

**DARFON ELECTRONICS CORP. AND
SUBSIDIARIES**

Consolidated Financial Statements

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

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

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Representation Letter

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

Hereby declare

Darfon Electronics Corp.
Kai-Chien Su
Chairman
March 7, 2019



安侯建業聯合會計師事務所

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Independent Auditors' Report

To the Board of Directors of Darfon Electronics Corp.:

Opinion

We have audited the consolidated financial statements of Darfon Electronics Corp. (“the Company”) and subsidiaries (the “Group”), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and 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 of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretations as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significant in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

1. Valuation of inventories

Please refer to note 4(h) for the accounting policies on measuring inventory, note 5(a) for assumptions used and uncertainties considered in determining net realizable value, and note 6(g) for the disclosure of the amounts of inventory write-downs, of the consolidated financial statements.

Description of key audit matter:

Inventories are measured at the lower of cost and net realizable value. Due to the rapid technological changes, the Group's product price may decline rapidly. Furthermore, the stocks for products may exceed customers' demands thus becoming obsolete. These factors result in a risk wherein the carrying amount of inventory may exceed its net realizable value. Particularly, the estimation of net realizable value requires the management's subjective judgments. Therefore, the valuation of inventories has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included reviewing the inventory of aging report and analyzing the fluctuation of inventory aging; selecting samples to verify the accuracy of inventory aging; evaluating whether valuation of inventories was accounted for in accordance with the Group's accounting policies; and assessing the historical reasonableness of management's estimates of inventory provisions.

2. Business combination

Please refer to note 4(t) for the accounting policy on business combination, and note 6(j) for related disclosures, of the consolidated financial statements

Description of key audit matter:

In 2018 the Group acquired 54.86% ownership of Unictron Technologies Corporation (UTC), wherein the Group is able to exercise control over it. To adopt the accounting treatment of business combination, the management needs to determine the fair value of the identifiable assets and liabilities. The assessment is complex and involves significant assumptions and estimation. Accordingly, the assessment of business combination has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included obtaining the purchase price allocation report with the valuation on intangible assets conducted by an external expert engaged by the management; and auditing the acquired assets and liabilities identified by the management including any fair value adjustment at the acquisition date. In doing so, we have consulted internal valuation specialists to assist in evaluating the reasonableness of the valuation model and key assumptions used. We have also confirmed that correct accounting treatment has been applied, and appropriate disclosures with respect to the acquisition has been made.

3. Impairment of goodwill

Please refer to note 4(n) for the accounting policies on impairment of non-financial assets, note 5(b) for the estimation uncertainty of impairment of goodwill, and 6(n) for related disclosures of impairment test of goodwill, of the consolidated financial statements.

Description of key audit matter:

Goodwill arising from the acquisition of subsidiary is subject to an impairment test annually or when there are indications that goodwill may have been impaired. The assessment of the recoverable amount of goodwill from cash generating units involves management's judgement and estimation. Accordingly, the assessment of impairment of goodwill has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included obtaining the assessment of impairment of goodwill provided by the management; assessing the appropriateness of the valuation model and key assumptions, including the discount rate, expected growth rate and future cash flow projections, used by the management in measuring the recoverable amount; performing a sensitivity analysis of key assumptions and results; and assessing the adequacy of the Group's disclosures with respect to the related information.

Other Matter

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

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

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

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identified and assessed 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. Obtained 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. Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Concluded 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. Evaluated 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. Obtained 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 remained solely responsible for our audit opinion.

We communicated 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 identified during our audit.

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

The engagement partners on the audit resulting in this independent auditors' report are Tzu-Chieh Tang and Wei-Ming Shih.

KPMG

Taipei, Taiwan (Republic of China)
March 7, 2019

Notes to Readers

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

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(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2018		December 31, 2017	
		Amount	%	Amount	%
	Current assets:				
1100	Cash and cash equivalents (notes 6(a) & (aa))	\$ 1,717,958	9	1,015,392	7
1110	Financial assets at fair value through profit or loss – current (notes 6(b) & (aa))	4,656	-	23,623	-
1120	Financial assets at fair value through other comprehensive income – current (notes 6(c) & (aa))	820,574	4	-	-
1125	Available-for-sale financial assets – current (notes 6(d) & (aa))	-	-	202,700	1
1136	Financial assets at amortized cost – current (notes 6(a), (e) & (aa))	336,379	2	-	-
1170	Notes and accounts receivable, net (notes 6(f), (w) & (aa))	6,551,087	34	5,525,656	36
1180	Accounts receivable from related parties (notes 6(f),(w)&(aa) and 7)	57,749	-	35,554	-
1200	Other receivables (notes 6(aa) and 8)	14,855	-	29,350	-
1310	Inventories (note 6(g))	2,571,520	14	2,033,609	13
1476	Other financial assets – current (notes 6(h) & (aa) and 8)	-	-	704,810	5
1479	Prepayments and other current assets	666,667	4	458,161	3
	Total current assets	12,741,445	67	10,028,855	65
	Non-current assets:				
1535	Financial assets at amortized cost – non-current (notes 6(e) & (aa))	12,452	-	-	-
1550	Investments accounted for using equity method (note 6(i))	11,006	-	11,244	-
1600	Property, plant and equipment (notes 6(l) and 8)	4,869,743	26	4,860,822	32
1760	Investment property, net (notes 6(m) and 8)	130,021	1	-	-
1780	Intangible assets (notes 6(j) & (n))	599,677	3	17,137	-
1840	Deferred income tax assets (note 6(t))	233,111	1	126,516	1
1915	Prepayments for equipment	376,262	2	168,766	1
1920	Refundable deposits (note 6(aa))	21,293	-	27,931	-
1975	Net defined benefit asset – non-current (note 6(s))	15,426	-	14,826	-
1985	Long-term prepaid rents	60,775	-	61,329	1
1990	Other non-current assets	24,221	-	30,151	-
	Total non-current assets	6,353,987	33	5,318,722	35
	Total assets	\$ 19,095,432	100	15,347,577	100

(Continued)

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Balance Sheets (Continued)

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017	
		Amount	%	Amount	%
Liabilities and Equity					
Current liabilities:					
2100	Short-term borrowings (notes 6(o) & (aa))	\$ 938,369	5	501,312	3
2170	Notes and accounts payable (note 6(aa))	4,292,332	22	3,631,363	24
2180	Accounts payable to related parties (notes 6(aa) and 7)	953	-	708	-
2200	Other payables (notes 6(w), (y) & (aa))	3,020,418	16	2,390,308	15
2220	Other payables to related parties (notes 6(aa) and 7)	13,433	-	5,971	-
2300	Other current liabilities (notes 6(w) & (aa))	702,937	4	145,599	1
	Total current liabilities	8,968,442	47	6,675,261	43
Non-current liabilities:					
2540	Long-term borrowings (notes 6(p) & (aa) and 8)	440,000	2	480,000	3
2550	Provisions – non-current (note 6(q))	78,992	1	79,976	1
2570	Deferred income tax liabilities (note 6(t))	69,145	-	6,574	-
2640	Net defined benefit liability – non-current (note 6(s))	84,789	1	77,261	1
2670	Other non-current liabilities	11,081	-	10,354	-
	Total non-current liabilities	684,007	4	654,165	5
	Total liabilities	9,652,449	51	7,329,426	48
Equity attributable to shareholders of the Company (note 6(u)):					
3110	Common stock	2,800,000	15	2,800,000	18
3200	Capital surplus	3,802,120	20	4,026,120	26
Retained earnings:					
3310	Legal reserve	782,016	4	723,947	5
3320	Special reserve	329,048	2	-	-
3350	Unappropriated earnings	1,563,882	8	766,741	5
		2,674,946	14	1,490,688	10
Other components of equity:					
3410	Foreign currency translation differences	(297,250)	(2)	(315,244)	(2)
3420	Unrealized gain (loss) from financial assets at fair value through other comprehensive income	(32,907)	-	-	-
3425	Unrealized gain (loss) from available-for-sale financial assets	-	-	16,427	-
3445	Remeasurement of defined benefit obligation	(36,384)	-	(30,230)	-
		(366,541)	(2)	(329,047)	(2)
	Equity attributable to shareholders of the Company	8,910,525	47	7,987,761	52
36XX	Non-controlling interests (notes 6(j) & (k))	532,458	2	30,390	-
	Total equity	9,442,983	49	8,018,151	52
	Total liabilities and equity	\$ 19,095,432	100	15,347,577	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

		2018		2017	
		Amount	%	Amount	%
4000	Net sales (notes 6(w) & (x), 7 and 14)	\$ 20,113,619	100	17,664,072	100
5000	Cost of sales (notes 6(g), (l), (q), (r), (s) & (y), 7 and 12)	<u>(15,799,142)</u>	<u>(79)</u>	<u>(14,831,503)</u>	<u>(84)</u>
	Gross profit	<u>4,314,477</u>	<u>21</u>	<u>2,832,569</u>	<u>16</u>
	Operating expenses (notes 6(f), (l), (n), (r), (s) & (y), 7 and 12):				
6100	Selling expenses	(1,047,992)	(5)	(936,150)	(5)
6200	Administrative expenses	(530,110)	(3)	(495,771)	(3)
6300	Research and development expenses	<u>(839,651)</u>	<u>(4)</u>	<u>(766,695)</u>	<u>(4)</u>
6000	Total operating expenses	<u>(2,417,753)</u>	<u>(12)</u>	<u>(2,198,616)</u>	<u>(12)</u>
	Operating income	<u>1,896,724</u>	<u>9</u>	<u>633,953</u>	<u>4</u>
	Non-operating income and loss (notes 6(c), (i), (l), (m), (z) & (aa)):				
7010	Other income	140,059	1	78,936	-
7020	Other gains and losses	(60,912)	-	55,729	-
7050	Finance costs	(40,207)	-	(39,215)	-
7060	Share of the loss of joint ventures accounted for using the equity method	<u>(777)</u>	-	<u>(1,769)</u>	-
	Total non-operating income and loss	<u>38,163</u>	<u>1</u>	<u>93,681</u>	-
7900	Income before income tax	1,934,887	10	727,634	4
7950	Income tax expenses (note 6(t))	<u>(409,039)</u>	<u>(2)</u>	<u>(144,590)</u>	<u>(1)</u>
8200	Net income	<u>1,525,848</u>	<u>8</u>	<u>583,044</u>	<u>3</u>
	Other comprehensive income (notes 6(j), (s), (t) & (u)):				
8310	Items that will not be reclassified subsequently to profit or loss:				
8311	Remeasurements of defined benefit plans	(8,709)	-	(2,553)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(49,334)	(1)	-	-
8349	Income tax related to items that will not be reclassified subsequently to profit or loss	<u>2,983</u>	-	<u>421</u>	-
		<u>(55,060)</u>	<u>(1)</u>	<u>(2,132)</u>	-
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign operations	17,601	-	(341,288)	(2)
8362	Unrealized gains (losses) on available-for-sale financial assets	-	-	11,961	-
8370	Share of the other comprehensive income of joint ventures accounted for using the equity method	539	-	(344)	-
8399	Income tax related to items that may be reclassified subsequently to profit or loss	<u>-</u>	-	<u>-</u>	-
		<u>18,140</u>	-	<u>(329,671)</u>	<u>(2)</u>
	Other comprehensive income for the year, net of income tax	<u>(36,920)</u>	<u>(1)</u>	<u>(331,803)</u>	<u>(2)</u>
8500	Total comprehensive income for the year	<u>\$ 1,488,928</u>	<u>7</u>	<u>251,241</u>	<u>1</u>
	Net income attributable to:				
8610	Shareholders of the Company	\$ 1,520,258	8	580,693	3
8620	Non-controlling interests	<u>5,590</u>	-	<u>2,351</u>	-
		<u>\$ 1,525,848</u>	<u>8</u>	<u>583,044</u>	<u>3</u>
	Total comprehensive income attributable to:				
8710	Shareholders of the Company	\$ 1,482,764	7	248,943	1
8720	Non-controlling interests	<u>6,164</u>	-	<u>2,298</u>	-
		<u>\$ 1,488,928</u>	<u>7</u>	<u>251,241</u>	<u>1</u>
	Earnings per share (in New Taiwan dollars) (note 6(v)) :				
9750	Basic earnings per share	\$	5.43		2.07
9850	Diluted earnings per share	\$	5.33		2.05

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

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

	Equity attributable to shareholders of the Company										Total equity				
	Retained earnings					Other components of equity									
	Common stock	Capital Surplus	Legal reserve	Special reserve	Unappropriated earnings	Subtotal	Foreign currency translation differences	Unrealized gains (losses) from financial assets at fair value through other comprehensive income	Unrealized gain (loss) from available-for-sale financial assets	Remasurements of defined benefit plans		Subtotal	Treasury stock	Equity attributable to shareholders of the Company	Non-controlling interests
Balance at January 1, 2017	2,979,020	4,351,038	677,107	-	654,568	1,331,675	26,335	-	4,466	(28,028)	2,703	(341,721)	8,322,715	29,592	8,352,307
Net income in 2017	-	-	-	-	580,693	580,693	(341,579)	-	11,961	(2,132)	(331,750)	-	580,693	2,351	583,044
Other comprehensive income in 2017, net of income tax	-	-	-	-	-	-	-	-	11,961	(2,132)	(331,750)	-	(331,750)	(53)	(331,803)
Total comprehensive income in 2017	-	-	-	-	580,693	580,693	(341,579)	-	11,961	(2,132)	(331,750)	-	248,943	2,298	251,241
Appropriation of earnings:	-	-	46,840	-	(46,840)	-	-	-	-	-	-	-	-	-	-
Appropriation of legal reserve	-	-	-	-	(421,680)	(421,680)	-	-	-	-	-	-	(421,680)	-	(421,680)
Cash dividends distributed to shareholders	-	(138,320)	-	-	-	-	-	-	-	-	-	-	(138,320)	-	(138,320)
Cash dividends from capital surplus	-	-	-	-	-	-	-	-	-	-	-	(23,897)	(23,897)	-	(23,897)
Purchase of treasury stock	(179,020)	(186,598)	-	-	-	-	-	-	-	-	-	365,618	-	-	-
Retirement of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiary's interests from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,500)	(1,500)
Balance at December 31, 2017	2,800,000	4,026,120	723,947	-	766,741	1,490,688	(315,244)	-	16,427	(30,230)	(329,047)	-	7,987,761	30,390	8,018,151
Effects of retrospective application	-	-	-	-	-	-	-	-	(16,427)	(16,427)	-	-	-	-	-
Balance at January 1, 2018 after adjustments	2,800,000	4,026,120	723,947	-	766,741	1,490,688	(315,244)	-	16,427	(30,230)	(329,047)	-	7,987,761	30,390	8,018,151
Net income in 2018	-	-	-	-	1,520,258	1,520,258	17,994	(49,334)	-	(6,154)	(37,494)	-	1,520,258	5,590	1,525,848
Other comprehensive income in 2018, net of income tax	-	-	-	-	-	-	17,994	(49,334)	-	(6,154)	(37,494)	-	(37,494)	574	(36,920)
Total comprehensive income in 2018	-	-	-	-	1,520,258	1,520,258	17,994	(49,334)	-	(6,154)	(37,494)	-	1,482,764	6,164	1,488,928
Appropriation of earnings:	-	-	58,069	-	(58,069)	-	-	-	-	-	-	-	-	-	-
Appropriation of legal reserve	-	-	-	329,048	(329,048)	-	-	-	-	-	-	-	-	-	-
Appropriation of special reserve	-	-	-	-	(336,000)	(336,000)	-	-	-	-	-	-	(336,000)	-	(336,000)
Cash dividends distributed to shareholders	-	(224,000)	-	-	-	-	-	-	-	-	-	-	(224,000)	-	(224,000)
Cash dividends from capital surplus	-	-	-	-	-	-	-	-	-	-	-	-	-	496,704	496,704
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiary's interests from non-controlling interests	-	-	-	-	-	-	-	-	-	(36,384)	(36,384)	-	-	(800)	(800)
Balance at December 31, 2018	2,800,000	3,802,120	782,016	329,048	1,563,882	2,674,946	(297,250)	(32,907)	-	(36,384)	(366,541)	-	8,910,525	532,458	9,442,983

