2017 were not material. The credit quality of the financial institutions with which the Group has entered into derivative transaction is good. The maximum exposure to credit risk at the reporting date is the carrying amount of the hedging financial derivatives.

ii. Cash flow hedges

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

Adjustments included in other comprehensive income will be reclassified to profit or loss (sales revenue) when the effect of the acquired hedged asset or the assumed hedged liability on profit or loss is recognised. For the year ended December 31, 2017, the amount reclassified from other comprehensive income to profit or loss was $ 33,603.

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

		Currency	Anticipated cash flow and maturity	Contract amount
December 31, 2017	Forward foreign exchange contracts	Sell EUR and buy USD	2018.01.19~2018.12.24	EUR 113,000,000

D. Credit risk information on December 31, 2017 is as follows:

(a) Credit risk refers to the risk of financial loss to the Group arising from default by the counterparties on the contract obligations. The Group's credit risk arises from operations (primarily accounts and notes receivable) and financial transactions (primarily bank deposits and other financial instruments).

(b) Every sales unit follows the Group's policies, procedures, and controls on customer credit risk to manage such risk. The assessment of the credit risk of each customer takes into account the customer's financial condition, external credit ratings, experience on past transactions, current economic environment, and the Groups internal credit standards. In certain instances, the Group employs certain credit enhancement tools, such as advance payment and insurance, in order to minimize credit risk of specific customers.

(c) The finance department of the Group manages the credit risk of bank deposits and other financial instruments in accordance with the Group's policies. The transaction counterparties are determined by the Group's internal control procedures, which consist of banks with good credit and financial institutions, businesses, and governments with investment-grade credit ratings. There is no concern over breach of contract, and therefore no significant credit risk.

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

	December 31, 2017
Neither past due nor impaired	$ 6,132,471
Up to 30 days	117,945
31 to 90 days	9,923
91 to 180 days	-
Over 181 days	27,309
	$ 6,287,648

(e) Movements in the provision for impairment of accounts receivable for the year ended December 31, 2017 are as follows:

	Individual provision	Group provision	Total
At January 1	$ -	$ 8,025	$ 8,025
Provision for impairment	-	1,212	1,212
Effect of exchange rate changes	-	(18)	(18)
At December 31	$ -	$ 9,219	$ 9,219

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

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

Sales of goods:

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

(a) the significant risks and rewards of ownership of the goods have passed to the buyer;

(b) neither continuing managerial involvement nor effective control over the goods sold have been retained;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred in respect of the transaction can be measured reliably.

Sales returns and allowances

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

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

	Year ended December 31, 2017
Sales revenue	$ 38,985,950
Sales discounts and allowances	(385,947)
	$ 38,600,003

C. For the year ended December 31, 2018, the effects and description of current balance sheet items if the Group continues adopting above accounting policies are as follows:

		December 31, 2018		
Balance sheet	Description	Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policy
Contract liabilities	(1)	214,498	-	(214,498)
Current refund liabilities	(2)	177,889	-	(177,889)
Current provisions	(2)	-	177,889	177,889
Other current liabilities, others	(1)	-	214,498	214,498

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

Explanation:

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

(b) In accordance with IFRS 15, sales discounts that are probable are recognised as ‘refund liabilities’, which were included in ‘current provisions’ in prior periods.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: Please refer to table 2.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company’s paid-in capital: Please refer to table 4.

E. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 5.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 6.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2), 6(4) and 12.

J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

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

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 9.

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

14. SEGMENT INFORMATION

(1) General information

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

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

(2) Measurement of segment information

The management evaluates the performance of the operating segments based on a measure of earnings before taxes. The accounting policies of the reportable operating segments is in a manner consistent with Group's significant accounting policies. Taxes are not allocated to operating segments, as this type of activity is driven by the Group’s central treasury function, which manages the cash position of the group.

The transfer pricing between segments is based on similar transactions with third parties.

