

U.D. Electronic Corp. and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2019 and 2018 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
U.D. Electronic Corp.

Introduction

We have reviewed the accompanying consolidated balance sheets of U.D. Electronic Corp. and its subsidiaries (collectively, the "Group") as of September 30, 2019 and 2018, the related consolidated statements of comprehensive income for the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018, the consolidated statements of changes in equity and cash flows for the nine months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as of September 30, 2019 and 2018, its consolidated financial performance for the three months ended September 30, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Cheng-Chuan Yu and Chung-Chen Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 4, 2019

Notice to Readers

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

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

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2019 (Reviewed)		December 31, 2018 (Audited)		September 30, 2018 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 839,378	14	\$ 976,471	18	\$ 741,270	14
Financial assets at fair value through profit or loss (FVTPL) - current (Note 7)	-	-	401	-	4	-
Notes receivable (Notes 9 and 23)	2,588	-	3,159	-	6,760	-
Trade receivables (Notes 9 and 23)	1,369,410	24	1,356,278	25	1,322,149	26
Other receivables (Note 9)	43,771	1	52,030	1	57,218	1
Current tax assets	3,675	-	3,675	-	-	-
Inventories (Note 10)	1,084,125	19	1,088,945	20	1,111,656	22
Other current assets (Notes 16, 17 and 31)	225,997	4	166,514	3	178,636	4
Total current assets	3,568,944	62	3,647,473	67	3,417,693	67
NON-CURRENT ASSETS						
Financial assets at fair value through other comprehensive income (FVTOCI) - non-current (Note 8)	98,860	2	89,345	2	71,956	2
Property, plant and equipment (Notes 12 and 31)	1,561,053	27	1,162,758	21	1,129,323	22
Right-of-use assets (Notes 4 and 13)	173,520	3	-	-	-	-
Other intangible assets (Note 15)	32,551	1	8,515	-	7,797	-
Goodwill (Notes 14 and 27)	12,277	-	12,322	-	6,103	-
Deferred tax assets	79,474	1	63,814	1	60,951	1
Long-term prepayments for leases (Note 16)	-	-	57,455	1	57,313	1
Other non-current assets (Notes 17, 28 and 31)	218,366	4	407,654	8	365,190	7
Total non-current assets	2,176,101	38	1,801,863	33	1,698,633	33
TOTAL	\$ 5,745,045	100	\$ 5,449,336	100	\$ 5,116,326	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 18)	\$ 1,119,240	20	\$ 1,047,834	19	\$ 805,043	16
Financial liabilities at fair value through profit or loss (FVTPL) - current (Note 7)	1,230	-	1,290	-	1,193	-
Contract liabilities - current (Note 23)	16,999	-	14,429	-	3,953	-
Trade payables	425,307	8	465,388	9	512,018	10
Lease liabilities - current (Notes 4 and 13)	20,591	-	-	-	-	-
Other payables (Notes 20 and 28)	629,396	11	597,035	11	571,683	11
Current tax liabilities	12,300	-	23,350	-	22,893	-
Current portion of long-term borrowings and bonds payable (Notes 18, 19 and 31)	447,786	8	29,450	1	26,300	1
Other current liabilities	4,660	-	8,118	-	11,562	-
Total current liabilities	2,677,509	47	2,186,894	40	1,954,645	38
NON-CURRENT LIABILITIES						
Lease liabilities - noncurrent (Notes 4 and 13)	97,897	2	-	-	-	-
Bonds payable (Notes 19 and 31)	-	-	287,265	5	285,774	6
Long-term borrowings (Notes 18 and 31)	364,000	6	265,050	5	236,700	5
Deferred tax liabilities	5,760	-	4,386	-	5,470	-
Guarantee deposit received	742	-	740	-	733	-
Total non-current liabilities	468,399	8	557,441	10	528,677	11
Total liabilities	3,145,908	55	2,744,335	50	2,483,322	49
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 22)						
Share capital						
Ordinary shares	696,758	12	696,758	13	696,758	14
Capital surplus	737,456	13	737,456	13	737,456	14
Retained earnings						
Legal reserve	314,074	5	302,055	6	302,055	6
Special reserve	154,427	3	147,131	3	147,131	3
Unappropriated earnings	833,652	14	897,460	16	875,573	17
Total retained earnings	1,302,153	22	1,346,646	25	1,324,759	26
Other equity	(174,377)	(3)	(154,427)	(3)	(183,922)	(4)
Total equity attributable to owners of the Company	2,561,990	44	2,626,433	48	2,575,051	50
NON-CONTROLLING INTERESTS (Note 22)						
Total equity	37,147	1	78,568	2	57,953	1
Total equity	2,599,137	45	2,705,001	50	2,633,004	51
TOTAL	\$ 5,745,045	100	\$ 5,449,336	100	\$ 5,116,326	100

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

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE								
Sales (Note 23)	\$ 1,251,286	100	\$ 1,218,902	100	\$ 3,434,575	100	\$ 3,297,860	100
OPERATING COSTS								
Cost of goods sold (Notes 10 and 24)	<u>(1,010,695)</u>	<u>(81)</u>	<u>(984,827)</u>	<u>(81)</u>	<u>(2,813,975)</u>	<u>(82)</u>	<u>(2,678,622)</u>	<u>(81)</u>
GROSS PROFIT	<u>240,591</u>	<u>19</u>	<u>234,075</u>	<u>19</u>	<u>620,600</u>	<u>18</u>	<u>619,238</u>	<u>19</u>
OPERATING EXPENSES (Note 24)								
Selling and marketing expenses	(52,948)	(4)	(50,541)	(4)	(150,230)	(5)	(138,946)	(4)
General and administrative expenses	(88,756)	(7)	(85,478)	(7)	(286,575)	(8)	(246,676)	(8)
Research and development expenses	(71,541)	(6)	(59,486)	(5)	(206,108)	(6)	(168,147)	(5)
Expected credit (loss) gain (Note 9)	<u>74</u>	<u>-</u>	<u>19</u>	<u>-</u>	<u>(368)</u>	<u>-</u>	<u>(43)</u>	<u>-</u>
Total operating expenses	<u>(213,171)</u>	<u>(17)</u>	<u>(195,486)</u>	<u>(16)</u>	<u>(643,281)</u>	<u>(19)</u>	<u>(553,812)</u>	<u>(17)</u>
(LOSS) PROFIT FROM OPERATIONS	<u>27,420</u>	<u>2</u>	<u>38,589</u>	<u>3</u>	<u>(22,681)</u>	<u>(1)</u>	<u>65,426</u>	<u>2</u>
NON-OPERATING INCOME AND EXPENSES								
Other income (Note 24)	15,287	1	10,798	1	40,381	1	37,908	1
Other gains and losses (Note 24)	11,482	1	13,351	1	20,771	1	15,671	1
Finance costs (Notes 19 and 24)	<u>(9,663)</u>	<u>(1)</u>	<u>(6,834)</u>	<u>(1)</u>	<u>(30,967)</u>	<u>(1)</u>	<u>(19,668)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>17,106</u>	<u>1</u>	<u>17,315</u>	<u>1</u>	<u>30,185</u>	<u>1</u>	<u>33,911</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	44,526	3	55,904	4	7,504	-	99,337	3
INCOME TAX EXPENSE (Notes 4 and 25)	<u>(15,786)</u>	<u>(1)</u>	<u>(14,766)</u>	<u>(1)</u>	<u>(13,014)</u>	<u>-</u>	<u>(25,935)</u>	<u>(1)</u>
NET (LOSS) PROFIT FOR THE PERIOD	<u>28,740</u>	<u>2</u>	<u>41,138</u>	<u>3</u>	<u>(5,510)</u>	<u>-</u>	<u>73,402</u>	<u>2</u>
OTHER COMPREHENSIVE INCOME (Notes 22 and 25)								
Items that will not be reclassified subsequently to profit or loss:								
Unrealized gain (loss) on investments in equity instrument at FVTOCI	3,935	1	148	-	11,607	-	(6,342)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>(761)</u>	<u>-</u>	<u>111</u>	<u>-</u>	<u>(2,344)</u>	<u>-</u>	<u>723</u>	<u>-</u>
	<u>3,174</u>	<u>1</u>	<u>259</u>	<u>-</u>	<u>9,263</u>	<u>-</u>	<u>(5,619)</u>	<u>-</u>

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U.D. ELECTRONIC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating the financial statements of foreign operations	\$ (61,781)	(5)	\$ (74,740)	(6)	\$ (35,876)	(1)	\$ (42,828)	(1)
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>12,306</u>	<u>1</u>	<u>14,978</u>	<u>1</u>	<u>7,158</u>	<u>-</u>	<u>13,647</u>	<u>-</u>
	<u>(49,475)</u>	<u>(4)</u>	<u>(59,762)</u>	<u>(5)</u>	<u>(28,718)</u>	<u>(1)</u>	<u>(29,181)</u>	<u>(1)</u>
Other comprehensive income for the period, net of income tax	<u>(46,301)</u>	<u>(3)</u>	<u>(59,503)</u>	<u>(5)</u>	<u>(19,455)</u>	<u>(1)</u>	<u>(34,800)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ (17,561)</u>	<u>(1)</u>	<u>\$ (18,365)</u>	<u>(2)</u>	<u>\$ (24,965)</u>	<u>(1)</u>	<u>\$ 38,602</u>	<u>1</u>
NET (LOSS) PROFIT ATTRIBUTABLE TO:								
Owners of the Company	\$ 41,406	3	\$ 52,124	4	\$ 39,118	1	\$ 98,301	3
Non-controlling interests	<u>(12,666)</u>	<u>(1)</u>	<u>(10,986)</u>	<u>(1)</u>	<u>(44,628)</u>	<u>(1)</u>	<u>(24,899)</u>	<u>(1)</u>
	<u>\$ 28,740</u>	<u>2</u>	<u>\$ 41,138</u>	<u>3</u>	<u>\$ (5,510)</u>	<u>-</u>	<u>\$ 73,402</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owners of the Company	\$ (4,851)	-	\$ (7,076)	(1)	\$ 19,168	-	\$ 63,717	2
Non-controlling interests	<u>(12,710)</u>	<u>(1)</u>	<u>(11,289)</u>	<u>(1)</u>	<u>(44,133)</u>	<u>(1)</u>	<u>(25,115)</u>	<u>(1)</u>
	<u>\$ (17,561)</u>	<u>(1)</u>	<u>\$ (18,365)</u>	<u>(2)</u>	<u>\$ (24,965)</u>	<u>(1)</u>	<u>\$ 38,602</u>	<u>1</u>
EARNINGS PER SHARE (NTD; Note 26)								
Basic	<u>\$ 0.59</u>		<u>\$ 0.75</u>		<u>\$ 0.56</u>		<u>\$ 1.41</u>	
Diluted	<u>\$ 0.56</u>		<u>\$ 0.70</u>		<u>\$ 0.56</u>		<u>\$ 1.36</u>	

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

(Concluded)

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company									
	Retained Earnings			Unappropriated Earnings			Other Equity			
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Valuation Gain (Loss) on Financial Assets at FVTOCI	Non-controlling Interests	Total Equity	
BALANCE AT JANUARY 1, 2018	\$ 696,758	\$ 728,457	\$ 277,707	\$ 87,468	\$ 1,021,537	\$ (147,131)	\$ (2,207)	\$ 83,068	\$ 2,745,657	
Appropriation of 2017 earnings (Note 22)	-	-	24,348	-	(24,348)	-	-	-	-	
Legal reserve	-	-	-	59,663	(59,663)	-	-	-	-	
Special reserve	-	-	-	-	(160,254)	-	-	-	-	
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	(160,254)	
Other changes in capital surplus	-	8,999	-	-	-	-	-	-	8,999	
Equity component of convertible bonds issued by the Company (Notes 19 and 22)	-	-	-	-	98,301	-	-	(24,899)	73,402	
Net profit (loss) for the nine months ended September 30, 2018	-	-	-	-	-	(28,965)	(5,619)	(216)	(34,800)	
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of income tax	-	-	-	-	-	(28,965)	(5,619)	(25,115)	38,602	
Total comprehensive income (loss) for the nine months ended September 30, 2018 (Note 22)	-	-	-	-	98,301	(28,965)	(5,619)	(25,115)	38,602	
BALANCE AT SEPTEMBER 30, 2018	\$ 696,758	\$ 737,456	\$ 302,055	\$ 147,131	\$ 873,573	\$ (176,096)	\$ (7,826)	\$ 57,953	\$ 2,633,004	
BALANCE AT JANUARY 1, 2019	\$ 696,758	\$ 737,456	\$ 302,055	\$ 147,131	\$ 897,460	\$ (160,570)	\$ 6,143	\$ 78,568	\$ 2,705,001	
Appropriation of 2018 earnings (Note 22)	-	-	12,019	-	(12,019)	-	-	-	-	
Legal reserve	-	-	-	7,296	(7,296)	-	-	-	-	
Special reserve	-	-	-	-	(81,611)	-	-	-	(83,611)	
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-	
Net profit (loss) for the nine months ended September 30, 2019	-	-	-	-	39,118	-	-	(44,628)	(5,510)	
Other comprehensive loss for the nine months ended September 30, 2019, net of income tax	-	-	-	-	-	(29,213)	9,263	495	(19,455)	
Total comprehensive income (loss) for the nine months ended September 30, 2019 (Note 22)	-	-	-	-	39,118	(29,213)	9,263	(44,133)	(24,965)	
Non-controlling interests (Notes 22 and 27)	-	-	-	-	-	-	-	2,712	2,712	
BALANCE AT SEPTEMBER 30, 2019	\$ 696,758	\$ 737,456	\$ 314,074	\$ 154,427	\$ 833,652	\$ (189,783)	\$ 15,406	\$ 37,147	\$ 2,599,137	