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Income before income tax	\$ 1,934,887	727,634
Adjustments:		
Adjustments to reconcile profit or loss:		
Depreciation	522,841	540,060
Amortization	79,556	59,948
Expected credit loss/provision for bad debt expense	11,619	952
Interest expense	40,207	39,215
Interest income	(35,501)	(39,576)
Dividend income	(56,210)	(4,191)
Share of losses of joint ventures	777	1,769
Gains on disposal and retirement of property, plant and equipment, net	(8,077)	(44,329)
Property, plant and equipment transferred to expenses	-	175
Gains on disposal of investments	(48,121)	(8,123)
Impairment losses on property, plant and equipment	113,930	-
Fire loss	8,741	-
Total adjustments to reconcile profit or loss	<u>629,762</u>	<u>545,900</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Increase in financial assets held-for-trading	-	(23,623)
Decrease in financial assets mandatorily measured at fair value through profit or loss	18,967	-
Decrease (increase) in notes and accounts receivable	(767,984)	380
Increase in accounts receivable from related parties	(22,195)	(16,251)
Decrease in other receivable	12,313	5,703
Decrease in other receivable from related parties	-	74
Decrease (increase) in inventories	(457,420)	140,865
Increase in prepayments and other current assets	(58,822)	(110,495)
Total changes in operating assets	<u>(1,275,141)</u>	<u>(3,347)</u>
Changes in operating liabilities:		
Decrease in financial liabilities held-for-trading	-	(18,121)
Increase (decrease) in notes and accounts payable	566,808	(397,252)
Increase (decrease) in accounts payable to related parties	245	(5,877)
Increase in other payables	686,849	68,215
Increase in other payables to related parties	7,462	780
Decrease in provisions	(984)	(5,227)
Increase (decrease) in other current liabilities	167,886	(93,109)
Decrease in other non-current liabilities	(10,646)	(11,139)
Total changes in operating liabilities	<u>1,417,620</u>	<u>(461,730)</u>
Total changes in operating assets and liabilities	<u>142,479</u>	<u>(465,077)</u>
Total adjustments	<u>772,241</u>	<u>80,823</u>
Cash inflow generated from operations	2,707,128	808,457
Interest received	36,853	47,257
Interest paid	(39,786)	(39,592)
Income taxes paid	(399,907)	(86,160)
Net cash provided by operating activities	<u>2,304,288</u>	<u>729,962</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from investing activities:		
Purchase of financial assets at fair value through other comprehensive income	(667,208)	-
Purchase of financial assets at amortized cost	(1,951,211)	-
Proceeds from repayments of financial assets at amortized cost	2,441,842	-
Purchase of available-for-sale financial assets	-	(163,411)
Proceeds from sale of available-for-sale financial assets	-	64,857
Purchase of investments accounted for using equity method	-	(13,357)
Net cash outflow arising from acquisition of a subsidiary	(652,384)	-
Additions to property, plant and equipment (including prepayments for equipment)	(613,691)	(495,592)
Proceeds from disposal of property, plant and equipment	23,005	116,628
Decrease (increase) in refundable deposits	6,638	(16,917)
Additions to intangible assets	(120)	-
Decrease in other financial assets	-	1,089,716
Increase in other non-current assets	(40,781)	(46,298)
Dividends received	56,210	4,191
Decrease (increase) in restricted cash in banks	(140)	8,474
Net cash flows provided by (used in) investing activities	<u>(1,397,840)</u>	<u>548,291</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	437,057	(237,463)
Increase in long-term borrowings	85,000	808,720
Repayments of long-term borrowings	(125,000)	(1,408,720)
Cash dividends distributed to shareholders	(336,000)	(421,680)
Cash dividends from capital surplus	(224,000)	(138,320)
Purchase of treasury stock	-	(23,897)
Acquisition of subsidiary's interests from non-controlling interests	(800)	(1,500)
Net cash used in financing activities	<u>(163,743)</u>	<u>(1,422,860)</u>
Effects of exchange rate changes	<u>(40,139)</u>	<u>(184,071)</u>
Net increase (decrease) in cash and cash equivalents	702,566	(328,678)
Cash and cash equivalents at beginning of year	<u>1,015,392</u>	<u>1,344,070</u>
Cash and cash equivalents at end of year	<u>\$ 1,717,958</u>	<u>1,015,392</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

1. Organization and business

Darfon Electronics Corp. (the “Company”) was incorporated on May 8, 1997, as a company limited by shares under the laws of the Republic of China (“R.O.C.”). The address of the Company’s registered office is No. 167, Shan-Ying Road, Gueishan, Taoyuan, Taiwan. In November 2007, the Company’s shares were listed on Taiwan Stock Exchange.

The Company and subsidiaries (collectively the “Group”) are engaged in the manufacture and sale of computer peripheral devices and electronic components.

2. Authorization of the consolidated financial statements

These consolidated financial statements were authorized for issuance by the Board of Directors on March 7, 2019.

3. Application of new and revised accounting standards and interpretations

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

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

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

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

IFRS 15 establishes a five-step model framework to determine the method, timing and amount of revenue recognized. This Standard replaces the existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations. The Group applies this standard retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application. The Group elected not to restate the comparative information for the prior reporting period; but instead, continues to apply IAS 11, IAS 18, and the related Interpretations, for comparative reporting period. The Group recognizes the cumulative effect upon the initial application of this Standard as an adjustment to the opening balance of its retained earnings on January 1, 2018.

The Group uses the practical expedients for completed contracts, meaning, it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts of the changes in accounting policies:

1) Sales of goods

In the past, for the sale of goods, revenue was recognized based on the individual terms of each sales of goods when the related significant risks and rewards of ownership are transferred to customers; meanwhile, the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue is recognized when a customer obtains control of the goods.

2) Impacts on consolidated financial statements

The changes in accounting policies above did not have any material impact on the Group’s consolidated financial statements.

(ii) IFRS 9 “Financial Instruments”

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

The Group adopted the consequential amendments to IFRS 7 “Financial Instruments: Disclosures” that are applied to disclosures about 2018 but generally have not been applied to comparative information.

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The detail of new significant accounting policies and the nature and effect of the changes to IFRS 9 are as follows:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which financial assets are managed and their contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available-for-sale. For an explanation of how the Group classifies and measures its financial assets and accounts for related gains and losses under IFRS 9, please refer to note 4(g).

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

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. Please refer to note 4(g) for more details.

3) Transition

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

- The differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, and therefore, is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of financial assets and financial liabilities previously designated as measured at FVTPL.
 - The designation of investments in equity instruments not held for trading as measured at FVOCI.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The following table shows the measurement categories and carrying amounts under IAS 39 and IFRS 9 for each class of the Group's financial assets as of January 1, 2018. (The measurement categories and carrying amount of financial liabilities are not changed.)

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and cash equivalents	Loans and receivables (Note 1)	\$ 1,015,392	Amortized cost	1,015,392
Derivative instruments	Held-for-trading	23,623	Mandatorily at FVTPL	23,623
Equity instruments	Available-for-sale financial assets (note 2)	202,700	FVOCI	202,700
Receivables, net (including related parties)	Loans and receivables (note 1)	5,590,560	Amortized cost	5,590,560
Other financial assets (including refundable deposits)	Loans and receivables (Note1)	732,741	Amortized cost	732,741

Note1: Cash and cash equivalents, notes and accounts receivable, other receivables and other financial assets that were categorized as loans and receivables under IAS 39 are now categorized as financial assets at amortized cost.

Note2: These equity instruments represent investments that the Group intends to hold for long-term strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI.

(iii) Amendments to IAS 7 "Disclosure Initiative"

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

To satisfy the new disclosure requirements, the Group presents a reconciliation between the beginning and ending balances for liabilities with changes arising from financing activities as note 6(ad).

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (b) The impact of IFRSs endorsed by the FSC but not yet effective

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

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

Except for the following items, the Group assessed that the initial adoption of the above IFRSs would not have any material impact on its consolidated financial statements.

- (i) IFRS 16 “Leases”

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

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

- 1) Determining whether an arrangement contains a lease

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

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

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

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Transition

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

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

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

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

- *apply a single discount rate to a portfolio of leases with similar characteristics;
- *exclude the initial direct costs from measuring the right-of-use asset at the date of initial application.

- 3) So far, the most significant impact identified is that the Group will have to recognize the right-of-use assets and lease liabilities for the operating leases of its offices, plants and warehouses, and expect that it will result in an increase in the right-of-use assets and lease liabilities of \$191,987 and \$131,212, respectively, and a decrease in long-term prepaid rents of \$60,775 on January 1, 2019. Besides, the Group does not expect the adoption of IFRS 16 to have any impact on its ability to maintain the required financial ratios from the loan covenants.

However the actual impacts of adopting the amended standards and new interpretations may change depending on the economic conditions and events which may occur in the future.

(c) Impact of IFRS, issued by IASB but not yet endorsed by the FSC

The following IFRSs that have been issued by the IASB, but have yet to be endorsed by the FSC:

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

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

4. Summary of significant accounting policies

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those specifically indicated, the following accounting policies were applied consistently to all periods presented in these financial statements.

(a) Statement of compliance

The Group’s accompanying consolidated financial statements have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” (the “Regulations”) and the IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (collectively as “Taiwan-IFRSs”).

(b) Basis of preparation

(i) Basis of measurement

The accompanying consolidated financial statements have been prepared on a historical cost basis except for the following items in the balance sheets:

- 1) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- 2) Financial assets at fair value through other comprehensive income (available-for-sale financial assets); and
- 3) Defined benefit liabilities (assets) are recognized as the present value of the defined benefit obligation less fair value of the plan assets and the effect of the asset ceiling mentioned in note 4(r).

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. Except when otherwise indicated, all financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The accompanying consolidated financial statements incorporate the financial statements of the Company and its controlled entities (the subsidiaries). The Company controls an investee when it is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its control over the investee.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized profit and loss arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, the financial statements of subsidiaries are adjusted to align their accounting policies with those adopted by the Company.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the adjustment of the non-controlling interests and the fair value of the payment or receipt is recognized as equity, which belongs to the Company.

When the Group's lose control over a subsidiary, a gain or loss recognized in profit or loss, which is calculated as the difference between (1) the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost, and (2) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interest. All amounts recognized in other comprehensive income in relation to the subsidiary are accounted for on the same basis as would be required if the Group had directly disposed of the related assets and liabilities.

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) List of subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements were as follows:

Name of Investor	Name of Investee	Main Business	Percentage of Ownership	
			December 31, 2018	December 31, 2017
The Company	Darfon (BVI) Corporation (DFBVI)	Trading of electronic products	100.00 %	100.00 %
The Company	Darfon (Labuan) Corporation (DFLB)	Investment holding	100.00 %	100.00 %
The Company	Darfon Materials Corp. (DMC)	Manufacture and sale of LTCC, inductors and paste	100.00 %	100.00 %
The Company	Darfon Gemmy Corp. (DZL)	Investment holding	100.00 %	100.00 %
The Company/ DZL	Darfon Innovation Corp. (DTC)	Manufacture of lighting equipment, design and sale of intelligent products	85.00 %	84.60 %
The Company	Darfon Europe B.V.(DFeu)	Trading of green devices	100.00 %	100.00 %
The Company/ DZL	Unicon Technologies Corporation (UTC)	Manufacture and trading of wireless antennas for telecommunication, modules and piezoelectric ceramics, and ultrasound components	54.86 %	Note 1
DFBVI/DFLB	Darfon Electronics (Suzhou) Co., Ltd. (DFS)	Manufacture and sale of the Company's products	100.00 %	100.00 %
DFBVI/DFLB	Darfon Electronics, Shenzhen (DFZ)	Manufacture and sale of the Company's products	Note 2	100.00 %
DFLB	Darfon Electronics Czech s.r.o (DFC)	Trading of electronic products	100.00 %	100.00 %
DFLB	Darfon America Corp. (DFA)	Trading of electronic products	100.00 %	100.00 %
DFLB	Huaian Darfon Electronics Co., Ltd. (DFH)	Manufacture and sale of the Company's products	100.00 %	100.00 %
DFLB	Darfon Korea Co., Ltd. (DFK)	Trading of electronic products	100.00 %	100.00 %
DFLB	Darfon Precision Holdings Co., Ltd. (DPH)	Investment holding	100.00 %	100.00 %
DFLB	Darfon Electronics, Chongqing (DFQ)	Manufacture and sale of the Company's products	100.00 %	100.00 %
DPH	Darfon Precision (Suzhou) Co., Ltd. (DPS)	Mold development and manufacture	100.00 %	100.00 %
UTC	Unicom Technologies, Inc. (UTI)	Investment holding	54.86 %	Note 1
UTI	WirelessCom Technologies (Shenzhen) Co.Ltd (UTZ)	Sale, design and marketing of wireless antennas for telecommunication, components	54.86 %	Note 1

Note 1: On November 9, 2018, the Company and DZL jointly acquired 54.86% equity ownership of UTC and obtained control over it. Thus, UTC and its subsidiaries have been consolidated into the Group since the acquisition date.

Note 2: DFZ was liquidated in the 1st quarter of 2018.

(iii) List of subsidiaries which are not included in the consolidated financial statements: None.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates at the end of the period (“the reporting date”) of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies which are measured at fair value are retranslated at the exchange rate prevailing at the date when the fair value is determined. Exchange differences arising on the translation of non-monetary items are recognized in profit or loss, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items denominated in a foreign currency that are measured at historical cost are not retranslated.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated into the presentation currency of the Group’s consolidated financial statement at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into the presentation currency of the Group’s consolidated financial statements at the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

On the disposal of a foreign operation which involves a loss of control over a subsidiary or loss of significant influence over an associate that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Company are entirely reclassified to profit or loss. In the case of a partial disposal that does not result in the Group losing control over a subsidiary, the proportionate share of accumulated exchange differences is reclassified to non-controlling interests. For a partial disposal of the Group’s ownership interest in an associate or joint venture, the proportionate share of the accumulated exchange differences in equity is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, the monetary item is, in substance, a part of net investment in that foreign operation, and the related foreign exchange gains and losses thereon are recognized as other comprehensive income.

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

An asset is classified as current when one of following criteria is met; all other assets are classified as non-current assets:

- (i) It is expected to be realized, or intended to be sold or consumed in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting date; or

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

A liability is classified as current when one of following criteria is met; all other liabilities are classified as non-current liabilities:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting date; or
- (iv) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

(f) Cash and cash equivalents

Cash consists of cash on hand, checking deposits, and demand deposits. Cash equivalents consist of short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits that meet the aforesaid criteria and are not held for investing purposes are also classified as cash equivalents.

(g) Financial instruments

(i) Financial assets (applicable commencing January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). A regular way purchases or sales of financial assets are recognized or derecognized on a trade-date basis.

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

1) Financial assets measured at amortized cost

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

- * it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

- * its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Financial assets at fair value through other comprehensive income ("FVOCI")

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Foreign exchange gains and losses, interest income calculated using the effective interest method, and impairment losses deriving from debt investments, are recognized in profit or loss; whereas dividends deriving from equity investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of an investment. Other changes in the carrying amount of financial assets measured at FVOCI are recognized in other comprehensive income and accumulated in other equity as unrealized gain (loss) from financial assets measured at fair value through other comprehensive income. On derecognition, gains and losses accumulated in other equity of debt investments are reclassified to profit or loss. However, gains and losses accumulated in other equity of equity investments are reclassified to retained earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established which is usually the ex-dividend date.

3) Financial assets at fair value through profit or loss ("FVTPL")

All financial assets not classified as amortized cost, or at FVOCI described as above, are measured at FVTPL, including derivative financial assets.

Financial assets in this category are initially measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, they are measured at fair value, any changes therein, including any dividend and interest income, are recognized in profit or loss.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial assets on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse features)

5) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets at amortized cost, notes and accounts receivable, other receivables and refundable deposits).

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

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

Loss allowance for accounts receivables are always measured at an amount equal to lifetime ECL.

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

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

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

- * significant financial difficulty of the borrower or issuer;
- * a breach of contract such as a default or being more than 90 days past due;
- * the Group, for economic or contractual reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the Group would not consider otherwise;
- * it is probable that the borrower will enter bankruptcy or other financial reorganization;
or
- * the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The amount of loss allowances (or reversal) is charged to profit or loss.

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

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements**

6) Derecognition of financial assets

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

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

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Regular way purchases or sales of financial assets are recognized or derecognized on a trade-date basis.

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as financial assets at fair value through profit or loss unless they are designated as hedges.

