Stock Code: 6533

Andes Technology Corporation

Annual Report 2018

Printed on April 30, 2019

I. The Annual Report is accessible through the websites below Market Observation Post System website of Taiwan Stock Exchange Corporation: http://mops.twse.com.tw
II. Andes annual report is available at: http://www.andestech.com

Notice to Readers:
The reader is advised that the annual report has been prepared originally in Chinese. The English version is directly translated from Chinese version.

Spokesperson and Acting spokesperson:

Spokesperson
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Auditors: Shou-Pin Kuo and Jia-Ling Tu
Accounting Firm: Ernst & Young
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Name of overseas securities dealers and methods to inquire into overseas securities: Not Applicable

Website: http://www.andestech.com

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I. Letter to Shareholders

Andes Technology Corporation
Business Report

Dear Shareholders:

In 2018, Andes reached a long-awaited milestone. The annual shipments of Andes-embedded SoCs of customers have surpassed one billion. This result shows that customer shipments have remained steady and grown substantially. It shows the effort of Andes over the years is paid off. The achievement is not just a positive development, but also an indication of the stable source of financial income. Andes management team will keep the original intention, supporting customers with the leading innovative services and leading the market with innovative technology. Andes will continue to implement and strive to create a sustainable operation.

Business results in 2018

Financial status:
In the year of 2018, Andes' consolidated revenue was NT$ 304,756 thousands, increased 5% from last year, and made a record high from previous years. Among them, licensing of CUP IP accounted for 69% and royalty revenues accounted for 25%, maintenance services and others income accounted for 6% of total revenue. The growth rate of royalty revenue is the highest among the three, and the reason is as mentioned above, the growth of customer system-on-chip shipments has increased significantly.

The consolidated operating income was NT$35,311 thousands, and the net profit for the whole year was NT$41,567 thousands. It maintained Andes profitability for two consecutive years. The earnings per share grew to NT$0.97. The net cash outflow of NT$160,337 thousand for the whole year was mainly used for investment activities, the ending cash balance is NT$528,368 thousand.

In terms of budget execution, Andes only set its internal budget target in 2018, and did not disclose financial forecasts. However, the profit target was successfully achieved, and revenue and earnings grew compared to 2017.

Marketing status:
In 2018, Andes put its focus of marketing on the RISC-V product line, which is the V5 generation instruction set. Because RISC-V is the global open source instruction set architecture, Andes not only cooperated with the RISC-V Foundation to participate in its global promotional activities, such as exhibitions, speeches, forums, seminars and technical exhibitions, but also participated in RISC-V global and Asia-Pacific regional marketing conferences. Andes participated in those activities and played a leading role in some of them. Andes Technology also led the development of RISC-V eco-system, and this is also the focus of marketing activities against its biggest competitor.
At the same time, because of the booming and flourish applications of Internet of Things, artificial intelligence, big data and other applications, marketing activities also focused on such applications. It prompted customers to grow in the number of contracts signed to develop solutions for Internet of Things, artificial intelligence, and control device of large-capacity semiconductor storage.

Research development status (core intellectual property and technology):
In 2018, Andes continued to bet on a large portion of R&D resources in RISC-V products, and released four new products, N25F, NX25F, A25 and AX25, and achieved good results. In addition to the IP development of the microprocessors, Andes has invested in R&D resources and participated in several working groups of the RISC-V Foundation, such as core functions, instruction sets, system software Linux, compilers and many more. Andes has become the maintainer and contributor of open source tools. Andes set up the SIMD DSP P-Instruction working group and became the leader. Many of the above examples have proved that Andes has become one of the leading members of the global microprocessor industry, and played actively as a leading role. Andes will leverage the actual performance to prevail and transform the global technology trend energy into the growth power of Andes.

Business plan summary in 2019

Management policy and future company development strategy:
Andes will continue to grow in the field of RISC-V processors and strive to complete the RISC-V roadmap of low, medium and high-end products in 2019, and become the global leader of RISC-V microprocessor IP. Except establishing research and development center in United States west coast in 2018, Andes also actively cooperated with global supply chains and ecosystems, including software and hardware to build development platforms, application platforms, and played the role of a reliable microprocessor IP supplier for the global system-on-chip developers. In addition, Andes aggressively pursued its market share worldwide to seek growth of profits and sales performance.

Affected by the external competitive environment, regulatory environment and overall business environment:
Since Andes listing in 2017 in TWSE, Andes has followed the relevant laws and regulations for listed companies, continuously promoted corporate governance, enhanced information transparency, and continued to pay attention to the changes in the exchange rate of the New Taiwan dollar against the US dollar, appropriately adjusted foreign currency assets, and reduced the impact of exchange rates on financial statements. The China-US trade war continues to bring uncertainties to the global economic development. Andes also needs to examine the competitive environment, reduces the risk of the concentration in a single market, and arranges the management of the global deployment in order to avoid risks and enhance shareholders' rights and interests.

Last but not least, we would like to deliver our sincere appreciation to all of our shareholders for your long-term trust and continuous support for Andes, and wish you all good health and good luck.

Chairman: Ming-Kai Tsai President: Jyh-Ming Lin Chief Financial Officer: Han-Chang Chou

II. Company Profile.

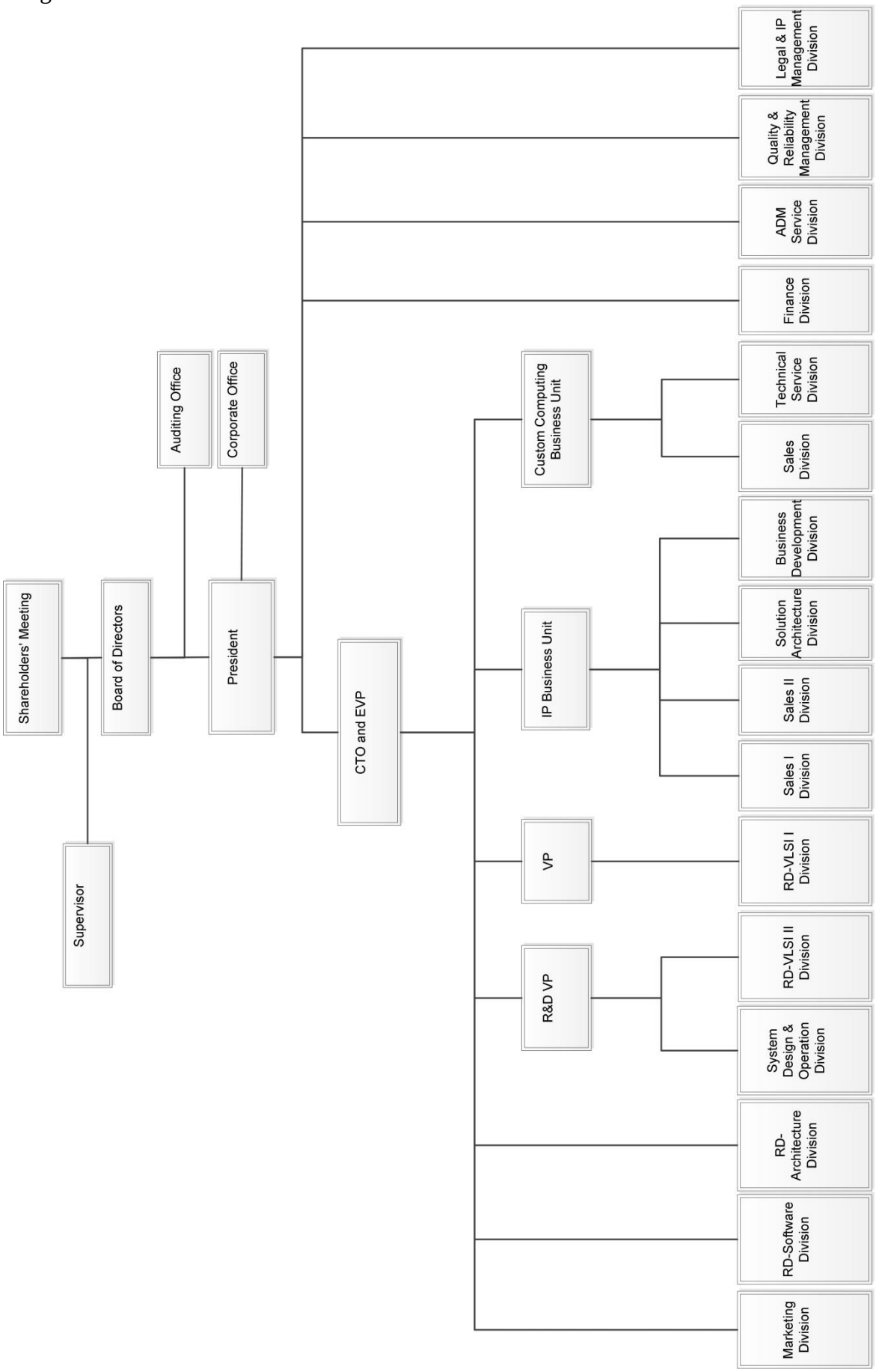
1. Date of Incorporation
   Andes Technology Corporation was founded on March 14, 2005.

2. Milestones

Year	Milestones
Apr, 2016	Andes announced the BSP 4.1 tool chain optimization.
Apr, 2016	Won 2015 “Deloitte Technology Fast 500 Asia Pacific” award.
Apr, 2016	Andes got the required documents as set out in the operation directions adopted by the Ministry of Economic Affairs or the Council of Agriculture, Executive Yuan.
May, 2016	Completed the new version of the ACE (Andes Custom Extension) architecture to support customization.
Aug, 2016	Andes announced AndeSight v3.0.0 STD/MCU/RDS。
Oct, 2016	Andes announced V3m architecture processors N650
Nov, 2016	Andes announced platformIP AE100
Mar, 2017	Listed on the Taiwan Stock Exchange (TWSE)
Mar, 2017	Andes announced AndeStar™ 32-bit V5 digital signal instructions.
Mar, 2017	Andes announced V3m+ processors N820
May, 2017	Andes announced a series of AndeStar™ V3-based high efficiency superscalar processors, the AndesCore™ N15(F)/D15(F). The N15 implemented integer baseline instructions while the D15 came with DSP extension instructions; the N15F/D15F added a floating point unit (FPU) to the N15/D15.
Jul, 2017	Selected as the 2017 Top 25 Internet of Things Solution Company by APAC CIO outlook
Oct , 2017	Won “ASPA Excellence Prize” award.
Nov, 2017	Andes announced the BSP 4.2.0 tool chain optimization.
Nov, 2017	Andes announced AndeSight v3.1.0 STD/MCU/RDS
Nov, 2017	Andes announced AndeStar™ V5 digital signal instructions
Dec, 2017	Andes announced platform IP AE300
Dec, 2017	Andes announced Advanced SoC Development Environment for V5 AndesCore™ 32-bit N25 Processors.
Dec, 2017	Andes announced Advanced SoC Development Environment for V5 AndesCore™ 64-bit NX25 Processors with Tool Partners.
May, 2018	Selected as the 2018 Top 25 Best emerging technology Solution Company by CIO Advisor Magazine
Sep, 2018	Andes established the RISC-V EasyStart Alliance, and united design service provider from multi countries to serve RISC-V core licensing.
Oct, 2018	Andes announced over 1.2 GHz RISC-V Cores Series at 28nm: A25/AX25 and N25F/NX25F
Oct, 2018	Established Andes Hsinchu Branch.
Feb, 2019	Andes announced new N22, the smallest RISC-V core in its V5 Family
Mar, 2019	Andes announced RISC-V single-core and multicore Processors with DSP instruction set.
Mar, 2019	Andes assisted to establish the RISC-V Alliance of Taiwan, and served as the vice chairman of the alliance.
Apr, 2019	National Development Fund fulfilled its short-term goals of investment, and released 2,979,084 shares as of the date of this Annual Report. The percentage of shareholding decreased from 14.67% to 6.99%.

III. Corporate Governance

1. Organization.
   1.1. Organization Chart



1.2. Major Corporate Functions

Department		Functions
Corporate Office		Analyze, plan and execute corporate strategies
Legal & IP Management Division		Manage corporate legal affairs, contracts, patents, and other intellectual property.
Quality & Reliability Management Division		Quality system, document control, non-conforming product disposal, instrument calibration management, customer service.
ADM Service Division		Human resource management, General affairs, plant operations, and information engineering service etc.
Finance Division		Manage finance and accounting, tax, treasury and asset, strategic investments and investor relations
Custom Computing Business Unit	Technical Service Division	Provide technical service, customers training course, reply the technical questions, and developing the online service system.
	Sales Division	Sell Custom Computing Service, develop customers, maintain customer relationship and manage sales operation
IP Business Unit	Business Development Division	Plan and execute customers developing and product promotion strategies.
	Solution Architecture Division	Provide technical service, customers training course, reply the technical questions etc.
	Sales I Division Sales II Division	Sell IP Business related product and service, develop customers, maintain customer relationship and manage sales operation.
RD-VLSI I & II Division		Develop CPU and other IP related design, maintenance and test.
System Design & Operation Division		Hardware development platform, specification of related board products and system architecture, product testing plan and program development, product characterization, raw material procurement of board products, production test, production operation, and material management.
RD-Architecture Division		Product development effectiveness analysis, performance verification and revision and maintenance of architectural specifications.
RD-Software Division		Cooperate with the CPU and other IP developed for related software design, maintenance and testing.
Marketing Division		Manage corporate image and promote market position.
Auditing Office		Manage internal audit, operational procedure and provide improved suggestion.

2. Information of Directors and Officials

2.1. Information Regarding Board Members

As of April 20, 2019/ Unit: Shares; %

Title	Nationality or Registry	Name	Gender	Date Elected (Note1)	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Current Positions at the Company and Other Companies	Spouse or relative within two degrees of consanguinity serving as a manager or director		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	R.O.C	Ming-Kai Tsai	Male	June 21, 2018	3	March 14, 2005	0	0	0	0	0	0	0	0	Master's Degree, Electrical Engineering, University of Cincinnati, USA	Chairman, MediaTek Inc.	-	-	-
	R.O.C	Representative: MediaTek Capital Corp.	-			February 22, 2006	5,387,928	13.26	5,657,324	13.26	0	0	0	0	-	Director, Roll Tech Technology Co., Ltd. Director/Supervisor, Chingis Technology Corporation. Director, Supervisor/VeloceNet Inc. Director/Supervisor, Nephos (Taiwan) Inc. Director, Chunghwa Precision Test Tech. Co., Ltd. Director, Mars Semiconductor Corp. Director/Mediatek Research Corp. Director/CYBERON CORPORATION Director/CMOS-Crystal TECHNOLOGY CO., LIMITED	-	-	-
Director	R.O.C	Hahn-Ming Lee	Male	June 21, 2018	3	February 6, 2009	0	0	0	0	0	0	0	0	Ph. D, Department of Computer Science & Information Engineering, National Taiwan University	Director, Frontier Foundation. Director, National Information Infrastructure Enterprise Promotion Association (NII). Supervisor, Consumers' Foundation Chairman, Telecom Technology Center Professor, Department of Computer Science and Information Engineering, National Taiwan University of Science and Technology. Joint Research Fellow, Institute of Information Science.	-	-	-
	R.O.C	Representative: National Development Fund	-			February 22, 2006	5,958,321	14.67	2,979,237	6.99	0	0	0	0	-	-	-	-	-
Director	R.O.C	Chun-Huei Ho (Note1)	Male	June 21, 2018	3	June 30, 2015	0	0	0	0	0	0	0	0	Deputy Executive Secretary, National Development Fund, Executive Yuan, ROC. Equity representative supervisor, TSMC.	Chairman, HuaSheng Asset Management Consultant Co., Ltd. Chairman, ChenYing International Development Co., Ltd. Chairman, HuaChen International Investment Co., Ltd.	-	-	-

Title	Nationality or Registry	Name	Gender	Date Elected (Note1)	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Current Positions at the Company and Other Companies	Spouse or relative within two degrees of consanguinity serving as a manager or director		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
															Equity representative director, Taiwan High Speed Rail Corporation. Visiting scholar of Hoover Institution. Stanford University Hoover Institution. Adjunct Associate Professor, National Central University and National Chiao Tung University College of Management. Receive a scholarship of the senior social science staff from the Executive Yuan, and advanced studies in the United States afterwards. Ph.D. in Economics, University of Pittsburgh Master's Degree, National Chiao Tung University Department of Transportation & Logistics Management. Bachelor's Degree, National Cheng Kung University Department of Naval Architecture and Marine Engineering	Legal representative person/President, CDIB Capital International Group. Legal representative person, CDIB Capital Management Corporation Limited. Director, CDIB Venture Capital Corporation Limited. Director, CDIB Venture Capital（Hong Kong）Corporation Limited. Legal representative person, Sino-American Silicon Products Inc. Legal representative person, TaiAn Technologies Co., Ltd. Director, GuoYong Investment Co., Ltd. Supervisor, Ablerex Electronics Co., Ltd. Director, WISE SEA TECHNOLOGY CO.,LTD. Hotran Resource Development Ltd. Chairman Compesation Committee Member, China Airlines Co., Ltd.			
	Samoa	Representative : HOTRAN RESOURCE DEVELOPMENT LTD.	-				866,500	2.13	909,825	2.13	0	0	0	0	-	Director, HuaSheng Asset Management Consultant Co., Ltd.	-	-	-
Director	R.O.C	Jyh-Ming Lin	Male	June 21, 2018	3	March 14, 2005	513,578	1.26	539,493	1.26	121,668	0.29	0	0	VP of Sales, Faraday Technology Corp. Business Manager, UMC MSEE, Portland State University, Oregon, USA.	The Company's President. Chairman, Everest Peaks Technology Corporation. Chairman, Andes Technology（Samoa）Corporation. Chairman, Andes Technology (Wuhan) Corporation. Chairman, Andes Technology USA Corporation. Chairman, Andes Technology (Shanghai) Corporation.	-	-	-

Title	Nationality or Registry	Name	Gender	Date Elected (Note1)	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Current Positions at the Company and Other Companies	Spouse or relative within two degrees of consanguinity serving as a manager or director		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	R.O.C	Hong-Men Su	Male	June 21, 2018	3	June 30, 2015	319,792	0.79	335,781	0.79	22,341	0.05	0	0	Chief Architect, Faraday Technology Corp. Sr. Staff, Sun Microsystems. Sr. Staff, Afara Websystems. C-Cube Micro Director, Silicon Graphics. Sr. Engr, Intergraph Corp. Ph.D, University of Illinois.	The Company's CTO / VP of Execute. Director, Andes Technology (Wuhan) Corporation. Director, Andes Technology USA Corporation Director/President, Andes Technology (Shanghai) Corporation.	-	-	-
Independent Director	R.O.C	Chien-Kuo Yang	Male	June 21, 2018	3	June 30, 2015	0	0	0	0	0	0	0	0	Partner, Ernst & Young Accounting firm. Bachelor's Degree, Tamkang University Department of International Trade.	Chairman/Partner, Diwan & Company Accounting Firm. Chairman, Diwan Management Advisory Services Co., Ltd. Independent Director, Leadtrend Technology Co., Ltd.	-	-	-
Independent Director	R.O.C	Hsiao-Ping Lin	Male	June 21, 2018	3	June 30, 2015	0	0	0	0	0	0	0	0	President, Faraday Technology Corp. VP of RD, Faraday Technology Corp. ASIC Design Manager, UMC Senior Software Engineer, Cadence Design Systems Inc. Software Development Engineer, Cadence Design Systems, Inc. Executive Officer, NTU Department of Information Engineering. Bachelor's Degree, National Taiwan University Department of Electrical Engineering.	Chairman/ President, M31 Technology Co., Ltd. Chairman, VisualGoal Technology Co., Ltd. Chairman, M31 TECHNOLOGY USA, INC. Chairman, Sirius Venture Ltd. Chairman, M31 SIP (Shanghai) Information Technology Co., Ltd.	-	-	-
Supervisor	R.O.C	Ding-Hua Hu	Male	June 21, 2018	3	February 22, 2006	0	0	0	0	0	0	0	0	Professor/Chairman, National Chiao Tung University Department of Electronics Engineering. President, Hanroc Co., Ltd. President, Taiwan Venture Capital Association. Vice President, Industrial Technology Research Institute. Graduate Chair, Industrial Technology Research Institute.	Chairman/President, JianHsu Investment Co., Ltd. Chairman, HungMing Consultant Co., Ltd. Chairman, JianQuan Investment Co., Ltd. Legal representative person, Personal Genomics, Inc. Legal representative person, ZOWIE Technology Co., Ltd. Legal representative person, Ardentec Corp.	-	-	-

Title	Nationality or Registry	Name	Gender	Date Elected (Note1)	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Current Positions at the Company and Other Companies	Spouse or relative within two degrees of consanguinity serving as a manager or director		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
															Executive Director, Bank of Communications. Ph.D. of electrical engineering, University of Missouri.				
Supervisor	R.O.C	Representative: Chien-Hsu Investment Corp.	-	June 21, 2018	3	June 30, 2015	260,358	0.64	273,375	0.64	0	0	0	0	-	Director, ZOWIE Technology Co., Ltd. Director, Macronix International Co., Ltd.	-	-	-
Supervisor	R.O.C	Chung-Laung Liu	Male	June 21, 2018	3	February 22, 2006	0	0	0	0	0	0	0	0	Ph.D., E.E, Massachusetts Institute of Technology, United States	Chairman, Trendforce Co., Ltd. Independent Director, Powerchip Technology Co., Ltd. Independent Director, Far Eastone Telecommunications Co., Ltd. Independent, Microelectronics Technology, Inc. Independent Director, Accton Technology Co., Ltd. Director, Macronix International Co., Ltd. Legal representative person, UBI Pharma Inc.	-	-	-
Supervisor	R.O.C	Ying-Chih Wu	Male	June 21, 2018	3	June 21, 2018	0	0	0	0	0	0	0	0	BS in Physics, Department of Education, Provincial College of Education	Legal representative person, Harvatek Co., Ltd. Inventec Besta Co., Ltd. Process Engineer, Vishay General Semiconductor Taiwan Co., Ltd. Manager of Manufacturing Division, Texas Instruments Taiwan Co., Ltd. VP/Director of 8C Factory, UMC.	-	-	-

Note 1: The Directors and Supervisors of 6th board were elected at June 21, 2018. The tenure of Directors and Supervisors started at the end of the election from June 21st, 2018 to June 20th, 2021.

2.1.1. List of Major Shareholders of Andes' Major Institutional Shareholders

Table 1: Major Shareholders of the Institutional Shareholders

As of April 30, 2019

Institutional Shareholders	Major Shareholders of the Institutional Shareholders	Percentage of Shares Held by Institutional Shareholders
MediaTek Capital Corp.	Hsu-Ta Investment Corp	100%
National Development Fund, Executive Yuan	Government agencies	NA
Chien-Hsu Investment Corp.	JING-YUN LI	46.08%
	DING-HUA HU	26.67%
	Jian-Cyuan Investment Corp.	16.56%
	JHIH-DUO LI	4.04%
	JBAO-YUE JHANG	1.94%
	JHIH-DE YE	1.83%
	GUANG-HUEI JHU	1.76%
	SIOU-JHU LIN	0.60%
	MEI-JHIH CHEN	0.52%
HOTRAN RESOURCE DEVELOPMENT LTD.	Chun-Huei Ho	100%

Table 2: List of Institutional Shareholders of Andes' Major Institutional Shareholders

As of April 30, 2019

Institutional Shareholders	Major Shareholders of the Institutional Shareholders	Percentage of Shares Held by Institutional Shareholders
Hsu-Ta Investment Corp	MediaTek Inc.	100%
Jian-Cyuan Investment Corp.	DING-HUA HU	26.18%
	JING-YUN LI	21.48%
	LIN-FANG LI HU	9.77%
	ZONG-CAN SU	5.98%
	BANG JHIH ENTERPRISE CO.,LTD.	5.67%
	SIOU-ZIH CHEN	4.71%
	CONG-SIN CHEN	4.71%
	CHIU-HUA TSAI	4.12%
	JHIH-HUA LI	2.85%
	CHIH-HUO TSAI	2.67%

2.1.2. Professional qualifications and independence analysis of directors

As of April 30, 2019

Criteria / Name (Note2)	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note1)										Number of other public companies concurrently serving as an independent director
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10	
MediaTek Capital Corp .(Representative: Ming-Kai Tsai)			✓			✓	✓			✓	✓	✓		0
National Development Fund (Representative: Hahn-Ming Lee)			✓	✓	✓	✓	✓		✓	✓	✓	✓		0
HOTRAN RESOURCE DEVELOPMENT LTD. (Representative: Chun-Huei Ho)			✓	✓	✓		✓	✓	✓	✓	✓	✓		0
Jyh-Ming Lin			✓				✓	✓	✓	✓	✓	✓	✓	0
Hong-Men Su			✓			✓	✓	✓	✓	✓	✓	✓	✓	0
Chien-Kuo Yang		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Hsiao-Ping Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chien-Hsu Investment Corp. (Representative: Ding-Hua Hu)			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Chung-Laung Liu	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	4
Ying-Chih Wu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

Note1: Directors or Supervisors with a "√" sign meets the following criteria:

(1). Not an employee of the Company or any of its affiliates.

(2). Not a director or supervisor of the Company's affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds in accordance of Taiwan government or local government laws.

(3). Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.

(4). Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.

(5). Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.

(6). Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.

(7). Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the Remuneration Committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx".

(8). Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.

(9). Not been a person of any conditions defined in Article 30 of the Company Law.

(10). Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Note2: Directors or Supervisors of the 7th Board was elected at June 21, 2018. Term of the 7th Board is form June 21, 2018 till June 20, 2021.

2.2. Profiles of Key Managers

As of April 30, 2019/Unit: Shares; %

Title	Nationality	Name	Gender	Date Effective (Note1)	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Past Positions	Current Positions at Other Companies	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	R.O.C	Jyh-Ming Lin	Male	April 27, 2006	539,493	1.26	121,668	0.29	0	0	VP of Sales, Faraday Technology Corp. Business Manager, UMC MSEE, Portland State University, Oregon, USA	Chairman, Everest Peaks Technology Corporation Chairman, Andes Technology Samoa Corporation Chairman, Andes Technology Wuhan Corporation Chairman, Andes Technology USA Corporation Chairman, Andes Technology Shanghai Corporation	-	-	-
CTO & Executive Vice President	R.O.C	Hong-Men Su	Male	January 25, 2019	335,781	0.79	22,341	0.05	0	0	The Company's CTO & Senior VP of Sales. The Company's CTO & Vice President. The Company's VP of RD and Technical planning. Chief Architect, Faraday Technology Corp. Sun Microsystems Sr. Staff Afara Websystems Sr. Staff C-Cube Micro Director Silicon Graphics Intergraph Corp. Sr. Engr. Ph.D., University of Illinois.	Director, Andes Technology Wuhan Corporation Director, Andes Technology USA Corporation Director & President, Andes Technology Shanghai Corporation	-	-	-
VP of IP Business Unit	ROC	Kuo-Chi Lin	Male	January 25, 2019	97,811	0.23	0	0	0	0	The Company's VP of IP Business Unit. The Company's AVP of Sales, Manager of Sales, Deputy Manager of Sales & Senior Manager of Sales. Deputy minister of Sales, Faraday Technology Corp. Manager of R&D department, UMC. Master's degrees, NTU Department of Electrical Engineering. Bachelor's Degree, National Chiao Tung University Department of Physics	Director, Andes Technology Wuhan Corporation Director, Andes Technology Shanghai Corporation	-	-	-
VP of Custom Computing Business Unit & RD-VLSI I Division	R.O.C	Jen-Chih Tseng	Male	January 25, 2019	177,500	0.42	0	0	0	0	The Company's VP of Technology The Company's AVP of R&D Division The Company's Senior Manager of RD-VLSI Division, Manager of RD-VLSI Division, Deputy Manager of RD-VLSI Division.	-	-	-	-

Title	Nationality	Name	Gender	Date Effective (Note1)	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Past Positions	Current Positions at Other Companies	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
											Sun Microsystems, Inc. Master's Degree, University of Wisconsin-Madison Electrical Engineering				
VP of R&D Division	R.O.C	Yung-Ching Hsiao	Male	March 20, 2018	116,550	0.27	0	0	0	0	The Company's AVP of RD-VLSI Division. The Company's Senior Manager of RD-VLSI Division, Manager of RD-VLSI Division, Deputy Manager of RD-VLSI Division. Sun Microsystems, Inc. Master's Degree, University of Wisconsin-Madison Electrical Engineering.	-	-	-	-
AVP of Finance Division & ADM Service Division Director	R.O.C	Han-Chang Chou	Female	May 5,2017	151,685	0.36	0	0	0	0	The Company's Senior Manager of Finance and ADM Service Division, Manager of Finance and ADM Service Division, Deputy Manager of Finance and ADM Service Division. Manager of Finance Division, Gemstone Communications, Inc. Auditor, PwC Accounting Firm. Bachelor's Degree, Fu Jen Catholic University Department of Accounting	Supervisor, Andes Technology Shanghai Corporation	-	-	-

Note 1: It is the date of as the position of the Company.