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

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 7,504	\$ 99,337
Adjustments for:		
Depreciation expenses	258,247	214,505
Amortization expenses	5,949	5,181
Amortization of prepayments for leases	-	1,071
Expected credit loss recognized on trade receivables	368	43
Net loss (gain) on fair value changes of financial assets and liabilities at FVTPL	345	1,711
Finance costs	30,967	19,668
Interest income	(9,569)	(9,981)
Dividend income	(1,866)	(2,387)
Write-down of inventories	-	320
Loss on disposal of property, plant and equipment	278	507
Net loss (gain) on foreign currency exchange	3,305	(13,875)
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at FVTPL	-	2,140
Notes receivable	515	2,182
Trade receivables	(19,664)	(129,362)
Other receivables	8,095	(39,132)
Inventories	7,290	(154,107)
Other current assets	(7,889)	(46,511)
Contract liabilities	2,840	-
Trade payables	(34,986)	52,043
Other payables	(23,945)	106,896
Other current liabilities	(3,568)	(5,388)
Cash generated from operations	224,216	104,861
Interest received	9,454	9,969
Dividend received	1,866	2,387
Interest paid	(26,293)	(15,188)
Income tax paid	(33,526)	(20,159)
Net cash generated from operating activities	<u>175,717</u>	<u>81,870</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Return of funds to financial assets measured at fair value through other comprehensive income	2,092	12,570
Decrease in other receivables	-	181,311
Decrease (increase) in other financial assets	3,876	(56,870)
Payments for property, plant and equipment	(207,152)	(152,971)
Payments for intangible assets	(10,454)	(4,175)
Proceeds from disposal of property, plant and equipment	3,487	11,398

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U.D. ELECTRONIC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2019	2018
Decrease in other non-current assets	\$ 5,300	\$ 13,544
Increase in refundable deposits	(366)	-
Net cash inflow on acquisition of subsidiaries (Note 27)	1,640	-
Increase in prepayments for equipment	<u>(295,485)</u>	<u>(212,481)</u>
Net cash used in investing activities	<u>(497,062)</u>	<u>(207,674)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	70,147	-
Repayments of short-term borrowings	-	(100,945)
Proceeds from issuance of convertible bonds	-	287,890
Proceeds from long-term borrowings	225,500	32,000
Repayment of the principal portion of lease liabilities	(13,598)	-
Proceeds from guarantee deposits received	18	-
Refunds of guarantee deposits received	-	(152)
Dividends paid to the owners of the company	<u>(83,611)</u>	<u>(160,254)</u>
Net cash generated from financing activities	<u>198,456</u>	<u>58,539</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(14,204)</u>	<u>(9,470)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(137,093)	(76,735)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>976,471</u>	<u>818,005</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 839,378</u>	<u>\$ 741,270</u>

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

(Concluded)

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

U.D. Electronic Corp. (the “Company”) was incorporated in the Republic of China (R.O.C.) on March 18, 2005 with a share capital \$10,000 thousand, and the accumulated share capital was \$696,758 thousand as of September 30, 2019. The Company is a trading enterprise and mainly engages in selling electronic connectors for telecommunications, data communications and computers.

The Company’s shares have been listed on the Taipei Exchange since October 2012. The shares are widely distributed; therefore, there is no ultimate parent company or ownership interest. The consolidated financial statements of the Company and its subsidiaries (referred to collectively as “the Group”) are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on November 4, 2019.

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

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

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

IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies

Definition of a lease

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

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights in China were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities. The Group applies impairment test following IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

- 1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- 4) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.7895%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 124,062
Less: Recognition exemption for short-term leases	<u>(2,572)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 121,490</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019 (lease liabilities recognized on January 1, 2019)	<u>\$ 113,421</u>

The impact on assets and liabilities as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Prepayments for leases - non-current	\$ 57,455	\$ (57,455)	\$ -
Other current assets	1,393	(1,393)	-
Right-of-use assets	<u>-</u>	<u>172,269</u>	<u>172,269</u>
Total effect on assets	<u>\$ 58,848</u>	<u>\$ 113,421</u>	<u>\$ 172,269</u>
Lease liabilities - current	\$ -	\$ 16,499	\$ 16,499
Lease liabilities - non-current	<u>-</u>	<u>96,922</u>	<u>96,922</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 113,421</u>	<u>\$ 113,421</u>

- b. The IFRSs endorsed by the FSC for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 2)

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

Note 2: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IAS 34 “Interim Financial Reporting” as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basic of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

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

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

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries). Income and expenses of subsidiaries acquired during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests.

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 11, Table 7 and Table 8 for detailed information on subsidiaries (including percentages of ownership and main businesses).

d. Other significant accounting policies

Except for lease relevant accounting policies and explanations set below, the same other significant accounting policies have been followed in these consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended December 31, 2018.

1) Lease

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in future lease payments resulting from a change in a lease term, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

2018

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

The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

2) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The same critical accounting judgments and key sources of estimates and uncertainty have been followed in these consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended December 31, 2018.

6. CASH AND CASH EQUIVALENTS

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand	\$ 1,892	\$ 2,787	\$ 1,791
Demand deposits	340,326	298,290	343,244
Cash equivalents (investments with original maturities of less than 3 months)			
Time deposits	<u>497,160</u>	<u>675,394</u>	<u>396,235</u>
	<u>\$ 839,378</u>	<u>\$ 976,471</u>	<u>\$ 741,270</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets at FVTPL - current</u>			
Financial assets mandatorily classified as at FVTPL			
Derivative financial assets (not under hedge accounting)			
Forward exchange contracts	<u>\$ -</u>	<u>\$ 401</u>	<u>\$ 4</u>
<u>Financial liabilities at FVTPL - current</u>			
Financial liabilities held for trading			
Derivative financial liabilities (not under hedge accounting)			
Options of convertible bonds	\$ 1,230	\$ 1,290	\$ 1,170
Foreign exchange forward contracts	<u>-</u>	<u>-</u>	<u>23</u>
	<u>\$ 1,230</u>	<u>\$ 1,290</u>	<u>\$ 1,193</u>

At the end of the reporting period, outstanding forward exchange contracts not under hedge accounting were as follows:

	Currency	Maturity Period	Notional Amount (In Thousands)
<u>December 31, 2018</u>			
Sell	USD/RMB	2019.1.22	USD6,000/RMB41,322
<u>September 30, 2018</u>			
Sell	USD/RMB	2018.10.11	USD1,000/RMB6,883
	USD/RMB	2018.10.11-2018.10.22	USD6,000/RMB41,312

The Group entered into foreign exchange forward contracts to manage exposures to exchanges rate fluctuations of foreign currency denominated assets and liabilities. However, those contracts did not meet the criteria of hedge effectiveness and, therefore, were not accounted for using hedge accounting.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in equity instruments at fair value through other comprehensive income

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Non-current</u>			
Domestic investment			
Unlisted shares			
Fortune Rich Investment Corporation	\$ 13,062	\$ 17,045	\$ 15,933
Emerging Fortune Capital Inc.	16,014	14,234	15,050
Emerging Creation Capital Inc.	66,654	53,933	37,423
Dy-Precision Industrial Co., Ltd.	<u>3,130</u>	<u>4,133</u>	<u>3,550</u>
	<u>\$ 98,860</u>	<u>\$ 89,345</u>	<u>\$ 71,956</u>

These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Notes receivable</u>			
At amortized cost			
Gross carrying amount	\$ 2,588	\$ 3,159	\$ 6,760
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,588</u>	<u>\$ 3,159</u>	<u>\$ 6,760</u>
<u>Trade receivables</u>			
At amortized cost			
Gross carrying amount	\$ 1,154,762	\$ 1,038,603	\$ 1,190,822
Less: Allowance for impairment loss	<u>(56)</u>	<u>(72)</u>	<u>(82)</u>
	1,154,706	1,038,531	1,190,740
At FVTOCI	<u>214,704</u>	<u>317,747</u>	<u>131,409</u>
	<u>\$ 1,369,410</u>	<u>\$ 1,356,278</u>	<u>\$ 1,322,149</u>
<u>Other receivables</u>			
Tax refund receivable	\$ 30,776	\$ 42,081	\$ 44,979
Factored trade receivables	10,952	5,047	6,978
Others	<u>2,043</u>	<u>4,902</u>	<u>5,261</u>
	<u>\$ 43,771</u>	<u>\$ 52,030</u>	<u>\$ 57,218</u>

a. Notes receivable and trade receivables

1) At amortized cost

The average credit period of sales of goods was 60 to 180 days.

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

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix by reference to the past default experience of the debtors and an analysis of the debtors' current financial positions and general economic conditions of the industry, along with considering the forecasted GDP and the industry prospect.

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

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

September 30, 2019

	Not Past Due
Expected credit loss rate	0.00%
Gross carrying amount	\$ 2,588
Loss allowance (Lifetime ECLs)	<u>-</u>
Amortized cost	<u>\$ 2,588</u>

December 31, 2018

	Not Past Due
Expected credit loss rate	0.00%
Gross carrying amount	\$ 3,159
Loss allowance (Lifetime ECLs)	<u>-</u>
Amortized cost	<u>\$ 3,159</u>

September 30, 2018

	Not Past Due
Expected credit losses rate	0.00%
Gross carrying amount	\$ 6,760
Loss allowance (Lifetime ECLs)	<u>-</u>
Amortized cost	<u>\$ 6,760</u>

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

September 30, 2019

	Not Past Due	Less than and Including 60 Days	61 to 120 Days	More than and Including 121 Days	Total
Expected credit loss rate	0.0000%	0.0000%	0.0000%	8.0000%	
Gross carrying amount	\$ 1,072,904	\$ 69,846	\$ 11,312	\$ 700	\$ 1,154,762
Loss allowance (Lifetime ECLs)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(56)</u>	<u>(56)</u>
Amortized cost	<u>\$ 1,072,904</u>	<u>\$ 69,846</u>	<u>\$ 11,312</u>	<u>\$ 644</u>	<u>\$ 1,154,706</u>

December 31, 2018

	Not Past Due	Less than and Including 60 Days	61 to 120 Days	More than and Including 121 Days	Total
Expected credit loss rate	0.0033%	0.1205%	2.7400%	50.0000%	
Gross carrying amount	\$ 1,019,279	\$ 19,087	\$ 219	\$ 18	\$ 1,038,603
Loss allowance (Lifetime ECLs)	<u>(34)</u>	<u>(23)</u>	<u>(6)</u>	<u>(9)</u>	<u>(72)</u>
Amortized cost	<u>\$ 1,019,245</u>	<u>\$ 19,064</u>	<u>\$ 213</u>	<u>\$ 9</u>	<u>\$ 1,038,531</u>

September 30, 2018

	Not Past Due	Less than and Including 60 Days	61 to 120 Days	More than and Including 121 Days	Total
Expected credit losses rate	0.0026%	0.1165%	0.9940%	4.0984%	
Gross carrying amount	\$ 1,162,095	\$ 27,477	\$ 1,006	\$ 244	\$ 1,190,822
Loss allowance (Lifetime ECLs)	<u>(30)</u>	<u>(32)</u>	<u>(10)</u>	<u>(10)</u>	<u>(82)</u>
Amortized cost	<u>\$ 1,162,065</u>	<u>\$ 27,445</u>	<u>\$ 996</u>	<u>\$ 234</u>	<u>\$ 1,190,740</u>

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

	<u>For the Nine Months Ended September 30</u>	
	2019	2018
Balance at January 1	\$ 72	\$ 40
Add: Net remeasurement of loss allowance	368	43
Less: Amounts written off	(387)	-
Foreign exchange gains and losses	<u>3</u>	<u>(1)</u>
Balance at September 30	<u>\$ 56</u>	<u>\$ 82</u>

2) At FVTOCI

For trade receivables from a specific customer, the Group will decide whether to sell these trade receivables to banks without recourse based on its level of working capital. These trade receivables are classified as at FVTOCI because they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

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

September 30, 2019

	Not Past Due	Less than and Including 60 Days	61 to 120 Days	More than and Including 121 Days	Total
Expected credit loss rate	0.0000%	0.0000%	0.0000%	0.0000%	
Gross carrying amount	\$ 214,704	\$ -	\$ -	\$ -	\$ 214,704
Loss allowance (Lifetime ECLs)	-	-	-	-	-
Amortized cost	<u>\$ 214,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,704</u>

December 31, 2018

	Not Past Due	Less than and Including 60 Days	61 to 120 Days	More than and Including 121 Days	Total
Expected credit loss rate	0.0000%	0.0000%	0.0000%	0.0000%	
Gross carrying amount	\$ 317,511	\$ 236	\$ -	\$ -	\$ 317,747
Loss allowance (Lifetime ECLs)	-	-	-	-	-
Amortized cost	<u>\$ 317,511</u>	<u>\$ 236</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 317,747</u>

September 30, 2018

	Not Past Due	Less than and Including 60 Days	61 to 120 Days	More than and Including 121 Days	Total
Expected credit losses rate	0.0000%	0.0000%	0.0000%	0.0000%	
Gross carrying amount	\$ 131,314	\$ 95	\$ -	\$ -	\$ 131,409
Loss allowance (lifetime ECLs)	-	-	-	-	-
Amortized cost	<u>\$ 131,314</u>	<u>\$ 95</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,409</u>

b. Other receivables

Other receivables contain tax refunds receivable and factored trade receivables. Other receivables are considered to be impaired individually when there is objective evidence of impairment. If there is no objective evidence of impairment, such other receivables are assessed for impairment according to each portfolio of receivables with similar credit risk characteristics. When there are overdue payments, the measure of the loss allowance is based on the rate at which other receivables were not recovered in past years.