At initial recognition, financial assets carried at fair value through profit or loss are recognized at fair value. Any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to the initial recognition, changes in fair value are recognized in profit or loss.

2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables comprise accounts receivable, other receivable, other financial assets and refundable deposits. At initial recognition, such assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized as "non-operating income and expenses-other income".

3) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, these assets are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on monetary financial assets, are recognized in other comprehensive income and presented in "unrealized gain/loss from available-for-sale financial assets" in equity. When the financial asset is derecognized, the gain or loss previously accumulated in equity is reclassified to profit or loss.

Dividends received from equity investments are recognized as non-operating income on the date of entitlement to receive dividends (usually the ex-dividend date).

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Impairment of financial assets

Financial assets, other than those carried at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Those financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, their estimated future cash flows have been negatively impacted.

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, indications that the debtor or issuer will probably enter bankruptcy or other financial reorganization, and the disappearance of an active market for that financial asset because of financial difficulties. For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, such asset is included in a group of financial assets with similar credit risk characteristics which are then collectively assessed for impairment. Objective evidence that receivables are impaired includes the Group's collection experience in the past, an increase in delayed payments, and national or local economic conditions that correlate with overdue receivables.

An impairment loss is recognized by reducing the carrying amount of the respective financial assets with the exception of receivables, where the carrying amount is reduced through an allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

When an impairment loss is recognized for an available-for-sale asset, the cumulative gains or loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfer out substantially all the risks and rewards of ownership of the financial assets to other enterprises.

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

On derecognition of part of a financial asset, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of relative fair values of those parts on the date of transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received or receivable for the part of the financial asset derecognized and the cumulative gain or loss that had been recognized in other comprehensive income allocated to the part derecognized is charged to profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(iii) Financial liabilities

1) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as a financial liability at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorized as financial liabilities at fair value through profit or loss unless they are designated as hedges.

At initial recognition, this type of financial liability is recognized at fair value, and any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, the financial liabilities are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss and included in the non-operating income and loss of the consolidated statement of comprehensive income.

2) Financial liabilities measured at amortized cost

Financial liabilities not classified as held for trading or not designated as at fair value through profit or loss, which comprise loans and borrowings, accounts payable, and other payables, are measured at fair value plus any directly attributable transaction cost at initial recognition. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Derecognition of financial liabilities

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

(iv) Offsetting of financial assets and liabilities

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

(v) Derivative financial instruments

Derivative financial instruments are held to hedge the Group's foreign currency exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and included in non-operating income and loss. If the valuation of a derivative instrument results in a positive fair value, it is classified as a financial asset; otherwise, it is classified as a financial liability.

(h) Inventories

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition ready for sale. Inventories are measured individually at the lower of cost or net realizable value. The cost of inventories is based on the standard cost method. The difference between standard cost and actual cost is allocated to inventory and cost of sales on a proportional basis except for inefficient fixed manufacturing overheads, which are charged to cost of sales. Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and necessary selling expenses at the balance sheet date.

(i) Joint arrangements

A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers. Joint venturers should account the rights from the joint arrangement as an investment, and account it for using equity method according to IAS 28, unless, the entity is exempted from applying the equity method as specified in the standard.

The Group considered the infrastructure, legal form of the vehicle, provisions of the joint arrangement and other facts and situations when evaluating the classification of the joint arrangement.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements**

Investments in joint ventures are accounted for using the equity method and are recognized initially at cost, plus, any transaction costs. The carrying amount of the investment in joint ventures includes goodwill identified on acquisition, net of any accumulated impairment losses. When necessary, the entire carrying amount of the investment (including goodwill) will be tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group's share of its joint venture's post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized as other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When changes in an joint venture's equity are not recognized in profit or loss or other comprehensive income of the joint venture, and such changes do not affect the Group's ownership percentage of the joint venture, the Group recognizes the change in ownership interests of its joint venture as "capital surplus" in proportion to its ownership.

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

(j) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and any borrowing cost that is eligible for capitalization. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized as non-operating income and loss.

(ii) Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the purpose of the property changes from owner-occupied to investment.

(iii) Subsequent costs

Subsequent costs are capitalized only when it is probable that future economic benefits associated with the costs will flow to the Group and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognized in profit or loss. All other repairs and maintenance are charged to expense as incurred.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Depreciation

Depreciation is provided for property, plant and equipment over the estimated useful lives using the straight-line method. When an item of property, plant and equipment comprises significant individual components for which different depreciation methods or useful lives are appropriate, each component is depreciated separately. Land is not depreciated. The depreciation is recognized in profit or loss.

The estimated useful lives for the current and comparative periods of property, plant and equipment are as follows: machinery and equipment: 2 to 10 years; furniture, fixtures, and other equipment: 3 to 10 years; buildings— main structure and other equipment pertaining to buildings: 4 to 40 years; buildings—electronic and air-conditioning facilities: 20 to 30 years.

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(k) Investment property

Investment property is a property held either to earn rental income or for capital appreciation, or for both, but not for sale in the ordinary course of business use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition. Subsequent to initial recognition, investment property is measured at initial acquisition cost, less, accumulated depreciation and accumulated impairment losses. The methods used for depreciating and determining useful life, and residual value of investment property, are the same as those used for property, plant and equipment.

Cost includes expenditure that is directly attributable to the acquisition of investment property, bringing the investment property to the condition necessary for it to be available for use, and any borrowing cost that is eligible for capitalization.

An investment property is reclassified to property, plant and equipment at its carrying amount when its purpose has been changed from investment to owner-occupied.

(l) Leases

(i) The Group as lessor

Lease income from an operating lease is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and recognized as an expense over the lease term on a straight-line basis.

(ii) The Group as lessee

Payments made under operating leases (excluding insurance and maintenance expense) are charged to expense over the lease term on a straight-line basis.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Intangible assets

(i) Goodwill

Goodwill arising from the acquisition of subsidiaries is accounted for as intangible assets. Please refer to note 4(t) for the description of the measurement of goodwill at initial recognition. Goodwill is not amortized but is measured at cost, less, accumulated impairment losses.

(ii) Other intangible assets

Other separately acquired intangible assets including acquired software, patents, expertise and customer relationships are carried at cost, less, accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss using the straight-line method over the estimated useful lives: acquired software, 4 to 10 years ; patents, 6 years ; expertise, 10 years ; customer relationships, 8 years.

The residual value, amortization period, and amortization method are reviewed at least at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(n) Impairment of non-financial assets

(i) Goodwill

Goodwill is tested for impairment annually. For the purpose of impairment testing, goodwill arising from a business combination is allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the synergies of the combination. When the recoverable amount of a CGU is less than the carrying amount of the CGU, the impairment loss is firstly recognized by reducing the carrying amount of any goodwill allocated to the CGU, and then, is proportionately allocated to the other assets of the CGU on the basis of the carrying amount of each asset in the CGU. Any impairment loss is recognized immediately in profit or loss. A subsequent reversal of the impairment loss on goodwill is prohibited.

(ii) Other tangible and intangible assets

Non-financial assets other than inventories, deferred income tax assets, and assets arising from employee benefits are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. When there exists an indication of impairment for an asset, the recoverable amount of the asset is then estimated. If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the CGU to which the asset has been allocated.

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell or its value in use. When the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount, and an impairment loss is recognized in profit or loss immediately.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group assesses at each reporting date whether there is any evidence that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If so, an impairment loss recognized in prior periods for an asset other than goodwill is reversed, and the carrying amount of the asset or CGU is increased to its revised estimate of recoverable amount. The increased carrying amount shall not exceed the carrying amount (net of amortization or depreciation) that would have been determined had no impairment loss been recognized in prior years.

(o) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

A provision for warranties is recognized when the underlying products are sold. This provision reflects the historical warranty claim rate experience and the weighting of all possible outcomes against their associated probabilities.

(p) Treasury stock

Common stock repurchased by the Group treated as treasury stock (a contra-equity account) is reported at acquisition cost (including all directly accountable costs). When treasury stock is sold, the excess of sales proceeds over cost is accounted for as capital surplus—treasury stock. If the sales proceeds are less than the cost, the deficiency is accounted for as a reduction of the remaining balance of capital surplus—treasury stock. If the remaining balance of capital surplus—treasury stock is insufficient to cover the deficiency, the remainder is recorded as a reduction of retained earnings. The cost of treasury stock is computed using the weighted-average method.

If a treasury stock is retired, the weighted-average cost of the retired treasury stock is written off against the par value and the capital surplus premium, if any, of the stock retired on a pro rata basis. If the weighted-average cost written off exceeds the sum of the par value and the capital surplus, the difference is accounted for as a reduction of capital surplus—treasury stock, or a reduction of retained earnings for any deficiency where capital surplus—treasury stock is insufficient to cover the difference. If the weighted-average cost written off is less than the sum of the par value and capital surplus, if any, of the stock retired, the difference is accounted for as an increase in capital surplus—treasury stock.

(q) Revenue recognition

(i) Revenue from contracts with customers (applicable commencing January 1, 2018)

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

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
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1) Sale of goods

The Group recognizes revenue when control of the goods has been transferred to the customer, being when the goods have been delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the customer has accepted the goods in accordance with the terms of sales, the risks of obsolescence, and loss have been transferred to the customer, and the Group has objective evidence that all criteria for acceptance have been satisfied. The Group offers sales discounts and rebates to parts of its customers. The Group recognizes revenue based on the price specified in the contract, net of estimated discounts and rebates. Accumulated experience is used to estimate the discounts and rebates using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognized for expected sales discounts and rebate payables to customers in relation to sales made until the end of the reporting period.

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

2) Royalties

Royalty revenue is recognized when the Group offers the client to use its patents, which the Group has a present legal right to, as the performance obligation is satisfied at a point in time.

3) Financing components

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

(ii) Revenue recognition (applicable before January 1, 2018)

1) Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, rebates, and other similar discounts. Sales returns are estimated based on historical experience and other relevant factors. Revenue from the sale of goods is recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the Group; and (e) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. Revenue is not recognized for the sale of key components to an original design manufacturer for manufacture or assembly as the significant risks and rewards of the ownership of materials are not transferred.

2) Royalties

Royalty revenue shall be recognized when it is probable that its economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably.

Revenue arising from royalties shall be recognized on an accrual basis in accordance with the substance of the relevant agreement.

3) Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

(r) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are expensed during the year in which employees render services.

(ii) Defined benefit plans

The liability recognized in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The discount rate for calculating the present value of the defined benefit obligation refers to the interest rate of high-quality government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method.

When the benefits of a plan are improved, the expense related to the increased obligations resulting from the services rendered by employees in the past years are recognized in profit or loss immediately.

The remeasurements of the net defined benefit liability (asset) comprise (i) actuarial gains and losses, (ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The remeasurements of the net defined benefit liabilities (asset) are recognized in other comprehensive income and then transferred to other equity.

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

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed during the period in which employees render services. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to make such payments as a result of past service provided by the employees, and the obligation can be estimated reliably.

(s) Income taxes

Income tax expenses include both current taxes and deferred taxes. Current and deferred taxes are recognized in profit or loss unless they relate to business combinations or items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for:

- (i) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss;
- (ii) Temporary differences arising from investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences, and it is probable that the differences will not reverse in the foreseeable future; and
- (iii) Temporary differences arising from initial recognition of goodwill.

Deferred tax are measured based on the statutory tax rate on the reporting date or the actual legislative tax rate during the year of expected asset realization or debt liquidation.

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

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

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(t) Business combination

The Group accounts for business combinations using the acquisition method. Goodwill is measured as the excess of the acquisition-date fair value of the consideration transferred (including any non-controlling interest in the acquiree) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value). If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed and recognize any additional assets or liabilities that are identified in that review, and shall recognize a gain on the bargain purchase thereafter.

Acquisition-related costs are expensed as incurred except for the costs related to issuance of debt or equity instruments.

The Group shall measure any non-controlling interests by each transaction either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

(u) Earnings per share ("EPS")

The basic and diluted EPS attributable to stockholders of the Company are disclosed in the consolidated financial statements. Basic EPS is calculated by dividing net income attributable to stockholders of the Company by the weighted-average number of common shares outstanding during the year. In calculating diluted EPS, the net income attributable to stockholders of the Company and weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common shares. The Group's dilutive potential common shares are profit sharing for employees to be settled in the form of common stock.

(v) Operating segments

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

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

5. Critical accounting judgments and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and the future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included as follows:

(a) Valuation of inventory

Inventories are measured at the lower of cost and net realizable value. Due to the rapid technological changes, the Group's product price may decline rapidly. Furthermore, the stocks for products may exceed customers' demands thus becoming obsolete. These factors result in a risk wherein the carrying amount of inventory may exceed its net realizable value. Particularly, the estimation of net realizable value requires the management's subjective judgments. Also, the estimation is mainly determined based on assumptions of future demand within a specific time horizon, which could result in significant adjustments.

(b) Impairment of goodwill

The assessment of impairment of goodwill requires the Group to make subjective judgments to identify cash-generating units, allocate the goodwill to relevant cash-generating units, and estimate the recoverable amount of relevant cash-generating units. Any changes in these estimates based on changed economic conditions or business strategies could result in significant adjustments in future years.

6. Significant account disclosures

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	\$ 4,770	3,384
Demand deposits and checking accounts	925,120	576,417
Time deposits with original maturities less than three months	788,068	435,591
	<u>\$ 1,717,958</u>	<u>1,015,392</u>

As of December 31, 2018, the time deposits with original maturities of more than three months amounted to \$41,300, which was classified as financial assets at amortized costs—current.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	December 31, 2018	December 31, 2017
Financial assets mandatorily measured at fair value through profit or loss:		
Derivatives—foreign currency forward contracts	\$ 4,656	-
Financial assets held for trading:		
Derivatives—foreign currency forward contracts	-	23,623
	\$ 4,656	23,623

The Group entered into derivative contracts to manage foreign currency exchange risk resulting from its operating activities. The derivative financial instruments that did not conform to the criteria for hedge accounting were classified as financial assets and liabilities at fair value through profit or loss.

At each reporting date, the outstanding derivative contracts that did not conform to the criteria for hedge accounting consisted of the following:

December 31, 2018		
Contract amount (in thousands)	Currency	Maturity Period
USD\$ <u>17,000</u>	CNY Buy / USD Sell	2019.01~2019.05
December 31, 2017		
Contract amount (in thousands)	Currency	Maturity Period
USD\$ <u>49,000</u>	CNY Buy / USD Sell	2018.01~2018.10

(c) Financial assets at fair value through other comprehensive income—current

	December 31, 2018
Equity investments at fair value through other comprehensive income:	
Domestic listed stocks	\$ 811,091
Domestic emerging stocks	9,483
	\$ 820,574

The Group designated the abovementioned investments as at fair value through other comprehensive income because these equity investments represent those investments that the Group intends to hold for long-term strategic purposes. These investments were classified as available-for-sale financial assets on December 31, 2017.

With regards to the equity investments at fair value through other comprehensive income, the Group recognized the dividend income \$56,210 in 2018.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
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No strategic investments were disposed for the year ended December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

(d) Available-for-sale financial assets — current

	December 31, 2017
Domestic listed stocks	\$ 194,158
Domestic emerging stocks	<u>8,542</u>
	<u>\$ 202,700</u>

The Group held the above-mentioned equity investment on December 31, 2018, recognized as financial assets at fair value through other comprehensive income.

(e) Financial assets at amortized costs

	December 31, 2018
Current:	
Principal protected currency deposit	\$ 295,079
Time deposits with original maturities more than 3 months	<u>41,300</u>
	<u>\$ 336,379</u>
Non-current:	
Corporate bond in USD (Par value US\$400)	<u>\$ 12,452</u>

The Group has assessed that these financial assets are held to maturity to collect contractual cash flows, which consist solely of payments of principal and interest on principal amount outstanding. Therefore, these investments were classified as financial assets measured at amortized cost on January 1, 2018.