3. Remuneration for Directors, Supervisors, President and Vice Presidents

3.1. Directors' Remuneration

Unit: NT$ thousands

Title	Name	Director's remuneration								(A+B+C+D) as % of Net Income		Remuneration from concurrent position as employee								(A+B+C+D+E+F+G) as % of Net Income		Remuneration received from re-investment business other than subsidiaries
		Salary (A)		Pension (B)		Remunerations (C)		Allowances (D)				Salary, Bonus, etc. (E)		Pension (F)		Employee Compensation (G)						
		The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company		Consolidated Entities		The Company	Consolidated Entities	
																Cash	Stock	Cash	Stock			
Chairman	MediaTek Capital Corp. (Representative: Ming-Kai Tsai)	235	235	0	0	264	264	60	60	1.34	1.34	9,073	9,073	0	0	65	0	65	0	23.33	23.33	None
Director	National Development Fund (Representative: Hahn-Ming Lee)																					
Director	Chi-Hon Investment Corp. (Representative: Jung-Hsing Lai)																					
Director	HOTRAN RESOURCE DEVELOPMENT LTD. (Representative: Chun-Huei Ho)																					
Director	Jyh-Ming Lin																					
Director	Hong-Men Su																					
Independent Director	Chien-Kuo Yang																					
Independent Director	Hsiao-Ping Lin																					

Other than disclosure in the above table, Directors remunerations earned by providing services (e.g. providing consulting services as a non-employee) to Andes and all consolidated entities in the 2018 financial statements: None

Note1: Chi-Hon Investment Corp (Representative: Jung-Hsing Lai).The term of 5th board as director was expired.The remuneration was calculated as Jan. 1, 2018 to Jun. 20, 2018.

Note2: Hotran Resource Development Ltd. (Representative: Chun-Huei Ho) was elected as director of the 6th Board at June 21, 2018. The remuneration was calculated as Jun. 21, 2018 to Dec. 31, 2018.

Remuneration Range

Remuneration Range	Name of Directors			
	Total remuneration (A+B+C+D)		Total remuneration (A+B+C+D+E+F+G)	
	Andes	Consolidated Entities	Andes	Consolidated Entities
Less than $2,000,000	MediaTek Capital Corp. (Representative: Ming-Kai Tsai);National Development Fund (Representative: Hahn-Ming Lee);Chi-Hon Investment Corp. (Representative: Jung-Hsing Lai); HOTRAN RESOURCE DEVELOPMENT LTD.(Representative: Chun-Huei Ho);Jyh-Ming Lin ;Hong-Men Su; Chien-Kuo Yang; Hsiao-Ping Lin	MediaTek Capital Corp. (Representative: Ming-Kai Tsai);National Development Fund (Representative: Hahn-Ming Lee);Chi-Hon Investment Corp. (Representative: Jung-Hsing Lai); HOTRAN RESOURCE DEVELOPMENT LTD.(Representative: Chun-Huei Ho);Jyh-Ming Lin ;Hong-Men Su; Chien-Kuo Yang; Hsiao-Ping Lin	MediaTek Capital Corp. (Representative: Ming-Kai Tsai);National Development Fund (Representative: Hahn-Ming Lee);Chi-Hon Investment Corp. (Representative: Jung-Hsing Lai); HOTRAN RESOURCE DEVELOPMENT LTD.(Representative: Chun-Huei Ho); Chien-Kuo Yang; Hsiao-Ping Lin	MediaTek Capital Corp. (Representative: Ming-Kai Tsai);National Development Fund (Representative: Hahn-Ming Lee);Chi-Hon Investment Corp. (Representative: Jung-Hsing Lai); HOTRAN RESOURCE DEVELOPMENT LTD.(Representative: Chun-Huei Ho);Chien-Kuo Yang; Hsiao-Ping Lin
$2,000,000 (incl.) - $5,000,000(excl.)			Jyh-Ming Lin ;Hong-Men Su;	Jyh-Ming Lin ;Hong-Men Su;
$5,000,000 (incl.) - $10,000,000(excl.)				
$10,000,000 (incl.) - $15,000,000(excl.)				
$15,000,000 (incl.) - $30,000,000(excl.)				
$30,000,000 (incl.) - $50,000,000(excl.)				
$50,000,000 (incl.) - $100,000,000(excl.)				
$100,000,000 and above				
Total	8	8	8	8

3.2.Supervisors' Remuneration

Unit: NT$ thousands

Title	Name	Supervisor's Remuneration						(A+B+C) as % of Net Income		Remuneration received from re-investment business other than subsidiaries
		Salary (A)		Pension (B)		Allowances (C)				
		Andes	Consolidated Entities	Andes	Consolidated Entities	Andes	Consolidated Entities	Andes	Consolidated Entities	
Supervisor	Chien-Hsu Investment Corp. (Representative: Ding-Hua Hu)	25	25	33	33	8	8	0.16	0.16	None
Supervisor	Chung-Laung Liu	25	25	33	33	2	2	0.14	0.14	None
Supervisor	HOTRAN RESOURCE DEVELOPMENT LTD. (Representative: Chun-Huei Ho) (Note1)	0	0	0	0	4	4	0.01	0.01	None
Supervisor	Ying-Chih Wu(Note2)	25	25	33	33	2	2	0.14	0.14	None

Note1: Hotran Resource Development Ltd. (Representative: Chun-Huei Ho).The term of 5th board as Supervisor was expired. The remuneration was calculated as Jan. 1, 2018 to Jun. 20, 2018.
Note2: Ying-Chih Wu was elected as Supervisor of the 6th Board at June 21, 2018. The remuneration was calculated as Jun. 21, 2018 to Dec. 31, 2018.

3.3.President's and Vice Presidents' Remuneration

Unit: NT$ thousands

Title	Name	Salary (A)		Pension (B)		Bonuses and special expenses (C)		Employee Compensation (D)				(A+B+C+D) as % of Net Income		Remuneration received from re-investment business other than subsidiaries
		Andes	Consolidated Entities	Andes	Consolidated Entities	Andes	Consolidated Entities	Andes		Consolidated Entities		Andes	Consolidated Entities	
								Cash	Stock	Cash	Stock			
President	Jyh-Ming Lin	12,502	12,502	0	0	6,791	6,791	131	0	131	0	46.73	46.73	None
CTO & Executive Vice President	Hong-Men Su													
Vice President	Kuo-Chi Lin													
Vice President	Jen-Chih Tseng													
Vice President	Yung-Ching Hsiao													

Remuneration Range

Remuneration Range	Name of Presidents and Vice Presidents	
	Andes	Consolidated Entities
Less than $2,000,000		
$2,000,000 (incl.) - $5,000,000 (excl.)	Jyh-Ming Lin; Hong-Men Su; Kuo-Chi Lin; Jen-Chih Tseng; Yung-Ching Hsiao	Jyh-Ming Lin; Hong-Men Su; Kuo-Chi Lin; Jen-Chih Tseng; Yung-Ching Hsiao
$5,000,000 (incl.) - $10,000,000 (excl.)		
$10,000,000 (incl.) - $15,000,000 (excl.)		
$15,000,000 (incl.) - $30,000,000 (excl.)		
$30,000,000 (incl.) - $50,000,000 (excl.)		
$50,000,000 (incl.) - $100,000,000 (excl.)		
$100,000,000 and above		
Total	5	5

3.4. Employee Compensation Paid to Key Managers:

Unit: NT$ thousands

Title	Name	Cash (Note 1)	stock	Total	Percentage of net income after tax
President	Jyh-Ming Lin	146	0	146	0.35
CTO & Executive Vice President	Hong-Men Su				
Vice President	Kuo-Chi Lin				
Vice President	Jen-Chih Tseng				
Vice President	Yung-Ching Hsiao				
Assistant Vice President	Han-Chang Chou				

Note 1: The employee compensation has been approved by the Board of Directors and Remuneration committee.

3.5. Comparative analysis of percentage of remuneration for Directors, Supervisors, President and Vice Presidents versus parent company only net profit after tax over the last two years, and explanation of remuneration strategies, standards, decision processes and relationship between strategy and performance.

3.5.1. Percentage of total remuneration paid to Directors, Supervisor, President and Vice President compared to company net income after tax in 2018 and 2017.

Year / Item	Percentage of total remuneration compared to company net income after tax			
	2017 (%)		2018 (%)	
	Andes	Consolidated Entities	The Company	Consolidated Entities
Director	0.50	0.50	1.34	1.34
Supervisor	0.08	0.08	0.45	0.45
President and Vice President	54.89	54.89	46.73	46.73

4. Corporate Governance

4.1. Board of Directors Governance

4.1.1. The 5th Board of Directors held meeting 2 times (A) in 2018. Attendance status of Directors is as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) 【B / A】	Remarks
Chairman	MediaTek Capital Corp. (Representative: Ming-Kai Tsai)	2	0	100	None
Director	National Development Fund (Representative: Hahn-Ming Lee)	1	1	50	
Director	Chi-Hon Investment Corp. (Representative: Jung-Hsing Lai)	1	0	50	
Director	Jyh-Ming Lin	2	0	100	
Director	Hong-Men Su	2	0	100	
Independent Director	Chien-Kuo Yang	2	0	100	（Note2）
Independent Director	Hsiao-Ping Lin	2	0	100	

4.1.2. The 6th Board of Directors (note1) held meeting 5 times (A) in 2018. Attendance status of Directors is as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) 【B / A】	Remarks
Chairman	MediaTek Capital Corp. (Representative: Ming-Kai Tsai)	5	0	100	Renewal
Director	National Development Fund (Representative: Hahn-Ming Lee)	3	0	60	Renewal
Director	HOTRAN RESOURCE DEVELOPMENT LTD.(Representative: Chun-Huei Ho)	3	2	60	New
Director	Jyh-Ming Lin	5	0	100	Renewal
Director	Hong-Men Su	5	0	100	Renewal
Independent Director	Chien-Kuo Yang	5	0	100	Renewal（Note 2）
Independent Director	Chien-Kuo Yang	5	0	100	Renewal（Note 2）

Note1： The term of 6th board is from June 21, 2018 to June 20, 2020.

Note2： Attendance status of Independent Directors is as follows:

Meeting / Name	5th board		6th board				
	13th	14th	1st	2nd	3rd	4th	5th
Chien-Kuo Yang	Attend in Person	Attend in Person	Attend in Person	Attend in Person	Attend in Person	Attend in Person	Attend in Person
Chien-Kuo Yang	Attend in Person	Attend in Person	Attend in Person	Attend in Person	Attend in Person	Attend in Person	Attend in Person

4.1.3. Other Required Notes for the Board Meetings:

(1) Items listed in Article 14-3 in Securities and Exchange Act or Board resolutions independent directors have dissenting opinions or qualified opinions with notes in minutes of the directors meetings:

A: Items listed in Article 14-3

Date	Meeting	Resolution	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
March 20, 2018	The 13th meeting of the 5th Board	1. Amendment to the Company's " Internal Control Policy" 2. Amendment to the Company's "Operational procedures for Acquisition and Disposal of Assets" 3. Amendment to the Company's "Operational Procedures for Endorsements and Guarantees" 4. Amendment to the Company's "Operational Procedures for Loaning of Company Funds" 5. Matter of the Company's 2018 CPA compensation	None
March 15, 2019	The 4th meeting of the 6th Board	1. Amendment to the Company's "Operational procedures for Acquisition and Disposal of Assets" 2. Matter of the Company's 2019 CPA compensation	None
May 2, 2019	The 5th meeting of the 6th Board	1. Amendment to the Company's "Operational Procedures for Endorsements and Guarantees" 2. Amendment to the Company's "Operational Procedures for Loaning of Company Funds"	None

B. Written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion: None.

(2) Recusals of Directors due to conflicts of interests in 2018 are as follows:

Meeting	Name	Agenda	Reason of recusals	Vote
The 3th meeting of the 6th Board	Jyh-Ming Lin	1. Matter of the Company's 2018 managers compensation 2. Matter of the Company's 2019 managers compensation	The director has an interest in the matter	Did not participated
	Hong-Men Su			
The 4th meeting of the 6th Board	Jyh-Ming Lin	1. Amendment of the Company's 2019 managers compensation	The director has an interest in the matter	Did not participated
	Hong-Men Su			

(3) Measures taken to strengthen the functionality of the Board:

A. The Company has approved "Rules Governing the Scope of Powers of Independent Directors"

B. As an effort to enhance the board of directors, the Company has elected the independent directors and has established the Remuneration Committee.

C. The Company has insured liability insurance for board members.

D. The convening of the board, the discussion of the motion, the issuance and preservation of the proceedings are handled in accordance with the rules of board procedure.

E. The number of training hours for directors and supervisors has been registered at MOPS.

F. The board nomination system has implemented in the Company's articles of association.

4.2. Audit Committee Status or Supervisors' Meeting Status

4.2.1. Audit Committee Status: Not applicable.

4.2.2. Supervisors' Meeting Status

a. The 5th Board of Directors held meeting 2 times (A) for the preceding year (2018). Attendance status of Supervisors is as follows:

Tithe	Name	Attendance in Person (B)	Attendance Rate (%) 【B / A】	Remarks
Supervisor	JianHsu Investment Co., Ltd. Rep: Ding-Hua Hu	2	100	-
Supervisor	Chung-Laung Liu	0	0	
Supervisor	HOTRAN RESOURCE DEVELOPMENT LTD. Rep: Chun-Huei Ho	2	100	

b. The 6th Board of Directors held meeting 5 times (A) for the preceding year (2018) to the date of the annual report printed. Attendance status of Supervisors is as follows:

Title	Name	Attendance in Person (B)	Attendance Rate (%) 【B / A】	Remarks
Supervisor	JianHsu Investment Co., Ltd. Rep: Ding-Hua Hu	4	80	Renewal
Supervisor	Chung-Laung Liu	2	40	New
Supervisor	Ying-Chih Wu	3	60	Renewal

Note1: The term of 6th board is from June 21, 2018 to June 20, 2020.

4.2.3. Other disclosures:

(1) The composition and duties of the supervisor

A. The communications between the supervisors, the employee, and the shareholders:
The supervisor can understand important business and financial reports in the board meeting.

B. The communications between the supervisors, the internal auditors, and the CPA:
(a) The internal auditors send the audit report and report findings in the board meeting every month.
(b) The supervisor can discuss with the CPA in the board meeting.

(2) If supervisor has statement in the board meeting, the Company should narrate the date of the board, term of board, contents of the motion, the resolution of the board and the treatment of the supervisor's opinion: None.

4.3. Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
1. Does the Company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/ Listed Companies"?	V		The Company has formulated 【Corporate Governance Best Practice Principles】with reference to "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies"	None
2. Equity structure and shareholders' equity				
(1). Does the Company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure?	V		The Company established【Procedures for Handling Material Inside Information】and the spokesperson system to handle shareholders' suggestions or disputes.	None
(2). Does the Company possess the list of its major shareholders as well as the ultimate owners of those shares?	V		The Company tracks the list of the major shareholders and the ultimate owners of those shares.	None
(3). Does the Company establish and execute the risk management and firewall system within its conglomerate structure?	V		The Company has defined【Rules Governing Financial and Business Matters Between this Corporation and its Affiliated Enterprises】 and 【Procedures Governing the Monitoring of Subsidiaries】to establish a risk management mechanism at its subsidiaries.	None
(4). Does the Company establish internal rules against insiders trading with undisclosed information?	V		Besides established【Procedures for Handling Material Inside Information】, the Company require insiders shall declare the holding of shares.	None
3. Composition and Responsibilities of the Board of Directors				
(1). Does the Board develop and implement a diversified policy for the composition of its members?	V		The Company's board members are professional enough to provide advising.	None
(2). Does the Company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	V		Besides Remuneration Committee, the Company will establish other committee under the necessity.	None
(3). Does the Company establish a standard to measure the performance of the Board, and implement it annually?	V		The 6th Board approved "Rule of Board Performance Evaluation" and evaluation will process every year before the end of the first season of next year. From 2019 all board directors annually assess the functioning of the Board. And report the result at the annual report.	None
(4). Does the Company regularly evaluate the independence of CPAs?	V		The Company evaluates the independence and suitability of its CPA annually. The Company also evaluates the statement of independence issued by the accounting firm, audit and non-audit quality, communication and rotation of CPA. The results of the most recent evaluations in the last two years were reported to the 13th meeting of the 5th Board and the 4th meeting of the 6th	None

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
			Board.	
4. Does the Company established an exclusively (or concurrently) corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnish information required for business execution by directors, handle matters relating to board meetings and shareholders' meetings according to laws, handle corporate registration and amendment registration, produce (or record?) minutes of board meetings and shareholders meetings, etc.	V		The Company's board of directors resolved to appoint Finance Assistant Vice President Han-Chang Chou as the supervisor for corporate governance. The Corporate Governance affairs of Han-Chang Chou as the following and for over 3years: Conducted matters relating to board meetings and shareholder meetings. Assisted in the matters of director appointment and professional enhancement. Handle matters relating to company registration and change of company registration. Arrange separate meetings between independent directors and CPA.	None
5. Does the Company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.), as well as handle all the issues they care for in terms of corporate social responsibilities?	V		The Company established a stakeholder section to timely respond issues which stakeholders care about. Supplementary is listed below:	None

Stakeholders	Material Issue	Communication Channels and Response Mechanism
Shareholder Investor Other	1. Operating performance 2. Stock price 3. Product development 4. Prospect	Communication Channels: Spokesperson and acting spokesperson Response Mechanism: 1. Institutional investors' conference 2. Material information 3. Annual shareholders' meeting
Employee	1. Labor relations 2. Operating performance 3. Welfare policy	Communication Channels: HR division Response Mechanism: 1. Labor conference every quarter 2. Welfare Committee 3. Response of president
Customer	1. Product development 2. Product application	Communication Channels: Division of sales, marketing and technical service. Response Mechanism: 1. Customer satisfaction survey 2. Symposium on technology 3. The Company's E-service 4. Meeting with customers management
Supplier	1. Corporate image 2. Compliance	Communication Channels: Purchasing division Response Mechanism: 1. Annually audit 2. Field visit

6. Does the Company appoint a professional shareholder service agency to deal with shareholder affairs?	V		The Company entrusted the stock agency of Horizon Securities Co., Ltd. to handle the affairs of the shareholders' meeting.	None

Assessment Item	Implementation Status			Reason for Non-Implementation
	Yes	No	Summary Description	
7. Information Disclosure (1). Does the Company have a corporate website to disclose both financial standings and the status of corporate governance?	V		The Company has disclosed information of financial and corporate governance on the website.	None
(2). Does the Company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	V		The Company has established a spokesperson policy that properly handles shareholder recommendations and company information. The Company provides investor conferences webcasts and presentation materials on its website in a timely manner.	None
8. Is there any other important information to facilitate a better understanding of the Company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		1. Employee rights and employee caring: The Company has established the Welfare Committee. 2. Investor relations: The Company established the spokesperson system to handle shareholders' suggestions or disputes. 3. The right of stakeholders: The Company's website has information for contact. 4. Status of continuing education for directors and supervisors. Directors and supervisors training records are listed below: 5. Implementation of risk management policies and risk measurement: In addition to the internal control and related regulations and standardized operating procedures, the major business, finance or investment shall approved by the board, and the risk has been minimized or acceptable. 6. Implementation of customers policy: Costumer can make a request through E-Service system, and the engineers will reply immediately. 7. The Company maintains D&O insurance for its Directors and key officers. The period is from January 19, 2018 to January 19, 2019.	None

Assessment Item	Implementation Status			Reason for Non-Implementation
	Yes	No	Summary Description	

8. Status of training for directors and supervisors.

Title	Name	Date	Course Title	Training hours
Chairman	Ming-Kai Tsai	May 4, 2018	Income Tax Act and Statute for Industrial Innovation	3
		Nov 5, 2018	Analysis of Company Act Amendment	3
Director	Hahn-Ming Lee	May 4, 2018	Income Tax Act and Statute for Industrial Innovation	3
		Dec 21, 2018	Business Secrets and Non-Compete Clause	3
Director	Chun-Huei Ho	May 4, 2018	Income Tax Act and Statute for Industrial Innovation	3
		May 10, 2018	Tax Issue of Corporate Mergers and Acquisitions	3
		Nov 5, 2018	Analysis of Company Act Amendment	3
Director	Jyh-Ming Lin	May 4, 2018	Income Tax Act and Statute for Industrial Innovation	3
		Nov 5, 2018	Analysis of Company Act Amendment	3
Director	Hong-Men Su	May 4, 2018	Income Tax Act and Statute for Industrial Innovation	3
		Nov 5, 2018	Analysis of Company Act Amendment	3
Independent director	Chien-Kuo Yang	Nov 5, 2018	Analysis of Company Act Amendment	3
		Dec 27, 2018	Latest Tax Reform Analysis	3
Independent director	Hsiao-Ping Lin	May 4, 2018	Income Tax Act and Statute for Industrial Innovation	3
		Nov 5, 2018	Analysis of Company Act Amendment	3
Supervisor	Ding-Hua Hu	May 4, 2018	Income Tax Act and Statute for Industrial Innovation	3
		Nov 5, 2018	Analysis of Company Act Amendment	3
Supervisor	Chung-Laung Liu	Mar 7, 2018	Board Effectiveness Evaluation	3
		Aug 1, 2018	D&O insurance for Directors and key officers	3
Supervisor	Ying-Chih Wu	Mar 27, 2018	The Impact and Response of GDPR	1.5
		May 14, 2018	New Version of Corporate Governance Blueprint	1.5
		Aug 13, 2018	Material Issue of Company Act Amendment.	1.5
		Oct 19, 2018	Management and protection of business secrets	1.5

9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange:
The Company participated in the 5th corporate governance evaluation in 2018, Not received TWSE's confirmation for improvement.

4.4. Operation of the Company's Remuneration Committee

4.4.1. The 1st Remuneration Committee's members

Title (Note1)	Criteria / Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note 2)								Number of other public companies concurrently serving as an independent director	Remarks
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Chien-Kuo Yang		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	None
Independent Director	Hsiao-Ping Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	None
Other	Ying-Chih Wu			✓	✓	✓	✓	✓	✓	✓	✓	✓	1	None

4.4.2. The 2nd Remuneration Committee's members

Title (Note 1)	Criteria / Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note 2)								Number of other public companies concurrently serving as an independent director	Remarks
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Chien-Kuo Yang		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	None
Independent Director	Hsiao-Ping Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	None
Other	Chih-Chan Wei			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	None

Note1: Fill in directors, independent directors or others separately.

Note2: Directors or Supervisors with a "✓" sign meet the following criteria:

(1). Not an employee of the Company or any of its affiliates.

(2). Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.

(3). Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.

(4). Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the

persons in the preceding three subparagraphs.

(5). Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.

(6). Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.

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

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

4.4.3. Responsibilities of the Company's Remuneration Committee

4.4.4. Remuneration Committee Meeting Status

(1) The total members of the Company's Remuneration Committee are 3.

(2) The tenure of the Company's 1st remuneration committee is from June 30, 2015 to June 30, 2018.

The Compensation Committee held meeting 1 times (A) in 2018. Attendance statuses of Independent Directors are as follows:

Title	Name	Attend in Person (B)	Attendance by Proxy	Attendance Rate in Person (%) (B/A)	Remarks
Convener	Chien-Kuo Yang	1	0	100	None
Member	Hsiao-Ping Lin	1	0	100	
Member	Ying-Chih Wu	1	0	100	

(3) The tenure of the Company's 2nd remuneration committee is from August 7, 2018 to June 20, 2021.

The Compensation Committee held meeting 3 times (A) for the preceding year (2018) to the date of the annual report printed. Attendance statuses of Independent Directors are as follows:

Title	Name	Attend in Person (B)	Attendance by Proxy	Attendance Rate in Person (%) (B/A)	Remarks
Convener	Chien-Kuo Yang	3	0	100	Renewal
Member	Hsiao-Ping Lin	3	0	100	Renewal
Member	Chih-Chan Wei	3	0	100	New

4.4.5. Other Required Notes for Remuneration Committee:

In cases the Board doesn't adopt or revise Remuneration Committee's proposals, the Company shall list date/number of the Board meeting, agenda, the Board's resolution and the Company's response to Remuneration Committee's proposal: None.

In cases Remuneration Committee members have dissenting opinions or qualified opinions against their solution and recorded with notes in paper, the Company shall list date, number of the Remuneration Committee meeting, agenda, all members' opinion and the follow-up of the members' opinion:

Meeting	Resolutions	Any Board of Director Had a Dissenting Opinion or Qualified Opinion
The 8th meeting of the 1st Committee/March 20, 2018	Amendment " the Administration of Remuneration of Directors, Supervisors and Managers"	None.
The 1st meeting of the 2nd Committee/August 7, 2018	Elected the convener of the 2nd Committee.	None.
The 2nd meeting of the 2nd Committee/November 5, 2018	1. The remuneration of 6th directors and supervisors. 2. Key management's remuneration proposal for 2018. 3. Key management's remuneration proposal for 2019.	None.
The 3rd meeting of the 2nd Committee/March 15, 2019	1. The 2018 employees' compensation and remuneration to directors and supervisors. 2. Amendment of the key management's remuneration proposal for 2019.	None.