10. INVENTORIES

	September 30, 2019	December 31, 2018	September 30, 2018
Finished goods	\$ 316,894	\$ 335,423	\$ 343,304
Work in progress	580,872	591,488	590,509
Raw materials and supplies	<u>186,359</u>	<u>162,034</u>	<u>177,843</u>
	<u>\$ 1,084,125</u>	<u>\$ 1,088,945</u>	<u>\$ 1,111,656</u>

The cost of inventories recognized as cost of goods sold for the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018 was \$1,010,695 thousand, \$984,827 thousand, \$2,813,975 thousand and \$2,678,622 thousand, respectively. The cost of goods sold included inventory write-downs of \$0 thousand, \$167 thousand, \$0 thousand and \$320 thousand, respectively.

11. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements are as follows:

Investor	Investee	Investee's Company Type/Main Business	% of Ownership			Remark
			September 30, 2019	December 31, 2018	September 30, 2018	
U.D. Electronic Corp.	Global Connection (Samoa) Holding Inc.	Holding company	100	100	100	Foreign exchange risk is the major operational risk
U.D. Electronic Corp.	CDE Corp.	Manufacturing and selling of electronic materials	50	50	50	Market risk is the major operational risk
U.D. Electronic Corp.	DYP Corp.	Selling of electronic components	51	51	51	Market risk is the major operational risk
Global Connection (Samoa) Holding Inc.	Sunderland Inc.	Holding company	100	100	100	Foreign exchange risk is the major operational risk
Global Connection (Samoa) Holding Inc.	San Francisco Inc.	Holding company	100	100	100	Foreign exchange risk is the major operational risk
Global Connection (Samoa) Holding Inc.	All First International Co., Ltd.	International trading	100	100	100	Foreign exchange and market risks are major operational risks
DYP Corp.	Ta Yang UDE Limited	Holding company	100	100	100	Foreign exchange risk is the major operational risk
Sunderland Inc.	Dongguan Jian Guan P.E. Co., Ltd.	Manufacturing and selling of electronic components	100	(Note 1) 100	(Note 1) 100	Political, foreign exchange, and market risks are major operational risks
Sunderland Inc.	Dongguan U.D.E. Electronics Corp.	Researching and selling of electronic components	100	100	100	Political, foreign exchange, and market risks are major operational risks
San Francisco Inc.	Zhong Jiang U.D.E. Electronics Corp.	Manufacturing and selling of electronic components	100	100	100	Political, foreign exchange, and market risks are major operational risks
Zhong Jiang U.D.E. Electronics Corp.	Zhong Jiang U.D.E. Networking Electronics Corp.	Selling of electronic components	100	100	100	Political, foreign exchange, and market risks are major operational risks
Ta Yang UDE Limited	Dongguan TY U.D.E. Precision Co., Ltd.	Manufacturing and selling of electronic components	100	100	100	Political, foreign exchange, and market risks are major operational risks
Ta Yang UDE Limited	Morning Paragon Limited	International trading	100	100	100	Foreign exchange and market risks are major operational risks
Ta Yang UDE Limited	Million Like Limited	International trading	-	100	100	Foreign exchange and market risks are major operational risks
Dongguan Jian Guan P.E. Co., Ltd.	Dongguan Ai Te Chieh Intellectual Technology Co., Ltd.	Development machinery and automatic equipment	(Note 2) 60	(Note 2) 60	(Note 2) -	Political, foreign exchange, and market risks are major operational risks
Dongguan Jian Guan P.E. Co., Ltd.	Dongguan Han Lian Technology Co., Ltd.	Manufacturing and selling of electronic connectors and electronic products	70 (Note 4)	-	-	Political, foreign exchange, and market risks are major operational risks

Note 1: In January 2018, Ta Yang UDE Limited issued ordinary share, and the Group acquired an additional interest at its original ownership percentage.

Note 2: In January 2018, the Group acquired a 100% interest of Ta Yang UDE Limited that was incorporated in November 2017. Since no plan for further utilization, nor on-going operating activities, it completed liquidation and canceled its registration in April 2019.

Note 3: The Group acquired a 60% interest in Dongguan Ai Te Chieh Intellectual Technology Co., Ltd. via Dongguan Jian Guan P.E. Co., Ltd. in November 2018.

Note 4: The Group acquired a 70% interest in Dongguan Han Lian Technology Co., Ltd. via Dongguan Jian Guan P.E. Co., Ltd. in March 2019.

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Office Equipment	Mold Equipment	Leasehold Improvements	Other Equipment	Property under Construction	Total
Cost										
Balance at January 1, 2018	\$ 159,538	\$ 306,808	\$ 1,078,177	\$ 20,625	\$ 22,490	\$ 245,162	\$ 55,016	\$ 188,669	\$ 15,887	\$ 2,092,372
Additions	-	5,137	59,351	1,010	899	18,315	6,603	28,612	7,049	126,976
Disposals	-	-	(27,709)	-	(717)	(10,342)	-	(690)	-	(39,458)
Other - transfer from prepayments for equipment	-	-	55,393	-	492	12,988	-	33,701	-	102,574
Effect of exchange rate differences	-	(5,011)	(24,606)	(565)	(349)	(7,029)	(1,644)	(6,961)	(650)	(46,815)
Balance at September 30, 2018	<u>\$ 159,538</u>	<u>\$ 306,934</u>	<u>\$ 1,140,606</u>	<u>\$ 21,070</u>	<u>\$ 22,815</u>	<u>\$ 259,094</u>	<u>\$ 59,975</u>	<u>\$ 243,331</u>	<u>\$ 22,286</u>	<u>\$ 2,235,649</u>
Accumulated depreciation										
Balance at January 1, 2018	\$ -	\$ 30,460	\$ 546,499	\$ 18,454	\$ 12,746	\$ 167,503	\$ 48,420	\$ 123,525	\$ -	\$ 947,607
Disposals	-	-	(16,839)	-	(698)	(9,379)	-	(637)	-	(27,553)
Depreciation	-	19,703	109,909	1,110	3,486	37,764	3,861	38,672	-	214,505
Effect of exchange rate differences	-	(1,179)	(15,156)	(513)	(244)	(5,284)	(1,378)	(4,479)	-	(28,233)
Balance at September 30, 2018	<u>\$ -</u>	<u>\$ 48,984</u>	<u>\$ 624,413</u>	<u>\$ 19,051</u>	<u>\$ 15,290</u>	<u>\$ 190,604</u>	<u>\$ 50,903</u>	<u>\$ 157,081</u>	<u>\$ -</u>	<u>\$ 1,106,326</u>
Carrying amounts at September 30, 2018	<u>\$ 159,538</u>	<u>\$ 257,950</u>	<u>\$ 516,193</u>	<u>\$ 2,019</u>	<u>\$ 7,525</u>	<u>\$ 68,490</u>	<u>\$ 9,072</u>	<u>\$ 86,250</u>	<u>\$ 22,286</u>	<u>\$ 1,129,323</u>
Cost										
Balance at January 1, 2019	\$ 159,538	\$ 311,041	\$ 1,175,132	\$ 21,251	\$ 24,858	\$ 278,704	\$ 65,810	\$ 259,778	\$ 22,477	\$ 2,318,589
Additions	-	5,577	138,479	-	582	40,000	14,827	20,332	-	219,797
Disposals	-	-	(24,028)	(1,321)	(422)	(15,832)	-	(6,147)	-	(47,750)
Other - transfer from (to) prepayments for equipment	-	5,183	416,430	-	-	20,115	2,249	11,627	(15,687)	439,917
Effects of foreign currency exchange differences	-	(4,000)	(22,238)	(371)	(292)	(6,810)	(1,813)	(5,841)	(132)	(41,492)
Balance at September 30, 2019	<u>\$ 159,538</u>	<u>\$ 317,801</u>	<u>\$ 1,683,775</u>	<u>\$ 19,559</u>	<u>\$ 24,726</u>	<u>\$ 316,177</u>	<u>\$ 81,073</u>	<u>\$ 279,749</u>	<u>\$ 6,658</u>	<u>\$ 2,889,056</u>
Accumulated depreciation										
Balance at January 1, 2019	\$ -	\$ 55,842	\$ 654,347	\$ 19,545	\$ 16,630	\$ 192,458	\$ 53,642	\$ 163,367	\$ -	\$ 1,155,831
Disposals	-	-	(21,246)	(1,321)	(422)	(15,432)	-	(5,564)	-	(43,985)
Depreciation	-	22,823	119,480	657	3,970	39,135	9,474	46,348	-	241,887
Effects of foreign currency exchange differences	-	(1,417)	(13,426)	(358)	(253)	(4,484)	(1,340)	(4,452)	-	(25,730)
Balance at September 30, 2019	<u>\$ -</u>	<u>\$ 77,248</u>	<u>\$ 739,155</u>	<u>\$ 18,523</u>	<u>\$ 19,925</u>	<u>\$ 211,677</u>	<u>\$ 61,776</u>	<u>\$ 199,699</u>	<u>\$ -</u>	<u>\$ 1,328,003</u>
Carrying amounts at December 31, 2018 and January 1, 2019	<u>\$ 159,538</u>	<u>\$ 255,199</u>	<u>\$ 520,785</u>	<u>\$ 1,706</u>	<u>\$ 8,228</u>	<u>\$ 86,246</u>	<u>\$ 12,168</u>	<u>\$ 96,411</u>	<u>\$ 22,477</u>	<u>\$ 1,162,758</u>
Carrying amounts at September 30, 2019	<u>\$ 159,538</u>	<u>\$ 240,553</u>	<u>\$ 944,620</u>	<u>\$ 1,036</u>	<u>\$ 4,801</u>	<u>\$ 104,500</u>	<u>\$ 12,297</u>	<u>\$ 80,050</u>	<u>\$ 6,658</u>	<u>\$ 1,561,053</u>

There was no impairment loss after performing impaired assessment for the nine months ended September 30, 2019. No impairment assessment was performed for the nine months ended September 30, 2018 as there were no indications of impairment.

The above items of property, plant and equipment were depreciated on a straight-line basis over their useful lives estimated as follows:

Buildings	
Main buildings	10-50 years
Others	2-8 years
Machinery and equipment	2-10 years
Transportation equipment	3-6 years
Office equipment	3-5 years
Mold equipment	2-4 years
Leasehold improvements	2-3 years
Other equipment	3-8 years

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 31.

13. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	September 30, 2019	
<u>Carrying amounts</u>		
Land use right		\$ 56,683
Buildings		<u>116,837</u>
		<u>\$ 173,520</u>
	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Additions to right-of-use assets	<u>\$ 10,012</u>	<u>\$ 21,194</u>
Depreciation charge for right-of-use assets		
Land use right	\$ 347	\$ 1,058
Buildings	<u>5,209</u>	<u>15,302</u>
	<u>\$ 5,556</u>	<u>\$ 16,360</u>

b. Lease liabilities - 2019

	September 30, 2019	
<u>Carrying amounts</u>		
Current		<u>\$ 20,591</u>
Non-current		<u>\$ 97,897</u>

Discount rate for lease liabilities was as follows:

	September 30, 2019
Buildings	1.38%-1.7895%

c. Material lease-in activities and terms

The Group leases certain land and buildings for the use as plants and offices with lease terms of 5 to 50 years. The Group does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms. In addition, the Group is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

2019

	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Expenses relating to short-term leases	\$ 599	\$ 1,454
Expenses relating to low-value asset leases	\$ 233	\$ 401
Total cash outflow for leases	<u>\$ (6,003)</u>	<u>\$ (17,014)</u>

The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for the short-term and low-value asset leases.

For the nine months ended September 30, 2019, expenses relating to short-term leases also include expenses relating to leases for which the lease terms end on or before December 31, 2019 and for which the recognition exemption is applied. The amount of lease commitments for short-term leases for which the recognition exemption is applied was \$4,533 thousand as of September 30, 2019.

2018

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

	December 31, 2018	September 30, 2018
Not later than 1 year	\$ 20,020	\$ 12,515
Later than 1 year and not later than 5 years	72,808	35,386
Later than 5 years	<u>31,234</u>	<u>-</u>
	<u>\$ 124,062</u>	<u>\$ 47,901</u>

14. GOODWILL

	For the Nine Months Ended September 30	
	2019	2018
<u>Cost</u>		
Balance, beginning of period	\$ 12,322	\$ 6,103
Additional amounts recognized from business combinations that occurred during the period (Note 27)	79	-
Effect of foreign currency exchange differences	<u>(124)</u>	<u>-</u>
Balance, end of period	<u>\$ 12,277</u>	<u>\$ 6,103</u>

In February 2013, November 2018 and March 2019, the Company acquired a 50% interest in CDE Corp., a 60% interest in Dongguan Ai Te Chieh Intellectual Technology Co., Ltd., and a 70% interest in Dongguan Han Lian Technology Co., Ltd., respectively. The value of goodwill was recognized when the cost of acquisition is higher than the net fair value of the identifiable assets and liabilities recognized at the date of acquisition. As of September 30, 2019, based on estimated fair value through the calculation of discounted cash flows of CDE Corp., Dongguan Ai Te Chieh Intellectual Technology Co., Ltd. and Dongguan Han Lian Technology Co., Ltd., no impairment loss was recognized.