(3) Segment information

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

For the year ended December 31, 2018

	Taiwan	Mainland China	Others	Reconciliation and elimination	Total
Revenue from external customers	$ 25,569,773	$ 6,732,845	$ 1,082,323	$ -	$ 33,384,941
Inter-segment revenue	1,220,243	23,584,606	207,297	(25,012,146)	-
Total segment revenue	$ 26,790,016	$ 30,317,451	$ 1,289,620	($ 25,012,146)	$ 33,384,941
Segment income(loss)	$ 923,698	$ 431,518	$ 103,027	($ 427,823)	$ 1,030,420

For the year ended December 31, 2017:

	Taiwan	Mainland China	Others	Reconciliation and elimination	Total
Revenue from external customers	$ 28,547,786	$ 9,267,185	$ 785,032	$ -	$ 38,600,003
Inter-segment revenue	826,939	25,209,517	182,517	(26,218,973)	-
Total segment revenue	$ 29,374,725	$ 34,476,702	$ 967,549	($ 26,218,973)	$ 38,600,003
Segment income(loss)	$ 1,368,925	$ 919,888	($ 51,760)	($ 653,495)	$ 1,583,558

(4) Reconciliation for segment income (loss)

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

(5) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Americas	$ 13,461,538	$ 15,556,022
Asian	8,417,918	13,627,330
Europe	11,505,485	9,284,213
Others	-	132,438
	$ 33,384,941	$ 38,600,003

Revenue is categorized by the country in which the customer is located.

Non-current assets:

	December 31, 2018	December 31, 2017
Taiwan	$ 2,095,202	$ 2,417,373
Mainland China	1,778,012	1,880,816
Others	7,125	11,406
	$ 3,880,339	$ 4,309,595

(6) Major customer information

Major customer information of the Group for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
A	$ 7,813,764	$ 11,328,142
B	3,411,821	3,350,076

(Blank)

Sercomm Corporation and Subsidiaries
Loans to others
For the year ended December 31, 2018

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest rate(%)	Nature of loan (Note 4)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for bad debt	Collateral Item	Collateral Value	Limit on loans granted to a single party	Ceiling on total loans granted	Footnote
0	The Company	Sernet Technology (Suzhou) Limited	Other receivables-related party	Y	$ 936,720	$ 895,240	$ -	4.00	(2)	$ -	Additional operating capital	$ -	-	$ -	$ 1,402,045	$ 2,804,091	Note 2(3)
0	〃	Hawxeye Inc.	Other receivables-related party	Y	4,645	4,610	-	8.00	(2)	-	Additional operating capital	-	-	-	1,402,045	2,804,091	Note 2(3)
1	Sernet Technology (Suzhou) Limited	Dwnet Technology (Suzhou) Limited	Other receivables-related party	Y	936,720	895,240	-	4.35	(2)	-	Additional operating capital	-	-	-	3,505,115	7,010,229	Note 3(3)

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:
(1)The Company is '0'.
(2)The subsidiaries are numbered in order starting from '1'.

Note 2: The aggregate amount of loans to others shall not exceed 40% of the Company's net assets based on the latest audited or reviewed financial statements.
The loan limit for each entity depending on the purpose of the loan is as follows:
(1) Nature of loans is realted to business transactions: The amount shall not exceed the higher of the sales or purchases amount to/ from the borrower for the year as of the time of the lending event or for the most recent year.
(2) As short-term financing: The amount shall not exceed 20% of the Company's net assets based on the latest audited or reviewed financial statements.
(3) Financing between the Company's 100% directly- or indirectly- held overseas investee is not limited to 40% of the Company's net assets based on the latest audited or reviewed financial statements.
However, total loans shall not exceed 100% net assets. Loans to a singal party shall not exceed 50% net assets.

Note 3: The aggregate amount of loans from subsidiaries to others shall not exceed 40% of stockholders' equity as stated in the subsidiary's or the Company's most recent audited or reviewed financial statement, whichever is lower.
The loan limit for each entity depending on the purpose of the loan is as follows:
(1) Nature of loans is realted to business transactions: The amount shall not exceed the higher of the sales or purchases amount to/ from the trading partner for the year as of the time of the lending event or for the most recent year.
(2) As short-term financing: The amount shall not exceed 20% of the subsidiary or the Company's net assets based on the latest audited or reviewed financial statements.
(3) Financing between the group's investee which is 100% directly- or indirectly- held by the parent company is not limited to the ratio as stated in the preceding paragraph.
However, total loans shall not exceed 100% net assets as stated in the parent company's most recent audited or reviewed financial statement. Loans to individual investee shall not exceed 50% net assets.