(f) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes and accounts receivable	\$ 6,595,193	5,558,557
Accounts receivable from related parties	<u>57,749</u>	<u>35,554</u>
	6,652,942	5,594,111
Less: loss allowance	<u>(44,106)</u>	<u>(32,901)</u>
	<u>\$ 6,608,836</u>	<u>5,561,210</u>

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables (including related parties) on December 31, 2018. The loss allowance provision as of December 31, 2018 was determined as follows:

	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 4,946,504	0.11%	5,539
Past due 1-30 days	1,316,121	0.42%	5,496
Past due 31-60 days	305,592	1.45%	4,446
Past due 61-90 days	60,644	7.74%	4,693
Past due 91-120 days	9,865	98.49%	9,716
Past due over 121 days	<u>14,216</u>	100.00%	<u>14,216</u>
	<u>\$ 6,652,942</u>		<u>44,106</u>

As of December 31, 2017, the Group applied the incurred loss model to consider the loss allowance provision for notes and accounts receivable (including related parties). The aging analysis of notes and accounts receivable (including related parties), which were past due but not impaired, was as follows:

	<u>December 31, 2017</u>
Past due 1-30 days	\$ 960,265
Pass due 31-120 days	<u>171,623</u>
	<u>\$ 1,131,888</u>

The allowance for doubtful receivables is assessed by referring to the collectability of receivables based on historical payment behavior, an analysis of specific customer credit quality, and subsequent payment collections. Notes and accounts receivable that are past due, but for which the Group has not recognized a specific allowance for doubtful receivables after the assessment, are still considered recoverable.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Movements of the loss allowance for notes and accounts receivable (including related parties) were as follows:

	<u>2018</u>	<u>2017</u>	
		<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>
Balance at January 1 (per IAS 39)	\$ 32,901	32,737	-
Adjustment on initial application of IFRS 9	-		
Balance at January 1 (per IFRS 9)	32,901		
Impairment loss	11,619	952	-
Acquisition through business combination	62	-	-
Write-off	-	(536)	-
Foreign exchange loss	(476)	(252)	-
Balance at December 31	<u>\$ 44,106</u>	<u>32,901</u>	<u>-</u>

The Group entered into factoring contracts with financial institutions to sell its accounts receivable without recourse. According to these contracts, the Group is not responsible for any risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. Thus, these contracts met the conditions of financial asset derecognition. As of December 31, 2018 and 2017, details of these contracts were as follows:

	<u>December 31, 2018</u>				
	<u>Factored amount</u>	<u>Factoring credit limit</u>	<u>Advance amount</u>	<u>Range of interest rates</u>	<u>Collateral</u>
<u>Underwriting bank</u>					
E. Sun Bank	\$ 314,422	460,725	314,422		-
Far Eastern international Bank	-	921,450	-		-
	<u>\$ 314,422</u>	<u>1,382,175</u>	<u>314,422</u>	3.44%~3.49%	<u>-</u>
	<u>December 31, 2017</u>				
<u>Underwriting bank</u>	<u>Factored amount</u>	<u>Factoring credit limit</u>	<u>Advance amount</u>	<u>Range of interest rates</u>	<u>Collateral</u>
E. Sun Bank	\$ 243,842	447,600	243,842		-
Far Eastern international Bank	478,084	895,200	478,084		-
	<u>\$ 721,926</u>	<u>1,342,800</u>	<u>721,926</u>	1.57%~2.7801%	<u>-</u>

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Inventories

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Raw materials	\$ 976,940	774,323
Work in process	366,725	221,065
Finished goods	<u>1,227,855</u>	<u>1,038,221</u>
	<u>\$ 2,571,520</u>	<u>2,033,609</u>

For the years ended December 31, 2018 and 2017, the amounts of inventories which recognized as cost of sales were as follows:

	<u>2018</u>	<u>2017</u>
Cost of inventories sold	\$ 15,420,906	14,539,486
Write-downs of inventories to net realizable value	183,264	77,682
Loss on scrap	<u>194,972</u>	<u>214,335</u>
	<u>\$ 15,799,142</u>	<u>14,831,503</u>

The write-downs of inventories to net realizable value was recognized as cost of sales.

(h) Other financial assets — current

	<u>December 31,</u> <u>2017</u>
Principal protected currency deposit in CNY	\$ <u>704,810</u>

(i) Investments accounted for using equity method

Aggregate financial information of the joint ventures that is not individually material, was summarized as follows. The financial information was included in the Group's consolidated financial statement:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Carrying amount	\$ <u>11,006</u>	<u>11,244</u>
	<u>2018</u>	<u>2017</u>
Attributable to the Group:		
Net loss	\$ (777)	(1,769)
Other comprehensive income	<u>539</u>	<u>(344)</u>
Total comprehensive income	<u>\$ (238)</u>	<u>(2,113)</u>

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Business combination (acquisition of a subsidiary)

(i) The cost of acquisition

On November 9, 2018, the Company and Darfon Gemmy Corp. jointly acquired 54.86% equity ownership of Unictron Technologies Corp. ("UTC"). Since then, UTC and its subsidiaries have been included in the Group's consolidated entities. UTC and its subsidiaries are engaged in the manufacture and trading of electronic components.

The acquisition of UTC enables the Group to expand rapidly its scale in integrated components and materials ("ICM") business through its strategic layout in expertise of ceramic materials and high-frequency components, as well as the multi-channel network.

(ii) Identifiable net assets acquired in a business combination

On November 9, 2018 (the acquisition date), the identifiable assets and liabilities arising from the acquisition at fair value, were as follows:

Consideration transferred:			
Cash		\$	878,440
Add: Non-controlling interests (measured at non-controlling interest's proportionate share of the fair value of identifiable net assets)			496,704
Less: identifiable net assets acquired at fair value:			
Cash and cash equivalents	\$	226,056	
Notes and accounts receivable, net		269,066	
Other receivables		130	
Inventories		82,726	
Financial assets at amortized costs—current		121,100	
Prepayments and other current assets		8,154	
Financial assets at amortized costs—non-current		12,550	
Property, plant and equipment		228,002	
Investment property		130,502	
Intangible assets—patents		34,193	
Intangible assets—expertise		194,458	
Intangible assets—customer relations		95,786	
Intangible assets—computer software		2,396	
Other non-current assets		8,075	
Notes and accounts payable		(94,161)	
Other payables		(141,708)	
Other current liabilities		(1,272)	
Deferred income tax liabilities		(65,497)	
Net defined benefits liability—non-current		(9,743)	
Refundable deposits		(449)	
		<u>1,100,364</u>	
Goodwill		\$	<u>274,780</u>

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

If there is any information discovered within one year from the acquisition date about facts and circumstances that existed at the acquisition date which leads to an adjustment to the above provision amounts, or any additional provisions as at the acquisition date, then the acquisition accounting will be revised.

(iii) Intangible assets

The above patents, expertise, and customer relationship, are amortized on a straight-line basis over the estimated future economic useful life of 6 years, 10 years and 8 years, respectively.

Goodwill arising from the acquisition of UTC and its subsidiaries is due to its profitability from the expertise of radio-frequency circuits design and composition of ceramic materials, as well as value of workforce. None of the goodwill recognized is expected to be deductible for income tax purposes.

(iv) Pro forma information

From November 9, 2018 (the acquisition date) to December 31, 2018, UTC and its subsidiaries had contributed the revenue of \$142,926 and the net income of \$8,896 to the Group. If this acquisition had occurred on January 1, 2018, the management estimates that the consolidated revenue would have been \$20,833,865, and consolidated income after income tax would have been \$1,621,607. In determining these amounts, the management assumed that the acquisition occurred on January 1, 2018:

(k) Subsidiaries that have material non-controlling interest

Subsidiaries that have material non-controlling interest were as follows:

<u>Subsidiary</u>	<u>Principal place of business /Registration country</u>	<u>The Percentage of ownership and voting rights held by non-controlling interests</u> <u>December 31, 2018</u>
UTC	Taiwan	45.14 %

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
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The following summarized financial information of subsidiaries was prepared in accordance with Taiwan-IFRSs. Included in these information are the fair value adjustment made during the acquisition as at the acquisition date. Intra-group transactions were not eliminated in this information:

1) The summarized financial information of UTC:

	December 31, 2018
Current assets	\$ 730,602
Non-current assets	981,880
Current liabilities	(253,042)
Non-current liabilities	(74,308)
Net assets	<u>\$ 1,385,132</u>
The carrying amount of non-controlling interests	<u>\$ 501,213</u>
	November 9, 2018~ December 31, 2018
Net sales	<u>\$ 142,926</u>
Net income	\$ 8,896
Other comprehensive income	1,092
Total comprehensive income	<u>\$ 9,988</u>
Net income attributable to non-controlling interests	<u>\$ 4,016</u>
Total comprehensive income attributable to non-controlling interests	<u>\$ 4,509</u>
	November 9, 2018~ December 31, 2018
Cash flow from operating activities	\$ 40,194
Cash flow from investing activities	72,796
Cash flow from financing activities	-
Effects of foreign exchange rate changes	242
Net increase in cash and cash equivalents	<u>\$ 113,232</u>
Cash dividends paid to non-controlling interests	<u>\$ -</u>

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) Property, plant and equipment

The movements of cost, and accumulated depreciation and impairment loss of the property, plant and equipment were as follows:

	<u>Land</u>	<u>Building</u>	<u>Machinery</u>	<u>Furniture and fixtures</u>	<u>Other equipment</u>	<u>Total</u>
Cost:						
Balance at January 1, 2018	\$ 606,960	5,899,863	4,486,418	69,007	287,499	11,349,747
Acquisition through business combination	148,573	38,308	89,453	3,923	6,405	286,662
Additions	-	31,014	380,390	3,593	11,063	426,060
Disposals	-	(14,024)	(272,331)	(499)	(18,781)	(305,635)
Effect of exchange rate changes	-	19,092	67,839	(509)	(4,567)	81,855
Balance at December 31, 2018	<u>\$ 755,533</u>	<u>5,974,253</u>	<u>4,751,769</u>	<u>75,515</u>	<u>281,619</u>	<u>11,838,689</u>
Balance at January 1, 2017	\$ 606,960	6,069,354	4,844,755	70,198	301,424	11,892,691
Additions	-	4,963	368,890	759	7,140	381,752
Disposals	-	(4,766)	(536,900)	(1,116)	(18,216)	(560,998)
Reclassification	-	(2,315)	6,184	-	(386)	3,483
Effect of exchange rate changes	-	(167,373)	(196,511)	(834)	(2,463)	(367,181)
Balance at December 31, 2017	<u>\$ 606,960</u>	<u>5,899,863</u>	<u>4,486,418</u>	<u>69,007</u>	<u>287,499</u>	<u>11,349,747</u>
Accumulated depreciation and impairment losses:						
Balance at January 1, 2018	\$ -	2,265,752	3,899,480	68,137	255,556	6,488,925
Acquisition through business combination	-	11,634	41,539	2,484	3,003	58,660
Depreciation	-	228,629	274,581	2,105	17,045	522,360
Impairment losses	-	3,996	109,934	-	-	113,930
Disposals	-	(7,338)	(258,576)	(499)	(17,788)	(284,201)
Reclassification	-	(3)	(2,209)	-	2,212	-
Effect of exchange rate changes	-	(389)	74,348	(519)	(4,168)	69,272
Balance at December 31, 2018	<u>\$ -</u>	<u>2,502,281</u>	<u>4,139,097</u>	<u>71,708</u>	<u>255,860</u>	<u>6,968,946</u>
Balance at January 1, 2017	\$ -	2,096,417	4,239,226	64,927	249,772	6,650,342
Depreciation	-	234,227	278,640	3,852	23,341	540,060
Disposals	-	(1,205)	(471,129)	(1,009)	(15,181)	(488,524)
Reclassification	-	(679)	(183)	1,030	(168)	-
Effect of exchange rate changes	-	(63,008)	(147,074)	(663)	(2,208)	(212,953)
Balance at December 31, 2017	<u>\$ -</u>	<u>2,265,752</u>	<u>3,899,480</u>	<u>68,137</u>	<u>255,556</u>	<u>6,488,925</u>
Carrying amount:						
Balance at December 31, 2018	<u>\$ 755,533</u>	<u>3,471,972</u>	<u>612,672</u>	<u>3,807</u>	<u>25,759</u>	<u>4,869,743</u>
Balance at December 31, 2017	<u>\$ 606,960</u>	<u>3,634,111</u>	<u>586,938</u>	<u>870</u>	<u>31,943</u>	<u>4,860,822</u>

The Group evaluated that part of equipment was not available for production and had no residual value by disposal (through level 3 fair value measurement). Thus, the impairment loss of \$113,930, which is the carrying value of these equipment, was recognized under “non-operating income and loss—other gains and losses”.

Please refer to note 8 for details of the property, plant and equipment pledged as collateral as of December 31, 2018 and 2017.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
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(m) Investment property

The movements of costs and accumulated depreciation were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost:			
Balance at January 1, 2018	\$ -	-	-
Acquisition through business combination	<u>103,085</u>	<u>42,387</u>	<u>145,472</u>
Balance at December 31, 2018	<u>\$ 103,085</u>	<u>42,387</u>	<u>145,472</u>
Accumulated depreciation:			
Balance at January 1, 2018	\$ -	-	-
Acquisition through business combination	-	14,970	14,970
Depreciation	-	<u>481</u>	<u>481</u>
Balance at December 31, 2018	<u>\$ -</u>	<u>15,451</u>	<u>15,451</u>
Carrying amount:			
Balance at December 31, 2018	<u>\$ 103,085</u>	<u>26,936</u>	<u>130,021</u>
Fair value:			
Balance at December 31, 2018			<u>\$ 130,502</u>

Investment property is the offices that are leased to third parties. Please refer to note 6(r) for the related information.

The fair value of the investment property is determined by using both the income approach and the comparative approach by an independent appraisal company. The inputs, which are used in the fair value measurement, were classified to level 3.

Please refer to note 8 for details of investment property which was pledged as collateral for the credit lines of short-term loans as of December 31, 2018.

(n) Intangible assets

(i) The movements of costs and accumulated amortization of intangible assets were as follows:

	<u>Goodwill</u>	<u>Patents</u>	<u>Expertise</u>	<u>Customer relationship</u>	<u>Software</u>	<u>Total</u>
Costs:						
Balance at January 1, 2018	\$ -	-	-	-	102,577	102,577
Acquisition	-	-	-	-	120	120
Acquisition through business combination	<u>274,780</u>	<u>34,193</u>	<u>194,458</u>	<u>95,786</u>	<u>3,927</u>	<u>603,144</u>
Balance at December 31, 2018	<u>\$ 274,780</u>	<u>34,193</u>	<u>194,458</u>	<u>95,786</u>	<u>106,624</u>	<u>705,841</u>
Balance at January 1, 2017 (Balance at December 31, 2017)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>102,577</u>	<u>102,577</u>

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Goodwill</u>	<u>Patents</u>	<u>Expertise</u>	<u>Customer relationship</u>	<u>Software</u>	<u>Total</u>
Accumulated amortization:						
Balance at January 1, 2018	\$ -	-	-	-	85,440	85,440
Amortization	-	950	3,241	1,996	13,009	19,196
Acquisition through business combination	-	-	-	-	1,531	1,531
Effect of exchange rate changes	-	-	-	-	(3)	(3)
Balance at December 31, 2018	<u>\$ -</u>	<u>950</u>	<u>3,241</u>	<u>1,996</u>	<u>99,977</u>	<u>106,164</u>
Balance at January 1, 2017	\$ -	-	-	-	72,586	72,586
Amortization	-	-	-	-	12,854	12,854
Balance at December 31, 2017	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,440</u>	<u>85,440</u>
Carrying amounts:						
Balance at December 31, 2018	<u>\$ 274,780</u>	<u>33,243</u>	<u>191,217</u>	<u>93,790</u>	<u>6,647</u>	<u>599,677</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,137</u>	<u>17,137</u>

- (ii) For the years ended December 31, 2018 and 2017, amortization of intangible assets reported under the consolidated statements of comprehensive income was as follows:

	<u>2018</u>	<u>2017</u>
Operating expenses	<u>\$ 19,196</u>	<u>12,854</u>

- (iii) Impairment test on goodwill

The carrying amounts of goodwill arising from business combinations and the respective CGUs to which the goodwill was allocated for impairment test purpose as of December 31, 2018 were as follows:

	<u>December 31,</u> <u>2018</u>
UTC	<u>\$ 274,780</u>

Above CGU to which the goodwill is allocated represents the lowest level within the group, at which the goodwill is monitored for internal management purpose. Based on the results of impairment tests conducted by the Group, the recoverable amount exceeded its carrying amount, wherein no impairment loss was recognized. The recoverable amount of a CGU was determined based on the value in use, and the related key assumptions were as follows:

	<u>December 31,</u> <u>2018</u>
Revenue growth rate	8%~10%
Discount rates	14.87%

- The cash flow projections were based on future financial budgets, covering a period of 5 years, which were approved by the management. Cash flows that are over 5 years have been extrapolated using a 1.5% growth rate.
- The estimation of discount rate is based on the weighted average cost of capital.