4.5. Status of Fulfilling Corporate Social Responsibility

Assessment Item	Implementation			Reason for Non-implementation
	Yes	No	Summary Description	
1. Implementation of corporate governance				
(1). Does the Company declare its corporate social responsibility policy and examine the results of the implementation?	V		To fulfill corporate social responsibility, the Company has established a Code of Practice for Corporate Social Responsibility as guidelines.	None
(2). Does the Company provide educational training on corporate social responsibility on a regular basis?	V		To fulfill corporate social responsibility, the Company has followed the Code of Practice for Corporate Social Responsibility, and promoted.	None
(3). Does the Company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?		V	The Company has not set up a corporate social responsibility full-time unit. Yet, to fulfill corporate social responsibility, the Company has established a Code of Practice for Corporate Social Responsibility as guidelines. Depending on the size of the Company, the Company will set up a special (part-time) unit.	As the Summary Description
(4). Does the Company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	V		Article 23, of the Articles of Association states that if the Company makes a profit for the year, it shall allocate no less than 2 percent of such profits. The Company‘s Remuneration Committee has formulated an overall, Company-wide remuneration policy. This remuneration policy includes monthly fixed salaries and annual bonuses. And the Company provides a certain percentage of profits as employee bonuses in accordance with Company performance. The Company also has approved “Principles of Ethical Corporate Management” and “Work Rules” that stipulate dishonest conduct and relevant punishments.	None

Assessment Item	Implementation			Reason for Non-implementation
	Yes	No	Summary Description	
2. Sustainable Environment Development (1). Does the Company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		1. The Company strives for perpetual operations and development. During the lunch break, turn off the lights for 1 hour to save energy and reduce carbon, and provide employees with environmentally-friendly tableware to reduce the use of disposable tableware.	None
(2). Does the Company establish proper environmental management systems based on the characteristics of their industries?	V		2. The Company is a professional CPU IP design company with no production process, so it has no significant impact on environmental impact. And also provides energy and resource saving technologies in product design to reduce the impact of global warming.	None
(3). Does the Company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?		V	3. The Company is a professional CPU IP design company, and climate change has less impact on operational activities. The Company has regular implementation of carbon dioxide testing. The Company is not manufacturing, so the greenhouse gas reduction strategy has not been clearly defined.	Explanatory memorandum

Assessment Item	Implementation			Reason for Non-implementation
	Yes	No	Summary Description	
3. Preserving Public Welfare (1). Does the Company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		The Company abides by the rules, policies, and procedures of the Labor Standards Act and international human rights agreements to protect the legitimate rights and interests of employees. The explanation is as follows: 1. Working conditions, labor rights: Any distinction regardless of race, color, sex, language, religion, political or other opinion, nationality or social origin, property, birth or other status. The company has not hired child worker. 2. Freedom of assembly and association: Employees can apply for associations to organize club activities; labor conferences can negotiate and communicate the rights of employers and employees. 3. Physical and mental safety, social Security: Annual health checkup, prohibit workplace bullying and harassment and nursing breaks. 4. Other measures: Religious freedoms, personal data protection, encourage creation and education training.	None
(2). Has the Company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	V		The company established a president mailbox that provides effective, appropriate channels for employees who encounter situations that may harm employee rights and interests.	None
(3). Does the Company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	V		The company has fire safety inspect annually, carbon dioxide testing twice a year, office fire insurance, public accident insurance, and has access control to enhance the safety of the working environment. Occupational safety and health education training and employee health checkups are held once a year to strengthen employees' awareness of safety and health.	None
(4). Does the Company setup a communication channel with employees on a regular basis, as well as reasonably inform	V		The company has established a mechanism for regular staff communication, such as holding	None

Assessment Item	Implementation			Reason for Non-implementation
	Yes	No	Summary Description	
employees of any significant changes in operations that may have an impact on them?			regular labor-management meetings, president mailbox, holding large-scale briefings, etc., for employees to propose channels for discussion and communication to maintain good labor relations and various rights and interests.	
(5). Does the Company provide its employees with career development and training sessions?	V		The company arranges professional training, English learning courses and specific professional skills training courses to increase work quality and performance.	None
(6). Does the Company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	V		The company has E-Service on the website, and the marketing and technical service division can solve problems for customers immediately.	None
(7). Does the Company advertise and label its goods and services according to relevant regulations and international standards?	V		When the company provides services to customers, the transaction process is completed according to the contract contents signed by both parties.	None
(8). Does the Company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships?	V		The company pays attention to the quality of the products. The suppliers' selection conditions emphasize the stable quality and the reputable manufacturers.	None
(9). Do the contracts between the Company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?		V	There is no violation of corporate social responsibility policy in the procurement contract between the company and the supplier. The suppliers that the company has traded over the years are all good companies, and no violations of major regulations. If the supplier is found that has major violations of corporate social responsibility, environmental and social issues, the company will take countermeasures.	Explanatory memorandum
4. Enhancing Information Disclosure (1). Does the Company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	V		The company has disclosed "Corporate Social Responsibility Best Practice Principles" on the website and MOPS.	None

5. If the Company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the Principles and their implementation:
The company has established "Corporate Social Responsibility Best Practice Principles" according to the

Assessment Item	Implementation			Reason for Non-implementation
	Yes	No	Summary Description	
"Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies". The company has also established a stakeholder area on the website to respond issues of concern to stakeholders; The company fully discloses relevant and reliable information for stakeholders, either. Except for the current CSR report, there is no significant difference in implementation.				
6. Other important information to facilitate better understanding of the Company's corporate social responsibility practices： The company holds the "Andes Certified Engineer Test (ACET™) Program" every year, which can screen out engineers who are skilled in using the Andes development system. In 2018, a total of 150 students participated in the ACET™ test. The company's accreditation plans and donations in order to help students understand practical, applied and future employment opportunities. For other information, please refer to the website: http://www.andestech.com				
7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: None.				

4.6. Ethical Corporate Management

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
1. Establishment of ethical corporate management policies and programs				
(1). Does the Company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	V		The Company has disclosed "Ethical Corporate Management Best Practice Principles" on the website.	None
(2). Does the Company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?	V		The Company has established regulations for the disposal of violations in the "Procedures for Handling Material Inside Information" and "Work Rules".	None
(3). Does the Company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?	V		The Company has established a "Codes of Ethical Conduct" to encourage the reporting of any illegal or ethical code of conduct through the company's report mailbox: er@andestech.com	None
2. Fulfill operations integrity policy				
(1). Does the Company evaluate business partners' ethical records and include ethics-related clauses in business contracts?	V		The company has established "Ethical Corporate Management Best Practice Principles".	None
(2). Does the Company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity?		V	The Company has not established an exclusively dedicated unit supervised yet. But work by each division on their own job scope to follow up.	Explanatory memorandum
(3). Does the Company establish policies to	V		The company promotes corporate	None

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
prevent conflicts of interest and provide appropriate communication channels, and implement it?			integrity management by various departments rather than established a specific division.	
(4). Has the Company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	V		The company has a president mailbox, and the company's website also has a ethics reporting mailbox to serve as a pipeline for stakeholders.	None
(5). Does the Company regularly hold internal and external educational trainings on operational integrity?	V		The company has established effective systems for both accounting and internal control, which are regularly audited by internal auditors. The "Prevention of Insider Trading and Corporate Governance" was propagated to director at the department level and above on May 8, 2019. In addition, explain the company's integrity management and ethical code of conduct for new employees.	None
3. Operation of the integrity channel				
(1). Does the Company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	V		The company has a president mailbox, and the company's website also has an ethics reporting mailbox to serve as a pipeline for stakeholders.	None
(2). Does the Company establish standard operating procedures for confidential reporting on investigating accusation cases?	V		Once the complaint is accepted, it must be immediately process; If the rights are damaged or there are other opinions, the appeal can be filed and the result will be overwritten by the complainant and will be treated with the highest level of confidentiality.	None
(3). Does the Company provide proper whistleblower protection?	V		Handling the above matters will give priority to protecting whistleblower.	None
4. Strengthen disclosure				
(1). Does the Company disclose its ethical corporate management policies and the results of its implementation on the Company's website and MOPS?	V		The Company has set up an "Ethical Corporate Management Policy" and disclosed on the MOPS and Company's website at http://www.andestech.com .	None

5. If the Company has established the ethical corporate management policies based on "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the policies and their implementation.

The Company has set up an "Ethical Corporate Management Policy" and the practices are in accordance with Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies.

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
6. Other important information to facilitate a better understanding of the Company's ethical corporate management policies (e.g., review and amend its policies): None.				

4.7. Corporate Governance Guidelines and Regulations
Please refer to the MOPS or Company's website at http://www.andestech.com

4.8. Other Important Corporate Governance Information: In addition to the Company's website, information is disclosed on the MOPS.

4.9. Status of the Internal Control System Implementation

4.9.1. Declaration of Internal Control

Andes Technology Corporation

Statement of Declaration of Internal Control

Date: March 15, 2019

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

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

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

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

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

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

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

vii. This statement of declaration has been approved by the Board on March 15, 2019 with all Directors in session under unanimous consent.

Andes Technology Corporation

Chairman: Ming-Kai Tsai

President: Jyh-Ming Lin

4.9.2. Disclose the Review Report of Independent Auditors if They are Retained for Reviewing the Internal Control System: None.

4.10. Reprimand on the Company and its Staff in Violation of Laws, or Reprimand on its Employees in Violation of Internal Control System and Other Internal Regulations, Major Shortcomings and Status of Correction: None.

4.11. Major Resolutions of Shareholders' Meeting and Board Meetings

4.11.1. Shareholders' Meeting

Meeting	Date	Major Resolutions	Implementation Status
2018 Annual General Meeting	June 21, 2018	Acknowledgement Items: (1) The 2017 business report and financial statements (2) Adoption of the Proposal for 2017 Deficit Compensation	Approved. Approved.
		Elections (1) The 6th Election of 7 Directors (including 2 Independent Directors) and 3 Supervisors	Application for amendment of registration was approved by the Hsinchu Science Park Administration on July 2, 2018 with an approval letter.
		Discussion Items: (1) To suspend the Non-Competition Restriction on the Company's 6th Newly Elected Directors (2) Proposal for a new share issue through capitalization of Additional paid-in capital (3) Amendment to the Company's "Operational procedures for (1) Acquisition and Disposal of Assets" (4) Amendment to the Company's "Operational Procedures for Endorsements and Guarantees" (5) Amendment to the Company's "Operational Procedures for Loaning of Company Funds"	The result of the resolution has been followed New share issue through capitalization of Additional paid-in capital was distributed on Sep. 28, 2018. Approved. Approved. Approved.

4.11.2. Board Meetings

Meeting	Date	Major Approvals
The 13th meeting of the 5th board	March 20, 2018	1. Approving 2017 business report and financial statements. 2. Adoption of the Proposal for 2017 Deficit Compensation 3. Proposal for a new share issue through capitalization of Additional paid-in capital 4. Approving the investment of Hefei Subsidiary 5. Approving the capital increase in subsidiary, Andes Technology USA Corporation. 6. Amendment to the Company's "Operational procedures for Acquisition and Disposal of Assets" 7. Amendment to the Company's "Operational Procedures for Endorsements and Guarantees" 8. Amendment to the Company's "Operational Procedures for Loaning of Company Funds" 9. Adoption of the proposal for election of the seven directors (including two independent directors) and three supervisors for the 6th term. 10. Adoption of the director (including independent directors) candidate nomination list for the 6th term.

Meeting	Date	Major Approvals
		11. Adoption of the director (including independent directors) and Supervisors candidate nomination time and place for the 6th term 12. Adoption of the removal of business strife limitation on the Company's 6th term newly elected directors (including independent directors. 13. Acceptance of the date, location and agenda for 2018 shareholders' meeting. 14. Approving Loan Commitments with Land Bank of Taiwan Co., Ltd. 15. Approving Loan Commitments with Mega International Commercial Bank Co., Ltd. 16. 2017 internal control statement 17. Amendment to the Company's" Internal control policy, internal audit implementation rules" 18. Amendment to the Company's" Compensation of the Directors, Supervisors and Managerial officers Administration Regulation" 19. Assess CPA's independence 20. CPA compensation
The 14th meeting of the 5th board	May 4, 2018	1. Review the candidate list for election of the seven directors (including two independent directors) and three supervisors for the 6th term. 2. Establishment of Hsinchu Branch 3. Amendment to the Company's " Rules Governing the Scope of Powers of Independent Directors" 4. Amendment to the Company's " Management of Operation of Board Meeting" 5. Amendment to the Company's " Implementation of authorization and deputy systems"
The 1st meeting of the 6th board	June 21, 2018	1. Election of chairman
The 2nd meeting of the 6th board	August 7, 2018	1. Approving the resolution for ex-rights day of capital surplus and date of capital increase. 2. Appointment of the 2nd salary compensation committee 3. Approving to the Company's " Corporate Governance Best Practice Principles" 4. Approving Relocation of the Company.
The 3rd meeting of the 6th board	November 5, 2018	1. Approving the investment of Shanghai Subsidiary 2. Approving Relocation of the Company. 3. Approving 2019 business plan. 4. Approving Loan Commitments with BANK SINOPAC CO.LTD. 5. Amendment to the Company's" Internal control policy, internal audit implementation rules" 6. Approving 2019 "Internal Audit Plan" 7. The remuneration of 6th directors and supervisors. 8. Key management's remuneration proposal for 2018. 9. Key management's remuneration proposal for 2019.
The 4th meeting of the 6th board	March 15, 2019	1. Matter of the distribution of 2018 employee compensation and remuneration of directors and supervisors 2. Approving 2018 business report and financial statements. 3. Approving the distribution of 2018 profits 4. Amendment to the Company's "Procedures for Acquisition or Disposal of Assets" 5. Amendment to the Company's "Articles of Incorporation" 6. Amendment to the Company's " Corporate Governance Best Practice Principles"

Meeting	Date	Major Approvals
		7. Acceptance of the date, location and agenda for 2019 shareholders' meeting 8. Approving 2019 business plan. 9. Approving Loan Commitments with Land Bank Of Taiwan Co., Ltd. 10. Approving Loan Commitments with Mega International Commercial Bank Co., Ltd. 21. 2018 internal control statement 11. Assess CPA's independence 12. CPA compensation 13. Amendment to the matter of 2019 managers' salary and compensation
The 5th meeting of the 6th board	May 2, 2019	1. Amendment to the Company's "Operational Procedures for Loaning of Company Funds" 2. Amendment to the Company's "Operational Procedures for Endorsements and Guarantees" 3. Amendment to the Company's" Rules and Procedures for Board of Directors Meetings" 4. Amendment to the Company's" regulations governing the board performance evaluation with reference" 5. Add case of Proposed Resolutions to the 2019 shareholders' meeting

4.12. Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors: None.

4.13. Resignation of Personnel Related to Financial Statement Preparation in 2018 to the Printing Date of this Report: None.

5. Information Regarding the Company's Independent Auditors

5.1. Auditor Information

Accounting Firm	Name of CPA	Period Covered by CPA's Audit	Remarks
Ernst & Young	Shou-Pin Kuo, Jia-Ling Tu	2018	-

5.2. Audit Fees

5.2.1. Information on Audit Fees

Unit: NT$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others	Subtotal		
Ernst & Young	Shou-Pin Kuo Jia-Ling Tu	2,390	0	155	0	0	155	2018	-

5.2.2. Non-audit fee paid to auditors, the audit firm and its affiliates accounted for more than one-fourth of total audit fee: None.

5.2.3. Replaced the audit firm and the audit fee paid to the new audit firm was less than the payment of previous year: Not applicable.

5.2.4. Audit fee reduced more than 15% year over year: None.

6. Changes in Independent Auditors: Not applicable.
7. The Company's Chairman, President or managers in charge of finance or accounting has been under current audit firm or its affiliates' employment in 2018: Not Applicable.

8. Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders with 10% Shareholding or More

8.1. Net Change in Shareholding by Directors, Supervisors, Management, Shareholders with 10% Shareholding or More

Unit: Shares

Title (Note1)	Name	2018		As of April 30, 2019	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman	MediaTek Capital Corp.	269,396	0	0	0
	Rep: Ming-Kai Tsai	0	0	0	0
Director	National Development Fund	297,916	0	(3,277,000)	0
	Rep: Hahn-Ming Lee	0	0	0	0
Director (Note 2)	Hotran Resource Development Ltd.	34,325	0	0	0
	Rep: Chun-Huei Ho	0	0	0	0
Director (Note 3)	Chi-Hon Investment Corp	(90,000)	0	Not Applicable	Not Applicable
	Rep: Jung-Hsing Lai	0	0	Not Applicable	Not Applicable
Director & President	Jyh-Ming Lin	25,915	0	0	0
Director, CTO & Executive Vice President	Hong-Men Su	10,989	0	0	0
Independent Director	Hsiao-Ping Lin	0	0	0	0
Independent Director	Chien-Kuo Yang	0	0	0	0
Supervisor	Jian-Hsu Investment Co., Ltd.	13,017	0	0	0
	Rep: Ding-Hua Hu	0	0	0	0
Supervisor	Chung-Laung Liu	0	0	0	0
Supervisor (Note 4)	Ying-Chih Wu	0	0	0	0
Supervisor (Note 2)	Hotran Resource Development Ltd.	34,325	0	0	0
	Rep: Chun-Huei Ho	0	0	0	0
Proportion of more than 10% of shareholders	MediaTek Capital Corp.	269,396	0	0	0
Vice President	Kuo-Chi Lin	(46,724)	0	64,000	0
Vice President	Jen-Chih Tseng	27,500	0	0	0
Vice President	Yung-Ching Hsiao	5,500	0	0	0
Assistant Vice President	Han-Chang Chou	7,223	0	0	0

Note 1: Directors or Supervisors of the 6th Board was elected at June 21, 2018. Term of the 6th Board is form June 21, 2018 till June 20, 2021.

Note 2: Hotran Resource Development Ltd. Rep: Chun-Huei Ho, was expiration of the term as supervisor of the 5th Board, and was elected as Director of the 6th Board.

Note 3: Chi-Hon Investment Corp. Rep: Jung-Hsing Lai, was expiration of the term as Director of the 5th Board. The shares increased (decreased) were calculated from Jan. 1, 2018 to Jun. 20, 2018.

Note 4: Ying-Chih Wu was elected as Supervisor of the 6th Board. The shares increased (decreased) were calculated from Jun. 21, 2018 to Dec. 31, 2018.

8.2. Information on stock transfer: None.

8.3. Information on pledge of share: None.

9. Top 10 Shareholders Who are Related Parties to Each Other

As of April 20, 2019

Top 10 Shareholders	Shareholding		Shareholding under Spouse and Minor		Shareholding under 3rd Party		Top 10 Shareholders Who are Related Parties to Each Other	
	Shares	%	Shares	%	Shares	%	Name	Relationship
MediaTek Capital Corp.	5,657,324	13.26	0	0	0	0	-	-
Rep: Ming-Kai Tsai	0	0	0	0	0	0	-	-
National Development Fund	2,979,237	6.99	0	0	0	0	-	-
Rep: Hahn-Ming Lee	0	0	0	0	0	0	-	-
TU,SHUI-CHENG	1,377,000	3.23	(Note 2)	0	(Note 2)	0	-	-
CHEN,YUNG-CHIEH	1,136,000	2.66	(Note 2)	0	(Note 2)	0	-	-
Hotran Resource Development Ltd. managed by Mega International Commercial Bank	909,825	2.13	0	0	0	0	-	-
Rep: Chun-Huei Ho	0	0	0	0	0	0	-	-
Wintek Corporation	815,006	1.91	0	0	0	0	-	-
Rep:Lin,Chien-Nan,Pan Cheng-Hsiung,Tsao Yung-Jen	0	0	0	0	0	0	-	-
Jyh-Ming Lin	539,493	1.26	121,668	0.29	0	0		
LAI,SU-SHEN	498,350	1.17	(Note 2)	0	(Note 2)	0	-	-
CHEN,KUO-KUANG	380,732	0.89	(Note 2)	0	(Note 2)	0	-	-
Hong-Men Su	335,781	0.79	22,341	0.05	0	0	-	-

Note 1: According to Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals, HOTRAN RESOURCE DEVELOPMENT LTD.as an offshore overseas Chinese or foreign national, that invests in domestic securities shall designate a bank or securities firm approved by the FSC to act as its custodian institution and to handle related matters.

Note 2: The Shareholder is not a internal of the Company, could not get the information of shareholding under spouse and minor and shareholding under 3rd party.

10. Total shareholding of long-term investments held by the Company and Directors, Officers and Affiliates:

December 31, 2018

Investment	Investments by the Company (1)		Investments Directly or Indirectly Controlled by Directors and Managers of the Company (2)		Total Investment (1) + (2)	
	Shares	%	Shares	%	Shares	%
Everest Peaks Technology Corporation	3,808,780	100	0	0	3,808,780	100
Andes Technology（Samoa）Corporation	1,758,780	100	0	0	1,758,780	100
Andes Technology (Wuhan) Corporation	- (Note)	100	- (Note)	0	- (Note)	100
Andes Technology USA Corporation	2,050,000	100	0	0	2,050,000	100

Note: Andes Technology (Wuhan) Corporation is not a company limited by shares, unissued shares.

IV. Capital and Shares

1. Capital and Shares

1.1. Source of Capital

Month/ Year	Issue Price (per share)	Authorized Capital		Paid-in Capital		Remarks		
		Shares (K)	Amount ($K)	Shares (K)	Amount ($K)	Sources of Capital	Capital Increase by Assets Other than Cash	Others
Mar. 2017	65.1	70,000	700,000	40,611.9	406,119	Capital Increased by Cash	-	Note 1
Nov. 2017	19.4	70,000	700,000	40,619.9	406,199	Exercise of stock options	-	Note 2
	22.5					Exercise of stock options		
Sep. 2018	-	70,000	700,000	42,650.9	426,509	Capital surplus transferred to common stock	-	Note 3

Note 1: The capitalization was approved by the Hsinchu Science Park Administration on Mar. 28, 2017 with an approval letter of Yuan-Shang-Tzu No. 1060007779.
Note 2: The capitalization was approved by the Hsinchu Science Park Administration on Nov. 3, 2017 with an approval letter of Yuan-Shang-Tzu No. 1060030206.
Note 3: The capitalization was approved by the Hsinchu Science Park Administration on Sep. 14, 2018 with an approval letter of Yuan-Shang-Tzu No. 1070026867.

As of April 20, 2019 Unit: Shares

Type of Stock	Authorized Capital			Remarks
	Outstanding	Un-Issued	Total	
Common Stock	42,650,911	27,349,089	70,000,000	Listed on TSE

Shelf Registration: Not Applicable

1.2. Composition of Shareholders

As of April 20, 2019 Unit: Shares, %

Type of Share-Holders / Number	Government Agencies	Financial Institutions	Other Juridical Persons	Individuals	Foreign Institutions & Persons	Total
Number of Shareholders	1	5	27	8,191	10	8,234
Shareholding	2,979,237	168,300	7,198,184	30,945,018	1,360,172	42,650,911
Holding Percentage	6.99	0.39	16.88	72.55	3.19	100

1.3. Distribution of Shareholding

As of April 20, 2019

Common Share Shareholder Ownership	Number of Shareholders	Shareholding	Holding Percentage
1 ~ 999	2,815	136,908	0.32
1,000 ~ 5,000	4,435	7,808,965	18.31
5,001 ~ 10,000	517	3,730,179	8.75
10,001 ~ 15,000	169	2,050,680	4.81
15,001 ~ 20,000	80	1,430,054	3.35
20,001 ~ 30,000	60	1,521,584	3.57
30,001 ~ 50,000	63	2,384,033	5.59
50,001 ~ 100,000	52	3,577,746	8.39
100,001 ~ 200,000	27	3,775,323	8.85
200,001 ~ 400,000	8	2,323,204	5.45
400,001 ~ 600,000	2	1,037,843	2.43
600,001 ~ 800,000	0	0	0
800,001 ~ 1,000,000	2	1,724,831	4.04
Over 1,000,001	4	11,149,561	26.14
Total	8,234	42,650,911	100

Note: Andes has not issued preferred stocks.

1.4. Major Shareholders

As of April 20, 2019

Shares / Name	Total Shares Owned	Ownership (%)
MediaTek Capital Corp.	5,657,324	13.26
National Development Fund	2,979,237	6.99
TU,SHUI-CHENG	1,377,000	3.23
CHEN,YUNG-CHIEH	1,136,000	2.66
Hotran Resource Development Ltd. managed by Mega International Commercial Bank	909,825	2.13
Wintek Corporation	815,006	1.91
Jyh-Ming Lin	539,493	1.26
LAI,SU-SHEN	498,350	1.17
CHEN,KUO-KUANG	380,732	0.89
Hong-Men Su	335,781	0.79

Note 1: According to Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals, HOTRAN RESOURCE DEVELOPMENT LTD.as an offshore overseas Chinese or foreign national, that invests in domestic securities shall designate a bank or securities firm approved by the FSC to act as its custodian institution and to handle related matters.

1.5. Market Price, Net Worth, Earnings, Dividends per Common Share

Unit: NT$

Item \ Year			2017	2018	April 30 2019
Market Price Per Share	Highest		200.5	196	129
	Lowest		100	59.5	75.2
	Average		137.09	115.73	106.31
Book Value Per Share	Before Distribution		28.42	27.88	27.33 (Note 5)
	After Distribution		27.06	(Note 1)	(Note 1)
Earnings Per Share	Weighted Average Shares(K)		41,965	42,651	42,651 (Note 5)
	Earnings Per Share		0.51	0.97	(0.55) (Note 5)
Dividends Per Share	Cash Dividends		0	(Note 1)	–
	Stock Dividend	From retained earnings	0	(Note 1)	–
		From capital reserve	0.5	(Note 1)	–
	Accumulated Undistributed Dividend		0	(Note 1)	–
Return on Investment	Price/Earnings Ratio(Note 2)		268.80	119.31	–
	Price/Dividend Ratio(Note 3)		–	(Note 1)	–
	Cash Dividend Yield(Note 4)		–	(Note 1)	–

Note 1: Pending shareholders' approval in Annual General Shareholders' Meeting
Note 2: Price/Earnings Ratio = Average Market Price / Earnings Per Share
Note 3: Price/Dividend Ratio = Average Market Price / Cash Dividends Per Share
Note 4: Cash Dividend Yield = Cash Dividends Per Share / Annual Average Market Price
Note 5: Book Value Per Share and Earnings Per Share is as the date of this Annual Report.

1.6. Dividend Policy and Status

1.6.1. Dividend Policy under the Articles of Incorporation

According to ANDES' Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

(1) Reserve for tax payments
(2) Offset accumulated losses in previous years, if any
(3) Legal reserve, which is 10% of leftover profits. However, this restriction does not apply in the event that the amount of the accumulated legal reserve equals or exceeds ANDES' total capital stock
(4) Allocation or reverse of special reserves as required by law or government authorities
(5) The remaining net profits and the retained earnings from previous years will be allocated as shareholders' dividend. The Board of Directors will prepare a distribution proposal and submit the same to the shareholders' meeting for review and approval by a resolution

The policy of dividend distribution should reflect factors such as sustainable development, stable growth, the interest of the shareholders, and healthy financial structure as the goal. The board of directors shall make the distribution proposal according to funding needs. The dividends to shareholders shall be distributed at no lower than 2% of distributable earnings. If the Company decides to issue dividends, cash dividends shall not be lower than 10% of the total dividends.

1.6.2. Proposal to Distribute 2018 Profits: The Board of Directors proposed the profit distribution of Cash dividends to common shareholders from retained earnings is NT$29,731,378 thousand Which NT$0.69708658 per share of cash to common share. The proposal is subject to shareholders' approval at the Annual Shareholders' Meeting. The Chairman will then determine an ex-dividend date.

1.7. Effect of 2018 Share Dividends to Operating Performance and EPS: Not applicable.

1.8. Employees' Compensation and Remuneration to Directors

1.8.1. Profit distribution set aside as employees' compensation and remuneration to directors:
According to the Articles of Incorporation of the Company, no lower than 2% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors and supervisors.

1.8.2. Accounting for Employees' Compensation and Remuneration to Directors
The Company's estimate of Employees' Compensation and Remuneration to Directors is based on the Articles of Incorporation and is recognized as current operating expenses. If the estimated amounts differ from the actual distribution resolved by the board of directors, the Company will recognize the change as an adjustment to income of next year.