15. OTHER INTANGIBLE ASSETS

	Computer Software	Patents	Total
<u>Cost</u>			
Balance at January 1, 2018	\$ 35,550	\$ -	\$ 35,550
Additions	4,175	-	4,175
Disposals	(120)	-	(120)
Effect of foreign currency exchange differences	<u>(791)</u>	<u>-</u>	<u>(791)</u>
Balance at September 30, 2018	<u>\$ 38,814</u>	<u>\$ -</u>	<u>\$ 38,814</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2018	\$ (26,627)	\$ -	\$ (26,627)
Amortization expenses	(5,181)	-	(5,181)
Disposals	120	-	120
Effect of foreign currency exchange differences	<u>671</u>	<u>-</u>	<u>671</u>
Balance at September 30, 2018	<u>\$ (31,017)</u>	<u>\$ -</u>	<u>\$ (31,017)</u>
Carrying amounts at September 30, 2018	<u>\$ 7,797</u>	<u>\$ -</u>	<u>\$ 7,797</u>
<u>Cost</u>			
Balance at January 1, 2019	\$ 41,192	\$ -	\$ 41,192
Additions	692	9,762	10,454
Transfer from other non-current assets - others	-	19,524	19,524
Disposals	(5,341)	-	(5,341)
Effect of foreign currency exchange differences	<u>(561)</u>	<u>-</u>	<u>(561)</u>
Balance at September 30, 2019	<u>\$ 35,982</u>	<u>\$ 29,286</u>	<u>\$ 65,268</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2019	\$ (32,677)	\$ -	\$ (32,677)
Amortization expenses	(4,251)	(1,698)	(5,949)
Disposals	5,341	-	5,341
Effect of foreign currency exchange differences	<u>568</u>	<u>-</u>	<u>568</u>
Balance at September 30, 2019	<u>\$ (31,019)</u>	<u>\$ (1,698)</u>	<u>\$ (32,717)</u>
Carrying amounts at December 31, 2018 and January 1, 2019	<u>\$ 8,515</u>	<u>\$ -</u>	<u>\$ 8,515</u>
Carrying amounts at September 30, 2019	<u>\$ 4,963</u>	<u>\$ 27,588</u>	<u>\$ 32,551</u>

Other intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer software	2-5 years
Patents	12 years

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
An analysis of amortization by function				
Selling and marketing expenses	\$ 865	\$ 316	\$ 2,513	\$ 858
General and administrative expenses	710	1,186	2,846	3,479
Research and development expenses	<u>160</u>	<u>247</u>	<u>590</u>	<u>844</u>
	<u>\$ 1,735</u>	<u>\$ 1,749</u>	<u>\$ 5,949</u>	<u>\$ 5,181</u>

16. PREPAYMENTS FOR LEASE

	September 30, 2019	December 31, 2018	September 30, 2018
Current assets (included in prepayments)	\$ -	\$ 1,393	\$ 1,381
Non-current assets	<u>-</u>	<u>57,455</u>	<u>57,313</u>
	<u>\$ -</u>	<u>\$ 58,848</u>	<u>\$ 58,694</u>

Prepayments for leases are land use rights for land located in mainland China. The Group had obtained land use rights certificates which were issued by the P.R.C. government.

17. OTHER ASSETS

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Current</u>			
Prepaid sales tax	\$ 74,223	\$ 86,370	\$ 82,400
Prepayments	66,616	53,865	67,914
Other financial assets - current (Note 31)	61,862	5,738	5,338
Overpaid sales tax	18,914	18,038	18,730
Others	<u>4,382</u>	<u>2,503</u>	<u>4,254</u>
	<u>\$ 225,997</u>	<u>\$ 166,514</u>	<u>\$ 178,636</u>

(Continued)

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Non-current</u>			
Prepayments for equipment (Note 28)	\$ 174,396	\$ 278,591	\$ 256,015
Prepayments - non-current	31,548	37,595	38,472
Refundable deposits	5,422	4,944	3,703
Other financial assets - non-current (Note 31)	-	60,000	60,000
Others	<u>7,000</u>	<u>26,524</u>	<u>7,000</u>
	<u>\$ 218,366</u>	<u>\$ 407,654</u>	<u>\$ 365,190</u> (Concluded)

18. BORROWINGS

a. Short-term borrowings

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Unsecured borrowings</u>			
Bank loans	<u>\$ 1,119,240</u>	<u>\$ 1,047,834</u>	<u>\$ 805,043</u>

The range of interest rates for bank loans was 0.99%-2.75%, 0.77%-3.70% and 0.76%-2.87%, per annum as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

b. Long-term borrowings

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Secured borrowings</u>			
Bank loans	\$ 520,000	\$ 294,500	\$ 263,000
Less: Current portions	<u>(156,000)</u>	<u>(29,450)</u>	<u>(26,300)</u>
Long-term borrowings	<u>\$ 364,000</u>	<u>\$ 265,050</u>	<u>\$ 236,700</u>

The Group acquired bank borrowing facilities in the amount of \$1,400,000 thousand secured by the Group's freehold land (see Note 31). As of September 30, 2019, December 31, 2018 and September 30, 2018, the interest rate was the same of 1.7895% per annum. Interest is paid monthly. The Group will start repaying the principal on September 30, 2019 with five semi-annual instalments, consist of first four instalments with an amount of 10% of the borrowing and the fifth one on September 30, 2021 with an amount of the remaining portion of the principal and interests.

19. BONDS PAYABLE

	September 30, 2019	December 31, 2018	September 30, 2018
Second secured domestic convertible bonds	\$ 291,786	\$ 287,265	\$ 285,774
Less: Current portion	<u>(291,786)</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 287,265</u>	<u>\$ 285,774</u>

Second Secured Domestic Convertible Bonds

On February 5, 2018, the Company issued the second three-year secured, zero-coupon domestic convertible bonds with a \$100 thousand par value, in an aggregate principal amount of \$300,000 thousand.

The following items are the primary clauses in the prospectus:

a. Term

From February 5, 2018 to February 5, 2021

b. Redemption

The Company may redeem the whole bonds, after 3 months of the issuance and prior to the maturity date, at the principal amount of the bonds if the closing price of the ordinary shares of the Company, for a period of 30 consecutive trading days, is at least 30% of the conversion price.

The Company may redeem the whole bonds, after 3 months of the issuance and prior to the maturity date, at the early redemption amount if at least 90% of the bonds' principal amount has already been converted, redeemed or repurchased and cancelled.

c. Conversion

Conversion period

Bondholders may request the Company to convert the bonds into the Company's ordinary shares between May 6, 2018 and February 5, 2021, barring the year in which the registration of share transfer is suspended.

Conversion price and adjustments

The price used by the Company in determining the number of ordinary shares to be issued upon conversion is initially NT\$51.45 per share. The conversion price will be subject to adjustment, according to a formula stated in the prospectus, due to any change in the issuance of the ordinary shares. Starting July 30, 2019, the conversion price was adjusted due to cash dividend distribution, and the after-adjustment conversion price is NT\$45.75.

d. Security provided for the bonds (see Note 31)

e. Bondholders' put right

On February 5, 2021 (2 years after the issue date), each bondholder will have the right, at such holder's option, to require the Company to redeem in whole or in part the principal amount of such holder's bonds in cash by filling an application with the original brokerage before 40 days prior to the base date. For any redemption, please refer to Note 29.

f. Bond components

The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus - options. The effective interest rate of the liability component was 2.0838% per annum on initial recognition.

Proceeds from issuance (less transaction costs of \$12,110 thousand)	\$ 287,890
Equity component	(8,999)
Financial assets at FVTPL	522
Deferred tax assets	<u>2,422</u>
Liability component at the date of issuance	281,835
Interest charged at an effective interest rate of 2.0838%	<u>3,939</u>
 Liability component at September 30, 2018	 <u>\$ 285,774</u>
 Liability component at January 1, 2019	 \$ 287,265
Interest charged at an effective interest rate of 2.0838%	<u>4,521</u>
 Liability component at September 30, 2019	 <u>\$ 291,786</u>

20. OTHER LIABILITIES

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Current</u>			
Other payables			
Processing fees	\$ 182,611	\$ 206,988	\$ 247,835
Payable for purchases of equipment (Note 28)	133,007	73,550	52,920
Salaries and bonuses	124,224	131,182	124,219
Consumable supplies expenses	36,826	44,706	30,964
Social security payments	34,841	34,930	32,775
Professional service fees	33,731	31,311	6,145
Commissions	9,769	11,725	9,219
Human dispatch payable	5,756	-	-
Import/export (customs) expense	3,622	3,796	2,640
Others	<u>65,009</u>	<u>58,847</u>	<u>65,056</u>
	<u>\$ 629,396</u>	<u>\$ 597,035</u>	<u>\$ 571,683</u>

21. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

The Company, CDE Corp. and DYP Corp. have a pension plan under the Labor Pension Act (LPA), a state-managed defined contribution plan. Under the LPA, the Company, CDE Corp. and DYP Corp. make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

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

22. EQUITY

a. Share capital

Ordinary shares

	September 30, 2019	December 31, 2018	September 30, 2018
Number of shares authorized (in thousands)	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Share capital authorized	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>69,676</u>	<u>69,676</u>	<u>69,676</u>
Share capital issued	<u>\$ 696,758</u>	<u>\$ 696,758</u>	<u>\$ 696,758</u>

Fully paid ordinary shares, which have par value of NT\$10, carry one vote per share and the right to dividends.

The Company retains 1,000 thousand ordinary shares for employee share options purpose.

On January 25, 2018, the Company's board of directors resolved to issue 4,000 thousand ordinary shares, with a consideration of NT\$45 per share. The subscription base date was determined as February 17, 2018. Due to the fluctuation changes in the capital market, the status of raising funds is not as expected. Considering the interests of shareholders and the Company, on March 29, 2018, the Company's board of directors resolved to cancel the issuance of ordinary shares, which was approved by the FSC on April 3, 2018 with reference number 1070309843.

b. Capital surplus

	September 30, 2019	December 31, 2018	September 30, 2018
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>			
Arising from issuance of ordinary shares	\$ 568,037	\$ 568,037	\$ 568,037
Arising from conversion of bonds	152,962	152,962	152,962
<u>May be used to offset a deficit only</u>			
Redemption or repayment of convertible bonds (2)	5,552	5,552	5,552
Changes in percentage of ownership interests in subsidiaries (3)	1,906	1,906	1,906
<u>May not be used for any purpose</u>			
Share warrants (Note 19)	<u>8,999</u>	<u>8,999</u>	<u>8,999</u>
	<u>\$ 737,456</u>	<u>\$ 737,456</u>	<u>\$ 737,456</u>

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

- 2) Redemption or repayment of convertible bonds may only be utilized to offset deficits.
- 3) Such capital surplus arises from the effects of changes in ownership interests in a subsidiary resulting from equity transactions other than an actual disposal or acquisition or from changes in capital surplus of subsidiaries accounted for by using the equity method.

c. Retained earnings and dividend policy

The shareholders of the Company held their regular meeting on June 18, 2019 and in that meeting, resolved the amendments to the Company's Articles of Incorporation (the "Articles"). The amendments explicitly stipulate that the board of directors is authorized to adopt a special resolution to distribute dividends and bonuses in cash and a report of such distribution should be submitted in the shareholders' meeting.

Under the dividends policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders by issuing new shares. In addition, the distributable dividends and bonuses in whole or in part may be paid in cash after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

Under the dividends policy as set forth in the Articles before the amendments, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors, please refer to Note 24(f).

The Company's dividend policy will consider its operating environment, the sufficiency of its cash for future expansion, its long-term financial plan and the shareholders' cash flow requirements in determining the stock or cash dividends to be paid. For a steady profitability, a healthy financial structure, and the stability of earnings per share, the Company stipulated a dividend policy that at least 10% of income after tax may be distributed as cash dividends or share dividends, and cash dividends should not be lower than 10% of total bonus to shareholders.