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(o) Short-term borrowings

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unsecured bank borrowings	\$ <u>938,369</u>	<u>501,312</u>
Unused credit facilities	\$ <u>8,330,154</u>	<u>9,035,398</u>
Interest rate	<u>0.85%~3.49%</u>	<u>0.74%~2.22%</u>

Please refer to note 8 for a description of pledged property for credit of short-term borrowings from banks.

(p) Long-term borrowings

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Secured bank borrowings	\$ 440,000	480,000
Less: current portion of long-term borrowings	-	-
	<u>\$ 440,000</u>	<u>480,000</u>
Unused credit facilities	\$ <u>3,053,088</u>	<u>2,999,184</u>
Interest rate	<u>1.14%</u>	<u>1.14%~2.22%</u>

According to the loan agreements, the Group have promised to maintain certain financial ratios such as current ratio, net liability ratio, financial liability ratio, multiplied by the interest earned and minimum tangible net worth based on the Group's annual audited consolidated financial statement and semi-annual reviewed consolidated financial statements. For the years ended December 31, 2018 and 2017, the Group's financial ratios were in compliance with the loan agreements.

Please refer to note 8 for a description of pledged property for long-term borrowings from banks.

(q) Provision — non-current

	<u>Warranties</u>
Balance at January 1, 2018	\$ 79,976
Provisions made	18,313
Amount utilized	<u>(19,297)</u>
Balance at December 31, 2018	<u>\$ 78,992</u>
Balance at January 1, 2017	\$ 85,203
Amount reversed	(5,097)
Amount utilized	<u>(130)</u>
Balance at December 31, 2017	<u>\$ 79,976</u>

As of December 31, 2018 and 2017, the provision for warranties mainly related to the selling of computer peripheral devices, and electronic components. The provision for warranties is estimated based on historical warranty data associated with similar products.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Operating lease

(i) Lessee

The future operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than 1 year	\$ 61,024	47,484
Later than 1 year but not later than 5 years	90,795	34,818
	<u>\$ 151,819</u>	<u>82,302</u>

The Group have leased offices, warehouses, employee dormitories and plants under operating leases for a period of 1 to 10 years. The land use right of subsidiaries in China is leased for 50 years, recognized as "long-term prepaid rents".

The rental expenses of operating leases as of and for the years ended December 31, 2018 and 2017 were \$100,671, and \$90,647, respectively.

(ii) Lessor

The Group leased its investment properties under operating lease in 2018; please refer to note 6(m) for the details. The future minimum lease payments are as follows:

	December 31, 2018
Not later than 1 year	\$ 2,261
Later than 1 year but not later than 5 years	500
	<u>\$ 2,761</u>

(s) Employee benefits

(i) Defined benefit plans

Present value of defined benefit obligations in excess of fair value of plan assets:

	December 31, 2018	December 31, 2017
Present value of benefit obligations	\$ 204,392	185,710
Fair value of plan assets	(119,603)	(108,449)
	84,789	77,261
Effects of the asset ceiling	-	-
Net defined benefit liabilities	<u>\$ 84,789</u>	<u>77,261</u>

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Fair value of plan assets in excess of present value of defined benefit obligations:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Present value of benefit obligations	\$ -	-
Fair value of plan assets	<u>(15,426)</u>	<u>(14,826)</u>
	(15,426)	(14,826)
Effects of the asset ceiling	<u>-</u>	<u>-</u>
Net defined benefit assets	<u>\$ (15,426)</u>	<u>(14,826)</u>

The Company and its domestic subsidiaries make defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pension benefits for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive a payment based on years of service and average salary for the six months prior to the employee's retirement.

1) Composition of plan assets

The pension fund (the "Fund") contributed by the Company and its domestic subsidiaries is managed and administered by the Bureau of Labor Funds of the Ministry of Labor (the Bureau of Labor Funds). According to the *Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund*, with regard to the utilization of the Fund, minimum annual earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

As of December 31, 2018 and 2017, the Group's labor pension fund account balance at Bank of Taiwan amounted to \$135,029 and \$123,275, respectively. Refer to the website of the Bureau of Labor Funds for information on the labor pension assets including the asset portfolio and yield of the Fund.

2) Movements in present value of defined benefit obligations

In 2018 and 2017, the movements in present value of the defined benefit obligations of the Group were as follows:

	<u>2018</u>	<u>2017</u>
Defined benefit obligations at January 1	\$ 185,710	197,284
Current service costs and interest expense	3,364	3,477
Liabilities assumed in a business combination	16,705	-
Remeasurement on the net defined benefit liabilities (assets):		
— Actuarial losses arising from experience adjustments	4,868	7,711
— Actuarial losses (gains) arising from changes in financial assumptions	6,634	(5,685)
Curtailed gain	(5,904)	(12,674)
Benefits paid by the plan	(6,985)	(6,167)
Effect of employee transfers	-	1,764
Defined benefit obligations at December 31	<u>\$ 204,392</u>	<u>185,710</u>

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Movements of fair value of plan assets

In 2018 and 2017, the movements of fair value of plan assets of the Group were as follows:

	<u>2018</u>	<u>2017</u>
Fair value of plan assets at January 1	\$ 123,275	121,763
Interest income	2,414	1,726
Assets acquired through business combination	6,963	-
Remeasurement on the net defined benefit liabilities (assets):		
Returns on plan assets (excluding the amounts included in the net interest expense)	2,793	(527)
Contributions by the employer	6,569	6,480
Benefits paid by the plan	(6,985)	(6,167)
Fair value of plan assets at December 31	<u>\$ 135,029</u>	<u>123,275</u>

4) Changes in the effect of the asset ceiling

In 2018 and 2017, there was no effect of the asset ceiling.

5) Expenses recognized in profit or loss

In 2018 and 2017, the expenses recognized in profit or loss were as follows:

	<u>2018</u>	<u>2017</u>
Current service costs	\$ 322	771
Net interest expense on the net defined benefit liability (asset)	628	980
Curtailement gain	(5,904)	(12,674)
Effect of employee transfers	-	1,764
	<u>\$ (4,954)</u>	<u>(9,159)</u>
Cost of sales	\$ (356)	(2,782)
Selling expenses	(1,081)	(303)
Administrative expenses	(1,771)	(1,823)
Research and development expenses	(1,746)	(4,251)
	<u>\$ (4,954)</u>	<u>(9,159)</u>

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 6) Remeasurement of the net defined benefit liabilities (assets) recognized in other comprehensive income

In 2018 and 2017, the remeasurement of the net defined benefit liabilities (assets) recognized in other comprehensive income were as follows:

	<u>2018</u>	<u>2017</u>
Cumulative amount at January 1	\$ 36,190	33,637
Effects of initial consolidation of subsidiary	(201)	-
Recognized during the period	<u>8,709</u>	<u>2,553</u>
Cumulative amount at December 31	<u>\$ 44,698</u>	<u>36,190</u>

- 7) Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate	1.25%~1.375%	1.625 %
Future salary increases rate	2.00%~4.00%	2.000 %

The Group expects to make the contribution of \$7,019 to the defined benefit plans in the year following December 31, 2018.

The weighted average duration of the defined benefit plan is 13.7~17.21 years.

- 8) Sensitivity analysis

The following table summarizes the impact of a change in the assumptions on the present value of the defined benefit obligation on December 31, 2018 and 2017.

	Increase (decrease) in present value of defined benefit obligations	
	<u>0.25% Increase</u>	<u>0.25% Decrease</u>
December 31, 2018		
Discount rate	\$ (6,634)	6,921
Future salary increase	6,780	(6,495)
December 31, 2017		
Discount rate	(6,276)	6,526
Future salary increase	6,394	(6,182)

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
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Each sensitivity analysis considers the change in one assumption at a time, leaving the other assumptions unchanged. This approach shows the isolated effect of changing one individual assumption but does not take into account that some assumptions are related. The method used to carry out the sensitivity analysis is the same as the calculation of the net defined benefit liabilities recognized in the balance sheets.

The method used to carry out the sensitivity analysis is the same as in the prior year.

(ii) Defined contribution plans

The Company and its domestic subsidiaries contribute monthly an amount equal to 6% of each employee's monthly wages to the employee's individual pension fund account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Foreign subsidiaries make contributions in compliance with their respective local regulations. Under these defined contribution plans, the Group have no legal or constructive obligation to pay any additional amounts after contributing a fixed amount.

For the years ended December 31, 2018 and 2017, the Group recognized pension expenses of \$239,182 and \$248,056, respectively, in relation to the defined contribution plans.

(t) Income taxes

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, the corporate income tax rate was adjusted from 17% to 20% commencing year 2018.

(i) In 2018 and 2017, the components of income tax expense were as follows:

	<u>2018</u>	<u>2017</u>
Current income tax expense		
Current period	\$ 500,918	58,450
Adjustment for prior years	<u>12,484</u>	<u>36,584</u>
	<u>513,402</u>	<u>95,034</u>
Deferred income tax expense (benefit)		
Origination and reversal of temporary differences	(33,256)	70,463
Changes in tax losses	(527)	(2,558)
Changes in unrecognized deductible temporary differences	(59,107)	(18,349)
Adjustments in tax rate	<u>(11,473)</u>	<u>-</u>
	<u>(104,363)</u>	<u>49,556</u>
Income tax expense	<u>\$ 409,039</u>	<u>144,590</u>

In 2018 and 2017, there was no income tax recognized directly in equity.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

In 2018 and 2017, the components of income tax benefit recognized in other comprehensive income were as follows:

	<u>2018</u>	<u>2017</u>
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit plans	\$ <u>2,983</u>	<u>421</u>

Reconciliation of income tax expense and income before income tax for 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Income before income taxes	\$ <u>1,934,887</u>	<u>727,634</u>
Income tax using the Company's statutory tax rate	\$ 386,977	123,698
Effect of different tax rates in foreign jurisdictions	23,780	11,906
Adjustments in tax rate	(11,473)	-
Investment tax credits	(28,173)	(9,752)
Adjustments for prior-year income tax expense	12,484	14,531
Non-deductible expense	4,309	2,451
Recognition of previously unrecognized tax losses	(14,067)	(2,949)
Unrecognized tax benefits relating to current year's tax loss	925	1,317
Changes in unrecognized temporary differences	(59,107)	(18,349)
Others	93,384	21,737
Income tax expense	\$ <u>409,039</u>	<u>144,590</u>

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

The Group determined that it is not probable that future taxable profits will be available against which the temporary differences and tax losses can be utilized, these items which were not recognized as deferred income tax assets were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Deductible temporary differences	\$ 320,974	247,201
Tax losses	13,295	19,881
	\$ <u>334,269</u>	<u>267,082</u>

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

As of December 31, 2018, the unrecognized tax losses and the respective expiry years were as follows:

<u>Tax losses</u>	<u>Income tax effect of tax losses</u>	<u>Expiration year</u>
\$ 9,723	1,945	2023
27,517	5,503	2026
21,973	4,395	2027
<u>7,260</u>	<u>1,452</u>	2028
<u>\$ 66,473</u>	<u>13,295</u>	

2) Unrecognized deferred income tax liabilities

The Company was able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2018 and 2017, and management believed that it was probable that the temporary differences would not reverse in the foreseeable future, such temporary differences which were not recognized as deferred income tax liabilities were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Aggregate taxable temporary differences associated with investments in subsidiaries	<u>\$ 648,632</u>	<u>451,517</u>

3) Recognized deferred income tax assets and liabilities

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

Deferred income tax assets:

	<u>Depreciation adjustments for tax purposes</u>	<u>Defined benefit liabilities</u>	<u>Tax losses</u>	<u>Deferred inter- company profits</u>	<u>Warranty provisions</u>	<u>Sales allowance</u>	<u>Others</u>	<u>Total</u>
Balance at January 1, 2018	\$ 15,222	13,134	2,558	54,926	13,596	18,936	8,144	126,516
Recognized in profit or loss	4,477	(905)	527	64,702	2,202	10,158	20,276	101,437
Recognized in other comprehensive income	-	2,983	-	-	-	-	-	2,983
Acquisition through business combination	-	-	-	627	-	-	1,548	2,175
Balance at December 31, 2018	<u>\$ 19,699</u>	<u>15,212</u>	<u>3,085</u>	<u>120,255</u>	<u>15,798</u>	<u>29,094</u>	<u>29,968</u>	<u>233,111</u>
Balance at January 1, 2017	\$ 21,706	14,629	-	47,119	14,485	64,956	6,182	169,077
Recognized in profit or loss	(6,484)	(1,916)	2,558	7,807	(889)	(46,020)	1,962	(42,982)
Recognized in other comprehensive income	-	421	-	-	-	-	-	421
Balance at December 31, 2017	<u>\$ 15,222</u>	<u>13,134</u>	<u>2,558</u>	<u>54,926</u>	<u>13,596</u>	<u>18,936</u>	<u>8,144</u>	<u>126,516</u>

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
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Deferred income tax liabilities:

	Unrealized foreign currency exchange gain	Defined benefit assets	Acquisition through business combination	Others	Total
Balance at January 1, 2018	\$ (4,054)	(2,520)	-	-	(6,574)
Recognized in profit or loss	3,123	(565)	1,324	(956)	2,926
Acquisition through business combination	-	-	(65,497)	-	(65,497)
Balance at December 31, 2018	\$ (931)	(3,085)	(64,173)	(956)	(69,145)
Balance at January 1, 2017	\$ -	-	-	-	-
Recognized in profit or loss	(4,054)	(2,520)	-	-	(6,574)
Balance at December 31, 2017	\$ (4,054)	(2,520)	-	-	(6,574)

As of December 31, 2018, the recognized tax loss carryforwards and the expiration year was as follows:

Tax loss	Income tax effect of tax loss carryforwards	Expiration year
\$ <u>15,426</u>	<u>3,085</u>	2026

(iii) The R.O.C. income tax authorities have examined the income tax returns of the Company for all fiscal years through December 31, 2016.

(u) Capital and other equity

(i) Common stock

As of December 31, 2018 and 2017, the Company's authorized shares of common stock consisted of 400,000 thousand shares at \$10 par value per share, of which 280,000 thousand shares were issued and outstanding.

	Common stock	
	2018	2017
Balance at January 1	280,000	297,902
Retirement of treasury stock	-	(17,902)
Balance at December 31	<u>280,000</u>	<u>280,000</u>

(ii) Capital surplus

	December 31, 2018	December 31, 2017
Paid-in capital in excess of par value	\$ 3,563,940	3,787,940
Treasury stock transactions	<u>238,180</u>	<u>238,180</u>
	<u>\$ 3,802,120</u>	<u>4,026,120</u>

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
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Pursuant to the Company Act, any realized capital surplus is initially used to cover an accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends based on the original shareholding ratio or distributed as cash dividends pursuant to a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and donations from stockholders received by the Company. In accordance with the *Regulations Governing the Offering and Issuance of Securities by Securities Issuers*, distribution of stock dividends from capital surplus in any one year shall not exceed 10% of paid-in capital.

The Board meeting on June 21, 2018 and June 16, 2017 approved the distribution of cash dividend from capital surplus of \$224,000 and \$138,320, respectively.

(iii) Legal reserve

According to the Company Act, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of paid-in capital. If a company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve to shareholders by issuing new shares or by distributing cash for the portion in excess of 25% of the paid-in capital.

(iv) Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on April 6, 2012, a special reserve equal to the total amount of items that were accounted for as deductions from stockholders' equity was set aside from current and prior-year earnings. This special reserve shall revert to retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders' equity are reversed in subsequent periods.

(v) Earnings distribution

The Company's articles of incorporation stipulate that at least 10% of annual net income after deducting an accumulated deficit, if any, must be retained as a legal reserve until such retention equals the amount of paid-in capital. In addition, a special reserve should be set aside or reversed in accordance with applicable laws and regulations. The remaining balance of the annual net income, together with unappropriated earnings from previous years, if any, can be distributed as dividends after the earnings distribution plan proposed by the Board of Directors is approved during the stockholders' meeting.