1.8.3. Employees' compensation and Remuneration to Directors resolved by the Board of Directors
Based on the profit for the year ended December 31, 2018, ANDES estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2018 to be 2% and 0.99% of profit for the year ended December 31, 2018. As such, employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2018 amounted to NT$ 730 thousand and NT$ 363 thousand, respectively.

1.8.4. Earnings Retained in Previous Period Allocated as Employee Compensation and Directors Remuneration:
Not applicable. Due to ANDES did not estimate the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2017.

1.9. Repurchase of Company Shares: None.

2. Status of Corporate Bonds: None.

3. Status of Preferred Stocks: None.

4. Status of GDR/ADR: None.

5. Status of Employee Stock Option Plan

5.1. The impact to shareholders' equity of the Unexpired Employee Stock Option Certificate of the Company as the date of this Annual Report: None.

5.2. Employee Stock Option Granted to Management Team and to Top 10 Employees:

Title		Name	Number of Option Acquired (shares)	Number of Option Acquired / Number of Option Issued (%)	Exercised				Not Exercised			
					Number of Option (shares)	Exercise Price (NT$)	Option amount(NT$)	Number of Option / Number of Option Issued (%)	Number of Option (shares)	Exercise Price (NT$)	Option amount(NT$)	Number of Option / Number of Option Issued (%)
Manager	President	Jyh-Ming Lin	1,681,000	4.14	1,088,500	10	10,885,000	2.68	0	0	0	0
	VP	Hong-Men Su										
	VP	Kuo-Chi Lin										
	VP	Jen-Chih Tseng										
	VP	Yung-Ching Hsiao			536,500	20	10,730,000	1.32	0	0	0	0
	AVP	Han-Chang Chou										
	VP (Note 1)	Lai,Chi-Chang										
	VP (Note 2)	Wang, Tung-Hua			21,500	19.4	417,100	0.05	0	0	0	0
	AVP (Note 3)	Yeh,I-Chung										
	AVP (Note 1)	Lai,Chun-Tse										
Employee	Director	Chang,chuan-hua	876,000	2.16	593,500	10	5,935,000	1.46	0	0	0	0
	Manager	Chen,hsin-ming										
	Director	Liu,chun-hung										
	Deputy Director	Chen, Tien-Hsiung			265,000	20	5,300,000	0.65	0	0	0	0
	Senior Director	Huang, Kuo-Cheng										
	Senior Director	Lin,Kun-Cheng										
	Deputy Director	Hu,Ta-Wei			6,000	23.2	139,200	0.01	0	0	0	0
	Senior Director	Hsieh,Yu-Ling										
	Senior Architect	Chen,I-Cheng			6,000	19.4	116,400	0.01	0	0	0	0
	Deputy Director (Note 1)	Wang, Ping-Hsing										

Note 1: the owner has resigned.
Note 2: the owner has retired.
Note 3: the owner has passed.

6. Status of New Employees Restricted Stock Issuance: None.

7. Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.

8. Financing Plans and Implementation: Not applicable.

V. Business Overview

1. Business Contents
   1.1. Scope of business
      1.1.1. Main business Contents
         (1) CC01080 Electronic Parts and Components Manufacturing
         (2) I501010 Product Designing
         (3) F401010 International Trade
         (4) I301010 Software Design Services
         (5) I301020 Data Processing Services
         (6) F601010 Intellectual Property
         (7) Research, design, development, manufacture, and selling of the following products: RISC CPU for Embedded Processor SoC
            a. Generic platforms
            b. Network platforms
            c. Multimedia platforms

      1.1.2. Business distribution of our main products

Unit: NT$ thousands

Main Products	2017		2018	
	Amount	%	Amount	%
Licensing of CPU IP	239,997	83	211,029	69
Royalty revenues	38,287	13	74,953	25
Maintenance services and others	11,093	4	18,774	6
Total	289,377	100	304,756	100

      1.1.3. The Company's current products

The Company is the first domestic professional CPU IP supplier, and is committed to providing low power and high performance CPU and peripheral Platform IP, as well as necessary development tools and software. Main products are:

(1) The following is our technical service revenues:
   a. AndesCore™: It is a configurable CPU Core Family Series and their peripheral important IP (Companion IP) (hereinafter referred as to AndesCore™).
   b. AndeSight™, an integrated software development environment which is an optimized tool and helps software / hardware development and debugging. (hereinafter referred as to AndeSight™)
   c. The maintenance fees which our customers pay for each year to obtain IP and the update of development tools.
   d. License fees. The Company has granted the licenses of our CPU IP and Platform IP to SoC design firms, and collect license fees based on how much are used.
   e. AndeStar™, a 16/32-bit architecture with a mixed instruction set. (hereinafter referred as to AndeStar™).
   f. AndeSoft™, the optimized target performed in AndesCore™, consisting of the system software, driver, and intermediate medium. (hereinafter referred as to AndeSoft™)

(2) Technology royalty: It implies that our customers use their licensed CPU IP to design a SoC IC. After its volume production is performed successfully, the Company collects royalties based on its sales.

(3) Other: It refers to the integrated hardware development environment of AndeShape™, including the development platform and Platform IP which help customers quickly develop their SoC. It is mainly sold to customers and universities for R&D, chip debugging or instructional purpose. (hereinafter referred as to AndeShape™).

      1.1.4. New products under development

The Company continues to develop CPU IPs which meet the needs of customers and

market. In addition to the existing N7, N8, S8, E8, N9, N10, D10, N13, N15(F), D15(F), N25F, NX25F, D25F, A25, and AX25, we plan to develop CPU IPs with a higher computing speed and various functionalities to build a more comprehensive hardware and software architecture, while working with more partners to build an ANDES ecosystem for the easy-to-develop SoC.

1.2. Industry overview

1.2.1. Current condition of the industry and its development

As the semiconductor process improves at a rate of doubling according to Moore's Law, and the consumer electronic products evolves quickly with varying needs, the IC design industry in Taiwan primarily uses the technologies of the SoC and embedded system to design products. By offering products with power performance, several functions, affordable price, and fast time-to-market, the Company becomes one of the major suppliers of global information products and consumer ICs. While the industry has developed and the products has evolved for many years, the 8-bit 8051 Architecture (Micro Controller Unit, MCU) or low-bit Digital Signal Processor (DSP) is still used for low-end SoC products. However, as the tasks are getting more and more complex, the computing capability has to be improved to meet the needs for expanded functions, and provide network connectivity. The processor core of the products in this market segment has been gradually replaced by 32-bit architecture microcontroller. For the processors used for the high-end SoC products, in addition to those provided by the Company, the others are those provided by ARM and MIPS's Micro Processor Unit (MPU).

The "embedded processor" refers to the processor core which can be sold and packaged as licensable Silicon Intellectual Property (SIP). The commonly seen processor chips in the market are often used in the PC system, such as Intel Core processors or AMD processors. They are separately packaged and sold with key features. Another processor type is Application Processor (AP). Qualcomm's Snapdragon Series, a mobile application processor, or Apple's A7-A12 processors use the ARM-based SoC design, and are shipped and directly used for end products after their chip are packaged. For these products, the processor core is not sold separately. The processor core of a product may have its own instruction set architecture (such as that by Intel), compatible instruction set architecture (such as that by AMD), or those from the licensable processor SIPs, such as the application processor products by Qualcomm or Apple.

The licenses of the embedded processor and SIP are divided into the following categories.

(1) Normal License or Soft Core License: It is typically offered as synthesizable RTL codes. Customers can perform the optimal logic synthesis and physical design on their processor based on the fab, process, cell library, and the performance/power/area requirements. Its disadvantage is that it is like general codes and susceptible to improper leak and usage without authorization. Actually, these vendors protect their Soft Core using lawful provisions of the contract.

(2) Hard Core License: For this category, the SIP vendor has to perform the logic synthesis and physical design in advance, and work with specific fabs and process parameters. Because the options available for customers may be limited, the vendors no longer provide hard core products in recent years.

(3) Architecture License: The customers with better engineering capabilities wish to use processor's instruction set architecture to perform implementations by themselves to add functions and features different than those of the Normal License. At this time, the Architecture License should be used. The Architecture License fees are typical much higher than the Normal License ones.

The Company mainly focuses on the Soft Core License and Architecture License.

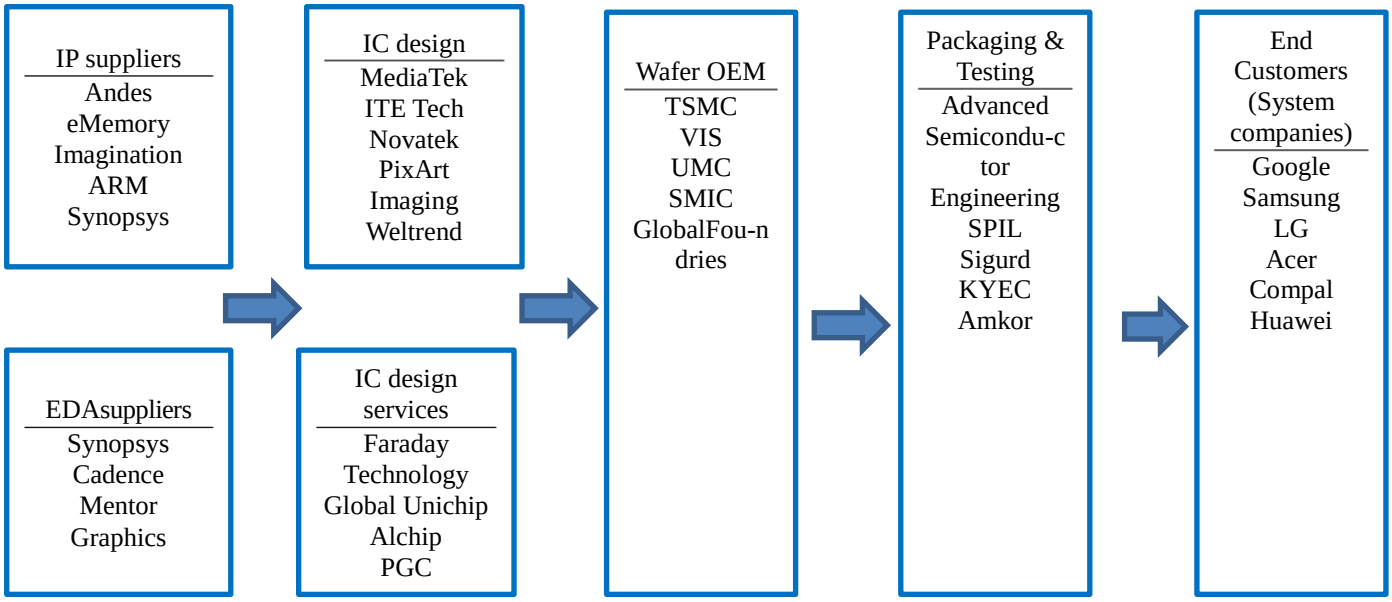
1.2.2. Linkage of industry upstream, midstream, and downstream

In response to the trend that product's lifestyle has been getting shorter, and its price has

been dropping rapidly, the Company widely uses the existing technology, design, and intellectual property to achieve the fast time-to-market goal. Therefore, the SoC and embedded system technologies were born. A SoC is a complex system with an embedded processor core. In addition, based on the applications, the system bus, processor, I/O peripheral, and hardwired accelerator/circuit are integrated with various necessary digital, mixed mode, and analog hardware, and software stack, such as hardware abstraction layer (HAL), drivers and service routines, operating system, middleware, and applications, to form an embedded system for final applications. IC design firms use the SoC and embedded system for further industrial division of labor. They introduce new technologies and products quicker using the common or even open interface specifications and proven modules.

The main products of the Company are to grant licenses of the embedded processors, SIP, and related services. Our direct customers are IC design firms and IC design service firms. Few system firms or branded vendors have their IC design teams or commission an IC design service firm to make a chip. Such firms are also our direct customers. For the division of labor in the entire IC industry chain, because products require cooperation between the IC design firm and IC design service firm, the Company not only has to work with wafer fabrication companies on the hard core license, but also needs them to provide relevant data about the processes and standard cell libraries to perform design simulation and validation. The Company operates between the EDA (Electronic Design Automation) companies in the upstream and midstream of the IC industry. Meanwhile, we are also the customer of their electronic design automated tools, the technical partner for the peripheral circuit SIP, and the competitor for the embedded processor SIP. The relationship between the system companies which use SoC, electronic manufacturing companies, and brand companies is like indirect customer one (the SoC launched by the IC design firm is used) or direct customer one (they develop their own chips or commission a IC design service firm to perform a SoC project).

In the IC industry chain, the divisions of labor for the SIP suppliers are shown in the figure below:



1.2.3. Development trends of products

Basically, the processor is a digital processing core designed to "be applied to a variety of areas." While the general-purpose design dominates, to gain a competitive advantage among different vendors and products, various strategies as well as methodologies, and peripheral SIP are used for the processor architecture, implementation of the processor circuitry, middleware, and OS support, to meet the requirements of the specific

application. This makes the processor vendors provide not only their processor design and licenses, but also necessary hardware/software development tools as well as development environments, to build a support ecosystem, forge an alliance with technical partners in various application areas, and maintain a close relationship with the leading customers. In doing so, the Company can gain a significant market share in various significant share to remain influential for the next-generation processor and technical specifications to stay competitive for a long term.

When facing competitions from smart devices, electronic wearables, medical electronics, automotive electronics, IoT, and even machine learning, the embedded processor products have more challenges and competitions in the following areas:

(1) Architecture: In response to various application needs, the process architecture should be flexible in design and can be added with the function units, such as the instruction set expansion, floating point unit, digital signal processing (DSP), single instruction multiple data (SIMD), vector engine, multi-core processor, and customizable instruction set.
(2) Trade-off between energy-saving and performance: For the technical aspect, there is often a trade-off between energy-saving and performance. It is not easy to have both advantages. In recent years, the design tools and methodologies have been improved and the practical concepts have been introduced in the industry. In addition to the pursuit of low power consumption, the Performance-Power-Area (PPA) indicator means how to achieve the optimal performance and power per chip unit. It is the goal that the IC design industry strives to achieve.
(3) Industry standards and ecosystem: As the application areas have been evolving, relevant industry organizations have been established and the industrial standard specification have been developed. The Company should launch appropriate products and solutions as various standards and applications develop. In response to the trend of professional division of labor in the industry, the Company works with each technical partner to develop products and services, improve our market visibility and influence in the ecosystem, and to expand the customer base.

1.2.4. Status of competition of products

In the current global embedded processor market, the major suppliers are ARM, ARC, MIPS, Tensilica and Andes. According to IPnest's data, the top three companies with the highest revenues in 2016 are ARM, ARC, and MIPS. Among them, ARM has a market share of more than 60%. The following introduces the top three embedded processor companies:

(1) ARM
It is the largest global embedded processor company. Its main application areas include the smart phone, tablet, digital TV, set-top box, etc. In addition to the previous-generation products ARM7 and ARM9 Series which have been widely used, the current processor lineup is classified into three series: Cortex-A, Cortex-R, and Cortex-M. In addition to the function extension IP related to the processor, GPU IP products are provided.
(2) ARC
The ARC processor technology can be traced back to the early 1990s when the 3D accelerator chip was developed for the Super Famicom console. A new company was born after the product was successful. In November 2009, ARC International was acquired by Virage Logic. Less than one year, in September 2010, Virage Logic was acquired by EDA company Synopsys. The ARC processor becomes part of various IP portfolios in Synopsys's SIP lineup DesignWare IP.
(3) MIPS
It is a company split from SGI in 2000 which provides the processor IP. In addition to being widely used for the computer system and several video consoles, the MIPS processor has a high market share in the networking & communication, digital TV,

and multimedia. In December 2012, Imagination Technologies acquired MIPS. In September 2017, Imagination Technologies sold MIPS to Tallwood Venure Capital. In June 2018, Wave Computing, an AI chip start-up company, acquired MIPS.

In addition to the companies above, the IC design industries in Japan, Korea, China or other emerging countries have significantly invested in the R&D on the processor technology. They also have researched and developed related processor technology. Japan has invested in the processor technology and product development for decades. In recent years, except for the high-end super computers and SH architecture processor, their own processors will be gradually replaced by licensable processors. Renesas Electronics Corporation owns the SH architecture processor which has a great market share of the consumer electronics and automotive electronics, but it has been declining gradually now. The SH architecture processor has been used in Renesas's own chip and will not be licensed as SIP to other companies. China has set up processor development as national strategic goal for the industry. The specific output is Loongson which was developed for the government units. Its processor SIP is the licensed MIPS architecture so that there is no business like SIP license. In addition to low brand recognition and technical capabilities which are not recognized, some of the other small processor SIP companies in Chain do not possess of their own architectures and core technologies, while others are small-sized and only provide services for local customers. Some of the other embedded processor companies in Taiwan operate under Architecture License, such as Faraday Technology, a design service firm (which uses the ARM-based architecture), while some adopt compatible instruction sets, such as RDC Semiconductor (which uses the x86 architecture). The former companies do not have their own core processor technology and the right to define specifications. In addition to its lack of design flexibility, their processor cores are only available for their own chips and cannot be licensed. Meanwhile, they have to pay a great deal of license fees and be constrained by technology source companies. While the latter companies are able to enter the old ecosystem quickly, for the newer functions and technological integration required by SoC and embedded systems, their products lag behind those of the instruction set source companies for several generations, because they do not have basic processor technology, the right to define specification, and the patents are not theirs. In addition, they have to invest more in the hardware/software integration. The RISC-V architecture is the open source instruction set developed by The University of California, Berkeley in U.S.A. Now, RISC-V Foundation, founded in 2015, is developing and promoting the subsequent architectures. RISC-V Foundation's members are more than 200 all over the world. The x86-based architecture dominates the PC market while the ARM-based architecture dominates the mobile phone market. The simplified, modular, and scalable RISC-V architecture will become the dominating one for the IoT and other consumer electronics markets. Currently, the main suppliers of the RISC-V-based hardware/software solutions are Andes and US-based SIFIVE. SIFIVE has been established for less than three years, while Andes has a more-than-14-year experience in designing a processor core and its development environment.

DIGITIMES indicates that the Taiwanese IC design industry has the most comprehensive ecosystem in the world: "The Taiwanese semiconductor industry has a unique vertical division of labor in the upstream, midstream, and downstream with a complete structure. The suppliers of chemical materials and silicon wafers are in the upstream, IC design industry, IC fabrication industry, and IC packaging/testing industry are in the midstream, and the system companies of PC/NB, mobile phones, and consumer electronics are in the downstream. The ecosystem of the Taiwanese IC design industry is ranked No. 2 in the world while the foundry and IC packaging/testing industries are ranked No.1. They are characterized by professionally vertical division of labor and mutual support. The industry cluster effect is obvious with comprehensive peripheral support." For many years, in this industrial ecosystem, among a majority of 32/64-bit SoC products launched by Taiwanese IC design firms, the embedded processors are based on foreign companies' products. Moreover, the embedded

processors have great impact on the selection of the SoC architecture, hardware, peripherals, and related software. The Company focuses on the R&D on the embedded processor SIP and related technologies, and their service. For the semiconductor industries and IC design industries in Taiwan, China, and Asian Region, the Company provides the critical SIP solutions which are hardly created by them in these areas for a long time. By taking control over the key embedded processor technologies, we can promote the development of the SoC-related technologies and core components, and improve the industry values, while entering the European and American markets.

1.3. Technological research and development

1.3.1. R&D expenses during the most recent year (2018) and up to March 31, 2019 are NT$ 117,203 thousand and 54,110 thousand.

1.3.2. Successfully developed technology or product in the latest year (2018) or up to the publication date of the annual report

Year	Specific R&D outcomes
2018	A. Successfully developed the CPU BSP 5.0 Optimized Tool Chain which supports the V5 architecture B. Successfully developed the integrated development environment AndeSight v3.1.2 STD/MCU/RDS C. Successfully developed the Platform IP AE300 which supports the advanced AXI bus standards D. Successfully developed the V5 architecture 32-bit Processor N25F which supports the floating point level 5 pipelines E. Successfully developed the V5 architecture 64-bit Processor NX25F which supports the floating point level 5 pipelines F. Successfully developed the V5 architecture 32-bit Processor A25 which supports the Linux OS level 5 pipelines G. Successfully developed the V5 architecture 64-bit Processor AX25 which supports the Linux OS level 5 pipelines H. Successfully developed the Platform IP AE250 which supports the V5 architecture CPU AHB bus standards I. Successfully developed the Platform IP AE350 which supports the V5 architecture CPU AXI bus standards
2019	A. Successfully developed the integrated development environment AndeSight v3.2.0 STD/MCU/RDS B. Successfully developed the V5 architecture 32-bit Processor A25MP which supports the multi-core cache coherence and L2 cache controller C. Successfully developed the V5 architecture 64-bit Processor AX25MP which supports the multi-core cache coherence and L2 cache controller D. Successfully developed the D25F, A25, and AX25 Families with the digital signal processing (DSP) functionality

1.4. Long and Short-term Business Plans

1.4.1. Short-term plan:

(1) To expand Taiwan's advantages, deeply maintain the existing relationship with customers, and assist in customer's volume production to improve Taiwanese customers' contributions to our revenues.

(2) To grasp the opportunity of the rapid growth of Chinese semiconductor industry, establish good sales and services offices in Beijing, Shanghai, and Shenzhen, and gain a good customer base.

(3) To win customers from Japanese and Korean large IDM or IC design firms, provide good documentation and services, and establish a good customer base for long-term revenues.

(4) To win some important European and US customers by providing our favorable products at affordable pricing by our distributors.

1.4.2. Long-term plan:

(1) To brand our products and work with third party development partners to build our advantage ecosystem, and gain irreplaceable advantages for better influence on the industry.

(2) To win the customers from European and United States large IDM or IC design firms, and increase our visibility and brand recognition in Europe and the US.

(3) To penetrate the market for the mainstream product applications of the high-end CPU, and make our products leave a high-quality and high-performance image on customers.
(4) To continuously participate in RISC-V Foundation's Workshop for development of the specifications, and R&D of related development tools and software.

2. Market and sales overview

2.1.Market analysis

2.1.1. Regions of distribution for the Company's major products

Unit: NT$ thousands

Regions \ Year	2017	2018
Taiwan	137,308	144,801
China	72,679	96,575
Korea	23,786	23,989
America	46,153	23,340
Japan	8,694	8,756
Europe	757	7,295
Total	289,377	304,756

2.1.2. Market share

The key suppliers of the 32-/64-bit embedded processor SIP are ARM, ARC (Synopsys), MIPS (Imagination), Tensilica (Cadence), and us. According to the statistics by Linley Group which specializes in the CPU technology analysis, the total global chips which uses CPU IP reached 21.8 billion where our 2017 shipments reached 591 million, accounting for 2.71% market share. 2018 shipments reached 1 billion, an increase of 69% compared to that of 2017.

2.1.3. Future market supply, demand and growth

(1) Future market supply and demand

Today's market trend is that consumer electronics must be slim and lightweight. Other types of electronic products with high growth potential, such as industrial control, IoT, automotive electronics, medical devices, also require versatility and high integration. Due to the application needs and advancement of the IC fabrication processes, the SoC has become the mainstream of the IC chips. The SoC is a purpose-built IC chip for system integration. It must consist of the embedded CPU with computing capability, memory, digital logic circuit, analog circuit, and other necessary I/O interfaces. Currently, in the market, only ARM, ARC, MIPS, Tensilica, Andes, and other small companies in Europe and USA have the ability to provide the reusable embedded processor IP. We are the first Asian public company which provides 32-/64-bit processors and their development. With a favorable geographical location, we provide the most comprehensive solutions and services for the companies located in Asia Pacific (including China), Japan, and Korea. We will set up offices in Europe and US.

According to ARM's forecast, the system chip market is steadily growing. By 2025, the value of this market will have grown to about US$ 178 billion. Our technologies and services have successfully penetrated each application area. Therefore, each application of the SoC, such as the various types of mobile communication devices, domestic digital TV, companies' network and storage devices, smart devices, and various microcontrollers, will significantly contribute to our future revenues.

2025 Global SoC Market Size (Unit: US$ billion)

Item / Year	Mobile Communication	Consumer Electronics	Network Equipment	Smart Devices	Others	Total
2025	30	25	18	40	65	178

(2) Future market growth

Because the IC fabrication processes are diverse and the SoC has been getting more and more complicated, more and more IPs are used by SoC to reduce the required design workforce and the R&D time. According to Semico Research's forecast, the global IP revenues will reach US$ 8 billion by 2019 where the processor (CPU) IP revenues account for 33.4%.

For the emerging applications, DBS Asian Insights expects the global IoT device market to have 125 billion devices by 2030. Additionally, in 2019, IDC expects worldwide IoT spending will maintain a double-digit annual growth rate throughout the 2017-2022 forecast periods and surpass the USD 1 trillion marks in 2022. The United States and China will be the global leaders for IoT spending in 2019. According to Tractica's forecast, deep learning chipset shipments will reach 41.2 million units by 2025. Since our CPU IP shipments only account for less than 5% in the global market and the IoT devices and AI have a high compound growth rate, our revenue growth rate is expected to significantly rise.

2.1.4. Competitive niche

(1) Innovative 32-/64-bit instruction architecture AndeStar™

Our instruction set architecture has evolved from V1, V2, and V3 to V5 architecture with the RISC-V instructions and all benefits of the previous generations. Innovation is always its development principle. We not only use the 16-/32-bit mixed instruction architecture, but also develop several innovative architecture; for example, StackSafe™ is one kind of hardware stack protection mechanism which can increase the software reliability. CoDense™ is a technique used to condense codes. Instructions are included to improve the processor performance. We have acquired dozens of patents on AndeStar™ architecture in US, China, and Taiwan.

(2) International fame

We became the founding member of RISC-V Foundation in 2016. We are also the first commercial mainstream processor IP company to include the RISC-V instruction set architecture developed by University of California, Berkeley, California, USA, to make the open, simplified, modular, and scalable RISC-V architecture make its way into the mainstream SoC applications. The new-generation AndeStar™ V5 architecture provides a complete solution for the embedded 32-/64-bit SoC design, and integrate the RISC-V technology with the proven AndeStar™ V3 architecture. It also includes several convenient functions and application enhanced units innovated by Andes, and Andes Custom Extension (ACE), Digital Signal Processing (DSP), Security Extension Instruction Set, etc.

(3) Industry-leading AndesCore™ processor performance and efficiency

Our AndesCore™ processor was intended to lead the industry at the early design stage. It has two major advantages: one is performance/area efficiency, and the other is energy efficiency. That is, the optimal performance is achieved using the smallest area or power consumption. Especially in the energy efficiency, it outperforms the leading companies by more 30% in average.

(4) Institutive and standard AndeSight™ software development tools

Our AndeSight™ software development tools include easy-to-use Integrated Development Environment (IDE) with the graphic interface and supported

Toolchains. For the program development, it has a highly optimized complier which can be used to generate simplified codes, a pure C embedded programming environment, and a C library optimized for microcontroller applications. These tools significantly reduce customer's software development schedule, and improves its quality.

(5) Extensive AndeSoft™ Software Stack
For different applications, the complete architecture of the SoC includes the underlying hardware architecture platform and its above software stack consisting of multi-level software. We provide extensive AndeSoft™ Software Stack for different applications, including the Linux OS, real time operating system (RTOS) of the paid and open source codes, device drivers, and middleware.