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

Sercomm Corporation and Subsidiaries

Provision of endorsements and guarantees to others

For the year ended December 31, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed: Company name	Party being endorsed/guaranteed: Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018 (Note 4)	Outstanding endorsement/ guarantee amount at December 31, 2018	Actual amount drawn down	Amount of endorsements / guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company (%)	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
0	The Company	Sercomm Russia Limited Liability Company	(2)	$ 3,505,114	$ 4,610	$ -	$ -	$ -	-	$ 7,010,229	Y	N	N	
0	〃	Sercomm Japan Corp.	(2)	3,505,114	55,480	-	-	-	-	7,010,229	Y	N	N	
0	〃	Sernet Technology(Suzhou) Limited	(2)	3,505,114	929,040	921,990	-	-	13.15	7,010,229	Y	N	Y	
0	〃	Dwnet Technology (Suzhou) Limited	(2)	3,505,114	1,424,528	1,413,718	292,416	-	20.17	7,010,229	Y	N	Y	

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

(a) The Company is '0'.

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

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

(a) Having business relationship.

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

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

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

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

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

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

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

(2)The restriction stated in (1) shall not apply to inter-company loans of funds between foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares. However the endorsement / guarantee amount should not exceed 100% net assets. Endorsements / guarantees provided to individual investees should not exceed 50% net assets.

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

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

Sercomm Corporation and Subsidiaries

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

For the year ended December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018 Number of shares (in thousand shares)	Book value	Ownership (%)	Fair value	Footnote
	Listed stocks							
The Company	Hitron Technologies Inc.	-	Financial assets at fair value through profit or loss-non current	22,335	$ 428,828	9.97	$ 428,828	
	Convertible bonds							
〃	Presciense Limited	-	Financial assets at fair value through profit or loss-non current	600	6,220	-	6,220	
〃	Siklu Inc.	Associate	Financial assets at fair value through profit or loss-non current	137	2,489	-	2,489	
	Unlisted stocks							
Hawxeye Inc.	Bossa Nova Robotics Holding Corp.		Financial assets at fair value through profit or loss-non current	3,845	33,088	8.64	33,088	
	Listed stocks							
The Company	HON HAI PRECISION IND.CO.,LTD.	-	Financial assets at fair value through profit or loss- current	944	66,835	-	66,835	
〃	PEGATRON Corporation.	-	Financial assets at fair value through profit or loss- current	1,600	82,240	-	82,240	
〃	QUANTA COMPUTER INC.	-	Financial assets at fair value through profit or loss- current	1,920	101,184	-	101,184	
	Unlisted stocks							
〃	Teco Nanotech Co., Ltd.	-	Financial assets at fair value through profit or loss-non current	-	10	-	10	
	Unlisted preference share							
〃	Siklu Inc.	-	Financial assets at fair value through profit or loss-non current	2,018	40,505	-	40,505	
	Unlisted stocks		Financial assets at fair value through profit or loss-non current					
Shukuan Investment Ltd.	Cerpass Technology Co., Ltd.	-	Financial assets at fair value through profit or loss-non current	747	18,355	-	18,355	

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

Sercomm Corporation and Subsidiaries

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

For the year ended December 31, 2018

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

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

Note 1：The term "Marketable securities" as used in this table refers to stocks, bonds, beneficiary certificates and securities derived from the above items.
Note 2：Investors who use the equity method in the securities account must fill in the two columns and the remainder is exempt.
Note 3：Acquisition or sale of the same security with the accumulated cost should be caculated separately according to market price whether reaching 300 million or 20% of the paid-up capital. The paid-in capital refers to the paid-in capital of the parent company.
Note 4：Due to Hitron Technologies Inc.'s reduction of capital on August 1, 2018, the company's shareholdings was reduced by 2,408 thousand shares and obtained $24,082.

Sercomm Corporation and Subsidiaries
Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more
For the year ended December 31, 2018

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

			Transaction				Differences in transaction terms compared to third party transactions (Note 1)		Notes/accounts receivable (payable)	
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)(%)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)(%)
The Company	Sernet Technology(Suzhou) Limited	Subsidiary	Purchases	$ 19,790,479	87	45	Note 1	Note 1	($ 2,981,559)	61
〃	Sercomm Russia Limited Liability Company	Subsidiary	Sales	(975,439)	4	105	Note 1	Note 1	328,661	9
〃	Sercomm Japan Corp.	Subsidiary	Sales	(207,526)	1	105	Note 1	Note 1	98,577	2
Sernet Technology(Suzhou) Limited	Dwnet Technology(Suzhou) Limited	Affiliate	Purchase	3,034,549	15	120	Note 1	Note 1	(168)	-
〃	〃	Affiliate	Note 2	(359,269)	2	120	Note 1	Note 1	1,631	-

Note 1: The sales price to the above related parties was determined through mutual agreement based on the market conditions.
The collection period for related parties was month-end 90-210 days, while the terms for domestic third party sales was net 30-75 days. The collection period for overseas sales was net 30-210 days.
Note 2: Sernet Technology(Suzhou) Limited provides processing service to Dwnet. Technology(Suzhou) Limited.