Under Article 237 of Company Law, a company should appropriate 10% of net income to legal reserve. Legal reserve should be appropriated until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 issued by the Financial Supervisory Commission and the directive entitled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs," the Company should appropriate or reverse a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

The appropriations of earnings for 2018 and 2017 were approved in the shareholders' meetings on June 18, 2019 and June 18, 2018, respectively. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NTS)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	2018	2017	2018	2017
Legal reserve	\$ 12,019	\$ 24,348	\$ -	\$ -
Special reserve	7,296	59,663	-	-
Cash dividends	83,611	160,254	1.2	2.3

d. Other equity items

1) Exchange differences on translating the financial statements of foreign operations

	<u>For the Nine Months Ended</u>	
	<u>September 30</u>	
	2019	2018
Balance at January 1	\$ (160,570)	\$ (147,131)
Effect of change in tax rate	-	5,034
Recognized during the period		
Exchange differences on translating the financial statements of foreign operations	(36,517)	(42,515)
Related income tax	7,304	8,516
Other comprehensive income recognized for the period	<u>(29,213)</u>	<u>(28,965)</u>
Balance at September 30	<u>\$ (189,783)</u>	<u>\$ (176,096)</u>

2) Unrealized gain (loss) on financial assets at FVTOCI

	<u>For the Nine Months Ended</u>	
	<u>September 30</u>	
	2019	2018
Balance at January 1	\$ 6,143	\$ (2,207)
Effect of change in tax rate	-	(49)
Recognized for the period		
Unrealized gain (loss) - equity instruments	11,607	(6,342)
Related income tax	<u>(2,344)</u>	<u>772</u>
Other comprehensive income recognized for the period	<u>9,263</u>	<u>(5,619)</u>
Balance at September 30	<u>\$ 15,406</u>	<u>\$ (7,826)</u>

e. Non-controlling interests

	For the Nine Months Ended September 30	
	2019	2018
Balance at January 1	\$ 78,568	\$ 83,068
Share in loss for the period	(44,628)	(24,899)
Other comprehensive income (loss) during the period		
Effect of change in tax rate	-	35
Exchange differences on translating the financial statements of foreign entities	641	(313)
Related income tax	(146)	62
	<u>495</u>	<u>216</u>
Non-controlling interests arising from acquisition of Dongguan Han Lian Technology Co., Ltd. (Note 27)	<u>2,712</u>	<u>-</u>
Balance at September 30	<u>\$ 37,147</u>	<u>\$ 57,953</u>

23. REVENUE

a. Description of customer contract

Revenue from sales of goods

Main operating revenue of the Company was from manufacturing and sales electronic connectors for telecommunications, data communications and computers, by fixed contract price.

b. Contract balance

	September 30, 2019	December 31, 2018	September 30, 2018	January 1, 2018
Notes and trade receivables (Note 9)	<u>\$ 1,371,998</u>	<u>\$ 1,359,437</u>	<u>\$ 1,328,909</u>	<u>\$ 1,202,462</u>
Contract liabilities				
Sale of goods	<u>\$ 16,999</u>	<u>\$ 14,429</u>	<u>\$ 3,953</u>	<u>\$ 7,481</u>

c. Disaggregation of revenue

	For the Nine Months Ended September 30	
	2019	2018
Type of goods		
Integrated signal connector	<u>\$ 3,434,575</u>	<u>\$ 3,297,860</u>

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

a. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Interest income				
Bank deposits	\$ 2,639	\$ 2,547	\$ 9,569	\$ 9,981
Dividend income	-	-	1,866	2,387
Government grants	4,750	4,122	8,450	11,020
Others	<u>7,898</u>	<u>4,129</u>	<u>20,496</u>	<u>14,520</u>
	<u>\$ 15,287</u>	<u>\$ 10,798</u>	<u>\$ 40,381</u>	<u>\$ 37,908</u>

b. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Gain (loss) on disposal of property, plant and equipment	\$ 449	\$ 206	\$ (278)	\$ (507)
Fair value changes of financial assets/liabilities				
Financial assets mandatorily classified as at FVTPL	-	4	(405)	4
Financial liabilities held for trading	90	(1,838)	60	(1,715)
Net foreign exchange gains (losses)	11,042	12,919	22,095	16,381
Others	<u>(99)</u>	<u>2,060</u>	<u>(701)</u>	<u>1,508</u>
	<u>\$ 11,482</u>	<u>\$ 13,351</u>	<u>\$ 20,771</u>	<u>\$ 15,671</u>

c. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Interest on bank loans	\$ 7,641	\$ 5,350	\$ 24,885	\$ 15,729
Interest on convertible bonds (Note 19)	1,514	1,484	4,521	3,939
Interest on lease liabilities	<u>508</u>	<u>-</u>	<u>1,561</u>	<u>-</u>
	<u>\$ 9,663</u>	<u>\$ 6,834</u>	<u>\$ 30,967</u>	<u>\$ 19,668</u>

d. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
An analysis of depreciation by function				
Operating costs	\$ 61,744	\$ 57,618	\$ 182,537	\$ 162,205
Operating expenses	<u>25,042</u>	<u>15,283</u>	<u>75,710</u>	<u>52,300</u>
	<u>\$ 86,786</u>	<u>\$ 72,901</u>	<u>\$ 258,247</u>	<u>\$ 214,505</u>
An analysis of amortization by function				
Operating expenses	<u>\$ 1,735</u>	<u>\$ 1,749</u>	<u>\$ 5,949</u>	<u>\$ 5,181</u>

e. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Post-employment benefits (Note 21)				
Defined contribution plans	\$ 16,780	\$ 15,548	\$ 52,063	\$ 40,967
Other employee benefits	<u>297,580</u>	<u>269,031</u>	<u>827,312</u>	<u>730,572</u>
Total employee benefits expense	<u>\$ 314,360</u>	<u>\$ 284,579</u>	<u>\$ 879,375</u>	<u>\$ 771,539</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 199,401	\$ 179,709	\$ 556,222	\$ 484,551
Operating expenses	<u>114,959</u>	<u>104,870</u>	<u>323,153</u>	<u>286,988</u>
	<u>\$ 314,360</u>	<u>\$ 284,579</u>	<u>\$ 879,375</u>	<u>\$ 771,539</u>

f. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration to directors and supervisors at the rates 3%-15% and not higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. For the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018, the employees' compensation and the remuneration of directors and supervisors were as follows:

Accrual rate

	For the Nine Months Ended September 30	
	2019	2018
Employees' compensation	11.77%	8.28%
Remuneration of directors and supervisors	3.00%	2.32%

Amount

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Employees' compensation	<u>\$ 4,505</u>	<u>\$ 5,030</u>	<u>\$ 4,505</u>	<u>\$ 9,351</u>
Remuneration of directors and supervisors	<u>\$ 1,148</u>	<u>\$ 1,329</u>	<u>\$ 1,148</u>	<u>\$ 2,625</u>

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

The appropriations of employees' compensation and remuneration of directors and supervisors for 2018 and 2017 that were resolved by the Company's board of directors on March 7, 2019 and March 8, 2018, respectively, were as below:

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
	<u>Cash</u>	<u>Cash</u>
Employees' compensation	\$ 9,570	\$ 21,700
Remuneration of directors and supervisors	2,870	6,500

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

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

g. Gain or loss on foreign currency exchange

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Foreign exchange gains	\$ 43,540	\$ 37,104	\$ 94,233	\$ 141,772
Foreign exchange losses	<u>(32,498)</u>	<u>(24,185)</u>	<u>(72,138)</u>	<u>(125,391)</u>
	<u>\$ 11,042</u>	<u>\$ 12,919</u>	<u>\$ 22,095</u>	<u>\$ 16,381</u>

25. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax (benefit) expense were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Current tax				
In respect of the current period	\$ 9,535	\$ 11,037	\$ 21,989	\$ 26,410
Adjustment for prior periods	<u>-</u>	<u>(271)</u>	<u>468</u>	<u>5,046</u>
	9,535	10,766	22,457	31,456
Deferred tax				
In respect of the current period	6,251	4,000	(9,443)	(4,054)
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,467)</u>
Income tax expense recognized in profit or loss	<u>\$ 15,786</u>	<u>\$ 14,766</u>	<u>\$ 13,014</u>	<u>\$ 25,935</u>

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income/expense to be recognized in profit or loss. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
<u>Deferred tax</u>				
Effect of change in tax rate	\$ -	-	\$ -	(5,020)
In respect of the current period				
Translation of foreign operations	(12,306)	(14,978)	(7,158)	(8,578)
Fair value changes of financial assets at FVTOCI	<u>761</u>	<u>(111)</u>	<u>2,344</u>	<u>(772)</u>
Total income tax recognized in other comprehensive income	<u>\$ (11,545)</u>	<u>\$ (15,089)</u>	<u>\$ (4,814)</u>	<u>\$ (14,370)</u>

c. Income tax assessments

The income tax returns of the Company, CDE Corp. and DYP Corp. through 2017, have been assessed by the tax authorities, and there is no litigation or dispute with tax authorities in the rest subsidiaries.

26. EARNINGS PER SHARE

Unit: NTS Per Share

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Basic earnings per share	<u>\$ 0.59</u>	<u>\$ 0.75</u>	<u>\$ 0.56</u>	<u>\$ 1.41</u>
Diluted earnings per share	<u>\$ 0.56</u>	<u>\$ 0.70</u>	<u>\$ 0.56</u>	<u>\$ 1.36</u>

The earnings and weighted average number of ordinary shares outstanding (in thousand shares) that were used in the computation of earnings per share from continuing operations were as follows:

Net Profit for the Period

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Profit for the period attributable to owners of the Company	<u>\$ 41,406</u>	<u>\$ 52,124</u>	<u>\$ 39,118</u>	<u>\$ 98,301</u>
Earnings used in the computation of basic earnings per share	\$ 41,406	\$ 52,124	\$ 39,118	\$ 98,301
Effect of potentially dilutive ordinary shares:				
Interest and valuation loss on convertible bonds after tax	<u>1,140</u>	<u>1,475</u>	<u>3,569</u>	<u>2,499</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 42,546</u>	<u>\$ 53,599</u>	<u>\$ 42,687</u>	<u>\$100,800</u>

Shares

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Weighted average number of ordinary shares in computation of basic earnings per share	69,676	69,676	69,676	69,676
Effect of potentially dilutive ordinary shares:				
Convertible bonds	6,460	6,128	6,326	4,052
Employee compensation	<u>169</u>	<u>335</u>	<u>250</u>	<u>454</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>76,305</u>	<u>76,139</u>	<u>76,252</u>	<u>74,182</u>

If the Group offers to settle compensation or bonuses paid to employees in cash or shares, the Group assume the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

27. BUSINESS COMBINATIONS

a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Dongguan Han Lian Technology Co., Ltd.	Manufacture and sales of electronic connectors and electronic products	March 8, 2019	70	<u>\$ 6,408</u>

On March 8, 2019, Dongguan Han Lian Technology Co., Ltd was acquired in order to enhance the Group's manufacturing capacity in electronic connectors and electronic components, and to reduce the manufacturing costs.

b. Consideration transferred

	Dongguan Han Lian Technology Co., Ltd.
Cash	<u>\$ 6,408</u>

c. Assets acquired and liabilities assumed at the date of acquisition

	Dongguan Han Lian Technology Co., Ltd.
Current assets	
Cash and cash equivalents	\$ 8,048
Trade and other receivables	1,567
Inventories	348
Current liabilities	
Trade and other payables	<u>(922)</u>
	<u>\$ 9,041</u>

d. Non-controlling interests

Non-controlling interests amounted to \$2,712 thousand that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation was measured at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets.

e. Goodwill recognized on acquisitions

	Dongguan Han Lian Technology Co., Ltd.
Consideration transferred	\$ 6,408
Plus: Non-controlling interests	2,712
Less: Fair value of identifiable net assets acquired	<u>(9,041)</u>
Goodwill recognized on acquisitions	<u>\$ 79</u>

The goodwill recognized in the acquisitions of Dongguan Han Lian Technology Co., Ltd. mainly represents the control premium included in the cost of the combinations. In addition, the consideration paid for the combinations included amounts attributed to the benefits of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The total amount of acquired goodwill is not tax-deductible.

f. Net cash inflow on the acquisition of subsidiaries

	Dongguan Han Lian Technology Co., Ltd.
Consideration paid in cash	\$ 6,408
Less: Cash and cash equivalent balances acquired	<u>(8,048)</u>
	<u>\$ (1,640)</u>

g. Impact of acquisitions on the results of the Group

The financial results of the acquirees since the acquisition dates, which are included in the consolidated statements of comprehensive income, are as follows:

	Dongguan Han Lian Technology Co., Ltd.
Revenue	<u>\$ 16,132</u>
Loss	<u>\$ (8,853)</u>

Had these business combinations been in effect at the beginning of the financial year, the Group's revenue would have been \$1,251,286 thousand and \$3,434,575 thousand, and the profit (loss) would have been \$28,740 thousand and \$(5,723) thousand for the three months ended September 30, 2019, and nine months ended September 30, 2019, respectively. This pro-forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2019, nor is it intended to be a projection of future results.