(6) Flexible and configurable AndeShape™ platform IP
We provides digital soft core platform IPs consisting of commonly used peripheral IPs to improve the efficiency and quality of customer's product development and design to shorten the time-to-market. These platform IPs are applicable to any semi-conductor fabrication process. You can also evaluate and develop software programs on our FPGA development board. Through their flexible and diverse configurations, customers can select the most appropriate IP configurations and add their own modules. They only need to validate their own design. It is worth mentioning that the AE200 Family Platform IP features a completely validated integrated platform which has functions required by most microcontroller units (MCU). Therefore, customers can quickly penetrate the 32-bit MCU markets. The AE300 Family Platform IP provides support for the advanced 32-/64-bit AXI bus system platform. It also supports for the mutual conversion between the 32-bit, 64-bit, and 128-bit data width, and conversion between different bus standards.

(7) Self-developed and designed total solutions
Our total solutions include the AndesCore™ Processor IP, AndeSight™ Integrated Development Environment with a graphic interface, software toolchains, and hardware development platform, all of which were researched, developed and designed by us. Therefore, we have cost and future competitiveness.

(8) Elite partners
We have worked with more 135 partners, including famous hardware/software IP companies, foundries, design services, and software tool companies. Examples: TSMC, UMC, and GlobalFoundries (foundry); Faraday Technology, Global Unichip, Alchip, Invecas, and Silex Insight (design service); eMemory (memory SIP); HEX-Five (security IP); Kneron (AIIP); Imagination (GPU, Bluetooth IP), Rafael (RF IP), Express Logic and Micrium (real-time OS RTOS); RT-Thread (RTOS); and Lauterbach, J&D and SEGGER (software tool companies). In addition, our products have passed TSMC's stringent quality review and become one of the recommended processor SIPs in its Open Innovation Platform (OIP). This not only improves our brand awareness but also boost our sales. After becoming one of the founding members of RISC-V Foundation, we make alliances with several companies, such as: UltraSoC (debugging and trace IP), Imperas (software simulation and virtual platform), Mentor Graphics (simulation platform), Inside Secure, Silex Insight (security IP and platform), for further partnership.

(9) University promotion plan
We have started the university promotion plan since 2010. It is intended to make the students be familiar with our processor architecture and usage environment to cultivate future engineers for customers and us, and raise our brand awareness. We started with National Chiao Tung University. As of the fourth quarter in 2018, we signed contracts with 67 universities where 31 universities are located in Taiwan, 29 universities in China, and 7 universities in other countries.

(10) Outstanding professional R&D team

Our core R&D team consists of talents who ever worked for renowned processor companies in US Silicon Valley, such as AMD, DEC, Intel, MIPS, nVidia, Sun, etc. They have rich experience in processor architecture, as well as related software and hardware.

2.1.5. Positive and negative factors for future development, and response to such factors

(1) Favorable factors in development:

a. High barriers to entry

The expertise of the processor SIP includes the innovative instruction architecture, Soft IP design, integrated development environment, development tools, OS, and debugging tools. These required senior R&D talents who know the hardware/software integration. The entry barriers are high so that less than 10 companies in the world can provide the processor SIP. The Company is the first Asian public company which sells the 32-/64-bit processor SIP and its development platform. We have mature technologies and refine ourselves. We have deliberate short-term and long-term plans to meet various emerging needs in the market.

b. The SoC market has grown rapidly and extensively

According to ARM's forecast, the SoC market will grow by nearly 45% from 2016 to 2025. IDC expects worldwide IoT spending will grow to USD 1.1 trillion in 2021. Our products focus on energy efficiency which meets the low power requirements of the IoT terminals. In addition, the big data collected by IoT applications have driven the upgrading demands for the infrastructure, such as the storage and network equipment, and for the AI/machine learning to form the so-called edge computing. Our latest 64-bit products just meet the high-performance, high-bandwidth, and high-addressing requirements in these areas. Therefore, the thriving development of IoT devices, AI, edge computing, and SoC may has positive effect on our promotions and revenues.

c. China's IC industry has grown up rapidly

According to SEMI's Industry Report, China's IC industry will maintain more than 20% compound growth rate from 2015 to 2020. With a favorable geographic location, it is expected that our customers and revenues in China will increase significantly.

(2) Negative factors for the prospects of our development and our corresponding strategy:

a. Insufficient talents

In response to the growth demand, we must hire talents continuously. However, Taiwan did not have the commercialized processor companies and industry in the past. Several companies, such as UMC, VIA, and RDC Semiconductor, produced Intel x86-based instruction architecture in the early stage. They focus on the PC industry and have little research on embedded processors. The relevant research on processors is limited to few universities in Taiwan. Therefore, there are scarce talents of processor architecture, hardware design, development tools, embedded systems.

Our corresponding strategy:

(a) We cultivate R&D talents through internal and external education and training, and work with top-notch universities (NTU, NTHU, NCTU, NCKU, and NCCU) in Taiwan to perform research or internship programs, inherit technologies, and hire talents in the future.

(b) Hire foreign high-end talents who have related experience.

(c) Apply for the alternative military servicemen who graduates from the Departments of Electrical Engineering and Computer Science and give them long-term training.

(d) Implement the employee stock purchase plan to make our employees become our shareholders for better engagement.

(e) Issue employee stock option certificates to retain talents.

b. Lack of custom standard cell libraries and memory SIP

We focus on the Soft IP products to provide customers with the embedded processors and development systems with the best performance and efficiency. We do not develop our own standard cell libraries and memory compiler products. For the different IC processes, the technical data of the main performance uses the standard cell libraries and memory compiler provided by foundries. Some competitors have their own standard cell library and memory compiler team which can provide custom standard cell libraries and memory for better technical data (for example: the highest frequency, area, and power consumption).

Our corresponding strategy:

(a) Enhance design architecture to reduce the difference between various standard cell libraries and memories.

(b) Forge an alliance with the professional standard cell libraries and memory SIP companies to be more competitive.

c. Diverse application market goals

The embedded market has diverse applications. Due to the limited workforce and resources, we cannot provide a comprehensive hardware/software solution for each application.

Our corresponding strategy:

(a) Enhance the market analysis and visit customers to invest resources in the market with the optimal ROI.

(b) Find more partners to cooperate with and use the minimum resources to provide the best total solutions for customers.

2.2. Main product applications and production processes:

2.2.1. Main product applications

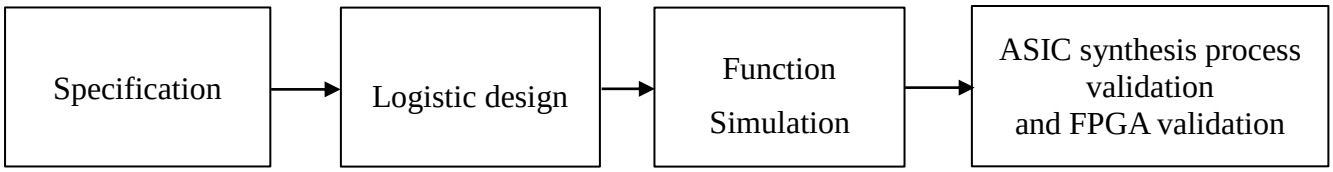
We will do our best to invest in the 32-/64-bit embedded microprocessor with the innovative, high-performance, and low power architecture, and design as well as development of the corresponding SoC Development Platform. We possess of the technologies regarding the microprocessor, system architecture, OS, and software development tool chain to provide services for the embedded system which are growing fast in the world. The following shows the application product areas for which the SoC and IC can be used:

(1) Consumer digital electronics
(2) Mobile communications
(3) Networking
(4) Satellite positioning
(5) Embedded system solution
(6) Multimedia solution
(7) Thin client
(8) Memory storage
(9) Sensing
(10) Wearables
(11) IoT
(12) Power ICs
(13) Touch panel controllers
(14) Smart meters
(15) Industrial control
(16) Medical instruments
(17) Automotive electronics
(18) AI/machine learning

2.2.2. Production process of products

We are a IP supplier and do not produce physical products. The flowchart of our IP

services is as follows:



2.3. Supply of key materials

We are a professional company which sells 32-/64-bit processor SIP and its development platform. Our key products are SIP soft codes and software tools which do not require production. The key materials for the AndeShape™ Development Board to support product demonstration and customer development include the Printed Circuit Board (PCB), Field Programmable Gate Array (FPGA), ROM/Flash/DDR memory/memory module, various logic/analog/control IC devices, oscillator, various connectors/cables, etc. We commission external companies to produce them. The top priority of our supplier selection is the stable quality. Therefore, the supply conditions of each raw material are good.

2.4. Name of the major suppliers/customers over the last two years

2.4.1. Major suppliers

Unit: NT$ thousands

Item	2017				2018				2019 Q1			
	Supplier	Amount	% of Total Purchase	Relation	Supplier	Amount	% of Total Purchase	Relation	Supplier	Amount	% of Total Purchase	Relation
1	BESA	227	24.22	None	BESA	361	31.50	None	BESA	924	79.38	None
2	Gao-Fu	199	21.24	None	Gao-Fu	270	23.56	None				
3	Digi-Key	95	10.14	None								
	Other	416	44.40		Other	515	44.94		Other	132	11.34	
	Total	937	100.00		Total	1,146	100.00		Total	1,164	100.00	

Note: The Company's major suppliers don't have big difference. The total purchase rate of BESA increased in 2019 Q1, due to mass production.

2.4.2. Major customers over the last two years

Unit: NT$ thousands

Item	2017				2018				2019 Q1			
	Sales	Amount	% of Total Revenue	Relation	Sales	Amount	% of Total Revenue	Relation	Sales	Amount	% of Total Revenue	Relation
1	-	-	-	-	-	-	-	-	Customer A	16,783	21.41	None
2									Customer B	16,571	21.14	None
3									Customer C	12,016	15.33	None
	Others	289,377	100.00		Others	304,756	100.00		Others	33,016	42.12	
	Total	289,377	100.00		Total	304,756	100.00		Total	78,386	100.00	

Note: The major customers changes primarily due to licensing contracts mix change

2.5. Production volume and value in the past two years

Unit: PCS/ NT$ thousands

Year / Main products	2017			2018		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
註 Others	－（Note）	1,698	1,805	－（Note）	3,204	2,321

Note: The Company is professional CPU IP supplier. The manufacturing procedures is outsourcing, so could not provide the data of "production capacity".

2.6. Sales Volume and Value in the Past Two Years

Unit: SET/ NT$ thousands

Year / Sales volume and value	2017				2018			
	Domestic sales		Export Sales		Domestic sales		Export Sales	
Main products	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Licensing of CPU IP	-	105,133	-	134,864	-	72,990	-	138,039
Royalty revenues	-	27,815	-	10,472	-	64,407	-	10,546
Maintenance services and others	256	4,360	188	6,733	152,654	7,404	1,176	11,370
Total		137,308		152,069		144,801		159,955

3. Employees

Year		2017	2018	2019 (As of April 30)
Number of Employees	R&D	101	118	121
	Management	46	53	58
	Total	147	171	179
Average Age		38	39	40
Average Years of Service		4.69	4.72	4.83
Education	Doctoral	8.16%	17.54%	17.32%
	Master	73.47%	73.10%	73.74%
	University & College	18.37%	9.36%	8.94%
	Total	100.00%	100.00%	100.00%

4. Environmental Protection & Expenditures

Losses due to environmental pollution (including compensation) and total fines during the most recent year and up to the annual report publication date: None.

5. Labor-Management Relations

5.1. The Company's employee welfare program, training and development, and retirement policy, settlement between employees and employer

(1) Labor Conditions:

A. Beside the formal channels of communication, the Company also establish the Employee Welfare Committee to host different types of events such as company event (anniversaries and family days), holiday celebrations (Christmas), departmental activities (department outings and joint birthday celebrations), group outings, club events, etc.

B. The Company has provided high-quality health checks and post-check consultations to its employees every year; Employees are entitled to basic insurance for labor, health insurance, etc. And in addition, the parents, spouses and children of the employees also enjoy the protection of group insurance.

C. The Company's regular running office environmental testing and fire detection for providing a safe working environment.

D. In accordance with the Labor Standards Law, provide such as paternity leave, parental leave, and breastfeeding time of female.

E. The Company held a painting competition, in order to promote parent-child interaction and the aesthetics of employees. And winner can get rewards.

(2) Training & development：

The Group pays its full attention on the employee training and development. A complete long term human resource development plan is designed and implemented for various purposes including general, management, professional courses , English learning courses and other specifics programs, which will help to inspire employees to increase their working quality and performance.

(3) The Company's retirement system was designed in accordance to the Labor Standards Law and the Labor Pension Act. For employees who chose the New System, the Company makes monthly reserves of at least 6% of the employee's monthly salary statements in accordance with Financial Accounting Standard No.19 "Employer's Accounting for Pension Plans", provides actuarial reports and recognizes reserve as a pension liability on balance sheet. Pension benefits for employees of the overseas subsidiaries are provided in accordance with the respective local regulations

(4) Labor-Management Conference：

The Company held the Labor-Management Conference are held every season for employee representatives to meet with top management to discuss and respond major topics to achieve a better bilateral understandings between employees and the Company and thus to reach cohesiveness.

(5) Maintenance measures for various employee rights

A. the Company and the employees set a labor contract to protect the rights and interests of employees.

B. the Company has not hired underage child labor.

C. the Company provides flexible working hours, allowing employees to take care of their work and family.

D. the Company has a complaint channel for prohibiting workplace bullying and complaints of sexual harassment in the workplace to protect human rights.

In summary, the Company attaches great importance to the rights and interests of employees, and gives full respect and care to employees based on the principle of humanized management.

5.2. Losses incurred by labor disputes in recent years up to publication, and potential disputes and appropriate measures:

The Company's agreement on labor relations and protection o rights and interests maintenance measures for employee rights was in accordance to the Labor Standards Law. There is no any labor dispute.

6. Material Contracts

Agreement Type	Counterparty	Term	Summary	Restrictions
Credit Contract	Bank SinoPac Co., Ltd.	2018.7.26 ~2019.7.31	Short-term loan(Note 1), Banking transaction	None
Credit Contract	Land Bank of Taiwan Co., Ltd.	2019.3.28 ~2020.3.28	Short-term loan(Note 1), Banking transaction	None
Credit Contract	Mega International Commercial Bank Co., Ltd.	2019.1.29 ~2020.1.28	Short-term loan(Note 1), Banking transaction	None
Office Lease	Hsinchu Science Park Administration	2019.1.1 ~2019.12.31	Office Lease	None
Office Lease	Taiwan Fertilizer Co., Ltd.	2018.8.1 ~2023.7.31	Office Lease	None

Note 1: The Company has not used the loan credit amount.

VI. Financial Information

1. Condensed Balance Sheet and Comprehensive Income Statement
   1.1. Condensed Balance Sheet
      1.1.1. Consolidated Condensed Balance Sheets - Based on IFRS

Unit: NT$ thousands

Item \ Year		Consolidated financial data (Note 1)					
		2014	2015	2016	2017	2018	As of March 31, 2019（Note 2）
Current assets		832,524	858,072	832,634	1,139,150	1,082,279	1,033,182
Property, plant and equipment		455	568	1,328	3,209	23,154	22,512
Intangible assets		8,050	1,166	73	40,629	125,283	151,809
Other assets		798	921	1,185	1,455	6,391	130,768
Total assets		841,827	860,727	835,220	1,184,443	1,237,107	1,338,271
Current liabilities	Cum-dividend	30,023	27,811	32,772	30,109	48,105	62,887
	Ex-dividend	30,023	27,811	32,772	30,109	48,105	（Note 3）
Non-current liabilities		0	0	0	0	0	109,666
Total liabilities	Cum-dividend	30,023	27,811	32,772	30,109	48,105	172,553
	Ex-dividend	30,023	27,811	32,772	30,109	48,105	（Note 3）
Equity attributable to owners of the parent		811,804	832,916	802,448	1,154,334	1,189,002	1,165,718
Share capital		350,300	359,619	371,399	406,199	426,509	426,509
Capital surplus		574,607	469,637	459,761	756,338	728,972	728,972
Retained earnings	Cum-dividend	(112,336)	3,877	(27,984)	(6,451)	34,626	11,027
	Ex-dividend	(112,336)	3,877	(27,984)	(6,451)	34,626	（Note 3）
Other equity		(767)	(217)	(728)	(1,752)	(1,105)	(790)
Treasury shares		0	0	0	0	0	0
Non-controlling interests		0	0	0	0	0	0
Total equity	Cum-dividend	811,804	832,916	802,448	1,154,334	1,189,002	1,165,718
	Ex-dividend	811,804	832,916	802,448	1,154,334	1,189,002	（Note 3）

Note 1: Consolidated financial data of 2014~ 2018 are audited.
Note 2: Q1 2019 is reviewed by CPA.
Note 3: The distribution of 2018 retained earnings is not yet resolved.

1.1.2. Parent Company Only Condensed Balance Sheets – Based on IFRS

Unit: NT$ thousands

Item \ Year		Parent company only financial data (Note 1)				
		2014	2015	2016	2017	2018
Current assets		829,610	844,404	808,503	1,126,621	1,055,317
Investments accounted for using the equity method		3,233	13,521	22,161	10,705	27,898
Property, plant and equipment		333	370	1,091	3,004	21,693
Intangible assets		7,388	841	73	40,629	125,283
Other assets		798	885	1,149	1,423	5,624
Total assets		841,362	860,021	832,977	1,182,382	1,235,815
Current liabilities	Cum-dividend	29,558	27,105	30,529	28,048	46,813
	Ex-dividend	29,558	27,105	30,529	28,048	（Note 2）
Non-current liabilities		0	0	0	0	0
Total liabilities	Cum-dividend	29,558	27,105	30,529	28,048	46,813
	Ex-dividend	29,558	27,105	30,529	28,048	（Note 2）
Share capital		350,300	359,619	371,399	406,199	426,509
Capital surplus		574,607	469,637	459,761	756,338	728,972
Retained earnings	Cum-dividend	(112,336)	3,877	(27,984)	(6,451)	34,626
	Ex-dividend	(112,336)	3,877	(27,984)	(6,451)	（Note 2）
Other equity		(767)	(217)	(728)	(1,752)	(1,105)
Total equity	Before distribution	811,804	832,916	802,448	1,154,334	1,189,002
	After distribution	811,804	832,916	802,448	1,154,334	（Note 2）

Note 1: Parent company only financial data of 2014~ 2018 are audited.
Note 2: The distribution of 2018 retained earnings is not yet resolved.

1.1.3. Consolidated Condensed Balance Sheets – Based on ROC GAAP

Unit: NT$ thousands

Item \ Year		Consolidated financial data (Note1)				
		2014	2015	2016	2017	2018
Current assets		831,879	Based on IFRS			
Funds and investments		0				
Fixed assets		455				
Intangible assets		8,033				
Other assets		1,460				
Total assets		841,827				
Current liabilities	Cum-dividend	30,023				
	Ex-dividend	30,023				
Long-term liabilities		0				
Other liabilities		0				
Total liabilities	Cum-dividend	30,023				
	Ex-dividend	30,023				
Share capital		350,300				
Capital surplus		574,607				
Retained earnings	Cum-dividend	(112,336)				
	Ex-dividend	(112,336)				
Unrealized gain or loss on financial instrument		0				
Cumulative translation adjustment		(767)				
Net loss not recognized as pension cost		0				
Total equity	Cum-dividend	811,804				
	Ex-dividend	811,804				

Note 1: The financial data of 2013 are audited.

1.1.4. Parent Company Only Condensed Balance Sheets – Based on ROC GAAP

Unit: NT$ thousands

Item \ Year		Parent company only financial data (Note 1)				
		2014	2015	2016	2017	2018
Current assets		828,965	Based on IFRS			
Funds and investments		3,233				
Fixed assets		333				
Intangible assets		8,033				
Other assets		798				
Total assets		841,362				
Current liabilities	Before distribution	29,558				
	After distribution	29,558				
Long-term liabilities		0				
Other liabilities		0				
Total liabilities	Before distribution	29,558				
	After distribution	29,558				
Share capital		350,300				
Capital surplus		574,607				
Retained earnings	Before distribution	(112,336)				
	After distribution	(112,336)				
Unrealized gain or loss on financial instrument		0				
Cumulative translation adjustment		(767)				
Net loss not recognized as pension cost		0				
Total equity	Before distribution	811,804				
	After distribution	811,804				

Note 1: The financial data of 2013 are audited.

1.2. Condensed Statements of Comprehensive Income

1.2.1. Consolidated Condensed Statements of Comprehensive Income – Based on IFRS

Unit: NT$ thousands

Item \ Year	Consolidated financial data (Note 1)					
	2014	2015	2016	2017	2018	As of March 31, 2019（Note 2）
Net sales	190,425	218,923	208,635	289,377	304,756	78,386
Gross profit	188,970	218,244	207,599	288,437	304,340	78,098
Operating income	(1,277)	1,459	(37,508)	26,892	35,311	(24,326)
Non-operating income and expenses	4,180	4,488	8,840	(3,170)	7,653	1,542
Net income before income tax	2,903	5,947	(28,668)	23,722	42,964	(22,784)
Net income from operations of continued segments	446	3,877	(31,861)	21,533	41,567	(22,784)
Net income from discontinued operations	0	0	0	0	0	0
Net income (loss)	446	3,877	(31,861)	21,533	41,567	(23,599)
Other comprehensive Income, net of tax	120	550	(511)	(1,024)	647	315
Total comprehensive income	566	4,427	(32,372)	20,509	42,214	(23,284)
Net income (loss) for the periods attributable to Owners of the parent	446	3,877	(31,861)	21,533	41,567	(23,599)
Net income (loss) for the periods attributable to Non-controlling interests	0	0	0	0	0	0
Total comprehensive income for the periods attributable to Owners of the parent	566	4,427	(32,372)	20,509	42,214	(23,284)
Total comprehensive income for the periods attributable to Non-controlling interests	0	0	0	0	0	0
Earnings per share (NT$)	0.02	0.11	(0.86)	0.51	0.97	(0.55)

Note 1: Consolidated financial data of 2014~ 2018 are audited.
Note 2: Q1 2019 is reviewed by CPA.

1.2.2. Parent Company Only Condensed Statements of Comprehensive Income – Based on IFRS

Unit: NT$ thousands

Item \ Year	Parent company only financial data (Note 1)				
	2014	2015	2016	2017	2018
Net sales	189,757	216,573	200,834	270,437	283,164
Gross profit	188,302	215,894	199,798	269,497	282,748
Operating income	(2,058)	9,566	(25,116)	37,327	39,506
Non-operating income and expenses	4,961	(3,619)	(3,578)	(13,629)	3,434
Net income before income tax	2,903	5,947	(28,694)	23,698	42,940
Net income from operations of continued segments	446	3,877	(31,861)	21,533	41,567
Net income from discontinued operations	0	0	0	0	0
Net income (loss)	446	3,877	(31,861)	21,533	41,567
Other comprehensive Income, net of tax	120	550	(511)	(1,024)	647
Total comprehensive income	566	4,427	(32,372)	20,509	42,214
Earnings per share (NT$)	0.02	0.11	(0.86)	0.51	0.97

Note 1: Parent company only financial data of 2014~ 2018 are audited.

1.2.3. Consolidated Condensed Statements of Comprehensive Income – Based on ROC GAAP

Unit: NT$ thousands

Item \ Year	Consolidated financial data (Note 1)				
	2014	2015	2016	2017	2018
Net sales	190,425	Based on IFRS			
Gross Profit	188,970				
Operating Income	(1,267)				
Non-operating income	5,312				
Non-operating expenses	(1,142)				
Net income before income tax	2,903				
Net income from operations of continued segments	446				
Net income from discontinued operations	0				
Extraordinary items	0				
Cumulative Effect of Changes in Accounting Principle	0				
Net income (loss)	446				
Earnings per share (Note 2)	0.02				

Note 1: The financial data of 2013 are audited.
Note 2: The Earnings per share is after retroactive adjustment.

1.2.4. Parent Company Only Condensed Statements of Comprehensive Income – Based on ROC GAAP

Unit: NT$ thousands

Item \ Year	Parent company only financial data (Note 1)				
	2014	2015	2016	2017	2018
Net sales	189,757	Based on IFRS			
Gross Profit	188,302				
Operating Income	(2,048)				
Non-operating income	5,533				
Non-operating expenses	(582)				
Net income before income tax	2,903				
Net income from operations of continued segments	446				
Net income from discontinued operations	0				
Extraordinary items	0				
Cumulative Effect of Changes in Accounting Principle	0				
Net income (loss)	446				
Earnings per share (Note 2)	0.02				

Note 1: The financial data of 2014 are audited.
Note 2: The Earnings per share is after retroactive adjustment.

1.3. Auditors' Opinions from 2014 to 2018

Year	Accounting Firm	Name of Auditors(CPA)	Audit Opinion
2014	Ernst & Young	Hsin-Ming Hsu, Shou-Pin Kuo	Unqualified Opinions
2015	Ernst & Young	Hsin-Ming Hsu, Shou-Pin Kuo	Unqualified Opinions
2016	Ernst & Young	Hsin-Ming Hsu, Shou-Pin Kuo	Unqualified Opinions
2017	Ernst & Young	Shou-Pin Kuo, Jia-Ling Tu	Unqualified Opinions
2018	Ernst & Young	Shou-Pin Kuo, Jia-Ling Tu	Unqualified Opinions

2. Five-Year Financial Analysis

2.1. Consolidated Financial Analysis – Based on IFRS

Item (Note 3) \ Year		Last Five-Year Financial Analysis (Note 1)					As of March 31, 2019 (Note 2)
		2014	2015	2016	2017	2018	
Capital structure analysis (%)	Debt ratio	3.57	3.23	3.92	2.54	3.89	12.89
	Long-term fund to property, plant and equipment ratio	178,418.46	146,640.14	60,425.30	35,971.77	5,135.19	5,665.35
Liquidity Analysis (%)	Current ratio	2,772.95	3,085.37	2,540.69	3,783.42	2,249.83	1,642.92
	Quick ratio	2,766.19	3,050.17	2,507.52	3,748.99	2,215.18	1,623.66
	Times interest earned	(Note 4)	(Note 4)	(Note 4)	(Note 4)	(Note 4)	(39.61)
Operating performance analysis	Average collection turnover (Times)	6.56	4.67	3.73	4.88	5.2	5.37
	Days sales outstanding	55	78	97	74	70	67
	Average inventory turnover (Times)	0.82	0.48	0.64	0.53	0.27	0.78
	Average payment turnover (Times)	3.36	5.16	42.29	21.86	0.72	1.95
	Average inventory turnover days	445	760	570	688	1351	468
	Property, plant and equipment turnover (Times)	227.10	428.00	220.08	127.56	23.12	13.73
	Total assets turnover (Times)	0.37	0.26	0.25	0.29	0.25	0.24
Profitability analysis	Return on assets (%)	0.09	0.46	(3.76)	2.13	3.43	(1.80)
	Return on equity attributable to owners of the parent (%) (Note 7)	0.10	0.47	(3.90)	2.2	3.55	(2.00)
	Pre-tax income to paid-in capital (%)	0.83	1.65	(7.72)	5.84	10.07	(5.34)
	Net margin (%)	0.23	1.77	(15.27)	7.44	13.64	(7.53)
	Earnings per share (NT$)	0.02	0.11	(0.86)	0.51	0.97	(0.55)
Cash flow	Cash flow ratio (%)	(Note 5)	3.26	(Note 5)	139.72	(Note 5)	42.40
	Cash flow adequacy ratio (%)	(Note 5)	(Note 5)	(Note 5)	(Note 5)	(Note 5)	8.45
	Cash flow reinvestment ratio (%)	(Note 5)	0.11	(Note 5)	3.77	(0.74)	2.66
Leverage	Operating leverage	(9.84)	8.23	0.87	1.25	1.77	0.59
	Financial leverage	1.00	1.00	1.00	1.00	1.00	0.98

Changes that exceed 20% in the past two years and explanation for those changes:
1. Increase in liabilities to assets ratio: due to the increase of contract liabilities.
2. Decrease in long-term capital to property, plant and equipment ratio: due to the increase of property, plant and equipment.
3. Decrease in Current ratio and Quick ratio: due to the increase of contract liabilities, resulting in increase of Current liabilities.
4. Decrease in Average inventory turnover: due to the decrease of operating costs.
5. Decrease in Average payment turnover: due to the decrease of average trade payables.
6. Increase in Average inventory turnover days: due to the decrease of operating costs.
7. Decrease in Property, plant and equipment turnover: due to the increase of property, plant and equipment.
8. Increase in Return on assets and Return on equity attributable to owners of the parent and Pre-tax income to paid-in capital: due to the increase of revenue, resulting in increase of net income.
9. Increase in Operating leverage: due to the increase of revenue, resulting in increase of net income.