Sercomm Corporation and Subsidiaries
Receivables from related parties reaching $100 million or 20% of paid-in capital or more
For the year ended December 31, 2018

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018 (Note 1)	Turnover rate(%)	Overdue receivables: Amount	Overdue receivables: Action taken	Amount collected subsequent to the balance sheet date (Note)	Allowance for doubtful accounts
Sernet Technology(Suzhou) Limited	Sercomm Corp.	Ultimate parent company	$ 2,981,559	-	$ -	-	$ 1,677,756	$ -
The Company	Sercomm Russia Limited Liability Company	Subsidiary	328,661	-	-	-	165,271	-

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

Sercomm Corporation and Subsidiaries
Significant inter-company transactions during the reporting periods
For the year ended December 31, 2018

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (%)(Note 3)
0	The Company	Sercomm France SARL	1	Commissions expense	$ 61,705	-	-
0	〃	Sercomm Italia SRL	1	Commissions expense	9,668	-	-
0	〃	Sercomm Deutschland GmbH	1	Prepayments	31,535	-	-
0	〃	〃	1	Commissions expense	36,571	-	-
0	〃	Sercomm Japan Corp.	1	Accounts receivable	98,577	-	-
0	〃	〃	1	Prepayments	5,871	-	-
0	〃	〃	1	Sales revenue	207,526	Note 4	1
0	〃	〃	1	Commissions expense	18,036	-	-
0	〃	Sercomm Russia Limited Liability Company	1	Accounts receivable	328,661	-	1
0	〃	〃	1	Prepayments	28,032	-	-
0	〃	〃	1	Sales revenue	975,439	Note 4	3
0	〃	Sercomm USA Inc.	1	Prepayments	18,479	-	-
0	〃	〃	1	Commissions expense	98,601	-	-
0	〃	Sernet Technology(Suzhou) Limited	1	Accounts receivable	22,041	-	-
0	〃	〃	1	Prepayments	16,612	-	-
0	〃	〃	1	Accounts payable	2,981,559	-	13
0	〃	〃	1	Other Payables	67,442	-	-
0	〃	〃	1	Purchase	19,790,479	-	59
0	〃	Dwnet Technology(Suzhou) Limited	1	Accounts receivable	17,508	-	-
0	〃	〃	1	Accounts payable	19,509	-	-
0	〃	〃	1	Purchase	23,480	-	-
2	Sercomm USA Inc.	Sercomm Technology Inc.	3	Other receivables	35,486	-	-
2	Sernet Technology(Suzhou) Limited	Dwnet Technology(Suzhou) Limited	3	Sales revenue	56,762	Note 4	-
2	〃	〃	3	Other receivables	359,269	-	1
2	〃	〃	3	Processing fees revenue	6,051	-	-
2	〃	〃	3	Rental revenue	14,138	-	-
2	〃	〃	3	Interest revenue	9,288	-	-
2	〃	〃	3	Purchase	3,034,549	-	9
2	〃	Suzhou Femtel Communications Co., Ltd	3	Prepayments	4,476	-	-
0	〃	〃	3	Commissions expense	17,665	-	-
2	〃	Nanjing Femtel Communications Co., Ltd	3	Prepayments	8,952	-	-
2	〃	〃	3	Service expense	29,178	-	-

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:
(1) Parent company is '0'.
(2) The subsidiaries are numbered in order starting from '1'.