28. CASH INFORMATIONS

a. Non-cash transaction

For the nine months ended September 30, 2019 and 2018, the Group entered into the following non-cash investing activities which were not reflected in the consolidated statement of cash flows:

- 1) As of September 30, 2019, December 31, 2018 and September 30, 2018, the amounts unpaid for acquiring property, plant and equipment were \$51,755 thousand, \$39,110 thousand and \$52,920 thousand, respectively, which were included in other payables.
- 2) As of September 30, 2019, December 31, 2018 and September 30, 2018, the amounts unpaid for prepayment for acquiring property, plant and equipment were \$81,252 thousand, \$34,440 thousand and \$0 thousand, respectively, which were included in other payables.

b. Changes in liabilities arising from financing activities

For the nine months ended September 30, 2019

	Balance at January 1, 2019	Cash Flows	Non-cash Changes			Exchange Differences on Translating the Financial Statements	Balance at September 30, 2019
			Additions	Interest Expenses			
Short-term borrowings	\$ 1,047,834	\$ 70,147	\$ -	\$ -	\$ 1,259	\$ 1,119,240	
Lease liabilities (Note 3)	113,421	(13,598)	21,194	-	(2,529)	118,488	
Bonds payable (including current portion)	287,265	-	-	4,521	-	291,786	
Long-term borrowings (including current portion)	294,500	225,500	-	-	-	520,000	
Guarantee deposits received	740	18	-	-	(16)	742	
	<u>\$ 1,743,760</u>	<u>\$ 282,067</u>	<u>\$ 21,194</u>	<u>\$ 4,521</u>	<u>\$ (1,286)</u>	<u>\$ 2,050,256</u>	

For the nine months ended September 30, 2018

	Balance at January 1, 2018	Cash Flows	Non-cash Changes			Exchange Differences on Translating the Financial Statements	Balance at September 30, 2018
			Equity Component	Assets Component	Interest Expenses		
Short-term borrowings	\$ 907,000	\$ (100,945)	\$ -	\$ -	\$ -	\$ (1,012)	\$ 805,043
Bonds payable	-	287,890	(8,999)	2,944	3,939	-	285,774
Long-term borrowings (including current portion)	231,000	32,000	-	-	-	-	263,000
Guarantee deposits received	902	(152)	-	-	-	(17)	733
	<u>\$ 1,138,902</u>	<u>\$ 218,793</u>	<u>\$ (8,999)</u>	<u>\$ 2,944</u>	<u>\$ 3,939</u>	<u>\$ (1,029)</u>	<u>\$ 1,354,550</u>

29. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

September 30, 2019

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial liabilities</u>					
Financial liabilities measured at amortized cost					
Convertible bonds	<u>\$ 291,786</u>	<u>\$ 303,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 303,600</u>

December 31, 2018

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial liabilities</u>					
Financial liabilities measured at amortized cost					
Convertible bonds	<u>\$ 287,265</u>	<u>\$ 308,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 308,550</u>

September 30, 2018

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial liabilities</u>					
Financial liabilities measured at amortized cost					
Convertible bonds	<u>\$ 285,774</u>	<u>\$ 315,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 315,000</u>

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

1) Fair value hierarchy

September 30, 2019

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments at FVTOCI				
Domestic unlisted shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,860</u>	<u>\$ 98,860</u>
Investments in debt instruments at FVTOCI				
Factored trade receivables to banks without recourse	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,704</u>	<u>\$ 214,704</u>
<u>Financial liabilities at FVTPL</u>				
Derivatives				
Convertible bond options	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,230</u>	<u>\$ 1,230</u>

December 31, 2018

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Foreign exchange forward contracts	\$ -	\$ 401	\$ -	\$ 401
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments at FVTOCI				
Domestic unlisted shares	\$ -	\$ -	\$ 89,345	\$ 89,345
Investments in debt instruments at FVTOCI				
Factored trade receivables to banks without recourse	\$ -	\$ -	\$ 317,747	\$ 317,747
<u>Financial liabilities at FVTPL</u>				
Derivatives				
Convertible bond options	\$ -	\$ -	\$ 1,290	\$ 1,290

September 30, 2018

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Foreign exchange forward contracts	\$ -	\$ 4	\$ -	\$ 4
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments at FVTOCI				
Domestic unlisted shares	\$ -	\$ -	\$ 71,956	\$ 71,956
Investments in debt instruments at FVTOCI				
Factored trade receivables to banks without recourse	\$ -	\$ -	\$ 131,409	\$ 131,409
<u>Financial liabilities at FVTPL</u>				
Convertible bond options	\$ -	\$ -	\$ 1,170	\$ 1,170
Foreign exchange forward contracts	-	23	-	23
	\$ -	\$ 23	\$ 1,170	\$ 1,193

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

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the nine months ended September 30, 2019

Financial Assets	Financial Assets at FVTOCI		Total
	Equity Instrument	Debt Instrument	
Balance at January 1, 2019	\$ 89,345	\$ 317,747	\$ 407,092
Recognized in other comprehensive income (included in unrealized valuation gain (loss) on financial assets at FVTOCI)	11,607	-	11,607
Return of funds	(2,092)	-	(2,092)
Settlements	-	(103,043)	(103,043)
Balance at September 30, 2019	<u>\$ 98,860</u>	<u>\$ 214,704</u>	<u>\$ 313,564</u>
			Derivatives - Convertible Bond Options

Financial liabilities at fair value through profit or loss

Balance at January 1, 2019	\$ (1,290)
Recognized in profit or loss (included in other gains and losses)	<u>60</u>
Balance at September 30, 2019	<u>\$ (1,230)</u>

For the nine months ended September 30, 2018

Financial Assets	Financial Assets at FVTPL	Financial Assets at FVTOCI		Total
	Derivatives	Equity Instruments	Debt Instruments	
Balance at January 1, 2018	\$ -	\$ 90,868	\$ 90,234	\$ 181,102
Purchase debt instruments	-	-	41,175	41,175
Issuing bonds	522	-	-	522
Recognized in profit or loss (included in other gains and losses)	(522)	-	-	(522)
Recognized in other comprehensive income (included in unrealized valuation gain (loss) on financial assets at FVTOCI)	-	(6,342)	-	(6,342)
Return of funds	-	(12,570)	-	(12,570)
Balance at September 30, 2018	<u>\$ -</u>	<u>\$ 71,956</u>	<u>\$ 131,409</u>	<u>\$ 203,365</u>

**Derivatives -
Convertible
Bond Options**

Financial liabilities at fair value through profit or loss

Balance at January 1, 2018	\$ -
Recognized in profit or loss (included in other gains and losses)	<u>1,170</u>
Balance at September 30, 2018	<u>\$ 1,170</u>

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

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign exchange forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

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

Financial Instruments	Valuation Techniques and Inputs
Convertible bond options	The binomial tree evaluation model of convertible bonds: Consideration of the duration, the share price and volatility of the convertible bond object, conversion price, risk-free interest rate, discount rate, liquidity risk of the convertible bonds and other factors.
Unlisted debt securities - ROC	Discounted cash flow. Consideration of long-term revenue growth rate, long-term pretax operation profit margin, weighted capital cost rate and liquidity discount, when calculating the present value of expected gain holding such investments.
Factored trade receivables to banks without recourse	As the effect of discounting is not significant, the fair value is measured based on the original invoice amount.

c. Categories of financial instruments

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets</u>			
FVTPL			
Mandatorily classified as at FVTPL	\$ -	\$ 401	\$ 4
Financial asset at amortized cost (1)	2,076,951	2,098,792	2,020,050
Financial assets at FVTOCI			
Equity instruments	98,860	89,345	71,956
Debt instruments			
Factored trade receivables to banks without recourse	214,704	317,747	131,409
<u>Financial liabilities</u>			
FVTPL			
Held for trading	1,230	1,290	1,193
Amortized cost (2)	2,827,406	2,526,650	2,281,347

- 1) The balances included cash and cash equivalents, notes receivable, trade receivables (excluding debt instruments), other receivables (excluding tax refund receivable), other financial assets and refundable deposits that are measured at amortized cost.
- 2) The balances included short-term loans, trade payables, other payables (excluding salaries, bonuses and social security), bonds payable, long-term loans (including current portion of long-term loans payable) and guarantee deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include notes receivable, trade receivables, financial assets measured at fair value through profit or loss, convertible bonds, lease liabilities, trade payables and borrowings.

Risks on the financial instruments include market risk (such as currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and in interest rates (see (b) below).

a) Foreign currency risk

The Group has foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group assesses the net risk position of non-functional currency sales and purchases periodically and adjusts its non-functional cash position on the basis of its assessment.

Refer to Note 33 for both monetary assets and monetary liabilities held by the Group in non-functional currencies (including both monetary assets and monetary liabilities which were offset in the consolidated financial statements).

Sensitivity analysis

The Group was mainly exposed to the exchange movements in USD, RMB, and JPY.

The following table details the Group's sensitivity to a 1% increase and decrease in the each functional currency against the relevant foreign currencies. The 1% sensitivity rate is used in reporting foreign currency risk internally to key management and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. Sensitivity analysis includes trade receivables and payables to entities outside of the Group, and trade receivables and payables to its foreign operations. A positive number below indicates an increase in pretax profit and other equity associated with a 1% weakening of the each functional currency against the relevant currency. For a 1% strengthening of the each functional currency against the relevant currency, there would be an equal and opposite impact on pretax profit and other equity, and the balances below would be negative.

	<u>U.S. Dollar Impact</u>		<u>RMB Impact</u>		<u>JPY Impact</u>	
	<u>For the Nine Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Profit or loss*	\$ 2,108	\$ 2,932	\$ 646	\$ 662	\$ (853)	\$ -

* This was mainly attributable to the exposure on outstanding accounts receivable and payable denominated in USD, RMB and JPY, which were not hedged at the end of the reporting period.

The Group's sensitivity to the USD decreased during the current period mainly due to the reduction of USD denominated net assets.

The Group's sensitivity to the RMB decreased during the current period mainly due to the reduction of RMB denominated trade receivables.

The Group's sensitivity to the JPY increased during the current period mainly due to the increased of JPY denominated liabilities.

b) Interest rate risk

The Group was exposed to interest rate risk related to its deposits in banks and bank loans at both fixed and floating interest rates.

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Fair value interest rate risk			
Financial assets	\$ 559,022	\$ 741,132	\$ 461,573
Financial liabilities	1,529,514	1,335,099	1,090,817
Cash flow interest rate risk			
Financial assets	340,326	298,290	343,244
Financial liabilities	520,000	294,500	263,000

Sensitivity analysis

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

Had interest rates been 1% higher/lower and all other variables held constant, the Group's pretax profits for the nine months ended September 30, 2019 and 2018 would have decreased by \$1,348 thousand and increased by \$602 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings and bank deposits.

The Group's sensitivity to interest rates increased during the current year mainly due to the increase of loans with floating rate.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in a financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to the failure of counterparties to discharge an obligation and financial guarantees provided by the Group could arise from the carrying amounts of the respective recognized financial assets as stated in the balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group continues to monitor its credit exposure and the credit ratings of its counterparties. Credit exposure is controlled by setting a counterparty credit limit, which is approved and periodically reviewed by the risk management committee.

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

The Group did transactions with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

3) Liquidity risk

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

For the Group, bank loans are an important resource of liquidity. Refer to section (B) below for more information about unused amounts of financing facilities at September 30, 2019, December 31, 2018 and September 30, 2018.

a) Liquidity tables for non-derivative financial liabilities

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

September 30, 2019

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Short-term borrowings	\$ 1,104,945	\$ 15,025	\$ -	\$ -	\$ -
Long-term borrowings	52,775	2,094	109,816	370,049	-
Lease liabilities	1,874	5,621	14,648	79,590	23,939
Trade payables	297,515	127,592	-	-	-
Other payables	329,232	141,099	-	-	-
Bonds payables	-	-	300,000	-	-
Guarantee deposits received	-	-	-	742	-
	<u>\$ 1,786,541</u>	<u>\$ 291,431</u>	<u>\$ 424,464</u>	<u>\$ 450,381</u>	<u>\$ 23,939</u>

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	15-20 Years	20+ Years
Lease liabilities	<u>\$ 22,143</u>	<u>\$ 79,590</u>	<u>\$ 23,939</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years
Short-term borrowings	\$ 1,033,310	\$ 15,688	\$ -	\$ -
Long-term borrowings	439	878	33,270	271,769
Trade payables	206,118	259,270	-	-
Other payables	205,943	224,980	-	-
Bonds payables	-	-	-	300,000
Guarantee deposits received	-	-	-	740
	<u>\$ 1,445,810</u>	<u>\$ 500,816</u>	<u>\$ 33,270</u>	<u>\$ 572,509</u>

September 30, 2018

	On Demand or Less than 1 Month	1-3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years
Short-term borrowings	\$ 774,385	\$ 31,351	\$ 657	\$ -
Long-term borrowings	392	784	29,828	246,108
Trade payables	166,701	345,317	-	-
Other payables	173,810	240,969	-	-
Bonds payables	-	-	-	300,000
Guarantee deposits received	-	-	-	733
	<u>\$ 1,115,288</u>	<u>\$ 618,421</u>	<u>\$ 30,485</u>	<u>\$ 546,841</u>

The amounts included above for floating interest rate instruments for non-derivative financial liabilities was subject to change if actual changes in floating interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Liquidity and interest rate risk table for derivative financial liabilities

September 30, 2018

	On Demand or Less than 1 Month	1-3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years
<u>Gross settled</u>				
Forward exchange contracts				
Inflows	\$ 183,127	\$ -	\$ -	\$ -
Outflows	<u>(183,150)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (23)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following table details the Group's liquidity analysis of its derivative financial instruments. The table is based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed is determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

c) Financing facilities

	September 30, 2019	December 31, 2018	September 30, 2018
Unsecured bank facilities (reviewed annually)			
Amount used	\$ 1,119,240	\$ 1,047,834	\$ 805,043
Amount unused	<u>317,920</u>	<u>699,684</u>	<u>937,820</u>
	<u>\$ 1,437,160</u>	<u>\$ 1,747,518</u>	<u>\$ 1,742,863</u>

(Continued)

	September 30, 2019	December 31, 2018	September 30, 2018
Secured bank facilities			
Amount used	\$ 520,000	\$ 294,500	\$ 263,000
Amount unused	<u>225,000</u>	<u>1,105,500</u>	<u>1,137,000</u>
	<u>\$ 745,000</u>	<u>\$ 1,400,000</u>	<u>\$ 1,400,000</u>

(Concluded)

On February 5, 2018, the Company issued convertible bonds, in an aggregate principal amount of \$300,000 thousand, and the bonds are secured by the bank.

e. Transfers of financial assets

Factored trade receivables that have not yet settled at the end of period were as follows:

September 30, 2019

Counterparty	Receivables Factoring	Reclassified to Other Receivables	Advances Received - unused	Advances Received -used	Annual Interest Rates on Advances Received (used) (%)
Taipei Fubon Commercial Bank	\$ 354,866	\$ 10,952	\$ 242,870	\$ 98,570	2.8330-3.1607
Yuanta Commercial Bank	<u>-</u>	<u>-</u>	<u>186,240</u>	<u>-</u>	-
	<u>\$ 354,866</u>	<u>\$ 10,952</u>	<u>\$ 429,110</u>	<u>\$ 98,570</u>	

December 31, 2018

Counterparty	Receivables Factoring	Reclassified to Other Receivables	Advances Received - unused	Advances Received -used	Annual Interest Rates on Advances Received (used) (%)
Taipei Fubon Commercial Bank	\$ 456,255	\$ 5,047	\$ 292,431	\$ 45,434	2.6169-2.9281
Yuanta Commercial Bank	<u>9,995</u>	<u>-</u>	<u>184,290</u>	<u>-</u>	-
	<u>\$ 466,250</u>	<u>\$ 5,047</u>	<u>\$ 476,721</u>	<u>\$ 45,434</u>	

September 30, 2018

Counterparty	Receivables Factoring	Reclassified to Other Receivables	Advances Received - unused	Advances Received -used	Annual Interest Rates on Advances Received (used) (%)
Taipei Fubon Commercial Bank	\$ 357,360	\$ 6,978	\$ 272,974	\$ 62,801	2.6169-2.9281
Yuanta Commercial Bank	<u>9,933</u>	<u>-</u>	<u>183,150</u>	<u>-</u>	2.6000
	<u>\$ 367,293</u>	<u>\$ 6,978</u>	<u>\$ 456,124</u>	<u>\$ 62,801</u>	

Under the Group's factoring agreements, losses from commercial disputes (such as sales returns or allowances) were borne by the Group, while losses from the credit risks were borne by the banks. As of September 30, 2019, December 31, 2018 and September 30, 2018, the Group had issued promissory notes consisting of checks of US\$17,000 thousand as collateral to the banks.