Note 1: The financial data of 2014~2018 are audited.
Note 2: Q1 2019 is review by CPA.
Note 3: Financial analysis equations

1. Capital Structure Analysis:
   (1). Debt ratio = Total liabilities / Total assets
   (2). Long-term fund to property, plant and equipment ratio = (Shareholders' equity + non-current liabilities) / Net property, plant and equipment
2. Liquidity Analysis:
   (1). Current ratio = Current assets / Current liabilities
   (2). Quick ratio = (Current assets – inventories – prepaid expenses) / Current liabilities
   (3). Times interest earned = Earnings before interest and taxes / Interest expenses
3. Operating Performance Analysis:
   (1). Average collection turnover = Net sales / Average trade receivables
   (2). Days sales outstanding = 365 / Average collection turnover
   (3). Average inventory turnover = Operating costs / Average inventory
   (4). Average payment turnover = Operating costs / Average trade payables
   (5). Average inventory turnover days = 365 / Average inventory turnover
   (6). Property, plant and equipment turnover = Net sales / Average property, plant and equipment
   (7). Total assets turnover = Net sales / total assets
4. Profitability Analysis:
   (1). Return on total assets = [Net income + Interest expenses x (1 – tax rate)] / Average total assets
   (2). Return on equity attributable to shareholders of the parent = Net income attributable to shareholders of the parent / Average equity attributable to shareholders of the parent
   (3). Net margin = Net income / Net sales
   (4). Earnings per share = (Net income attributable to shareholders of the parent – preferred stock dividend) / Weighted average number of shares outstanding
5. Cash Flow:
   (1). Cash flow ratio = Net cash provided by operating activities / Current Liabilities
   (2). Cash flow adequacy ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
   (3). Cash flow reinvestment ratio = (Cash provided by operating activities – cash dividends) / (Gross property, plant and equipment + long-term investments + other noncurrent assets + working capital)
6. Leverage:
   (1). Operating leverage = (Net sales – variable cost) / Operating income
   (2). Financial leverage = Operating income / (Operating income – interest expenses)

Note 4: The ratio does not apply due to the Company and subsidiaries do not have interest expense.
Note 5: The ratio does not apply due to the net cash provided by operating activities is negative.

2.2. Parent Company Only Financial Analysis – Based on IFRS

Item (Note3) \ Year		Five-Year Financial Analysis (Note1)				
		2014	2015	2016	2017	2018
Capital structure analysis (%)	Debt ratio	3.51	3.15	3.67	2.37	3.79
	Long-term fund to property, plant and equipment ratio	243,784.98	225,112.43	73,551.60	38,426.56	5,481.04
Liquidity Analysis (%)	Current ratio	2,806.72	3,115.31	2,648.31	4,016.76	2,254.32
	Quick ratio	2,799.84	3,079.53	2,613.26	3,980.00	2,219.85
	Times interest earned	(Note2)	(Note2)	(Note2)	(Note2)	(Note2)
Operating performance analysis	Average collection turnover (Times)	6.54	4.66	3.64	5.00	5.88
	Days sales outstanding	56	78	100	72	62
	Average inventory turnover (Times)	0.82	0.48	0.64	0.53	0.27
	Average payment turnover (Times)	3.36	5.16	42.29	21.86	5.01
	Average inventory turnover days	443	765	569	685	1,364
	Property, plant, and equipment turnover (Times)	439.76	616.14	274.93	132.08	22.93
	Total assets turnover (Times)	0.37	0.25	0.24	0.27	0.23
Profitability analysis	Return on total assets (%)	0.09	0.46	(3.76)	2.14	3.44
	Return on equity attributable to shareholders of the parent (%)	0.10	0.47	(3.90)	2.20	3.55
	Pre-tax income to paid-in capital (%)	0.83	1.65	(7.73)	5.83	10.07
	Net margin (%)	0.24	1.79	(15.86)	7.96	14.68
	Earnings per share (NT$)	0.02	0.11	(0.86)	0.51	0.97
Cash flow	Cash flow ratio (%)	(Note 4)	36.80	(Note 4)	188.24	13.26
	Cash flow adequacy ratio (%)	(Note 4)	(Note 4)	(Note 4)	(Note 4)	(Note 4)
	Cash flow reinvestment ratio (%)	(Note 4)	1.20	(Note 4))	4.74	0.58
Leverage	Operating leverage	(5.50)	2.03	0.83	1.17	1.66
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Changes that exceed 20% in the past two years and explanation for those changes:
1. Increase in liabilities to assets ratio: due to the increase of contract liabilities.
2. Decrease in long-term capital to property, plant and equipment ratio: due to the increase of property, plant and equipment.
3. Decrease in Current ratio and Quick ratio: due to the increase of contract liabilities, resulting in increase of Current liabilities.
4. Decrease in Average inventory turnover: due to the decrease of operating costs.
5. Decrease in Average payment turnover: due to the decrease of average trade payables.
6. Increase in Average inventory turnover days: due to the decrease of operating costs.
7. Decrease in Property, plant and equipment turnover: due to the increase of property, plant and equipment.
8. Increase in Return on assets and Return on equity attributable to owners of the parent and Pre-tax income to paid-in capital: due to the increase of revenue, resulting in increase of net income.
9. Decrease in Cash flow ratio: due to the decrease of net cash provided by operating activities.
10. Decrease in Cash flow reinvestment ratio: due to the increase of property, plant and equipment.
11. Increase in Operating leverage: due to the increase of revenue, resulting in increase of net income.

Note 1: The financial data of 2014~2018 are audited.
Note 2: The ratio does not apply due to the Company does not have interest expense.
Note 3: Financial analysis equations

1. Capital Structure Analysis:
   (1). Debt ratio = Total liabilities / Total assets
   (2). Long-term fund to property, plant and equipment ratio = (Shareholders' equity + non-current liabilities) / Net property, plant and equipment
2. Liquidity Analysis:
   (1). Current ratio = Current assets / Current liabilities
   (2). Quick ratio = (Current assets – inventories – prepaid expenses) / Current liabilities
   (3). Times interest earned = Earnings before interest and taxes / Interest expenses
3. Operating Performance Analysis:
   (1). Average collection turnover = Net sales / Average trade receivables
   (2). Days sales outstanding = 365 / Average collection turnover
   (3). Average inventory turnover = Operating costs / Average inventory
   (4). Average payment turnover = operating costs / Average trade payables
   (5). Average inventory turnover days = 365 / Average inventory turnover
   (6). Property, plant and equipment turnover = Net sales / Average property, plant and equipment
   (7). Total assets turnover = Net sales / total assets
4. Profitability Analysis:
   (1). Return on total assets = [Net income + Interest expenses x (1 – tax rate)] / Average total assets
   (2). Return on equity attributable to shareholders of the parent = Net income attributable to shareholders of the parent / Average equity attributable to shareholders of the parent
   (3). Net margin = Net income / Net sales
   (4). Earnings per share = (Net income attributable to shareholders of the parent – preferred stock dividend) / Weighted average number of shares outstanding
5. Cash Flow:
   (1). Cash flow ratio = Net cash provided by operating activities / Current Liabilities
   (2). Cash flow adequacy ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
   (3). Cash flow reinvestment ratio = (Cash provided by operating activities – cash dividends) / (Gross property, plant and equipment + long-term investments + other noncurrent assets + working capital)
6. Leverage:
   (1). Operating leverage = (Net sales – variable cost) / Operating income
   (2). Financial leverage = Operating income / (Operating income – interest expenses)

Note 4: The ratio does not apply due to the net cash provided by operating activities is negative.

2.3. Consolidated Financial Analysis – Based on ROC GAAP

Item (Note 2) \ Year		Five-Year Financial Analysis (Note 1)				
		2014	2015	2016	2017	2018
Capital structure analysis (%)	Debt ratio	3.57	Based on IFRS			
	Long-term fund to property, plant and equipment ratio	178,418.46				
Liquidity Analysis (%)	Current ratio	2,770.81				
	Quick ratio	2,766.19				
	Times interest earned	291.30				
Operating performance analysis	Average collection turnover (Times)	6.68				
	Days sales outstanding	55				
	Average inventory turnover (Times)	1.07				
	Average payment turnover (Times)	3.36				
	Average inventory turnover days	341				
	Property, plant, and equipment turnover (Times)	226.31				
	Total assets turnover (Times)	0.37				
Profitability analysis	Return on total assets (%)	0.09				
	Return on equity attributable to shareholders of the parent (%)	0.10				
	Operating Income to paid-in capital (%)	(0.36)				
	Pre-tax income to paid-in capital (%)	0.83				
	Net margin (%)	0.24				
	Earnings per share (NT$)	0.02				
Cash flow	Cash flow ratio (%)	(Note 3)				
	Cash flow adequacy ratio (%)	(Note 3)				
	Cash flow reinvestment ratio (%)	(Note 3)				
Leverage	Operating leverage	(980.13)				
	Financial leverage	0.99				

Note 1: The financial data of 2014 are audited.

Note 2: Financial analysis equations

1. Capital Structure Analysis:
   (1). Debt ratio = Total liabilities / Total assets
   (2). Long-term fund to property, plant and equipment ratio = (Shareholders' equity + non-current liabilities) / Net property, plant and equipment
2. Liquidity Analysis:
   (1). Current ratio = Current assets / Current liabilities
   (2). Quick ratio = (Current assets – inventories – prepaid expenses) / Current liabilities
   (3). Times interest earned = Earnings before interest and taxes / Interest expenses
3. Operating Performance Analysis:
   (1). Average collection turnover = Net sales / Average trade receivables
   (2). Days sales outstanding = 365 / Average collection turnover
   (3). Average inventory turnover = Operating costs / Average inventory
   (4). Average payment turnover = operating costs / Average trade payables
   (5). Average inventory turnover days = 365 / Average inventory turnover
   (6). Property, plant and equipment turnover = Net sales / Average property, plant and equipment
   (7). Total assets turnover = Net sales / total assets
4. Profitability Analysis:
   (1). Return on total assets = [Net income + Interest expenses x (1 – tax rate)] / Average total assets
   (2). Return on equity attributable to shareholders of the parent = Net income attributable to shareholders of the parent / Average equity attributable to shareholders of the parent
   (3). Net margin = Net income / Net sales
   (4). Earnings per share = (Net income attributable to shareholders of the parent – preferred stock dividend) / Weighted average number of shares outstanding
5. Cash Flow:
   (1). Cash flow ratio = Net cash provided by operating activities / Current Liabilities
   (2). Cash flow adequacy ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
   (3). Cash flow reinvestment ratio = (Cash provided by operating activities – cash dividends) / (Gross property, plant and equipment + long-term investments + other noncurrent assets + working capital)
6. Leverage:
   (1). Operating leverage = (Net sales – variable cost) / Operating income
   (2). Financial leverage = Operating income / (Operating income – interest expenses)

Note 3: The ratio does not apply due to the net cash provided by operating activities is negative.

2.4. Parent Company Only Financial Analysis – Based on ROC GAAP

Item (Note 2) \ Year		Five-Year Financial Analysis (Note 1)				
		2014	2015	2016	2017	2018
Capital structure analysis (%)	Debt ratio	3.51	Based on IFRS			
	Long-term fund to property, plant and equipment ratio	243,784.98				
Liquidity Analysis (%)	Current ratio	2,804.54				
	Quick ratio	2,799.84				
	Times interest earned	291.30				
Operating performance analysis	Average collection turnover (Times)	6.68				
	Days sales outstanding	55				
	Average inventory turnover (Times)	1.07				
	Average payment turnover (Times)	3.36				
	Average inventory turnover days	341				
	Property, plant, and equipment turnover (Times)	439.76				
	Total assets turnover (Times)	0.37				
Profitability analysis	Return on total assets (%)	0.09				
	Return on equity attributable to shareholders of the parent (%)	0.10				
	Operating Income to paid-in capital (%)	(0.58)				
	Pre-tax income to paid-in capital (%)	0.83				
	Net margin (%)	0.24				
	Earnings per share (NT$)	0.02				
Cash flow	Cash flow ratio (%)	(Note 3)				
	Cash flow adequacy ratio (%)	(Note 3)				
	Cash flow reinvestment ratio (%)	(Note 3)				
Leverage	Operating leverage	(698.73)				
	Financial leverage	1.00				

Note 1: The financial data of 2014 are audited.

Note 2: Financial analysis equations

1. Capital Structure Analysis:
   (1). Debt ratio = Total liabilities / Total assets
   (2). Long-term fund to property, plant and equipment ratio = (Shareholders' equity + non-current liabilities) / Net property, plant and equipment
2. Liquidity Analysis:
   (1). Current ratio = Current assets / Current liabilities
   (2). Quick ratio = (Current assets – inventories – prepaid expenses) / Current liabilities
   (3). Times interest earned = Earnings before interest and taxes / Interest expenses
3. Operating Performance Analysis:
   (1). Average collection turnover = Net sales / Average trade receivables
   (2). Days sales outstanding = 365 / Average collection turnover
   (3). Average inventory turnover = Operating costs / Average inventory
   (4). Average payment turnover = operating costs / Average trade payables
   (5). Average inventory turnover days = 365 / Average inventory turnover
   (6). Property, plant and equipment turnover = Net sales / Average property, plant and equipment
   (7). Total assets turnover = Net sales / total assets
4. Profitability Analysis:
   (1). Return on total assets = [Net income + Interest expenses x (1 – tax rate)] / Average total assets
   (2). Return on equity attributable to shareholders of the parent = Net income attributable to shareholders of the parent / Average equity attributable to shareholders of the parent
   (3). Net margin = Net income / Net sales
   (4). Earnings per share = (Net income attributable to shareholders of the parent – preferred stock dividend) / Weighted average number of shares outstanding
5. Cash Flow:
   (1). Cash flow ratio = Net cash provided by operating activities / Current Liabilities
   (2). Cash flow adequacy ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
   (3). Cash flow reinvestment ratio = (Cash provided by operating activities – cash dividends) / (Gross property, plant and equipment + long-term investments + other noncurrent assets + working capital)
6. Leverage:
   (1). Operating leverage = (Net sales – variable cost) / Operating income
   (2). Financial leverage = Operating income / (Operating income – interest expenses)

Note 3: The ratio does not apply due to the net cash provided by operating activities is negative.

3. Supervisor's Review Report

Andes Technology Corporation
Supervisors' Report

The Financial Statements of Andes Technology Corporation in fiscal year 2018 have been duly audited by Ernst & Young and are believed to fairly represent the financial standing, operation results and cash flows of Andes Technology Corporation. We, the Supervisors, have duly reviewed the Financial Statements along with the Business Report and proposal for profits distribution and hereby verify that they comply with the requirements of Company Law and relevant regulations. This report is duly submitted in accordance with Article 219 of the Company Law, and we hereby submit this report.

To Andes Technology Corporation 2019 Annual General Shareholders' Meeting

Andes Technology Corporation

Supervisor: Ding-Hua Hu
(Representative of Chien-Hsu Investment Corp.)

Supervisor: Chung-Laung Liu

Supervisor: Ying-Chih Wu

March 15th, 2019

4. Financial Statements and Independent Auditors' Report –the Company & Subsidiaries (Page 81 – Page 167)

5. Financial Statements and Independent Auditors' Report – Parent Company (Page 168 – Page 253)

6. The Impact on the Company's Financial Status in Cases where the Company or its Affiliates have Financial Difficulties:

   None.

VII. Financial Status, Operating Results and Status of Risk Management

1. Financial Status

Unit: NT$ thousands

Item \ Year	2017	2018	Change	
			Amount	%
Current Assets	1,139,150	1,082,279	(56,871)	(4.99)
Property, Plant and Equipment	3,209	23,154	19,945	621.53
Intangible Assets	40,629	125,283	84,654	208.36
Other Assets	1,455	6,391	4,936	339.24
Total Assets	1,184,443	1,237,107	52,664	4.45
Current Liabilities	30,109	48,105	17,996	59.77
Long-term Liabilities	0	0	0	-
Other Liabilities	0	0	0	-
Total Liabilities	30,109	48,105	17,996	59.77
Share Capital	406,199	426,509	20,310	5.00
Capital Surplus	756,338	728,972	(27,366)	(3.62)
Retained Earnings	(6,451)	34,626	41,077	(636.75)
Other Equity	(1,752)	(1,105)	647	(36.93)
Total Equity	1,154,334	1,189,002	34,668	3.00

Explanation for changes that exceed 20% and reached NT$10 million in the past two years:
1. Increase in property, plant and equipment: due to the increase of property, plant and equipment for establishment of Hsinchu Branch.
2. Increase in Intangible Assets: due to the increase of Development costs.
3. Increase in Current Liabilities: due to the increase of Contract liabilities.
4. Increase in Retained Earnings: due to the increase of Net income NT$ 41,567 thousands.

2. Operating Results

Unit: NT$ thousands

Item \ Year	2017	2018	Change	% of Change
Net Sales	289,377	304,756	15,379	5.31
Operating Costs	940	416	(524)	(55.74)
Gross Profit	288,437	304,340	15,903	5.51
Operating Expenses	261,545	269,029	7,484	2.86
Operating Income	26,892	35,311	8,419	31.31
Non-Operating Income and Expenses	(3,170)	7,653	10,823	(341.42)
Net Income before Income Tax	23,722	42,964	19,242	81.11
Income Tax Expense	2,189	1,397	(792)	(36.18)
Net Income	21,533	41,567	20,034	93.04
Other Comprehensive Income, net of tax	(1,024)	647	1,671	(163.18)
Total Comprehensive Income	20,509	42,214	21,705	105.83

Explanation for changes that exceed 20% and reached NT$10 million in the past two years:
1. Increase in Net Income: due to the increase of revenue, resulting in increase of net income.
2. Increase in Non-Operating Income and Expenses: due to the increase of Foreign exchange gains.

3. Cash Flow Analysis

3.1. Analysis of cash flow deviation for the current period:

Unit: NT$ thousands

Cash Balance Dec. 31, 2017	Net Cash Provided by operating Activities in 2018	Net Cash Outflows from Investing and Financing Activities in 2018	Impact of Foreign Exchange Ratio	Cash Balance Dec. 31, 2018	Remedy for Cash Shortfall	
					Investment plan	Financing plan
688,705	(7,857)	(153,165)	685	528,368	-	-

Analysis of cash flow:
1. Operating activities: due to the increases of Contract assets and trade receivables.
2. Estimated net cash outflow: due to the increases of Financial assets measured at amortized cost and Intangible assets.

3.2. Remedy for cash shortfall: Not applicable.

3.3. Analysis of cash flow project for the next period: As of March 31, 2019, the Cash and cash equivalents still have net NT$669,778 thousand. The Company has ample cash on-hand.

4. Major Capital Expenditure

None.

5. Direct Investment Policy, Main Causes for Profit or Loss, Improvement Plan and Investment Plan for the Upcoming Year:

The Company's investments are long-term strategic investments. Investment loss from equity method investment in 2018 was NT$5,463 thousand. The Company will keep its long-term strategic investment policy and evaluate investment plans prudently.

6. Risk Management

6.1. Risks Associated with Interest Rate Fluctuation, Foreign Exchange Volatility, and Inflation

Unit: NT$ thousands

Item \ Year	2017	2018	As of March 31, 2019
Net Sales	289,377	304,756	78,386
Foreign Exchange Gains Or Losses	(6,882)	3,499	710
Foreign Exchange Gains Or Losses to Net Sales (%)	(2.38)	1.15	0.91

(1) Risks associated with interest rate: the Company does not have bank borrowings, therefore changes in market interest rates are not influence to the Company.

(2) Risks associated with foreign currency: The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries. The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates for USD. When NTD appreciates or depreciates against USD by 0.1%, the profit for the years ended December 31, 2018 and 2017 decreases/increases by NT$1,054 thousand and NT$506 thousand. The impact of exchange rate fluctuations of the NTD against the USD on the Company is not significant.

(3) Risks associated with inflation: There was no major impact from inflation on the Company's 2018 operations. The Company has not been profitable due to inflation. The past profit and loss has not been significantly affected by inflation. If the cost or expense is increased due to inflation, the Company will also adjust the sales price appropriately.

6.2. Risks Associated with High-Risk/High-Leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions

(1) The Company has not engaged in high-risk or high-leveraged financial investments during 2018 and up to date of this report. ◦

(2) The Company has not engaged in the act of lending, endorsement guarantees and Financial Derivatives transactions during 2018 and up to date of this report.

6.3. Future R&D Plans and Expected R&D Spending

Our future R&D focus on the continuous integration of new architecture definitions with AndeStar™ V5. These include the advanced digital signal extension instructions, security function architecture, new-generation instruction set, etc. The near-term plan of the AndesCore™ processor core consists of development the V5 digital signal extension instructions, and will focus on higher performance and lower power based on the application trend. The development of the AndeSight™ Integration and Development Environment includes the tool chain. In addition to the development of new LLVM compilers, we continue to optimize and support the new processor instruction set and core pipeline architecture. For the development of the AndeSoft™ Software Stack, we add the support for 64-bit OS (Operation System) and enhance IoT stack. We also continue to port and optimize the latest version for the existing OS and application functions. The AndeShape™ Platform IP and FPGA Development Board include the Arduino-compatible Corvette-F1 Development Board and support the new processor cores.

Most of our R&D expenditures belong to the salaries of the R&D personnel. We invested NT$ 117,203 thousand dollars and 108,070 thousand dollars in 2017 and 2018 respectively. In the future, we will hire more R&D talents to enhance our R&D capabilities. We estimate that the funds invested in the future R&D plans will account for 40% of the annual revenues.

6.4. Risk Associated with Changes in the Political and Regulatory Environment

The Group keeps paying high attention to any change in political and regulatory environment and deliberates the proper solutions in time.

6.5. Impact of New Technology and Industry Changes

The Company will continue to monitor the latest trend of the related technology and technology development, in order to understand industry dynamics, for relevant planning and response measures. The changes in the new technology and industry change have no significant impact on the Company's business.

6.6. Changes in Corporate Image and Impact on Company's Crisis Management

There are no changes in corporate image and impact on company's Crisis during 2018 and up to date of this report.

6.7. Risks Associated with Mergers and Acquisitions

There is no any plan with Mergers and Acquisitions during 2018 and up to date of this report.

6.8. Risks Associated with Facility Expansion

There is no any plan with Facility Expansion during 2018 and up to date of this report.

6.9. Risks Associated with Purchase Concentration and Sales Concentration

(1) Purchase Concentration

The Company's production number is significant. Therefore there is no risk associated with purchase concentration.

(2) Sales Concentration

The Company will continue to develop new clients. There are no major customers' revenue is over 10% of all during 2017 and 2018. Sales concentration does not pose any risks since the Company's products are sold to reputable listing company or well-known company, and the relationship between the two parties is good, the collection situation is normal.

6.10. Risks Associated with Sales of Significant Numbers of Shares by the Company's Directors and Major Shareholders Who Own 10% or more of the Company's Total Outstanding Shares

In the latest fiscal year and as of the date of this Annual Report, there were no such risks for the Company.

6.11. Risks Associated with Change in Management

In the latest fiscal year and as of the date of this Annual Report, there were no such risks for the Company.

6.12. Risks Associated with Litigations

In the latest fiscal year and as of the date of this Annual Report, there were no such risks for the Company.

6.13. Other Material Risk

None.

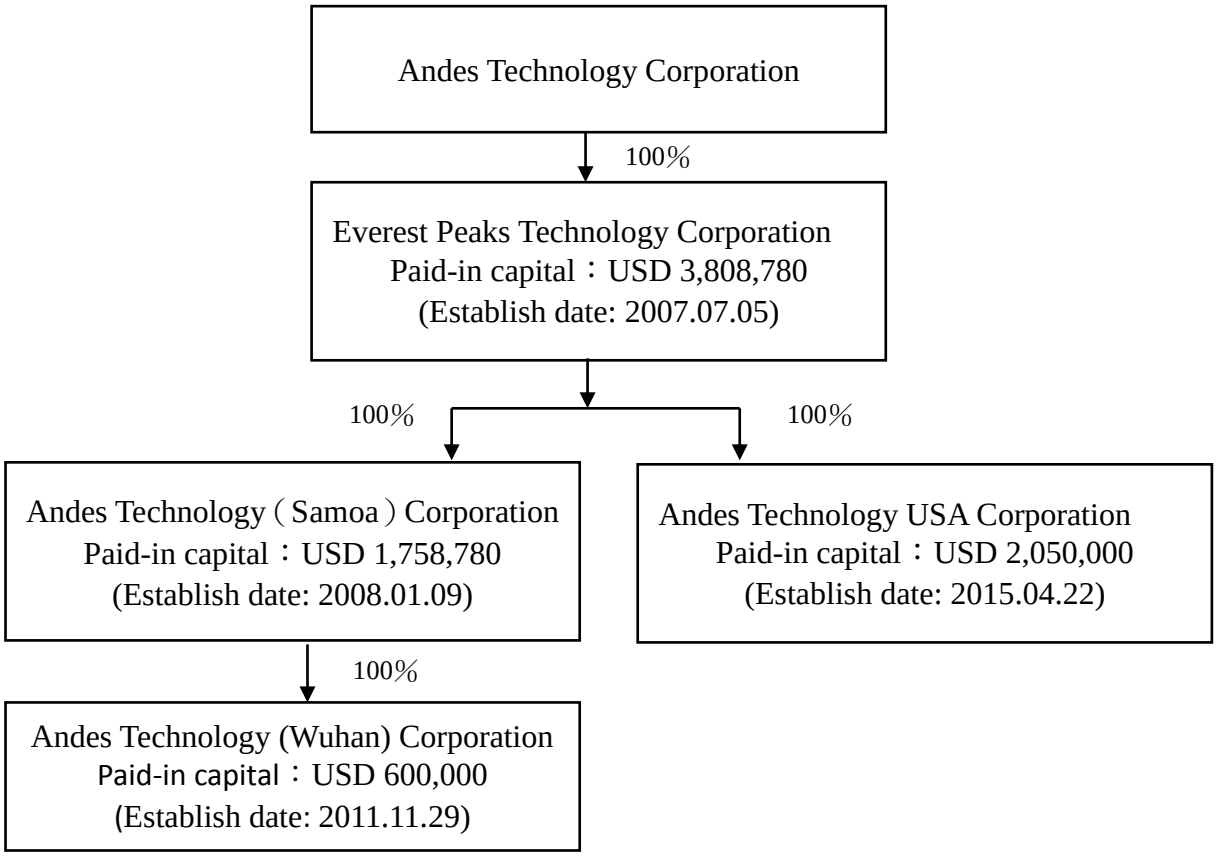
7. Other Material Events

None.