Profits of the Company may be distributed in the form of cash dividends and/or stock dividends. As the Company is a technology- and capital-intensive enterprise in its growth phase, the Company has adopted a remaining earnings appropriation method as its dividend policy in order to meet long-term capital needs and cash requirements of stockholders, and thereby maintain continuous development and steady growth. The ratio for cash dividends shall not be less than 10% of the total distribution, but the ratio can be adjusted in accordance with the actual profit or the operating condition.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
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The appropriation of 2017 and 2016 earnings was approved by the shareholders at meetings on June 21, 2018, and June 16, 2017, respectively. The resolved appropriation of the dividends per share were as follows:

	2017		2016	
	Dividend per share (dollars)	Amount	Dividend per share (dollars)	Amount
Dividends per share:				
Cash dividend	\$ 1.2	336,000	1.506	421,680

The Board meeting on March 7, 2019, proposed the distribution of the Company's earnings for 2018 as follows:

	2018	
	Dividend per share (dollars)	Amount
Dividends per share:		
Cash dividend	\$ 3.5	980,000

The above appropriations are still subject to approval by the stockholders. Related information can be available on the Market Observation Post System website after the approval by the stockholders.

(vi) Treasury stock

In accordance with Article 28-2 of the Securities and Exchange Act, the Company purchased 17,902,000 shares of its own common shares for an aggregate amount of \$365,618 during the period from November 2016 to January 2017 in order to maintain its credit and shareholders' equity. On March 2, 2017, the Board of Directors approved a resolution to retire 17,902,000 shares of treasury stock for which the effective date of the retirement of treasury stock was March 12, 2017. The related registration process has been completed.

According to the Securities and Exchange Act, treasury stock cannot be collateralized. In addition, treasury shares do not bear the shareholders' rights prior to being sold to third parties. Moreover, the number of treasury shares shall not exceed 10% of the number of common shares issued. The total amount of treasury stock shall not exceed the sum of retained earnings, paid-in capital in excess of par value, and other realized capital surplus.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Other equity items (net after tax)

	Foreign currency translation differences	Unrealized gains (loss) from financial assets at fair value through other comprehensive income	Unrealized gains (loss) from available-for- sale financial assets	Remeasurement of defined benefit plans	Total
Balance at January 1, 2018 (per IAS 39)	\$ (315,244)	-	16,427	(30,230)	(329,047)
Adjustment on initial application of IFRS 9	-	16,427	(16,427)	-	-
Balance at January 1, 2018 (per IFRS 9)	(315,244)	16,427	-	(30,230)	(329,047)
Foreign exchange differences arising from translation of foreign operations	17,536	-	-	-	17,536
Unrealized gains (loss) from financial assets at fair value through other comprehensive income	-	(49,334)	-	-	(49,334)
Remeasurement of defined benefit plans	-	-	-	(6,154)	(6,154)
Share of the other comprehensive income (loss) of joint ventures accounted for using the equity method	458	-	-	-	458
Balance at December 31, 2018	\$ (297,250)	(32,907)	-	(36,384)	(366,541)
Balance at January 1, 2017	\$ 26,335	-	4,466	(28,098)	2,703
Foreign exchange differences arising from translation of foreign operations	(341,288)	-	-	-	(341,288)
Changes in fair value of available-for-sale financial assets	-	-	20,084	-	20,084
Net loss (gain) on disposal of available-for-sale financial assets reclassified to profit or loss	-	-	(8,123)	-	(8,123)
Remeasurement of defined benefit plans	-	-	-	(2,132)	(2,132)
Share of the other comprehensive income (loss) of joint ventures accounted for using the equity method	(291)	-	-	-	(291)
Balance at December 31, 2017	\$ (315,244)	-	16,427	(30,230)	(329,047)

(v) Earnings per share ("EPS")

The calculations of basic and diluted earnings per share for the years ended December 31, 2018 and 2017 were as follows:

(i) Basic earnings per share

	2018	2017
Net income attributable to shareholders of the Company	\$ <u>1,520,258</u>	<u>580,693</u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u>280,000</u>	<u>280,012</u>
Basic earnings per share (dollars)	\$ <u>5.43</u>	<u>2.07</u>

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
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(ii) Diluted earnings per share

	<u>2018</u>	<u>2017</u>
Net income attributable to shareholders of the Company	\$ <u>1,520,258</u>	<u>580,693</u>
Weighted-average number of ordinary shares outstanding (in thousands)	280,000	280,012
Effect of potentially dilutive ordinary shares (in thousands):		
Remuneration to employees	<u>5,354</u>	<u>2,988</u>
Weighted-average number of ordinary shares outstanding (after the effect of potentially dilutive ordinary shares) (in thousands)	<u>285,354</u>	<u>283,000</u>
Diluted earnings per share (dollars)	\$ <u>5.33</u>	<u>2.05</u>

(w) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2018</u>
Primary geographical markets:	
Taiwan	\$ 1,805,242
USA	860,446
Mainland China	15,450,812
Others	<u>1,997,119</u>
	<u>\$ 20,113,619</u>
Major products and services lines:	
Peripheral electronic products	\$ 14,480,413
Green energy products and passive components	<u>5,633,206</u>
	<u>\$ 20,113,619</u>
Timing of revenue recognition:	
Products transferred at a point in time	\$ 20,060,627
Service recognized at a point in time	<u>52,992</u>
	<u>\$ 20,113,619</u>

(ii) Contract balances

	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Notes and accounts receivable (including related parties)	\$ 6,652,942	5,594,111
Less: loss allowance	<u>(44,106)</u>	<u>(32,901)</u>
	<u>\$ 6,608,836</u>	<u>5,561,210</u>

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For details on notes and accounts receivable (including related parties) and its loss allowance, please refer to note 6(f).

(iii) Refund liabilities

	December 31, 2018	January 1, 2018
Other current liabilities—refund liabilities	\$ 597,920	388,180

Refund liabilities are allowances provided to clients where the amount is expected be paid. The balance of refund liabilities was recognized under other payables on December 31, 2017.

(x) Revenue

	2017
Revenue from sale of goods	\$ 17,563,188
Revenue from royalty	100,884
	\$ 17,664,072

(y) Remuneration to employees and directors

The Company's article of incorporation requires that earnings shall first to be offset against any deficit, then, a range from 5% to 20% will be distributed as remuneration to its employees and no more than 1% to its directors. Employees who are entitled to receive the abovementioned employee remuneration, in shares or cash, include the employees of the subsidiaries of the Company who meet certain specific requirement.

For the years ended December 31, 2018 and 2017, the Company estimated its remuneration to employees amounting to \$194,016 and \$76,400, respectively, and the remuneration to directors amounting to \$14,551 and \$6,000, respectively. The abovementioned estimated amounts are calculated based on the net profits before tax of each period (excluding the remuneration to employees and directors), multiplied by a certain percentage of the remuneration to employees and directors. The estimations are recognized as cost of sales or operating expenses. If the actual amounts differ from the estimated amounts, the differences shall be accounted as changes in accounting estimates and recognized as profit or loss in next year. The abovementioned estimated remuneration to employees and directors is the same as the amount approved by the Board of Directors and will be paid in cash. Related information is available on the Market Observation Post System website of the Taiwan Stock Exchange.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(z) Non-operating income and loss

(i) Other income

	<u>2018</u>	<u>2017</u>
Interest income	\$ 35,501	39,576
Rental income	4,473	324
Dividend income	56,210	4,191
Subsidy revenue	30,942	22,716
Others	<u>12,933</u>	<u>12,129</u>
	<u>\$ 140,059</u>	<u>78,936</u>

(ii) Other gains and losses

	<u>2018</u>	<u>2017</u>
Gains on disposal of property, plant and equipment, net	\$ 8,077	44,329
Gains on disposal of investments	48,121	8,123
Foreign exchange losses, net	(19,934)	(48,721)
Gains on financial assets and liabilities at fair value through profit or loss	28,745	54,666
Losses on impairment of property, plant and equipment	(113,930)	-
Fire loss	(8,741)	-
Others	<u>(3,250)</u>	<u>(2,668)</u>
	<u>\$ (60,912)</u>	<u>55,729</u>

(iii) Finance costs

	<u>2018</u>	<u>2017</u>
Interest expense from bank	\$ <u>(40,207)</u>	<u>(39,215)</u>

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(aa) Financial instruments

(i) Categories of financial instruments

1) Financial assets

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial assets at fair value through profit or loss:		
Financial assets mandatorily measured at fair value through profit or loss – foreign currency forward contracts	\$ 4,656	-
Held for trading – foreign currency forward contracts	-	<u>23,623</u>
Subtotal	<u>4,656</u>	<u>23,623</u>
Financial assets at fair value through other comprehensive income	<u>820,574</u>	-
Available-for-sale financial assets	-	<u>202,700</u>
Financial assets measured at amortized cost (loans and receivables):		
Cash and cash equivalents	1,717,958	1,015,392
Financial assets at amortized cost – current	336,379	-
Notes and accounts receivable, and other receivables (including related parties)	6,623,691	5,590,560
Other financial assets	-	704,810
Financial assets at amortized cost – non-current	12,452	-
Refundable deposits	<u>21,293</u>	<u>27,931</u>
Subtotal	<u>8,711,773</u>	<u>7,338,693</u>
Total	<u>\$ 9,537,003</u>	<u>7,565,016</u>

2) Financial liabilities

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial liabilities measured at amortized cost:		
Short-term borrowings	\$ 938,369	501,312
Notes and accounts payable and other payables (including related parties)	6,029,163	5,260,257
Other current liabilities – refund liabilities	597,920	-
Long-term borrowings	<u>440,000</u>	<u>480,000</u>
Total	<u>\$ 8,005,452</u>	<u>6,241,569</u>

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Credit risk

The maximum exposure to credit risk is equal to the carrying amount of the Group's financial assets. As of December 31, 2018 and 2017, the Group's maximum exposure to credit risk amounted to \$9,537,003 and \$7,565,016, respectively.

The majority of the Group's customers are well-known international companies with high financial transparency. Management believes that there is no significant concentration of credit risk due to the Group's large number of customers. Additionally, management of the Group continuously evaluates the credit quality of their customers to lower the credit risk.

(iii) Liquidity risk

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including principal and interest.

	Contractual cash flow	Within 1 year	1-2 years	2-5 years
December 31, 2018				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 941,866	941,866	-	-
Long-term borrowings	452,665	5,014	5,014	442,637
Notes and accounts payable (including related parties)	4,293,285	4,293,285	-	-
Other payables	1,722,445	1,722,445	-	-
Other payables to related parties	13,433	13,433	-	-
Other current liabilities – refund liabilities	597,920	597,920	-	-
	<u>\$ 8,021,614</u>	<u>7,573,963</u>	<u>5,014</u>	<u>442,637</u>
December 31, 2017				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 502,608	502,608	-	-
Long-term borrowings	487,314	5,553	441,742	40,019
Notes and accounts payable (including related parties)	3,632,071	3,632,071	-	-
Other payables	1,622,215	1,622,215	-	-
Other payables to related parties	5,971	5,971	-	-
	<u>\$ 6,250,179</u>	<u>5,768,418</u>	<u>441,742</u>	<u>40,019</u>

The Group do not expect that the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Currency risk

At the reporting date, the carrying amounts of the Group's significant monetary assets and liabilities denominated in a currency other than the respective functional currencies of Group were as follows (including the monetary items that have been eliminated in the accompanying consolidated financial statements):

December 31, 2018					
	Foreign currency (in thousands)	Exchange rate	New Taiwan Dollars (in thousands)	Change in magnitude	Pre-tax effect on profit or loss (in thousands)
<u>Financial assets</u>					
<u>Monetary assets</u>					
USD	\$ 288,784	30.7150	8,870,001	1 %	88,700
CNY	207,986	4.4709	929,885	1 %	9,299
<u>Financial liabilities</u>					
<u>Monetary liabilities</u>					
USD	216,950	30.7150	6,663,619	1 %	66,636
CNY	191,339	4.4709	855,458	1 %	8,555
December 31, 2017					
	Foreign currency (in thousands)	Exchange rate	New Taiwan Dollars (in thousands)	Change in magnitude	Pre-tax effect on profit or loss (in thousands)
<u>Financial assets</u>					
<u>Monetary assets</u>					
USD	\$ 223,837	29.8400	6,679,296	1 %	66,793
CNY	146,334	4.5767	669,727	1 %	6,697
<u>Financial liabilities</u>					
<u>Monetary liabilities</u>					
USD	178,643	29.8400	5,330,707	1 %	53,307
CNY	181,229	4.5767	829,431	1 %	8,294

As the Group deal in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. The aggregate of realized and unrealized foreign exchange gain (loss) for the years ended December 31, 2018 and 2017 were \$(19,934) and \$(48,721), respectively.

(v) Interest rate risk

The following sensitivity analysis is based on the risk exposure to floating-interest-rate liabilities on the reporting date. The sensitivity analysis assumes the liabilities recorded at the reporting date had been outstanding for the entire period.

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

If the interest rate had been 100 basis points (1%) higher/lower, with all other variables held constant, pre-tax income for the years ended December 31, 2018 and 2017, would have been \$13,784 and \$9,813 lower/higher, respectively, which mainly resulted from the loans and borrowings with floating interest rates.

(vi) Fair value

1) Financial instruments that are not measured at fair value

The Group's management considers that the carrying amounts of their financial assets and financial liabilities measured at amortized cost approximate their fair values.

2) Financial instruments that are measured at fair value

The Group's financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, and available-for-sale financial assets, are measured at fair value on a recurring basis.

The table below analyzes financial instruments measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The different levels have been defined as follows:

- a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Carrying amount	December 31, 2018			Total
		Fair value			
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss :					
Derivative financial instruments – foreign currency forward contracts	\$ 4,656	-	4,656	-	4,656
Financial assets at fair value through comprehensive income :					
Domestic listed stocks	811,091	811,091	-	-	811,091
Domestic emerging stocks	9,483	-	9,483	-	9,483
Subtotal	820,574	811,091	9,483	-	820,574
Total	\$ 825,230	811,091	14,139	-	825,230

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2017				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss :					
Derivative financial instruments -- foreign currency forward contracts	\$ 23,623	-	23,623	-	23,623
Available-for-sale financial assets:					
Domestic listed stocks	194,158	194,158	-	-	194,158
Domestic emerging stocks	8,542	-	8,542	-	8,542
Subtotal	202,700	194,158	8,542	-	202,700
Total	\$ 226,323	194,158	32,165	-	226,323

3) Valuation techniques and assumptions used in fair value measurement

a) Non-derivative financial instruments

The fair value of financial instruments traded in active liquid markets is determined with reference to quoted market prices.

Except for the above-mentioned financial instruments traded in an active market, the fair value of other financial instruments are based on the valuation techniques or quotation from counterparty. The fair value using valuation techniques refers to (i) the current fair value of other financial instruments with similar conditions and characteristics, or (ii) discounted cash flow method, or (iii) other valuation techniques which include model calculating with observable market data at the reporting date.

The Group use the following methods in determining the fair value of their financial assets:

- i) The fair values of listed stocks with standard terms and conditions, and traded in active liquid markets are determined with reference to quoted market prices.
- ii) The fair value of domestic emerging stock is determined based on the average stock price on the emerging market at the reporting date.

b) Derivative financial instruments

The fair value of derivative financial instruments is determined using a valuation technique, with estimates and assumptions consistent with those used by market participants and that are readily available to the Group. The fair value of foreign currency forward contracts is computed individually by each contract using the valuation technique.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Transfer between levels of the fair value hierarchy

There were no transfers among fair value hierarchies for the years ended December 31, 2018 and 2017.

(ab) Financial risk management

The Group is exposed to credit risk, liquidity risk, and market risk (including currency risk, interest rate risk, and other market price risk). The Group has disclosed the information on exposure to the aforementioned risks and the Group's policies and procedures to measure and manage those risks below.

The Company's Board of Directors is responsible for developing and monitoring the Group's risk management policies. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor adherence to the controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's operations.

The Group's management monitors and reviews the financial activities in accordance with procedures required by relevant regulations and internal controls. Internal auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Company's Board of Directors.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to financial instruments fails to meet its contractual obligations, which arises principally from the Group's cash and cash equivalents, receivables from customers, and other financial assets. The Group maintains cash and cash equivalents, and enters into derivative transactions with reputable financial institutions. Therefore, the exposure related to the potential default by those counterparties is not considered significant.