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

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

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

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

Sercomm Corporation and Subsidiaries
Information on investees (excluding investees in Mainland China)
For the year ended December 31, 2018

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount: Balance as at December 31, 2018	Initial investment amount: Balance as at December 31, 2017	Shares held and book value as at December 31, 2018: Number of shares (in thousand shares)	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
The Company	Sercomm USA Inc.	USA	Domestic market consultation and customer services of computer information products	$ 20,739	$ 20,739	650	100	$ 26,453	$ 4,012	$ 4,012	Subsidiary
〃	Sercomm Trading Co. Ltd.	Samoa	Overseas indirect investment	1,471,186	1,471,186	46,800	100	5,442,021	462,396	534,610	Subsidiary
〃	ShuKuan Investment Ltd.	Taiwan	General investment	56,298	56,298	2,800	100	28,177	332	332	Subsidiary
〃	Sercomm Japan Corp.	Japen	Sales of computer information products; quotation, bidding and trade of related	157,721	157,721	10	100	(1,875)	14,089	14,089	Subsidiary
〃	Sercomm France SARL.	France	Domestic market consultation and customer services of computer information products	4,004	4,004	100	100	22,058	11,967	11,967	Subsidiary
〃	Sercomm Deutschland GmbH	Germany	Domestic market consultation and customer services of computer information products	3,727	3,727	100	100	(16,367)	(19,926)	(19,926)	Subsidiary
〃	Sercomm Russia Limited Liability Company	Russia	Sales of computer information products; quotation, bidding and trade of related	10	10	10	100	5,705	(11,642)	11,642	Subsidiary
〃	Sercomm Technology Inc.	USA	Sales of computer information products; quotation, bidding and trade of related	-	-	5,000	100	119,842	(33,496)	(33,406)	Subsidiary (Note2)
〃	Presciense Limited	UK	Design, research and application of smarthome platform technology	-	-	3,333	25	-	-	-	Associate
Sercomm Trading Co. Ltd.	Zealous Investments Ltd.	Samoa	Overseas indirect investment	989,358	989,358	30,956	100	4,430,804	424,434	424,434	second-tier subsidiary
〃	Smart Trade Inc.	Samoa	Overseas indirect investment	481,829	481,829	16,000	100	1,100,588	37,962	37,962	second-tier subsidiary
Sercomm France SARL	Sercomm Italia SRL.	Italy	Domestic market consultation and customer services of computer information products	388	388	10	100	2,542	884	884	second-tier subsidiary
Zealous Investments Ltd.	HawXeye LLC.	USA	R&D and application of monitoring images' advanced analysis techniques	4,787	24,348	157	55	(556)	90,675	49,956	second-tier subsidiary
Sercomm Deutschland GmbH	MECSware GmbH	Germany	Sale of IT products	30,144	-	11	30	9,251	454	136	Associate (Note2)

Note 1 : Its new subsidiary was established in 2018. Due to the document processing, the investment didn't invest yet until December 31, 2018.
Note 2 : In March 2018, the Company acquired an affiliate's 30% equity interest in the amount of EU$840 thousand.

Sercomm Corporation and Subsidiaries

Information on investments in Mainland China

For the year ended December 31, 2018

Table 9

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital (Note 3)	Investment method (Note 1)	Accumulated amount remitted from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China / Amount remitted back to Taiwan for the year ended December 31, 2018: Remitted to Mainland China	Amount remitted from Taiwan to Mainland China / Amount remitted back to Taiwan for the year ended December 31, 2018: Remitted back to Taiwan	Accumulated amount remitted from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognised by the Company for the year ended December 31, 2018(Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
Sernet Technology(Suzhou) Limited	Sales and manufacturing of servers, routers, OS and software	$ 933,252	(2)	$ 912,698	$ -	$ -	$ 912,698	$ 466,385	100	$ 466,385	$ 4,367,204	$ -	Note 2、3
Dwnet Technology(Suzhou) Limited	Sales and manufacturing of servers, routers, OS and software	481,829	(2)	481,829	-	-	481,829	37,962	100	37,962	1,100,587	-	Note 2、4
Suzhou Hua-Yi Communications Co., Ltd	Sales and manufacturing of servers, routers, OS and software	2,454	(2)	-	-	-	-	(21)	100	(21)	1,877	-	Note 2、5
Suzhou Femtel Communications Co., Ltd	Sales of communication products and software	32,599	(2)	-	-	-	-	10,917	100	1,509	29,009	-	Note 2、5
Nanjing Femtel Communications Co., Ltd	R&D and sales of communication products and software	12,538	(2)	-	-	-	-	5,075	100	5,075	(13,542)	-	Note 2、6

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

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

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

(3) Others

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

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

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

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

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

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

Company name	Accumulated amount remitted from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of MOEA	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
The Company	$1,394,527(US$ 44,900 thousand)	$1,407,475 (USD45,144 thosuand)	No limitation (Note 7)

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