VIII. Special Disclosure

1. Summary of Affiliated Companies

1.1. The Company's Affiliated Companies Chart (December 31, 2018)



1.2. The Company Affiliated Companies

December 31, 2018;

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
Everest Peaks Technology Corporation	2007/7	B.V.I.	USD 3,808,780	General investing
Andes Technology（Samoa）Corporation	2008/1	Samoa	USD 1,758,780	General investing
Andes Technology USA Corporation	2015/4	USA	USD 2,050,000	Licensing CPU IP and providing related services
Andes Technology (Wuhan) Corporation	2011/11	China	USD 600,000	Licensing CPU IP and providing related services

1.3. Common Shareholders of the Company and Its Subsidiaries or Its Affiliates with Actual of Deemed Control: None.

1.4. Business Scope of the Company and Its Affiliated Companies: Licensing CPU IP and providing related services.

1.6. List of Directors, Supervisors and Presidents of the Company's Affiliated Companies

December 31, 2018

Company Name	Title	Name or Representative	Shareholding	
			Shares	% of Holding
Everest Peaks Technology Corporation	Chairman	Andes Technology Corporation Rep: Jyh-Ming Lin	3,808,780	100%
Andes Technology（Samoa）Corporation	Chairman	Everest Peaks Technology Corporation Rep: Jyh-Ming Lin	1,758,780	100%
Andes Technology USA Corporation	Chairman	Everest Peaks Technology Corporation Rep: Jyh-Ming Lin	2,050,000	100%
	Director	Everest Peaks Technology Corporation Rep: Hong-Men Su		
	Director	Everest Peaks Technology Corporation Rep: Han-Chang Chou		
Andes Technology (Wuhan) Corporation	Chairman	Andes Technology（Samoa）Corporation Rep: Jyh-Ming Lin	-	100%
	Director	Andes Technology（Samoa）Corporation Rep: Hong-Men Su		
	Director	Andes Technology（Samoa）Corporation Rep: Kuo-Chi Lin		
	Supervisor	Andes Technology（Samoa）Corporation Rep: Han-Chang Chou		

1.7. Operation Highlights of the Company's Affiliated Companies

December 31, 2018 / Unit: NT$ thousands

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Operating income (loss)	Income	EPS (NT$)
Everest Peaks Technology Corporation	118,562	27,898	0	27,898	0	0	(5,463)	(1.43)
Andes Technology（Samoa）Corporation	55,192	15,414	0	15,414	0	0	12,300	6.99
Andes Technology USA Corporation	63,370	27,259	14,775	12,484	30,325	(17,805)	(17,763)	(8.66)
Andes Technology（Wuhan）Corporation	18,117	29,909	14,499	15,410	37,541	12,300	12,300	-

2. Private Placement Securities: None.

3. Holding or Disposition of the Company Stocks by Subsidiaries: None.

4. Other Necessary Supplement: None.
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5. Any Events that Had Significant Impacts on Shareholders' Rights or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

English Translation of a Report and Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

Address: A1-4, 3F, No.1, Li-Hsin First Road, Hsinchu Science Park, Hsinchu City 300, Taiwan R.O.C.
Telephone: 886-3-572-6533

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2018 and for the year then ended prepared under the International Financial Reporting Standards, No.10 are the same as the entities to be included in the Combined Financial Statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the consolidated financial statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the consolidated financial statements.

Very truly yours,

Andes Technology Corporation

Chairman: Ming-Kai Tsai

March 15, 2019

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To: Andes Technology Corporation

Opinion

We have audited the accompanying consolidated balance sheets of Andes Technology Corporation and its subsidiaries (the "Group") as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (collectively "the consolidated financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and their consolidated financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

Revenue recognition

Net sales recognized by the Group amounted to NT$304,756 thousand for the year ended December 31, 2018. The Group provides embedded processor intellectual property (IP), and its revenues are mainly from licensing IP and providing IP maintenance services to clients. Considering that revenues from contracts with customers usually include more than one performance obligations, the Group recognizes revenues when the control of goods and services under each performance obligation has been transferred. However, contract terms may vary and there remains a risk of revenues being recorded in an inappropriate period because the control of the promised goods or services has not been transferred to the buyer. Therefore, we considered this a key audit matter.

Our audit procedures included (but not limited to) assessing the appropriateness of the accounting policy of revenue recognition; evaluating and testing the design and operating effectiveness of internal controls around revenue recognition; selecting samples from the contracts with customers to review significant terms and condition of contracts, identify separate performance obligations and their transaction prices, and further perform tests of details to verify the correctness of the amount and timing of revenue recognition; executing tests of journal entries prepared by management to validate the consistency with the substance of transaction and ensure the appropriateness of revenue recognition.

We also assessed the adequacy of disclosures of operating revenues. Please refer to Note 4 and 6 to the Group's consolidated financial statements.

An intangible asset arising from development costs

The Group devotes itself to developing and constructing a unique system architecture and contributes significant R&D efforts in development of embedded processor IPs and hardware/software developing platforms. Therefore, the Group determined to capitalize the expenditures during development phases of certain R&D projects. Net carrying value of intangible assets arising from development recognized by the Group was NT$124,590 thousand as of December 31, 2018, NT$100,272 thousand of which was recognized during the year. Both amounts are significant to the Group. In order to meet all of the capitalization criteria, the Group's management performed assessments on each individual project based on the internal and external information available, which involved management judgement and assumptions. Therefore, we considered this a key audit matter.

Our audit procedures included (but not limited to) evaluating and testing the design and operating effectiveness of internal controls around the internally generated intangible assets, including assessing whether the Group has established appropriate written accounting policies that address the required conditions and documentations for R&D expenditure capitalization; selecting samples from research and development projects of the year to gather evidences to support the technical feasibility, future economic benefits, the availability of future resources and expenditures needed, the management's intention to complete and the ability to sell the intangible asset; and verifying the accuracy of the expenditures attributable to the intangible asset during its development phase and the amount to be capitalized.

We also assessed the adequacy of disclosures of intangible assets. Please refer to Notes 5 and 6 to the Group's consolidated financial statements.

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

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

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

Those charged with governance, including supervisors, are responsible for overseeing the financial reporting process of the Group.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Group. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Others

We have audited and expressed an unqualified opinion on the parent company only financial statements of Andes Technology Corporation as of and for the years ended December 31, 2018 and 2017.

Kuo, Shao-Pin

Tu, Jia-Ling

Ernst & Young, Taiwan
March 15, 2019

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

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

English Translation of Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2018	%	December 31, 2017	%
Current assets					
Cash and cash equivalents	6(1)	$ 528,368	42.71	$ 688,705	58.15
Financial assets measured at amortized cost, current	3, 4, 6(2)	420,000	33.95	-	-
Contract assets, current	3, 4, 6(11), 6(12), 7	60,061	4.86	-	-
Debt instrument investments for which no active market exists, current	3, 4, 6(3)	-	-	394,000	33.26
Trade receivables, net	3, 4, 6(4), 6(12)	53,558	4.33	45,458	3.84
Trade receivables-related parties, net	4, 6(4), 6(12), 7	2,580	0.21	-	-
Other receivables		1,047	0.08	621	0.05
Inventories	4, 6(5)	911	0.07	1,059	0.09
Prepayments		15,754	1.27	9,307	0.79
Total current assets		1,082,279	87.48	1,139,150	96.18
Non-current assets					
Property, plant and equipment	4, 6(6)	23,154	1.87	3,209	0.27
Intangible assets	4, 6(7)	125,283	10.13	40,629	3.43
Deferred tax assets	4, 6(17)	276	0.02	359	0.03
Refundable deposits		6,115	0.50	1,096	0.09
Total non-current assets		154,828	12.52	45,293	3.82
Total assets		$ 1,237,107	100.00	$ 1,184,443	100.00

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

Chairman : Ming-Kai Tsai President : Jyh-Ming Lin Chief Financial Officer : Han-Chang Chou

English Translation of Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	December 31, 2018	%	December 31, 2017	%
Current liabilities					
Contract liabilities, current	3, 4, 6(11), 7	$ 19,587	1.58	$ -	-
Trade payables		1,108	0.09	40	-
Other payables		26,021	2.10	23,556	1.99
Advance receipts	3, 7	54	0.01	5,365	0.45
Other currents liabilities		1,335	0.11	1,148	0.10
Total current liabilities		48,105	3.89	30,109	2.54
Total liabilities		48,105	3.89	30,109	2.54
Equity attributable to owners of the parent					
Capital					
Common stock	6(9)	426,509	34.48	406,199	34.29
Capital surplus	6(9), 6(10)	728,972	58.92	756,338	63.86
Retained earnings	3, 6(9)				
Legal reserve		388	0.03	388	0.03
Special reserve		217	0.02	217	0.02
Undistributed earnings (accumulated deficits)		34,021	2.75	(7,056)	(0.59)
Total retained earnings		34,626	2.80	(6,451)	(0.54)
Other equity		(1,105)	(0.09)	(1,752)	(0.15)
Total equity		1,189,002	96.11	1,154,334	97.46
Total liabilities and equity		$ 1,237,107	100.00	$ 1,184,443	100.00

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

Chairman : Ming-Kai Tsai President : Jyh-Ming Lin Chief Financial Officer : Han-Chang Chou

English Translation of Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	2018	%	2017	%
Net sales	4, 6(11), 7	$ 304,756	100.00	$ 289,377	100.00
Operating costs	6(5)	(416)	(0.14)	(940)	(0.32)
Gross profit		304,340	99.86	288,437	99.68
Operating expenses	6(12), 6(13), 6(14), 7				
Selling expenses		(91,992)	(30.18)	(95,059)	(32.85)
Administrative expenses		(57,821)	(18.97)	(58,416)	(20.19)
Research and development expenses		(117,203)	(38.46)	(108,070)	(37.35)
Expected credit losses		(2,013)	(0.66)	-	-
Total operating expenses		(269,029)	(88.27)	(261,545)	(90.39)
Operating income		35,311	11.59	26,892	9.29
Non-operating income and expenses	6(15)				
Other income		6,145	2.02	4,997	1.73
Other gains and losses		1,508	0.49	(8,167)	(2.82)
Total non-operating income and expenses		7,653	2.51	(3,170)	(1.09)
Net income before income tax		42,964	14.10	23,722	8.20
Income tax expense	4, 6(17)	(1,397)	(0.46)	(2,189)	(0.76)
Net income		41,567	13.64	21,533	7.44
Other comprehensive income	6(16)				
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations		730	0.24	(1,234)	(0.42)
Income tax relating to those items to be reclassified to profit or loss		(83)	(0.03)	210	0.07
Other comprehensive income (loss), net of tax		647	0.21	(1,024)	(0.35)
Total comprehensive income		$ 42,214	13.85	$ 20,509	7.09
Net income attributable to :					
Owners of the parent		$ 41,567		$ 21,533	
Total comprehensive income attributable to :					
Owners of the parent		$ 42,214		$ 20,509	
Earnings per share (NTD)	6(18)				
Basic Earnings Per Share		$ 0.97		$ 0.51	
Diluted Earnings Per Share		$ 0.97		$ 0.51	

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

Chairman : Ming-Kai Tsai President : Jyh-Ming Lin Chief Financial Officer : Han-Chang Chou

English Translation of Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent						
	Capital		Retained earnings			Other equity	
	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings (accumulated deficits)	Exchange differences resulting from translating the financial statements of foreign operations	Total equity
Balance as of January 1, 2017	$ 371,399	$ 459,761	$ 388	$ 217	$ (28,589)	$ (728)	$ 802,448
Issuance of common stock for cash	34,720	295,192	-	-	-	-	329,912
Net income for the year ended December 31, 2017	-	-	-	-	21,533	-	21,533
Other comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	(1,024)	(1,024)
Total comprehensive income (loss)	-	-	-	-	21,533	(1,024)	20,509
Share-based payment transactions	80	1,385	-	-	-	-	1,465
Balance as of December 31, 2017	406,199	756,338	388	217	(7,056)	(1,752)	1,154,334
Effects of retrospective application and restatement	-	-	-	-	(7,546)	-	(7,546)
Restated balance as of January 1, 2018	406,199	756,338	388	217	(14,602)	(1,752)	1,146,788
Changes in other capital surplus							
Capital surplus used to cover accumulated deficits	-	(7,056)	-	-	7,056	-	-
Stock dividends distributed from capital surplus	20,310	(20,310)	-	-	-	-	-
Net income for the year ended December 31, 2018	-	-	-	-	41,567	-	41,567
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	-	647	647
Total comprehensive income	-	-	-	-	41,567	647	42,214
Balance as of December 31, 2018	$ 426,509	$ 728,972	$ 388	$ 217	$ 34,021	$ (1,105)	$ 1,189,002

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

Chairman : Ming-Kai Tsai

President : Jyh-Ming Lin

Chief Financial Officer : Han-Chang Chou

English Translation of Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

Description	2018	2017
Cash flows from operating activities :		
Net income before income tax	$ 42,964	$ 23,722
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	1,786	788
Amortization	15,726	2,188
Expected credit loss	2,013	8,109
Interest income	(5,141)	(4,219)
Losses on disposal of property, plant and equipment	37	-
Changes in operating assets and liabilities:		
Contract assets	(37,235)	-
Trade receivables	(32,896)	11,424
Trade receivables - related parties	(2,580)	-
Other receivables	(797)	-
Inventories	148	368
Prepayments	(6,447)	135
Contract liabilities	6,676	-
Trade payables	1,068	(6)
Other payables	2,465	(4,640)
Advance receipts	54	1,821
Other current liabilities	187	162
Cash (used in) generated from operating activities	(11,972)	39,852
Interest received	5,223	4,102
Income tax paid	(1,108)	(1,886)
Net cash (used in) provided by operating activities	(7,857)	42,068
Cash flows from investing activities :		
Acquisition of financial assets measured at amortized cost	(420,000)	-
Proceeds from disposal of financial assets measured at amortized cost	394,000	-
Acquisition of debt instrument investments for which no active market exists	-	(574,000)
Proceeds from disposal of debt instrument investments for which no active market exists	-	180,000
Acquisition of property, plant and equipment	(21,768)	(2,677)
Increase in refundable deposits	(5,216)	(60)
Decrease in refundable deposits	199	-
Acquisition of intangible assets	(100,380)	(42,744)
Net cash used in investing activities	(153,165)	(439,481)
Cash flows from financing activities :		
Issuance of common stock for cash	-	329,912
Proceeds from exercise of employee stock options	-	1,465
Net cash provided by financing activities	-	331,377
Effect of changes in exchange rate on cash and cash equivalents	685	(1,197)
Net decrease in cash and cash equivalents	(160,337)	(67,233)
Cash and cash equivalents at the beginning of the year	688,705	755,938
Cash and cash equivalents at the end of the year	$ 528,368	$ 688,705

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

Chairman : Ming-Kai Tsai President : Jyh-Ming Lin Chief Financial Officer : Han-Chang Cl

1. History, Organization and Operation

As officially approved, Andes Technology Corporation ("ANDES") was incorporated at Hsinchu Science Park on March 14, 2005. Since then, it has been specialized in the R&D, designing, manufacturing and marketing of embedded processor intellectual property (IP), related hardware/software developing platform and toolchains.

ANDES' shares were publicly listed on the Taiwan Stock Exchange (TWSE) on March 14, 2017. The registered location is at A1-4, 3F, No.1, Li-Hsin First Road, Hsinchu Science Park, Hsinchu City 300, Taiwan R.O.C. The operating location is at 10F, No.1, Section 3, Gongdao 5th Road, East District, Hsinchu City 300, Taiwan R.O.C.

2. Date and Procedures of Authorization of Financial Statements for Issue

The consolidated financial statements of the Group were authorized for issue in accordance with a resolution of the board meeting held on March 15, 2019.

3. Newly Issued or Revised Standards and Interpretations

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments:

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2018. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

A. IFRS 15 "Revenue from Contracts with Customers" (including Amendments to *IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers")*

IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations. In accordance with the transition provisions in IFRS 15, the Group elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Group's principal activities consist of the sale of CPU IP and rendering of maintenance services. The impacts arising from the adoption of IFRS 15 on the Group are summarized as follows:

a. Please refer to Note 4(15) for the accounting policies before or after January 1, 2018.

b. Starting from January 1, 2018, in accordance with IFRS 15, the Group recognizes revenue when (or as) the Group satisfies a performance obligation by transferring a promised good to a customer. However, for some contracts, if the Group has transferred the goods to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets, which is different from the accounting treatment of recognizing trade receivables before January 1, 2018. Besides, loss allowance for contract assets was assessed in accordance with IFRS 9. The amount reclassified from trade receivables to contract assets of the Group as at January 1, 2018 was NT$22,826 thousand.

c. Before January 1, 2018, revenue from rendering of maintenance service was recognized on a straight-line basis over the contract period. Starting from January 1, 2018, in accordance with IFRS 15, the Group shall recognize revenue when (or as) the Group satisfies a performance obligation by rendering of maintenance services to a customer, which has no significant impacts on the revenue recognition. However, for some maintenance services contracts, part of the consideration was received from customers upon signing the contract, and the Group has the obligation to provide the services subsequently. Before January 1, 2018, the Group recognized the consideration received in advance from customers under advance receipts. Starting from January 1, 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from advance receipts to contract liabilities of the Group as at January 1, 2018 was NT$5,365 thousand.

d. In accordance with IFRS 15, the Group shall identify performance obligations in the contract, including the commitment that in writing, orally or implied by an entity's customary business practices, and shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. For certain CPU IP contracts, the Group has identified the maintenance service as a separate performance obligation which has been bundled with those CPU IP contracts. The Group shall allocate the transaction price to the maintenance service on a relative stand-alone selling price basis and the revenue shall be recognized during the period that the Group performs its obligation. Before January 1, 2018, the consideration received for the aforementioned implied performance obligation was recognized as revenue. Starting from January 1, 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from retained earnings to contracts liabilities of the Group as at January 1, 2018 was NT$4,272 thousand.

e. The consideration promised in a contract includes a variable amount, such as the terms of deduction. In accordance with IFRS 15, The Group shall estimate an amount of variable consideration by using either the expected value method or the most likely amount method, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled. In estimating the transaction price of some or all of an amount of variable consideration, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Before January 1, 2018, the received consideration was recognized as revenue. Starting from January 1, 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from retained earnings to contracts liabilities of the Group as at January 1, 2018 was NT$3,274 thousand.

f. Please refer to Note 4(15) and Note 6(11) for additional disclosure required by IFRS 15.

g. The amount by which each financial statement line item is effected in the current reporting period by the application of IFRS 15 as compared to IAS 11, IAS 18 and related Interpretations that were in effect before the change and an explanation of the reasons for significant changes:

Items	Amounts in accordance with IFRS 15	Amounts in accordance with IAS 18	Differences	Note
December 31, 2018				
Balance sheet:				
Contract assets	$60,061	$-	$60,061	A
Trade receivables, net	53,558	112,083	(58,525)	A
Trade receivables-related parties, net	2,580	4,116	(1,536)	A
Current liabilities:				
Contract liabilities	19,587	-	19,587	B, C, D
Advance receipts	54	15,072	(15,018)	B
Equity:				
Retained earnings	34,626	39,195	(4,569)	B, C, D

For the year ended December 31, 2018				
Statement of comprehensive income:				
Net sales	$304,756	$301,779	$2,977	B, C
Net income before income tax	42,964	39,987	2,977	
Net income	41,567	38,590	2,977	
Net income (loss) for the periods attributable to:				
Owners of the parent	41,567	38,590	2,977	
Earnings per share				
Basic earnings per share	0.97	0.90		
Diluted earnings per share	0.97	0.90		

For the year ended December 31, 2018				
Statement of cash flows:				
Cash flows from operating activities				
Contract assets	$(37,235)	$-	$(37,235)	
Trade receivables, net	(32,896)	(68,595)	35,699	
Trade receivables-related parties, net	(2,580)	(4,116)	1,536	
Contract liabilities	6,676	-	6,676	
Advance receipts	54	9,707	(9,653)	

Note：

A. In accordance with IFRS 15, for some contracts, if the Group has transferred the goods to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets.

B. For some maintenance services contracts, part of the consideration was received from customers upon signing the contract, and the Group has the obligation to provide the services subsequently. The Group recognized the consideration received in advance from customers under advance receipts, and in accordance with IFRS 15, it should be recognized as contract liabilities.

C. For certain CPU IP contracts, the Group has identified the maintenance service as a separate performance obligation which has been bundled with those CPU IP contracts. The Group shall allocate the transaction price to the maintenance service on a relative stand-alone selling price basis and the revenue shall be recognized during the period that the Group performs its obligation.

D. The consideration promised in a contract includes a variable amount, such as the terms of deduction. In accordance with IFRS 15, The Group shall estimate an amount of variable consideration by using either the expected value method or the most likely amount method, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled.

B. IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. In accordance with the transition provisions of IFRS 9, the Group elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Group:

a. The Group adopted IFRS 9 since January 1, 2018 and it adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.

b. In accordance with the transition provisions in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications of financial assets and its carrying amounts as at January 1, 2018 are as follows:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
At amortized cost		At amortized cost (including cash and cash equivalents (excluding petty cash), notes receivables, trade receivables, financial assets measured at amortized cost, other receivables and refundable deposits)	
Loans and receivables (including cash and cash equivalents (excluding petty cash), notes receivables, trade receivables, debt instrument investments for which no active market exists, other receivables and refundable deposits)	$1,107,034		$1,107,034

c. The transition adjustments from IAS 39 to IFRS 9 for the classifications of financial assets as at January 1, 2018 are as follow:

IAS 39		IFRS 9				
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts	Difference	Retained earnings Adjustment	Other components of equity Adjustment
Loans and receivables (Note)		At amortized costs				
Debt instrument investments for which no active market exists	$394,000	Financial assets measured at amortized costs	$394,000	$-	$-	$-
Cash and cash equivalents	688,685	Cash and cash equivalents	688,685	-	-	-
Trade receivables	22,632	Trade receivables	22,632	-	-	-
Other receivables	621	Other receivables	621	-	-	-
Refundable deposits	1,096	Refundable deposits	1,096	-	-	-
Total	$1,107,034	Total	$1,107,034		$-	$-

Note:
In accordance with IAS 39, the cash flow characteristics for loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at January 1, 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arisen from the assessment of impairment losses for the aforementioned assets as at January 1, 2018. Therefore, there is no impact on the carrying amount as at January 1, 2018.

(2) Standards or interpretations issued, revised or amended by IASB and endorsed by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below.

Items	The Projects of Standards or Interpretations	Effective Dates
A	IFRS 16 “Leases”	January 1, 2019
B	IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019
C	IAS 28 “Investments in Associates and Joint Ventures” (Amendment to IAS 28)	January 1, 2019
D	Prepayment Features with Negative Compensation (Amendment to IFRS 9)	January 1, 2019
E	Improvements to International Financial Reporting Standards (2015-2017 cycle)	January 1, 2019
F	Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	January 1, 2019

A. IFRS 16 “Leases”

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the consolidated statements of comprehensive income. Besides, lessors’ classification remains unchanged as operating or finance leases, but additional disclosure information is required.

B. IFRIC 23 “Uncertainty Over Income Tax Treatments”

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments.

C. IAS 28 “Investment in Associates and Joint Ventures” (Amendments to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

D. Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

E. Improvements to International Financial Reporting Standards (2015-2017 cycle):

IFRS 3 “Business Combinations”
The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 “Joint Arrangements”
The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 “Income Taxes”
The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 “Borrowing Costs”
The amendments clarify that an entity should treats any borrowing made specifically to obtain an asset as part of general borrowings when the asset is ready for its intended use or sale.

F. Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2019. Apart from the potential impact of the standards listed under A which is described below, the remaining standards and interpretations have no material impact on the Group.

A. IFRS 16 “Leases”

IFRS 16 “Leases” replaces IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases - Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The impact arising from the adoption of IFRS 16 on the Group is summarized as follows:

a. For the definition of a lease, the Group elects not to reassess whether a contract is, or contains, a lease at the date of initial application (January 1, 2019) in accordance with the transition provision in IFRS 16. Instead, the Group is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

Leases classified as operating leases

For leases that were classified as operating leases applying IAS 17, the Group expects to measure and recognize those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Also, the Group chooses, on a lease-by-lease basis, to measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

The Group expects the right-of-use asset will increase by NT$152,432 thousand and the lease liability will increase by NT$152,432 thousand on January 1, 2019.

b. The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.

(3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below:

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
A	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (Amendment)	To be determined by IASB
B	IFRS 17 "Insurance Contracts"	January 1, 2021
C	Definition of a Business (Amendment to IFRS 3)	January 1, 2020
D	Definition of material (Amendment to IAS 1 and 8)	January 1, 2020

A. IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (Amendment)

The amendments address the inconsistency between the requirements in IFRS 10 “Consolidated Financial Statements” (IFRS 10) and IAS 28 “Investments in Associate and Joint Ventures” (IAS 28), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture. IFRS 10 requires full profit or loss recognition on the loss of control of a subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 “Business Combinations” (IFRS 3) between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture.

B. IFRS 17 “Insurance Contracts”

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

a. estimates of future cash flows;
b. Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
c. a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

C. Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

D. Definition of Material (IAS 1 and IAS 8 Amendment)

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date when the Group's financial statements were authorized for issue, the local effective dates are to be determined by FSC. The abovementioned standards and interpretations have no material impact on the Group.

4. Summary of Significant Accounting Policies

(1) Statement of Compliance

The consolidated financial statements of the Group for the year ended December 31, 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and International Financial Reporting Standards, International Accounting Standards, and interpretations issued, revised or amended which are endorsed by FSC (TIFRS).

(2) Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

(3) Basis of Consolidation

Preparation principle of consolidated financial statement

Control is achieved when ANDES is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, ANDES controls an investee if and only if ANDES has:

a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b. exposure, or rights, to variable returns from its involvement with the investee; and
c. the ability to use its power over the investee to affect its returns.

When ANDES has less than a majority of the voting or similar rights of an investee, ANDES considers all relevant facts and circumstances in assessing whether it has

power over an investee, including:

a. the contractual arrangement with the other vote holders of the investee;
b. rights arising from other contractual arrangements; and (or)
c. ANDES' voting rights and potential voting rights.

ANDES re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which Andes obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If loses control of a subsidiary, it:
a. derecognizes the assets (including goodwill) and liabilities of the subsidiary.
b. derecognizes the carrying amount of any non-controlling interest.
c. recognizes the fair value of the consideration received.
d. recognizes the fair value of any investment retained.
e. recognizes any surplus or deficit in profit or loss.
f. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership December 31, 2018	Percentage of Ownership December 31, 2017
ANDES	Everest Peaks Technology Corporation	General investing	100%	100%
Everest Peaks Technology Corporation	Andes Technology (Samoa) Corporation	General investing	100%	100%
Everest Peaks Technology Corporation	Andes Technology USA Corporation	Licensing CPU IP and providing related services	100%	100%
Andes Technology (Samoa) Corporation	Andes Technology (Wuhan) Corporation	Licensing CPU IP and providing related services	100%	100%

Note: On March 20, 2018, the board meeting resolved the increase in capital of Andes Technology USA Corporation in the amount of US$750 thousand through Everest Peaks Technology Corporation.