30. TRANSACTIONS WITH RELATED PARTIES

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

Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 7,701	\$ 10,456	\$ 29,224	\$ 31,979
Post-employment benefits	<u>108</u>	<u>109</u>	<u>326</u>	<u>327</u>
	<u>\$ 7,809</u>	<u>\$ 10,565</u>	<u>\$ 29,550</u>	<u>\$ 32,306</u>

The remunerations of directors and key executives were determined by the remuneration committee on the basis of individual performance and market trends.

31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets had been provided as collateral for bank borrowings and issuance of bonds payable:

	September 30, 2019	December 31, 2018	September 30, 2018
Freehold land	\$ 159,538	\$ 159,538	\$ 159,538
Building	102,088	107,144	108,736
Machinery and equipment	493,603	-	-
Other financial assets			
Restricted time deposits	<u>61,862</u>	<u>65,738</u>	<u>65,338</u>
	<u>\$ 817,091</u>	<u>\$ 332,420</u>	<u>\$ 333,612</u>

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

a. Significant commitments

Unrecognized commitments were as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Acquisition of property, plant and equipment			
RMB	<u>\$ 7,513</u>	<u>\$ 4,151</u>	<u>\$ 7,245</u>
NTD	<u>-</u>	<u>\$ 14,270</u>	<u>\$ 112,759</u>

b. Contingents liabilities

On March 19, 2018, Pulse Electronics, Inc. filed a lawsuit against the Group for patent infringement through the US District Court for the Southern District of California. After searching and acquiring related information, the Group decided to file an inter parts review (IPR) through the Patent Trial and Appeal Board (PTAB). During the IPR, the Group proposed a suspension of trial to the judge. Until the result of preliminary review threshold stage of IPR file becomes advantageous to the Group, the Group will declare a retrial to the judge. According to the preliminary assessment by the Group's lawyers, the subject matter of the action is found in the public citation document, and is not an exclusive patent rights of Pulse Electronics, Inc. The plaintiff can neither provide specific evidence to prove that the Group infringed its patent nor specifically prove that customers of the Group sold the products to US directly. Therefore, the Group should be free from infringement. The lawsuit will not significantly affect the Group's business and finances.

The court has decided to suspend the trial before the consolidated financial statements were authorized for issue.

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

September 30, 2019

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 43,761	31.040 (USD:NTD)	\$ 1,358,333
USD	9,034	7.0729 (USD:RMB)	280,409
RMB	14,716	4.3886 (RMB:NTD)	64,581
<u>Financial liabilities</u>			
Monetary items			
USD	42,415	31.040 (USD:NTD)	1,316,550
USD	3,588	7.0729 (USD:RMB)	111,380
JPY	296,073	0.28800 (JPY:NTD)	85,269

December 31, 2018

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 42,930	30.7150 (USD:NTD)	\$ 1,318,593
USD	6,647	6.86320 (USD:RMB)	204,161
RMB	11,891	4.47530 (RMB:USD)	53,218
<u>Financial liabilities</u>			
Monetary items			
USD	42,716	30.7150 (USD:NTD)	1,312,008
USD	2,180	6.86320 (USD:RMB)	66,949
Non-monetary items			
Derivative instruments			
USD	6,000	Note	401

September 30, 2018

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 43,788	30.5250 (USD:NTD)	\$ 1,336,624
USD	16,876	6.8792 (USD:RMB)	515,152
RMB	14,923	4.4373 (RMB:NTD)	66,219
<u>Financial liabilities</u>			
Monetary items			
USD	41,453	30.5250 (USD:NTD)	1,265,345
USD	2,605	6.8792 (USD:RMB)	79,518
Non-monetary items			
Derivative instruments			
USD	6,000	Note	23
USD	1,000	Note	(4)

Note: Fair value of the forward exchange contract using discounted cash flow valuation method.

For the three months ended September 30, 2019 and 2018, and the nine months ended September 30, 2019 and 2018, (realized and unrealized) net foreign exchange gains were \$11,042 thousand, \$12,919 thousand, \$22,095 thousand and \$16,381 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and (b.) investees:

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

c. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 8)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses (Table 8):
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period
 - c) The amount of property transactions and the amount of the resultant gains or losses
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes

- e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds
- f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services

35. SEGMENT INFORMATION

The connector manufacturing segment includes a number of direct sales operations in various cities, each of which is considered separate operating segment by the chief operating decision maker. For financial statements presentation purposes, these individual operating segments have been aggregated into a single operating segment taking into account the following factors:

- a. The nature of the products and production processes are similar;
- b. The pricing strategy of the products are similar;
- c. The methods used to distribute the products to the customers are the same.

TABLE I

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance (Note 3)	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 2)	Aggregate Financing Limit (Note 1)
													Item	Value		
1	U.D. Electronic Corp.	CDE Corp.	Other receivables from related party	Yes	\$ 20,000	\$ 20,000	\$ 4,010	3.00	Demand of short-term financing	\$ -	Operating capital	\$ -	-	\$ 256,199	\$ 512,398	
2	Ta Yang UDE Limited	Dongguan TY U.D.E. Precision Co., Ltd.	Other receivables from related party	Yes	12,970	12,550	12,550	2-3	Demand of short-term financing	-	Operating capital	-	-	28,713	28,713	
3	Dongguan Jian Guan P.E. Co., Ltd.	Dongguan TY U.D.E. Precision Co., Ltd. Dongguan Han Lian Technology Co., Ltd.	Other receivables from related party Other receivables from related party	Yes Yes	69,035 9,041	8,849	- 8,849	3.00 3.00	Demand of business transaction Demand of short-term financing	710 -	- Operating capital	- -	- -	99,304 49,652	198,608 99,304	
4	Zhong Jiang U.D.E. Electronics Corp.	Dongguan TY U.D.E. Precision Co., Ltd.	Other receivables from related party	Yes	68,874	65,829	62,086	3.00	Demand of business transaction	337	-	-	-	318,886	637,772	
5	Morning Paragon Limited	Dongguan TY U.D.E. Precision Co., Ltd.	Other receivables from related party	Yes	25,540	24,716	24,716	3.00	Demand of business transaction	3,074	-	-	-	35,892	35,892	

Note 1: a. For the purpose of conducting business, the total amount available for lending shall not exceed 40% of the net worth of the lending company based on its most recent audited financial statements. While, the total amount available for lending to the subsidiaries whose voting shares are 100% owned directly or indirectly by the lending company, shall not exceed 50% of higher the net worth of the lending company or its mother company based on their most recent audited financial statements.

b. For the purpose of short-term capital financing, the total amount available for lending shall not exceed 20% of the net worth of the lending company based on its most recent audited financial statements. While, the total amount available for lending to the subsidiaries whose voting shares are 100% owned directly or indirectly by the lending company, shall not exceed 40% of higher the net worth of the lending company or its mother company based on their most recent audited financial statements.

Note 2: a. For lending to any individual company, if for the purpose of conducting business, the total amount available for lending shall not exceed 20% of the net worth of the lending company based on its most recent audited financial statements. While, the total amount available for lending to the subsidiaries whose voting shares are 100% owned directly or indirectly by the lending company, shall not exceed 50% of higher the net worth of the lending company or its mother company based on their most recent audited financial statements.

b. For lending to any individual company, if for the purpose of short-term capital financing, the total amount available for lending shall not exceed 10% of the net worth of the lending company based on its most recent audited financial statements. While, the total amount available for lending to the subsidiaries whose voting shares are 100% owned directly or indirectly by the lending company, shall not exceed 40% of higher the net worth of the lending company or its mother company based on their most recent audited financial statements.

Note 3: Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

Note 4: The interest expenses due to financing for the nine months ended September 30, 2019 are specified as followed:

Dongguan TY U.D.E. Precision Co., Ltd.: The sum of interest expenses is \$6,720 thousand.
Dongguan Han Lian Technology Co., Ltd.: The sum of interest expenses is \$74 thousand.

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

**ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorser/Guarantee		Limit on Endorsement/Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/Guaranteed During the Period	Outstanding Endorsement/Guarantee at the End of the Period (Note 3)	Actual Borrowing Amount (Note 2)	Amount Endorsed/Guaranteed by Collateral	Ratio of Accumulated Endorsement/Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/Guarantee Limit (Note 1)	Endorsement/Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/Guarantee Given on Behalf of Companies in Mainland China
		Name	Relationship										
0	U.D. Electronic Corp.	All First International Co., Ltd. Morning Paragon Limited and DYP Corp.	Note 4 Note 4	Net value 100% \$ 2,561,990 Net value 20% 512,398	\$ 300,000 and US\$ 28,500 100,000	US\$ 20,000 50,000	\$ 403,520 -	\$ - -	24 2	Net value 100% \$ 2,561,990 Net value 40% 1,024,796	Yes Yes	- -	- -

Note 1: a. The total amount of the guarantee provided by UDE shall not exceed 40% of UDE's net worth based on its most recent audited financial statements. The total amount of the guarantee provided by UDE to any individual entity shall not exceed 20% of UDE's net worth.

b. The total amount of the guarantee provided by UDE to subsidiaries whose voting shares are 100% owned directly or indirectly by UDE shall not exceed 100% of UDE's net worth based on its most recent audited financial statements. The total amount of the guarantee provided by UDE to individual subsidiary shall not exceed 100% of UDE's net worth.

Note 2: For the nine months ended September 30, 2019, the interest expenses due to related parties financing from banks with the endorsement/guarantee of U.D. Electronic Corp. are as followed:

All First International Co., Ltd.: The sum of interest expenses is \$8,401 thousand.

Note 3: Sharing credit line.

Note 4: U.D. Electronic Corp. holds over 50% of voting shares directly and indirectly.

Note 5: Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

SEPTEMBER 30, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	Number of Shares	September 30, 2019		Note
					Carrying Amount	Percentage of Ownership (%)	
U.D. Electronic Corp.	Fortune Rich Investment Corporation	The Company's director as the investee's legal director representative	Financial assets at FVTOCI - non-current	1,534	\$ 13,062	10.35	Notes 1 and 2
	Emerging Fortune Capital Inc.	The Company's supervisor as the investee's legal director representative	"	2,000	16,014	10.64	Note 1
	Emerging Creation Capital Inc.	The Company's supervisor as the investee's legal director representative	"	4,000	66,654	10.13	"
	Dy-Precision Industrial Co., Ltd.	The Company's supervisor as the investee's legal director representative	"	725	3,130	16.22	"

Note 1: Marketable securities mentioned above are not pledged as collateral or for security.

Note 2: As of July 17, 2019, Fortune Rich Investment Corporation reduced its capital and refunded the Group \$2,092 thousand.

TABLE 4

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Related Party	Relationship	Transaction Details		Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note		
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms		Ending Balance	% of Total
U.D. Electronic Corp.	All First International Co., Ltd.	Sub-subsidiary of the U.D. Electronic Corp.	Purchase	\$ 3,038,373	100	O/A 75 days	Note 2	Note 2	\$ (1,102,936)	(100)	Note 1
All First International Co., Ltd.	U.D. Electronic Corp.	Parent company	Sale	(3,038,373)	(94)	O/A 75 days	"	"	1,102,936	93	"
			Purchase	2,574,650	79	O/A 120 days	"	"	(225,644)	(70)	"
Dongguan Jian Guan P.E. Co., Ltd.	U.D. Electronic Corp.	Affiliated company	Purchase	518,643	16	O/A 120 days	"	"	(61,007)	(19)	"
			Purchase	(518,643)	(90)	O/A 120 days	"	"	61,007	63	"
Dongguan Jian Guan P.E. Co., Ltd.	All First International Co., Ltd.	Affiliated company	Sale	114,183	53	O/A 120 days	"	"	(81,161)	(63)	"
			Purchase	(2,574,650)	(96)	O/A 120 days	"	"	225,644	74	"
Zhong Jiang U.D.E. Electronics Corp.	All First International Co., Ltd.	Affiliated company	Sale	(114,183)	(4)	O/A 120 days	"	"	81,161	26	"

Note 1: Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

Note 2: The prices and payment terms to related parties were not significantly different from those of sales to third parties.