The Group have established a credit policy under which each customer is analyzed individually for creditworthiness for purposes of setting the credit limit. Additionally, the Group continuously evaluate the credit quality of customers and utilize insurance to minimize the credit risk.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling their financial liabilities by delivering cash or another financial asset. The Group manage liquidity risk by monitoring regularly the current and estimated mid-term to long-term cash demand, and by maintaining adequate cash and banking facilities. As of December 31, 2018 and 2017, the Group had unused credit facilities of \$11,383,242 and \$12,034,582, respectively.

(iii) Market risk

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

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group utilize derivative financial instruments to manage foreign currency risks and the volatility of profit or loss. All such transactions are carried out within the guidelines set by the Board of Directors.

1) Currency risk

The Group are exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities. In addition to using foreign currency borrowing transactions, the Group utilize foreign currency forward contracts to hedge their foreign currency exposure with respect to their sales and purchases.

2) Interest rate risk

The Group's short-term borrowings and long-term borrowings carried floating interest rates. To manage the interest rate risk, the Group periodically assess the interest rates of bank loans and maintain good relationships with financial institutions to obtain lower financing costs. The Group also manage working capital to reduce the dependence on bank loans as well as the risk arising from fluctuation of interest rates.

3) Equity financial instruments price risk

The Group are exposed to the risk of price fluctuation in the securities market due to investment in equity financial instruments.

The sensitivity analysis in relation to equity financial instruments' price is calculated based on movements in fair value at the reporting date.

Assuming a hypothetical increase or decrease of 1% in equity price of the equity investment at each reporting date, the other comprehensive income for the years ended December 31, 2018 and 2017, would have increased or decreased by \$8,206 and \$2,027, respectively.

(ac) Capital management

In consideration of industry dynamics and future development, as well as external environment factors, the Company manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, research and development activities, dividend payments, and other business requirements of continuing operations.

For the years ended December 31, 2018 and 2017, there were no changes in the Group's approach to capital management.

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ad) Changes in liabilities from financing activities

Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2018	Cash flows	December 31, 2018
Short-term borrowings	\$ 501,312	437,057	938,369
Long-term borrowings	480,000	(40,000)	440,000
Total liabilities from financing activities	<u>\$ 981,312</u>	<u>397,057</u>	<u>1,378,369</u>

7. Related-party transactions

(a) Related party name and categories

The transactions between the Group and its related parties during the reporting period are set out as follows:

<u>Name of related party</u>	<u>Relationship with the Group</u>
Qisda Corporation ("Qisda")	The entity with significant influence over the Group
BESV Japan Co., Ltd. ("BESVJ")	Joint venture of the Group
Other related parties:	
Qisda (Suzhou) Co., Ltd. ("QCSZ")	Subsidiary of Qisda
Qisda Optronics (Suzhou) Co., Ltd. ("QCOS")	Subsidiary of Qisda
Qisda Electronics (Suzhou) Co., Ltd. ("QCES")	Subsidiary of Qisda
Qisda Sdn. Bhd. ("QLPG")	Subsidiary of Qisda
BenQ Japan Co., Ltd. ("BQJP")	Subsidiary of Qisda
BenQ Technology (Shanghai) Co., Ltd. ("BQIs")	Subsidiary of Qisda
BenQ ESCO Corp. ("ESCO")	Subsidiary of Qisda
BenQ Asia Pacific Corp. ("BQP")	Subsidiary of Qisda
BenQ Material Corp. ("BMC")	Subsidiary of Qisda
BenQ Material (Suzhou) Co., Ltd. ("BMS")	Subsidiary of Qisda
DFI Inc. ("DFI")	Subsidiary of Qisda

(b) Significant transactions with related parties

(i) Net Sales

	2018	2017
Investor with significant influence	\$ 6	57
Joint Venture	35,694	21,525
Other related parties	155,966	83,797
	<u>\$ 191,666</u>	<u>105,379</u>

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The sales prices and collection terms for related parties were not significant different from those of sales to third-party customers. The collection terms for related parties were EOM60 to EOM120 days.

(ii) Purchases and processing charges

	2018	2017
Other related parties	\$ 2,720	4,302

There were no significant differences between the purchase prices for related parties and those for third-party suppliers. The payment terms of OA70 days showed no significant difference between related parties and third-party suppliers.

(iii) Leases

The Group leased an employee dormitory from a related party. The rental amount referred to market price in the adjacent area. For the years ended December 31, 2018 and 2017, the related rental expenses were \$13,678 and \$10,683, respectively.

(iv) Receivables

The Group's receivables from related parties were as follows:

Account	Related-party categories	December 31, 2018	December 31, 2017
Accounts receivable	Investor with significant influence	-	1
Accounts receivable	Joint venture	7,631	3,391
Accounts receivable	Other related parties	50,118	32,162
		\$ 57,749	35,554

(v) Payables

The Group's payables to related parties were as follows:

Account	Related-party categories	December 31, 2018	December 31, 2017
Account payables	Other related parties	\$ 953	708
Other payables	Investor with significant influence	16	9
Other payables	Joint venture	178	-
Other payables	Other related parties	13,239	5,962
		13,433	5,971
		\$ 14,386	6,679

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Compensation for key management personnel

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 100,996	60,200
Post-employment benefits	1,040	908
	<u>\$ 102,036</u>	<u>61,108</u>

8. Pledged assets

The carrying amounts of assets pledged as collateral are detailed below:

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Land and buildings	Credit lines of bank loans	\$ 1,522,735	1,532,455
Certificate of time deposit	Guarantees for customs duties and security deposit of the court	1,100	960
		<u>\$ 1,523,835</u>	<u>1,533,415</u>

9. Significant commitments and contingencies

In addition to those in note 6(r), the Group had the following significant commitments:

- (a) For the purpose of guaranteeing customs duties, the Group asked financial institutions to provide guarantee letters as follows:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Customs duties guarantee	\$ 72,647	20,470
Performance guarantee	5,077	-
	<u>\$ 77,724</u>	<u>20,470</u>

- (b) Significant unrecognized commitments

The balance of commitments from acquiring property, plant and equipment on December 31, 2018 and 2017 were as follows:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Acquiring property, plant and equipment	\$ 330,811	119,923

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Contingent liabilities

- (i) In May 2018, Lite-On Technology Corp. and its subsidiaries, Lite-On Singapore Pte. Ltd., and Lite-On Electronics (Guangzhou) Limited, filed complaints for patents infringement against the Company and its subsidiary, Darfon America Corporation, at the US district court of the northern district of California. In June 2018 and January 2019, the Company counterclaimed Lite-On Technology Corp and its subsidiaries, Lite-On Singapore Pte. Ltd., Lite-On Trading USA, Inc. and Silitek Elec. (Dongguan) Co., Ltd. on keyboard's patent infringement of the Company at the same court. Because the lawsuits are still at their initial stage, the Company evaluated that there is no significant effect on its finances and operations.
- (ii) One of the subsidiaries of the Company, Darfon Electronics (Suzhou) Corporation (DFS), filed complaints for patent infringement against Lite-On Technology Corp. and its subsidiary Lite-On Computer (Changzhou) Co., Ltd. on the intermediate people's court in Jiangsu Province, China in December 2018 and January 2019, respectively. In February 2019, Lite-On Technology Corp. and its subsidiary, Lite-On Electronics (Guangzhou) Limited, counterclaimed the Company and DFS for patent infringement of keyboard. Because the lawsuits are still at their initial stage, the Company evaluated that there is no significant effect on its finances and operations.

10. Significant loss from disasters:None.

11. Significant subsequent events

On February 20, 2019, the Company's Board of Directors approved a resolution to acquire 60% ownership (9,290 thousand ordinary shares) of Kenstone Metal Co., Ltd. ("KMC") upon completion of KMC's spin-off and capital reduction, at a price of \$77.504 dollars per share, totaling \$720,000.

12. Others

Employee benefits, depreciation and amortization, categorized by function were as follows:

	2018			2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:						
Salaries	2,466,918	1,097,661	3,564,579	2,300,092	1,010,272	3,310,364
Labor and health insurance	128,463	91,458	219,921	135,841	91,106	226,947
Pension	178,159	56,069	234,228	188,960	49,937	238,897
Directors remunerations	14,551	12,213	26,764	5,081	14,439	19,520
Other employees benefits	142,614	50,709	193,323	125,469	55,645	181,114
Depreciation	421,802	101,039	522,841	409,843	130,217	540,060
Amortization	25,746	53,810	79,556	14,675	45,273	59,948

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DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

13. Additional disclosures

- (a) Information on significant transactions:
- (i) Financing provided to other parties for the year ended December 31, 2018: None
 - (ii) Guarantees and endorsement provided to other parties: None.
 - (iii) Marketable securities held as of December 31, 2018 (excluding investments in subsidiaries, associates, and jointly controlled entities): Please refer to table 1.
 - (iv) Marketable securities for which the accumulated purchase or sale amounts exceed \$300 million or 20% of the paid-in capital for the year ended December 31, 2018: Please Refer to table 2.
 - (v) Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital for the year ended December 31, 2018: None.
 - (vi) Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital for the year ended December 31, 2018: None.
 - (vii) Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital for the year ended December 31, 2018: Please refer to table 3.
 - (viii) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital for the year ended December 31, 2018: Please refer to table 4.
 - (ix) Transactions about derivative instruments: Please refer to note 6(b).
 - (x) Business relationships and significant intercompany transactions: Please refer to table 5.
- (b) Names, locations, and related information of investees over which the Company has controlling power or significant influence for the year ended December 31, 2018 (excluding investee companies in mainland China): Please refer to table 6.
- (c) Information on investments in Mainland China: Please refer to table 7.

14. Segment information

(a) General information

The Group is mainly engaged in the R&D design, manufacturing, and sale of computer peripheral devices, and electronic components. The Group only has one reportable segment.

(b) Reportable segments' profit or loss, basis of measurement, and reconciliation

Segment profit or loss, segment assets, and segment liabilities are consistent with the consolidated financial statements. Please refer to the consolidated balance sheets and consolidated statements of comprehensive income.

(Continued)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Products and services information

Revenues from external customers are detailed below:

<u>Name of products and services</u>	<u>2018</u>	<u>2017</u>
Peripheral electronic products	\$ 14,480,413	14,377,083
Green energy products and passive components	5,633,206	3,286,989
Total	<u>\$ 20,113,619</u>	<u>17,664,072</u>

(d) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

<u>Region</u>	<u>2018</u>	<u>2017</u>
Revenues from external customers:		
Taiwan	\$ 1,805,242	1,410,855
USA	860,446	479,875
Mainland China	15,450,812	14,571,856
Others	1,997,119	1,201,486
Total	<u>\$ 20,113,619</u>	<u>17,664,072</u>

<u>Region</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Non-current assets:		
Taiwan	\$ 2,379,192	2,003,832
Mainland China	3,676,570	3,127,243
Others	4,937	7,130
Total	<u>\$ 6,060,699</u>	<u>5,138,205</u>

The aforementioned non-current assets do not include financial instruments, deferred income tax assets, and pension fund assets.

(e) Major customer information

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Sales to Customer A	\$ 2,256,428	1,647,478
Sales to Customer B	2,230,730	2,303,586
Total	<u>\$ 4,487,158</u>	<u>3,951,064</u>

Darfon Electronics Corp. and Subsidiaries
Marketable Securities Held (Excluding Investments in Subsidiaries, Associates, and Jointly Controlled Entities)
December 31, 2018

Table 1 (In Thousands of Shares)

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	Ending Balance			Note	
				Number of Shares	Carrying Value	Percentage of Ownership		Fair Value
The Company	Qisda Corp.	Investor with significant influence	Financial assets at fair value through other comprehensive income – current	36,559	720,212	1.86%	720,212	-
DZL	Qisda Corp.	Investor with significant influence	Financial assets at fair value through other comprehensive income—current	4,037	79,529	0.21%	79,529	-
DZL	Raydium Semiconductor Corporation	-	Financial assets at fair value through other comprehensive income—current	150	9,483	0.21%	9,483	-
DZL	Wistron NeWeb Corporation	-	Financial assets at fair value through other comprehensive income—current	102	8,150	0.03%	8,150	-
DZL	DFI	Subsidiary of investor with significant influence	Financial assets at fair value through other comprehensive income—current	50	3,200	0.04%	3,200	-
UTC	Corporate bond in USD—EMIRATES NBD PJSC BBIVA 026 JAN2020	-	Financial assets at amortized cost – non-current	-	12,452	-	12,452	-
DPS	Bank of Suzhou—Principal protected currency deposit in CNY	-	Financial assets at amortized cost – current	-	116,243	-	116,243	-
DFH	Bank of China—Principal protected currency deposit in CNY	-	Financial assets at amortized cost – current	-	178,836	-	178,836	-

Darfon Electronics Corp. and Subsidiaries
Marketable Securities for Which the Accumulated Purchase or Sale Amounts Exceed \$300 Million or 20% of the Paid in Capital
For the year ended December 31, 2018

(In Thousands of Shares/CNY)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Name of Relationship	Beginning Balance		Acquisitions		Disposal			Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Value	Gain (loss) on disposal	Shares
The Company	Qisda Corp.	Financial assets at fair value through other comprehensive income – current (Note 2)	-	Investor with significant influence	5,000	105,750	31,559	658,841	-	-	-	36,559	720,212
The Company	UTC	Investment by equity method	-	-	-	-	16,962	678,475	-	-	-	16,962	682,714
DPS	Bank of Suzhou – Principal protected currency deposit in CNY	Financial assets at amortized cost – current	Bank of Suzhou	-	-	-	-	1,131,138 (CNY253,000)	1,014,895 (CNY227,000)	1,014,895 (CNY227,000)	-	-	116,243 (CNY26,000)
DPS	“Li Duo Duo” Structural Deposits – Principal protected currency deposit in CNY	Financial assets at amortized cost – current (Note 3)	Shanghai Pudong Development Bank	-	-	-	-	456,032 (CNY102,000)	791,349 (CNY177,000)	791,349 (CNY177,000)	-	-	-
DFH	Bank of China – Principal protected currency deposit in CNY	Financial assets at amortized cost – current (Note 3)	Bank of China	-	-	-	-	326,376 (CNY73,000)	299,551 (CNY67,000)	299,551 (CNY67,000)	-	-	178,836 (CNY40,000)

(Note 1) Including unrealized valuation gain or loss, gain or loss by equity method, other adjustments.

(Note 2) Recognized as Available-for-sale financial assets – current as of December 31, 2017.

(Note 3) Recognized as other financial assets – current as of December 31, 2017.

(Note 4) The above-mentioned CNY was at the exchange rate of NTD 4.4709 at December 31, 2018.