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SEPTEMBER 30, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance (Note 1)	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note 2)	Allowance for Impairment Loss
					Amount	Actions Taken		
All First International Co., Ltd.	U.D. Electronic Corp.	Parent company	Trade receivables \$ 1,102,936	3.92	\$ -	-	\$ 321,467	-
Zhong Jiang U.D.E. Electronics Corp.	All First International Co., Ltd.	Affiliated company	225,644	16.03	-	-	225,644	-

Note 1: Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

Note 2: The amount recovered from October 1, 2019 to November 4, 2019.

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(Amounts in Thousands)

No.	Investee Company	Counterparty	Relationship	Transaction Details			% of Total Sales or Assets (Note 2)
				Financial Statement Accounts	Amount (Note 1)	Payment Terms	
0	U.D. Electronic Corp.	All First International Co., Ltd. Morning Paragon Limited and DYP Corp.	Parent company to sub-subsidiary Parent company to subsidiary and sub-subsidiary	Endorsements/guarantees provided Endorsements/guarantees provided	US\$ 20,000 50,000	- -	11 1
1	All First International Co., Ltd.	U.D. Electronic Corp. Zhong Jiang U.D.E. Electronics Corp. Zhong Jiang U.D.E. Networking Electronics Corp.	Sub-subsidiary to parent company Affiliated company Affiliated company	Revenue Trade receivables Revenue Trade receivables Revenue	3,038,373 1,102,936 101,490 68,165 86,073	Negotiated case by case. O/A 75 days Negotiated case by case. O/A 120 days Negotiated case by case. O/A 180 days	88 19 3 1 3
2	Dongguan Jian Guan P.E. Co., Ltd.	All First International Co., Ltd. Zhong Jiang U.D.E. Networking Electronics Corp.	Affiliated company Affiliated company	Revenue Trade receivables Revenue Trade receivables	518,643 61,007 37,238 22,851	Negotiated case by case. O/A 120 days Negotiated case by case. O/A 120 days	15 1 1 -
3	Zhong Jiang U.D.E. Electronics Corp.	All First International Co., Ltd. Dongguan Jian Guan P.E. Co., Ltd. Dongguan TY U.D.E. Precision Co., Ltd.	Affiliated company Affiliated company Affiliated company	Revenue Trade receivables Revenue Trade receivables Other receivables	2,574,650 225,644 114,183 81,161 62,086	Negotiated case by case. O/A 120 days Negotiated case by case. O/A 120 days Negotiated case by case. O/A 120 days Financing (including interest receivables)	75 4 3 1 1
4	Dongguan U.D.E. Electronics Corp.	Dongguan Jian Guan P.E. Co., Ltd. Zhong Jiang U.D.E. Electronics Corp.	Affiliated company Affiliated company	Revenue Revenue	46,569 67,180	Negotiated case by case. O/A 120 days Negotiated case by case. O/A 120 days	1 2
5	Ta Yang UDE Limited	Dongguan TY U.D.E. Precision Co., Ltd.	Affiliated company	Investment accounted for using the equity method (capital increase) Other receivables	11,810 (US\$ 400) 12,550	- Financing (including interest receivables)	- -
6	Morning Paragon Limited	Dongguan TY U.D.E. Precision Co., Ltd.	Affiliated company	Other receivables	24,716	Financing (including interest receivables)	-
7	CDE Corp.	All First International Co., Ltd. U.D. Electronic Corp.	Affiliated company subsidiary to Parent company	Revenue Trade receivables Additions to right-of-use assets Lease liabilities (current and non-current)	52,606 21,106 45,864 45,047	Negotiated case by case. O/A 120 days -	2 - 1 1
8	Dongguan Ai Te Chieh Intellectual Technology Co., Ltd.	Zhong Jiang U.D.E. Electronics Corp.	Affiliated company	Revenue Trade receivables	33,645 11,160	Negotiated case by case. O/A 120 days	1 -

(Continued)

Intercompany relationships:

U.D. Electronic Corp. and CDE Corp. mainly engages in electronic material trading and international trading; Dongguan Jian Guan P.E. Co., Ltd., Zhong Jiang U.D.E. Electronics Corp. and Dongguan TY U.D.E. Precision Co., Ltd. mainly engage in electronic components manufacturing; Zhong Jiang U.D.E. Networking Electronics Corp. mainly engages in electronic components trading, while Global Connection (Samoa) Holding Inc., San Francisco Inc. and Ta Yang UDDE Limited are holding companies; All First International Co., Ltd. is an international trading company; Dongguan Ai Te Chieh Intellectual Technology Co., Ltd. mainly engages in components processing and automatic equipment development; Dongguan U.D.E. Electronics Corp. mainly engages in development and sales of electronic components; and Dongguan Han Lian Technology Co., Ltd. mainly engages in manufacturing and sales of electronic connectors and electronic products.

Note 1: This table only reveals one-way transaction information. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

Note 2: The calculation of the percentage that the transaction amounts account for total consolidated revenues or total assets. For the assets and liabilities subject, it was calculated by the consolidated total assets divided by the ending balance. For the revenue/expense subjects, it was calculated by the consolidated total revenues divided by accumulated transaction amount at the end of period.

(Concluded)

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

INFORMATION ON INVESTEEES

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of September 30, 2019		Net Income (Loss) of the Investee	Share of Profit (Loss)	Note	
				September 30, 2019	December 31, 2018	Number of Shares	%				Carrying Amount
U.D. Electronic Corp.	Global Connection (Samoa) Holding Inc.	Samoa	Holding company	\$ 1,585,803 (US\$ 51,089)	\$ 1,648,238 (US\$ 51,089)	51,089	100	\$ 2,613,508	\$ 82,632	82,632	Notes 1 and 2
	CDE Corp.	Taiwan	Manufacturing and selling of electronic materials	75,000	75,000	7,500	50	856	(24,353)	(12,353)	Notes 1 and 2
	DYP Corp.	Taiwan	Selling of electronic components	86,700	86,700	8,670	51	36,609	(24,500)	(24,500)	Notes 1 and 2
Global Connection (Samoa) Holding Inc.	Sunderland Inc.	Republic of Mauritius	Holding company	436,547 (US\$ 14,064)	431,976 (US\$ 14,064)	14,064	100	510,727	(91,063)	(91,063)	Notes 1 and 2
	San Francisco Inc.	Republic of Mauritius	Holding company	854,717 (US\$ 27,536)	845,768 (US\$ 27,536)	27,536	100	1,581,498	136,012	136,012	Notes 1 and 2
	All First International Co., Ltd.	Samoa	International trading	310,400 (US\$ 10,000)	307,150 (US\$ 10,000)	10,000	100	521,267	37,740	37,689	Notes 1 and 2
DYP Corp.	Ta Yang UDE Limited	Samoa	Holding company	115,189 (US\$ 3,711)	115,983 (US\$ 3,711)	4,438	100	28,756	(41,382)	(41,382)	Notes 1 and 2
	Morning Paragon Limited	Samoa	International trading	45,600 (US\$ 1,500)	46,073 (US\$ 1,500)	1,500	100	41,182	38	34	Notes 1 and 2
Ta Yang UDE Limited	Million Like Limited	Hong Kong	International trading	- (HK\$ -)	392 (HK\$ 100)	(Note 3)	(Note 3)	-	-	-	Notes 1 and 2

Note 1: The share of profit (loss) was recognized according to the financial statements of investees for the same period.

Note 2: Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

Note 3: In April 2019, Ta Yang UDE Limited completed liquidation and canceled its registration. Please refer to Note 11.

TABLE 8

U.D. ELECTRONIC CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment (Note 2)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of September 30, 2019	% Ownership of Direct or Indirect Investment	Net Income (Loss) of the Investee	Investment Gain (Loss) (Note 1 b.(2))	Carrying Amount as of September 30, 2019	Accumulated Repatriation of Investment Income as of September 30, 2019
					Outward	Inward						
Dongguan Jian Guan P.E. Co., Ltd.	Manufacturing and selling of electronic components	\$ 463,399 (HK\$ 116,432)	b. (1)	\$ 450,981 (HK\$ 12,647 and US\$ 12,000)	-	\$ -	\$ 405,981 (HK\$ 12,647 and US\$ 12,000)	100	\$ (93,234)	\$ (93,146)	\$ 496,308	\$ -
Zhong Jiang U.D.E. Electronics Corp.	Manufacturing and selling of electronic components	935,975 (US\$ 29,000)	b. (2)	833,835 (US\$ 27,603)	-	-	833,835 (US\$ 27,603)	100	139,813	136,012	1,581,458	-
Zhong Jiang U.D.E. Networking Electronics Corp.	Selling of electronic components	2,476 (RMB 500)	b. (3)	- (Note 3)	-	-	-	100	5,464	5,464	29,265	-
Dongguan TY U.D.E. Precision Co., Ltd.	Manufacturing and selling of electronic components	76,252 (US\$ 2,500)	b. (4)	58,924 (US\$ 1,942)	11,810 (US\$ 400)	-	70,734 (US\$ 2,342)	51	(41,007)	(20,914)	(13,091)	-
Dongguan U.D.E. Electronics Corp.	Researching and selling of electronic	16,125 (US\$ 500)	b. (1)	15,871 (US\$ 502)	-	-	15,871 (US\$ 502)	100	2,083	2,083	14,397	-
Dongguan Ai Te Chieh Intellectual Technology Co., Ltd.	Machinery and automatic equipment development	44,753 (RMB 10,000)	b. (5)	- (Note 4)	-	-	-	60	(15,394)	(9,236)	16,768	-
Dongguan Han Lian Technology Co., Ltd.	Manufacturing and selling of electronic connectors and electronic products	9,154 (RMB 2,000)	b. (5)	- (Note 4)	-	-	-	70	(9,064)	(6,197)	144	-

Note 1: In the column of investment gain (loss)

- If the investment is still in preparation and not accruing any investment gain (loss), it should be specified.
- There are there basis of recognizing investment gain (loss) as below and should be specified.

- The financial statement reviewed by attesting CPA of international accounting firm whom in corporation with R.O.C. accounting firm.
- The financial statement reviewed by attesting CPA of parent company in Taiwan.
- Others.

(Continued)

Note 2: The followings are the three methods of investing in mainland China

- a. Directly invests in mainland China.
- b. Investment in mainland China companies through an existing company established in a third region (Please specified the Company in the third region).
 - 1) Invests in mainland China through an existing company established in a third region (Global Connection (Samoa) Holding Inc. invested Sunderland Inc.)
 - 2) Invests in mainland China through an existing company established in a third region (Global Connection (Samoa) Holding Inc. invested San Francisco Inc.)
 - 3) Invests in mainland China through an existing company established in a third region (Global Connection (Samoa) Holding Inc. invested San Francisco Inc.)
 - 4) Invests in mainland China through an existing company established in a third region (Global Connection (Samoa) Holding Inc. re-invested Zhong Jiang U.D.E. Electronics Corp.)
 - 5) Invests in mainland China through an existing company established in a third region (Ta Yang UDE Limited)
- c. Other methods.

Note 3: Zhong Jiang U.D.E. Networking Electronics Corp. is invested directly by Zhong Jiang U.D.E. Electronics Corp., no outward remittance for investment from Taiwan.

Note 4: Dongguan Ai Te Chieh Intellectual Technology Co., Ltd. and Dongguan Han Lian Technology Co., Ltd. are invested directly by Dongguan Jian Guan P.E. Co., Ltd., no outward remittance for investment from Taiwan.

Note 5: Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

Upper Limit on the amount of investment in mainland China:

Accumulated Outward Remittance for Investment in Mainland China as of September 30, 2019	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note)
\$1,326,421	\$1,418,521	\$1,559,482

Note: Oder No. 09704604680, calculated based on 60% of equity net worth.

(Continued)

Significant transactions with investee companies in the Mainland Area, either directly or indirectly through a third area:

1. The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period:

In Thousands of New Taiwan Dollars

Related Party	Relationship	Purchase/ Sale	Amount	% of Total	Transaction Detail			Notes/Accounts Receivable (Payable)		Unrealized Gain/(Loss)
					Price	Payment Terms (Note)	Compare to Normal Transactions	Ending Balance	% of Total	
Dongguan Jian Guan P.E. Co., Ltd.	Subsidiaries of U.D. Electronic Corp.	Purchase	\$ (518,643)	(17)	Negotiated case by case	O/A 120 days	-	\$ (61,007)	(21)	\$ 208
Zhong Jiang U.D.E. Electronics Corp.	Subsidiaries of U.D. Electronic Corp.	Purchase	(2,574,650)	(83)	Negotiated case by case	O/A 120 days	-	(225,644)	(79)	12,969

Note: The payment terms of Zhong Jiang U.D.E. Electronics Corp. and Dongguan Jian Guan P.E. Co., Ltd. to All First International Co., Ltd. are O/A 120 days. Nevertheless, U.D. Electronic Corp.'s payment terms is O/A 75 days to All First International Co., Ltd.

2. The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: None.
3. The amount of property transactions and the amount of the resultant gains or losses: None.
4. The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: Table 2.
5. The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds: Table 1.
6. Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services: None.

(Concluded)