Darfon Electronics Corp. and Subsidiaries
Total Purchases From and Sales To Related Parties Which Exceed \$100 Million or 20% of the Paid in Capital
For the year ended December 31, 2018

Table 3

Company Name	Related Party	Relationship	Transaction Details			Transactions with Terms Different from Others			Notes and Accounts Receivable (Payable)		Note
			Purchase/(Sale)	Amount	% of Total Purchases/(Sales)	Payment Terms	Unit price	Payment Terms	Ending Balance	% of Total	
The Company	DFBVI	Parent-sub subsidiary	Sale	383,751 (Note 3)	2%	OA90	Normal price	OA90 to EOM 120	355,090	6%	-
The Company	DFC	Parent-sub subsidiary	Sale	263,928	2%	OA135	Normal price	OA90 to EOM 120	141,536	2%	-
The Company	DFA	Parent-sub subsidiary	Sale	811,646	5%	OA90	Normal price	OA90 to EOM 120	425,742	7%	-
The Company	DTC	Parent-sub subsidiary	Sale	237,396	1%	OA90	Normal price	OA90 to EOM 120	126,050	2%	-
The Company	DFBVI	Parent-sub subsidiary	Purchase	11,245,572	94%	OA90	Note 2	OA90	(4,339,054)	90%	-
DTC	The Company	Parent-sub subsidiary	Purchase	237,396	100%	OA90	Normal price	OA30 to EOM 120	(126,050)	100%	-
DFBVI	The Company	Parent-sub subsidiary	Sale	11,245,572	88%	OA90	Note 1	Note 1	4,339,054	87%	-
DFBVI	DFS	Affiliates	Sale	851,402 (Note 3)	6%	OA90	Note 1	Note 1	337,754	7%	-
DFBVI	DFQ	Affiliates	Sale	720,838	5%	OA90	Note 1	Note 1	294,023	6%	-
DFBVI	The Company	Parent-sub subsidiary	Purchase	383,751 (Note 3)	3%	OA90	Note 1	Note 1	(355,090)	7%	-
DFBVI	DFS	Affiliates	Purchase	5,893,226	41%	OA90	Note 1	Note 1	(1,985,539)	40%	-
DFBVI	DFH	Affiliates	Purchase	4,410,690	31%	OA90	Note 1	Note 1	(1,412,116)	28%	-
DFBVI	DFQ	Affiliates	Purchase	3,760,585	26%	OA90	Note 1	Note 1	(1,218,510)	25%	-
DFS	DFBVI	Affiliates	Sale	5,893,226	55%	OA90	Normal price	OA30 to EOM 120	1,985,539	59%	-
DFS	DFH	Affiliates	Sale	666,036	6%	OA90	Normal price	OA30 to EOM 120	126,099	4%	-
DFS	DFQ	Affiliates	Sale	122,112	1%	OA90	Normal price	OA30 to EOM 120	43,415	1%	-
DFS	DFBVI	Affiliates	Purchase	851,402 (Note 3)	9%	OA90	Note 2	OA30 to EOM 120	(337,754)	16%	-
DFS	DFQ	Affiliates	Purchase	114,404	1%	OA90	Note 2	OA30 to EOM 120	(60,626)	3%	-

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Company Name	Related Party	Relationship	Transaction Details				Transactions with Terms Different from Others			Notes and Accounts Receivable (Payable)		Note
			Purchase/(Sale)	Amount	% of Total Purchases/(Sales)	Payment Terms	Unit price	Payment Terms	Ending Balance	% of Total		
DFH	DFBVI	Affiliates	Sale	4,410,690	93%	OA90	Note 2	OA30 to EOM 120	1,412,116	94%	-	
DFH	DFS	Affiliates	Purchase	666,036	15%	OA90	Normal price	OA30 to EOM 120	(126,099)	10%	-	
DFQ	DFBVI	Affiliates	Sale	3,760,585	95%	OA90	Normal price	OA30 to EOM 150	1,218,510	91%	-	
DFQ	DFS	Affiliates	Sale	114,404	3%	OA90	Normal price	OA30 to EOM 150	60,626	5%	-	
DFQ	DFBVI	Affiliates	Purchase	720,838	18%	OA90	Normal price	OA30 to EOM 150	(294,023)	21%	-	
DFQ	DFS	Affiliates	Purchase	122,112	3%	OA90	Normal price	OA30 to EOM 150	(43,415)	3%	-	
DFC	The Company	Parent-subsiidiary	Purchase	263,928	99%	OA135	Normal price	OA30 to EOM 120	(141,536)	99%	-	
DFA	The Company	Parent-subsiidiary	Purchase	811,646	99%	OA90	Normal price	OA30 to EOM 120	(425,742)	100%	-	

Note 1 : There is no comparable transaction available.

Note 2 : The selling prices for related parties are not comparable to the sales prices for third-party customers as the specifications of products were different.

Note 3 : The sales from repurchasing after processing have been reduced.

Note 4 : The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

Darfon Electronics Corp. and Subsidiaries
Receivables From Related Parties which Exceed \$100 Million or 20% of the Paid in Capital
December 31, 2018

Table 4

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Ratio	Overdue		Amounts Received in Subsequent Period	Allowance for bad debts	Note
					Amount	Action taken			
The Company	DFBVI	Parent-Subsidiary	355,090	1.15	-	-	215,286	-	-
The Company	DFC	Parent-Subsidiary	141,536	2.45	29,537	-	58,654	-	-
The Company	DFA	Parent-Subsidiary	425,742	2.61	180,379	-	123,411	-	-
The Company	DTC	Parent-Subsidiary	126,050	2.57	-	-	68,083	-	-
DFBVI	The Company	Parent-Subsidiary	4,339,054	2.82	908,275	-	2,000,714	-	-
DFBVI	DFS	Affiliates	337,754	3.18	-	-	215,286	-	-
DFBVI	DFQ	Affiliates	294,023	3.07	77,629	-	65,016	-	-
DFS	DFBVI	Affiliates	1,985,539	3.00	598,424	-	752,790	-	-
DFS	DFH	Affiliates	126,099	5.85	557	-	20,861	-	-
DFH	DFBVI	Affiliates	1,412,116	3.57	158,504	-	603,892	-	-
DFQ	DFBVI	Affiliates	1,218,510	3.81	140,266	-	703,662	-	-

(Note) The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

Darfon Electronics Corp. and Subsidiaries
Business Relationships and Significant Intercompany Transactions
For the Year Ended at December 31, 2018

(In Thousands of Shares)

Table 5 No.(Note 1)	Company Name	Counterparty	Nature of Relationship (Note 2)	Transaction Details (Note 3)			Percentage of Consolidated Total Operating Revenue or Total Assets (Note 4)
				Account	Amount	Transaction Terms	
0	The Company	DFBVI	1	Sales	383,751	OA90	2%
0	The Company	DFS	1	Royalties	12,155	EOY45	-
0	The Company	DFC	1	Sales	263,928	OA135	1%
0	The Company	DFA	1	Sales	811,646	OA90	4%
0	The Company	DFH	1	Royalties	5,966	EOY45	-
0	The Company	DTC	1	Sales	237,396	OA90	1%
1	DFBVI	The Company	2	Sales	11,245,572	OA90	56%
1	DFBVI	DFS	3	Sales	851,402	OA90	4%
1	DFBVI	DFQ	3	Sales	720,838	OA90	4%
1	DFBVI	DFH	3	Sales	61,971	OA90	-
2	DFS	DFBVI	3	Sales	5,893,226	OA90	29%
2	DFS	DFH	3	Sales	666,036	OA90	3%
2	DFS	DFQ	3	Sales	122,112	OA90	1%
3	DFH	DFBVI	3	Sales	4,410,690	OA90	22%
3	DFH	DFS	3	Sales	27,528	OA90	-
3	DFH	DFQ	3	Sales	34,867	OA90	-
4	DFQ	DFBVI	3	Sales	3,760,585	OA90	19%
4	DFQ	DFS	3	Sales	114,404	OA90	1%
4	DFQ	DFH	3	Sales	79,522	OA90	-
5	DTC	DFA	3	Sales	5,320	OA90	-
5	DTC	DFC	3	Sales	15	OA135	-

No.(Note 1)	Company Name	Counterparty	Nature of Relationship (Note 2)	Transaction Details (Note 3)			Percentage of Consolidated Total Operating Revenue or Total Assets (Note 4)
				Account	Amount	Transaction Terms	
5	DTC	DFeu	3	Sales	13,579	OA135	-
6	DFC	The Company	2	Sales	1,631	OA90	-
6	DFC	DFeu	3	Sales	4,156	OA90	-
7	DFeu	DFC	3	Sales	1,452	OA90	-
7	DFeu	The Company	2	Sales	2,075	OA90	-
8	UTC	UTI	3	Sales	8,264	EOM120	-
0	The Company	DFBVI	1	Accounts receivable	355,090	OA90	2%
0	The Company	DFS	1	Accounts receivable	12,442	EOY45	-
0	The Company	DFC	1	Accounts receivable	141,536	OA135	1%
0	The Company	DFA	1	Accounts receivable	425,742	OA90	2%
0	The Company	DFH	1	Accounts receivable	6,162	EOY45	-
0	The Company	DTC	1	Accounts receivable	126,050	OA90	1%
1	DFBVI	The Company	2	Accounts receivable	4,339,054	OA90	23%
1	DFBVI	DFS	3	Accounts receivable	337,754	OA90	2%
1	DFBVI	DFQ	3	Accounts receivable	294,023	OA90	2%
1	DFBVI	DFH	3	Accounts receivable	38,930	OA90	-
2	DFS	DFBVI	3	Accounts receivable	1,985,539	OA90	10%
2	DFS	DFH	3	Accounts receivable	126,099	OA90	1%
2	DFS	DFQ	3	Accounts receivable	43,415	OA90	-
3	DFH	DFBVI	3	Accounts receivable	1,412,116	OA90	7%
3	DFH	DFS	3	Accounts receivable	10,329	OA90	-
3	DFH	DFQ	3	Accounts receivable	10,578	OA90	-
4	DFQ	DFBVI	3	Accounts receivable	1,218,510	OA90	6%
4	DFQ	DFS	3	Accounts receivable	60,626	OA90	-
4	DFQ	DFH	3	Accounts receivable	33,323	OA90	-
5	DTC	DFA	3	Accounts receivable	4	OA90	-

No.(Note 1)	Company Name	Counterparty	Nature of Relationship (Note 2)	Transaction Details (Note 3)			Percentage of Consolidated Total Operating Revenue or Total Assets (Note 4)
				Account	Amount	Transaction Terms	
6	DFC	DFeu	3	Accounts receivable	2,163	OA90	-
7	DFeu	DFC	3	Accounts receivable	541	OA90	-
8	UTC	UTZ	3	Accounts receivable	24,257	EOM120	-
9	UTZ	UTC	3	Accounts receivable	178	EOM90	-

(Note 1) Parties to the intercompany transactions are identified and numbered as follows :

1. "0" represents the Company.
2. Subsidiaries are numbered from "1".

(Note 2) Relationships to counterparties were as follows:

1. The Company to subsidiary
2. Subsidiary to the Company
3. Subsidiary to subsidiary

(Note 3) Intercompany relationships and significant intercompany transactions are disclosed only for sales and accounts receivable.

The corresponding purchases and accounts payable are not disclosed.

(Note 4) The transaction amount divided by consolidated operating revenues or consolidated total assets.

Darfon Electronics Corp. and Subsidiaries
Information of Investees over Which the Company Has Controlling Power or Significant Influence (Excluding Investee Companies in Mainland China)
For the Year Ended December 31, 2018

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Maximum percentage of Ownership during 2018		Net Income (Losses) of the Investee	Investment Income (Loss)	Note
				December 31, 2018	December 31, 2017	Shares	Percentage of Ownership	Carrying Value	Shares	Percentage of Ownership			
The Company	DFBVI	BVI	Trading of electronic products	810,206	810,206	48,000	100.00%	2,031,265	48,000	100.00%	245,470	245,470	Parent-Subsidiary
The Company	DFLB	Malaysia	Investment holding	2,946,041	3,087,458	88,239	100.00%	4,741,931	93,014	100.00%	369,409	369,409	Parent-Subsidiary
The Company	DMC	Taiwan	Manufacture and sale of LTCC, inductors and paste	51,969	51,969	13,067	100.00%	72,582	13,067	100.00%	(44,560)	(44,560)	Parent-Subsidiary
The Company	DZL	Taiwan	Investment holding	350,000	150,000	35,000	100.00%	374,321	35,000	100.00%	10,454	10,454	Parent-Subsidiary
The Company	DTC	Taiwan	Manufacture of lighting equipment, design and sale	104,000	104,000	10,400	52.00%	108,316	10,400	52.00%	10,424	5,421	Parent-Subsidiary
The Company	DFeu	Netherlands	Trading of green products	219,038	113,117	6,200	100.00%	121,421	6,200	100.00%	(27,704)	(27,704)	Parent-Subsidiary
The Company	UTC	Taiwan	Manufacture and trading of wireless antennas for telecommunication, modules and piezoelectric ceramics, and ultrasound components	678,475	-	16,962	42.37%	682,714	16,962	42.37%	14,193	3,776	Parent-Subsidiary
DZL	DTC	Taiwan	Manufacture of lighting equipment, design and sale	66,000	65,200	6,600	33.00%	68,739	6,600	33.00%	10,424	3,429	Parent-Subsidiary
DZL	UTC	Taiwan	Manufacture and trading of wireless antennas for telecommunication, modules and piezoelectric ceramics, and ultrasound components	199,965	-	4,999	12.49%	201,206	4,999	12.49%	14,193	1,104	Parent-Subsidiary
UTC	UTI	Mauritius	Investment holding	14,048	14,048	457	100.00%	10,749	457	100.00%	2,684	2,684	Affiliates
DFLB	DFC	Czech Republic	Trading of electronic products	299	299	-	100.00%	47,864	-	100.00%	26,059	26,059	Affiliates
DFLB	DFA	USA	Trading of electronic products	6,364	6,364	200	100.00%	32,677	200	100.00%	4,594	4,594	Affiliates
DFLB	DFK	South Korea	Trading of electronic products	1,781	1,781	10	100.00%	794	10	100.00%	22	22	Affiliates
DFLB	DPH	BVI	Investment holding	29,314	29,314	1,000	100.00%	436,550	1,000	100.00%	9,531	9,531	Affiliates
DTC	BESVJ	Japan	Trading of green products	13,357	13,357	1	49.00%	11,006	1	49.00%	(1,586)	(777)	Joint Venture

Note: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

Darfon Electronics Corp. and Subsidiaries
Information on investments in Mainland China
For the Year Ended December 31, 2018

Table 7
(a) Darfon

i. Name and main businesses and products of investee companies in Mainland China:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net Income (Loss) of Investee	% of Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow						
DFS	Manufacture and sale of the Company's products	1,696,236 (USD 55,225) (Note 3)	(Note 1)	1,563,394 (USD 50,900)	-	-	1,563,394 (USD 50,900)	185,499	100.00%	185,499 (Note 2)	3,802,505	-
DFZ	Manufacture and sale of the Company's products	-	(Note 1)	552,870 (USD 18,000)	-	353,223 (USD 11,500)	(Note 4)	-	-	-	-	-
DFH	Manufacture and sale of the Company's products	1,505,035 (USD 49,000)	(Note 1)	1,505,035 (USD 49,000)	-	-	1,505,035 (USD 49,000)	147,732	100.00%	147,732 (Note 2)	1,883,919	-
DPS	Mold development and manufacture	30,715 (USD 1,000)	(Note 1)	30,715 (USD 1,000)	-	30,715 (USD 1,000)	-	9,590	100.00%	9,590 (Note 2)	433,564	-
DFQ	Manufacture and sale of the Company's products	307,150 (USD 10,000)	(Note 1)	307,150 (USD 10,000)	-	-	307,150 (USD 10,000)	111,645	100.00%	111,645 (Note 2)	527,003	-

Note 1 : Indirect investment in Mainland China is through a holding company established in a third country.

Note 2 : Investment income or loss was recognized based on the audited financial statements of investee companies.

Note 3 : Including US\$ 4,325 thousand from capitalization of retained earnings

Note 4 : DFZ was liquidated in the 1st quarter of 2018, wherein the amount of US\$ 11,500 thousand was remitted back.

Note 5 : The above intercompany transactions have been eliminated when preparing the consolidated financial statements

ii. Limits on investments in Mainland China:

Investor Company Name	Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
The Company	3,375,579 (USD 109,900)	3,508,421 (USD 114,225)	(Note)

The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1=NT\$30.715

(Note) Since the Company has obtained the certificate of headquarters operation, there is no upper limit on investments in Mainland China.

iii. Significant transactions with investee companies in Mainland China:

The transactions between the Company and investee companies (the intercompany transactions) have been eliminated when preparing the consolidated financial statements; please refer to "Information on significant transactions" and "Business relationships and significant intercompany transactions"

(b)UTC

i. Name and main businesses and products of investee companies in Mainland China:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan		Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net Income (Loss) of Investee	% of Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
				of Investment from Taiwan as of January 1, 2018	of Investment from Taiwan as of December 31, 2018	Outflow	Inflow						
WirelessCom Technologies (Shenzhen) Co., Ltd.	Wireless antennas for telecommunication, components design and marketing	12,132 (USD 395)	(Note 1)	12,132 (USD 395)	12,132	-	-	12,132 (USD 395)	2,716	100.00%	2,716 (Note 2)	9,419	-

Note 1 : Indirect investment in Mainland China is through a holding company established in a third country.

Note 2 : Investment income or loss was recognized based on the audited financial statements of investee companies.

ii. Limits on investments in Mainland China:

Investor Company Name	Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
UTC	12,132 (USD 395)	12,132 (USD 395)	453,116

The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1=NT\$30.715

iii. Significant transactions with investee companies in Mainland China:

The transactions between the Company and investee companies (the intercompany transactions) have been eliminated when preparing the consolidated financial statements; please refer to "Information on significant transactions" and "Business relationships and significant intercompany transactions"