(4) Foreign currency transactions

The Group's consolidated financial statements are presented in NT$, which is also the parent company's functional currency. Each entity in the Group determines its functional currency, and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

a. exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

b. foreign currency items within the scope of IFRS 9 *Financial Instruments* (before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are accounted for based on the accounting policy for financial instruments.

c. exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of foreign operations that result in a loss of control, loss of significant influence or joint control but retain partial equity is considering as disposal.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Current and non-current distinction

An asset is classified as current when:

a. the Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
b. the Group holds the asset primarily for the purpose of trading.
c. the Group expects to realize the asset within twelve months after the reporting period.
d. the asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

a. the Group expects to settle the liability in its normal operating cycle.
b. the Group holds the liability primarily for the purpose of trading.
c. the liability is due to be settled within twelve months after the reporting period.
d. the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(7) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within six months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 *Financial Instruments* (before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: Recognition and Measurement

The accounting policy from January 1, 2018 as follow:

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

The Group classifies financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

a. the Group's business model for managing the financial assets and
b. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

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

Such financial assets are subsequently measured at amortized cost and are not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

a. purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
b. financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

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

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

a. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
b. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
c. Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

   (a) purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
   (b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Group made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets were classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from measurement are recognized in profit or loss which includes any dividend or interest received on such financial assets.

The accounting policy before January 1, 2018 as follow:

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

a. it is acquired or incurred principally for the purpose of selling or repurchasing it in short term.
b. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
c. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

a. it eliminates or significantly reduces a measurement or recognition inconsistency, or
b. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investment for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

B. Impairment of financial assets

The accounting policy from January 1, 2018 as follow:

The Group recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

The Group measures expected credit losses of a financial instrument in a way that reflects:

a. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b. the time value of money; and
c. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

a. at an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
b. at an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
c. for trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policy before January 1, 2018 as follow:

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:
a. significant financial difficulty of the issuer or obligor;
b. a breach of contract, such as a default or delinquency in interest or principal payments;
c. it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; and
d. the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity instruments classified as available-for-sale, where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

C. Derecognition of financial assets

A financial asset is derecognized when:

a. the rights to receive cash flows from the asset have expired.
b. the Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
c. the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 *Financial Instruments* (before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:

a. it is acquired or incurred principally for the purpose of selling or repurchasing it in short term.
b. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
c. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

a. it eliminates or significantly reduces a measurement or recognition inconsistency; or
b. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Before January 1, 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate

method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(9) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

a. in the principal market for the asset or liability, or
b. in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques which are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(10)Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Inventory costs include costs incurred in bringing each inventory to its present location and Condition:
Raw materials – valued at purchase cost
Finished goods and work in progress – Cost of direct materials and a proportion of manufacturing overheads are calculated by the weighted-average method.
Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Starting from January 1, 2018, rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

(11)Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit

or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Machinery and equipment	3 years
Computer and telecommunication equipment	3 years
Office equipment	3 years
Leasehold improvements	10 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate, and are treated as changes in accounting estimates.

(12)Leases

Group as a lessee

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

(13)Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortized over the useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each fiscal year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and is treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

Development costs - research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognized as an intangible asset when the Group can demonstrate:

a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
b. its intention to complete and its ability to use or sell the asset;
c. how the asset will generate future economic benefits;
d. the availability of resources to complete the asset; and
e. the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. During the period of development, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

The Group's intangible assets are amortized on a straight-line basis over the estimated useful life as follow:

Computer software	3 years
Technologies	3 years

A summary of the policies applied to the Group's intangible assets is as follows:

	Computer software	Technologies
Useful lives	Finite	Finite
Amortization method used	Amortized on a straight-line basis over the estimated useful life	Amortized on a straight- line basis over the period of expected future benefit
Internally generated or acquired	Acquired	Internally generated

(14)Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A CGU, or groups of CGUs, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the CGU (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(15)Revenue recognition

The accounting policy from January 1, 2018 as follow:

The Group's revenues arising from contracts with customers are primarily related to licensing of CPU IP, rendering of maintenance services and, royalty revenues. The accounting policies are explained as follows:

Licensing of CPU IP

When a promised CPU IP is licensed to a customer, the customer can direct the use of, and obtain substantially all of the remaining benefits from the license. The nature of the Group's promise is to provide a right to use the CPU IP at the point in time at which the license of the CPU IP is granted to the customer. Therefore, revenue is recognized when the control of the promised goods has been transferred to the customer. The considerations promised in the contract may vary such as the terms of deduction, the Group shall estimate an amount of variable consideration by using either the expected value method or the most likely amount method, depending on which method the Group expects to better predict the amount of consideration to which it will be entitled. An amount of variable consideration is estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved. During the period specified in the contract, contract liabilities are recognized for the expected deductions.

For some of the contracts, the Group has transferred the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. In addition, in accordance with IFRS 9, the Group measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

Rendering of maintenance services

In addition to a promise to grant licences to a customer, the Group may also promise to transfer maintenance services to a customer. Maintenance services include support and enhancements on delivered CPU IPs or developing tools. Due to the maintenance services and CPU IPs are not highly interdependent or highly interrelated, it is identified as a separate performance obligation. The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis. Revenues of maintenance services are recognized on a straight-line basis over the contract period.

For some rendering of maintenance services, part of the consideration was received from customers upon signing the contract, and the Group has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component is arisen.

Royalty revenues

The Group recognizes revenue for a sales-based royalty promised in exchange for a licence of CPU IP when the subsequent sale occurs.

The accounting policy before January 1, 2018 as follow:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

A. Sale of goods

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

a. the significant risks and rewards of ownership of the goods have passed to the buyer;
b. neither continuing managerial involvement nor effective control over the goods sold have been retained;
c. the amount of revenue can be measured reliably;

d. it is probable that the economic benefits associated with the transaction will flow to the entity; and
e. the costs incurred in respect of the transaction can be measured reliably.

B. Interest income

For all financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

C. Licensing fees and royalties

Fees and royalties are normally recognized based on the substance of the agreement and on an accrual basis.

a. Licensing of CPU IP
The Group licenses its CPU IP to customers that allows customers to use its CPU IP freely. The license agreements are usually non-cancellable, with fixed fees, and, after licenses delivered, the Group has no further obligations. Accordingly, the licensing of Group's CPU IP is in substance a sale.

b. Rendering of maintenance services
Maintenance services include support and enhancements on delivered CPU IPs or developing tools. Revenues of maintenance service are recognized on a straight-line basis over the contract period.

c. Royalty revenues
Royalty revenues are recognized only when the Group has the right to receive the royalty.

(16)Post-employment benefits

For the defined contribution plan, ANDES and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. ANDES recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries make contribution to the plan based on the requirements of local regulations.

(17)Share-based payment transactions

The cost of equity-settled transactions between the Group and its employees is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it fully vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award substitutes the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(18)Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

a. where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

b. in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

a. where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
b. in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

(1) Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

An intangible asset arising from development costs

The Group assessed that certain internally generated intangible assets have attained technical feasibility, and will be available for use or sale. The assessment was mainly based on the fact that the Group has possessed matured technology, resources, clear judgement of development timelines and products specifications for those development projects. The Group also assessed that those assets will generate future economic benefits and the benefits will exceed costs input.

The Group capitalizes development phase expenditures only when all the capitalization criteria are met.

(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a. Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 6(10).

b. Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could cause future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6(17) for more details on unrecognized deferred tax assets.

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Petty cash	$20	$20
Checking and savings accounts	71,781	37,117
Time deposits	278,600	406,600
Reverse repurchase agreements-corporate bonds	177,967	244,968
Total	$528,368	$688,705

(2) Financial assets measured at amortized cost, current

	December 31, 2018	December 31, 2017(Note)
Time deposits	$420,000	-

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Group classified certain financial assets as financial assets measured at amortized cost. The financial assets measured at amortized cost were not pledged. Please refer to Note 12 for more details on credit risk.

(3) Debt instrument investments for which no active market exists, current

	December 31, 2018(Note)	December 31, 2017
Time deposits	-	$394,000

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Group adopted IAS 39 before January 1, 2018 and classified certain financial assets as debt instrument investments for which no active market exists. The aforementioned debt instrument was not pledged.

(4) Trade receivables and trade receivables-related parties

	December 31, 2018	December 31, 2017
Trade receivables	$60,947	$53,596
Less: allowance	(7,389)	(8,138)
Subtotal	53,558	45,458
Trade receivables-related parties	2,580	-
Less: allowance	-	-
Subtotal	2,580	-
Total	$56,138	$45,458

Trade receivables and trade receivables-related parties were not pledged.

Trade receivables are generally on 30-75 day terms. The Group adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6(12) for more details on impairment of trade receivables. The Group adopted IAS 39 for impairment assessment before January 1, 2018. The movements in the provision for impairment of trade receivables are as follows (please refer to Note 12 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of January 1, 2017	$-	$-	$-
Charge for the current period	7,980	158	8,138
Write off	-	-	-
As of December 31, 2017	$7,980	$158	$8,138

Aging analysis of trade receivables (net) that are past due as at the end of the reporting period but not impaired is as follows:

		Past due but not impaired					
	Neither past due nor impaired	<=30 days	31~60 days	61~90 days	91~120 days	>=121 days	Total
December 31, 2017	$41,658	$2,352	$25	$1,423	$-	$-	$45,458

(5) Inventories

	December 31, 2018	December 31, 2017
Raw materials	$436	$356
Work in progress	103	61
Finished goods	372	642
Net amount	$911	$1,059

For the year ended December 31, 2018, the cost of inventories recognized in expenses amounted to NT$416 thousand, including the reversal of write-down of inventories of NT$175 thousand.

For the year ended December 31, 2017, the cost of inventories recognized in expenses amounted to NT$940 thousand, including the write-down of inventories of NT$270 thousand.

Inventories were not pledged.

(6) Property, plant and equipment

	Computer and telecommunication equipment	Office equipment	Leasehold improvements	Total
Cost:				
As of January 1, 2018	$1,582	$2,855	$-	$4,437
Additions	1,406	5,372	14,990	21,768
Disposals	-	(41)	-	(41)
Exchange differences	-	(3)	-	(3)
As of December 31, 2018	$2,988	$8,183	$14,990	$26,161

	Computer and telecommunication equipment	Office equipment	Leasehold improvements	Total
As of January 1, 2017	$804	$1,164	$-	$1,968
Additions	873	1,804	-	2,677
Disposals	(95)	(100)	-	(195)
Exchange differences	-	(13)	-	(13)
As of December 31, 2017	$1,582	$2,855	$-	$4,437
Depreciation and impairment:				
As of January 1, 2018	$470	$758	$-	$1,228
Depreciation	509	861	416	1,786
Disposals	-	(4)	-	(4)
Exchange differences	-	(3)	-	(3)
As of December 31, 2018	$979	$1,612	$416	$3,007
As of January 1, 2017	$245	$395	$-	$640
Depreciation	320	468	-	788
Disposals	(95)	(100)	-	(195)
Exchange differences	-	(5)	-	(5)
As of December 31, 2017	$470	$758	$-	$1,228
Net carrying amount as of:				
December 31, 2018	$2,009	$6,571	$14,574	$23,154
December 31, 2017	$1,112	$2,097	$-	$3,209

Property, plant and equipment were not pledged.

(7) Intangible assets

	Development costs	Technologies	Computer software	Total
Cost:				
As of January 1, 2018	$6,020	$35,700	$1,119	$42,839
Additions-internally generated	100,272	-	-	100,272
Additions-acquired separately	-	-	108	108
Disposals	-	-	(95)	(95)
Transfers	(21,207)	21,207	-	-
As of December 31, 2018	$85,085	$56,907	$1,132	$143,124
As of January 1, 2017	$-	$-	$2,157	$2,157
Additions-internally generated	41,720	-	-	41,720
Additions-acquired separately	-	-	1,024	1,024
Disposals	-	-	(2,062)	(2,062)
Transfers	(35,700)	35,700	-	-
As of December 31, 2017	$6,020	$35,700	$1,119	$42,839
Amortization and impairment:				
As of January 1, 2018	$-	$2,058	$152	$2,210
Amortization	-	15,344	382	15,726
Disposals	-	-	(95)	(95)
As of December 31, 2018	$-	$17,402	$439	$17,841
As of January 1, 2017	$-	$-	$2,084	$2,084
Amortization	-	2,058	130	2,188
Disposals	-	-	(2,062)	(2,062)
As of December 31, 2017	$-	$2,058	$152	$2,210

	Development costs	Technologies	Computer software	Total
Net carrying amount as of:				
December 31, 2018	$85,085	$39,505	$693	$125,283
December 31, 2017	$6,020	$33,642	$967	$40,629

The amortization amounts of intangible assets are as follows:

	For the years ended December 31,	
	2018	2017
Selling expenses	$36	$-
Administrative expenses	$341	$70
Research and development expenses	$15,349	$2,118

(8) Post-employment benefits

Defined contribution plan

ANDES adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. ANDES has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of foreign subsidiaries are provided in accordance with the local regulations.

Pension expenses under the defined contribution plan for the years ended December 31, 2018 and 2017 were NT$8,882 thousand and NT$7,407 thousand, respectively.

(9) Equity

A. Common stock

ANDES' authorized capital as of December 31, 2018 and 2017 was NT$700,000 thousand, divided into 70,000 thousand shares, each at a par value of NT$10. ANDES' issued capital was NT$426,509 thousand, and NT$406,199 thousand, divided into 42,651 thousand shares, and 40,620 thousand shares as of December 31, 2018 and 2017, respectively. Each share has one voting right and a right to receive dividends.

ANDES issued 8 thousand new shares for the year ended December 31, 2017, for the exercise of employee stock options. Newly shares had been registered and all employee stock options had been exercised by the end of 2017.

The shareholders meeting held on June 21, 2018 approved to distribute stock dividends form capital surplus in the amount of NT$20,310 thousand and issue 2,031 thousand new shares, each at a par value of NT$10. The board meeting approved the record date of the issuance to be September 2, 2018, and the newly issued shares had been registered.

B. Capital surplus

	December 31, 2018	December 31, 2017
Additional paid-in capital	$727,198	$754,564
Employee stock options	1,774	1,774
Total	$728,972	$756,338

According to the Company Act, the capital surplus shall not be used except for making good the deficit of the Company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

C. Retained earnings and dividend policy

According to ANDES' Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

a. Reserve for tax payments
b. Offset accumulated losses in previous years, if any
c. Legal reserve, which is 10% of leftover profits. However, this restriction does not apply in the event that the amount of the accumulated legal reserve equals or exceeds ANDES' total capital stock
d. Allocation or reverse of special reserves as required by law or government authorities
e. The remaining net profits and the retained earnings from previous years will be allocated as shareholders' dividend. The Board of Directors will prepare a distribution proposal and submit the same to the shareholders' meeting for review and approval by a resolution

The policy of dividend distribution should reflect factors such as sustainable development, stable growth, the interest of the shareholders, and healthy financial structure as the goal. The board of directors shall make the distribution proposal according to funding needs. The dividends to shareholders shall be distributed at no lower than 2% of distributable earnings. If the Company decides to issue dividends, cash dividends shall not be lower than 10% of the total dividends.

According to the Company Act, ANDES needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of ANDES. When ANDES incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Following the adoption of TIFRS, the FSC on April 6, 2012 issued Order No. Jin-Guan-Zheng-Fa-Zi 1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal

amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

There was no special reserve set aside for the first-time adoption of the TIFRS.

D. Due to the deficits, no distribution of earnings for 2017 was proposed and approved at the board meeting held on March 15, 2019 and the shareholders meeting on June 21, 2018.

	Retained earnings and dividend policy	
	December 31, 2018	December 31, 2017
Legal reserve	$3,402	$-
Aside to special reserve	888	-
Cash dividend	$29,731	$-

The shareholders' meeting on June 21, 2018 resolved to transfer capital surplus to offset accumulated deficits in the amount of NT$7,056 thousand.

Please refer to Note 6(14) for information on the employees' compensation and remuneration to directors.

(10)Share-based payment plans

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

A. Share-based payment plan for employees of the parent entity

The board meeting approved the 1st share-based payment plan of 2014 and would issue employee share options with a total number of 3,000 units on April 1, 2014.

Each unit entitles an option to subscribe for 1,000 shares of the ANDES' common shares. When employees exercise the share options, new shares will be issued. The exercise price is the higher of the net asset value of each share calculated by the most recent audited financial statement or par value of common stock of NT$10. The share options may be exercised after being vested, and such share option is effective for six years.

There are no cash settlement alternatives. The Group has never settled these employee share options in cash before.

The relevant details of the aforementioned share-based payment plan are as follows:

Grant date	Total number of share options granted	Exercise price of share options (NT$)
July 21, 2014	3,000	10.00
October 3, 2014		10.00
December 26, 2014		10.00
March 27, 2015		22.50

The following table lists the inputs to the model used for the plan granted during 2015 and 2014:

Grant date	Expected volatility (%)	Dividend yield (%)	Risk free interest rate (%)	Expected option life	Option pricing model
July 21, 2014	30.14%	-%	0.39%	1 year	Black-Scholes
October 3, 2014	38.71%	-%	1.40%	3 years	Black-Scholes
December 26, 2014	37.56%	-%	1.10%	3 years	Black-Scholes
March 27, 2015	35.58%	-%	0.3844%	3 years	Black-Scholes

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The following table contains further details on the aforementioned share-based payment plan:

	For the year ended December 31, 2017	
	Number of share options outstanding (in thousands)	Weighted average exercise price of share options (NT$)
Outstanding at beginning of year	8	20.18
Granted	-	-
Exercised	(8) [1]	20.18
Expired	-	-
Outstanding at end of year	-	
Exercisable at end of year	-	
Weighted-average fair value of options granted during the year (NT$)	$-	

[1] The weighted average share price at the date of exercise was NT$124.

The share-based payment plans had all been exercised by the end of 2017.

B. New shares reserved for employees' subscription

An initial public offering was approved by the board meeting on December 21, 2016. Andes totally issued 3,472 thousand shares, of which 348 thousand shares were reserved for employees to subscribe. The record date of subscription was on March 10, 2017, and the newly issued shares were registered.

The relevant information to aforementioned share-based payment plan is as follows:

Date of grant	Total number of share options granted (in thousands)	Exercise price of share options (NT$)
February 16, 2017	348	65.10

The following table lists the inputs to the model used for the aforementioned share-based payment plans:

	Issuance of common stock for cash retained for employees
Expected dividend yield (%)	-
Expected volatility (%)	26.92
Risk-free interest rate (%)	0.237
Expected life (Years)	0.052
Weighted average share price ($)	68.34
Option pricing model	Black - Scholes

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

C. Share-based compensation expenses recognized for the years ended December 31, 2018 and 2017 are shown in the following table:

	For the years ended December 31,	
	2018	2017
Total expense arising from equity-settled share-based payment transactions	$-	$1,304

D. No modification or cancellation of share-based payment plan has occurred during the years ended December 31, 2018 and 2017.

(11)Sales

	For the year ended December 31, 2018	Percent of total sales	For the year ended December 31, 2017	Percent of total sales
Revenue from contracts with customers				
Licensing of CPU IP	$211,029	69%	$239,997	83%
Royalty revenues	74,953	25%	38,287	13%
Maintenance services	17,022	5%	8,870	3%
Subtotal	303,004	99%	287,154	99%
Others	1,752	1%	2,223	1%
Total	$304,756	100%	$289,377	100%

Note: The Group has adopted IFRS 15 since January 1, 2018. The Group elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application.

The Group has adopted IFRS 15 since January 1, 2018. Relevant information of revenue from contracts with customers for the year ended December 31, 2018 is as follows:

A. Disaggregation of revenue

	For the year ended December 31, 2018
Timing of revenue recognition:	
At a point in time	$287,734 (Note)
Over time	17,022
Total	$304,756

Note: The amount includes royalty revenues of NT$74,953 thousand, which is calculated on sale basis and recognized when subsequent sale occurs.

B. Contract balances

a. Contract assets, current

	January 1, 2018	December 31, 2018	Difference
Licensing of CPU IP	$22,826	$60,061	$37,235

Contract assets represent the amount that the Group has transferred CPU IPs to customers but not yet billed. Contract assets will be transferred to trade receivables as the Group obtains an unconditional right to receive the consideration. The Group transferred NT$21,741 thousand of the beginning balance of contract assets to trade receivables during 2018. Please refer to Note 6(12) for more details on the impairment impact.

b. Contract liabilities

	January 1, 2018	December 31, 2018	Difference
Contract liabilities, current			
Licensing of CPU IP	$-	$3,912	$3,912
Maintenance services	9,637	12,401	2,764
Deductions	3,274	3,274	-
Total	$12,911	$19,587	$6,676

NT$8,878 thousand of beginning balance of contract liabilities has been recognized as revenues. The increase of contract liabilities by the end of 2018 is because part of the performance obligations have not been satisfied.

(12)Expected credit losses

	For the years ended December 31,	
	2018	2017(Note)
Operating expenses – expected credit losses		
Trade receivables	$(2,013)	

Note: The Group has adopted IFRS 9 since January 1, 2018. The Group elected not to apply restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12 for more details on credit risk.

The Group measures the loss allowance of its contract assets and receivables (including trade receivables - related parties) at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as at December 31, 2018 is as follows:

The Group determines the grouping of trade receivables by considering counterparties' credit ratings, geographical regions and industry sectors and its loss allowance is measured by using a provision matrix. Details are as follows:

		Past due						
Group 1 (Note 1) :	Neither past due (Note 2)	<=30 days	31~90 days	91~120 days	121~180 days	181~360 days	>=361 days	Total
Gross carrying amount	$63,328	$2,396	$-	$921	$1	$-	$1,129	$67,775
Loss ratio	-%	-%	2%	10%	30%	50%	100%	
Lifetime expected credit losses	-	-	-	(92)	-	-	(1,129)	(1,221)
Subtotal	$63,328	$2,396	$-	$829	$1	$-	$-	$66,554

		Past due					
Group 2 (Note 1) :	Neither past due (Note 2)	<=30 days	31~90 days	91~120 days	121~180 days	>=181 days	Total
Gross carrying amount	$49,262	$-	$-	$323	$154	$6,074	$55,813
Loss ratio	-%	-%	3%	10%	40%	100%	
Lifetime expected credit losses	-	-	-	(32)	(62)	(6,074)	(6,168)
Subtotal	$49,262	$-	$-	$291	$92	$-	$49,645
Carrying amount of contract assets and receivables (including trade receivables-related parties)							$116,199

Note 1: The group 1 and group 2 are classified based on where the counterparties are located. Expected loss ratio is evaluated by each customer under each group.

Note 2: The contract assets were not past due.

The movement in the provision for impairment of contract assets and trade receivables during the year is as follows:

	Contract assets	Trade receivables
Beginning balance (in accordance with IAS 39)	$-	$8,138
Beginning adjusted retained earnings	-	-
Beginning balance (in accordance with IFRS 9)	-	8,138
Addition for the current period	-	2,013
Write off	-	(2,719)
Effect of changes in exchange rate	-	(43)
Ending balance	$-	$7,389

(13)Operating leases

The Group as a lessee

The Group has entered into commercial leases of office for operating uses. These leases have an average life of one to five years with no renewal options. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	$22,361	$3,569
Later than one year but not later than five years	73,365	1,634
Total	$95,726	$5,203

Operating lease expenses recognized are as follows:

	For the years ended December 31,	
	2018	2017
Minimum lease payments	$9,503	$3,855

(14)Summary statement of employee benefits, depreciation and amortization expenses by function

	For the years ended December 31					
	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	$-	$137,028	$137,028	$-	$152,612	$152,612
Labor and health insurance	-	15,223	15,223	-	12,812	12,812
Pension	-	8,882	8,882	-	7,407	7,407
Others	-	525	525	-	462	462
Depreciation	-	1,786	1,786	-	788	788
Amortization	-	15,726	15,726	-	2,188	2,188

According to the Articles of Incorporation of ANDES, no lower than 2% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors and supervisors. However, ANDES's accumulated losses shall have been covered (if any). ANDES may, by a resolution adopted by a majority vote at the meeting of board of directors attended by two thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the board of directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on the profit for the year ended December 31, 2018, ANDES estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2018 to be 2% and 0.99% of profit for the year ended December 31, 2018. As such, employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2018 amounted to NT$ 730 thousand and NT$ 363 thousand, respectively.

ANDES did not estimate the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2017.

(15) Non-operating income and expenses

(a) Other income

	For the years ended December 31,	
	2018	2017
Interest income (Note)		$4,219
Financial assets measured at amortized cost	$5,141	-
Others	1,004	778
Total	$6,145	$4,997

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(b) Other gains and losses

	For the years ended December 31,	
	2018	2017
Foreign exchange gains (losses), net	$3,499	$(6,882)
Losses on disposal of property, plant and equipment	(37)	-
Others	(1,954)	(1,285)
Total	$1,508	$(8,167)

(16)Components of other comprehensive income

For the year ended December 31, 2018:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	$730	$-	$730	$(83)	$647

For the year ended December 31, 2017:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	$(1,234)	$-	$(1,234)	$210	$(1,024)

(17)Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Group's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

The major components of income tax expense are as follows:

Income tax expense recognized in profit or loss

	For the years ended December 31,	
	2018	2017
Current income tax expenses:		
Current income tax charge	$-	$-
Adjustments in respect of current income tax of prior periods	-	378
Deferred tax expense (income):		
Others	$1,397	1,811
Income tax expense	$1,397	$2,189

Income tax related to components of other comprehensive income

	For the years ended December 31,	
	2018	2017
Deferred tax income:		
Exchange differences resulting from translation the financial statements of foreign operations	$(83)	$210
Income tax relating to components of other comprehensive income	$(83)	$210

A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the years ended December 31,	
	2018	2017
Accounting profit (loss) before tax from continuing operations	$42,964	$23,722
At ANDES's statutory income tax rate (2018:20%; 2017:17%)	$8,593	$4,033
Adjustments in respect of current income tax of prior periods	-	378
Recognition of tax losses or temporary differences of prior periods not recognized	(8,588)	(4,029)
Others	1,392	1,807
Income tax expense recognized in profit or loss	$1,397	$2,189

Deferred tax assets (liabilities) related to the following:

For the year ended December 31, 2018

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Generated from consolidation	Exchange differences	Ending balance
Temporary differences							
Investments accounted for using the equity method	$359	$-	$(83)	$-	$-	$-	$276
Deferred income tax		$-	$(83)	$-	$-	$-	
Net deferred tax assets (liabilities)	$359						$276
Reflected in balance sheet as follows:							
Deferred tax assets	$359						$276
Deferred tax liabilities	$-						$-

A summary of the unused loss carry-forward of the entities in the Group is as follows:

Company name	Occurrence year	Accumulated loss	Unutilized accumulated loss December 31, 2018	Unutilized accumulated loss December 31, 2017	Expiration year
ANDES	2007	$107,266	$-	$67,726	2017
	2008	82,011	40,688	82,011	2018
	2009	145,944	145,944	145,944	2019
	2010	119,980	119,980	119,980	2020
	2011	114,257	114,257	114,257	2021
	2012	88,644	88,644	88,644	2022
	2013	87,983	87,983	87,983	2023
	2016	18,406	18,406	18,406	2026
	Total		$615,902	$724,951	

As of December 31, 2018 and 2017, the subsidiaries' unused tax losses at their respective jurisdictions were NT$59,138 thousand and NT$44,068 thousand, respectively.

Unrecognized deferred income tax assets

As of December 31, 2018 and 2017, the Group's unrecognized deferred income tax assets were NT$145,542 thousand and NT$153,179 thousand, respectively.

The assessment of income tax returns

As of December 31, 2018, the assessment of the income tax returns of ANDES and its subsidiaries are as follows:

	The assessment of income tax returns
ANDES	Assessed and approved up to 2016
Subsidiary - Andes Technology (Wuhan) Corporation	Assessed up to 2017
Subsidiary - Andes Technology USA Corporation	Assessed up to 2017

(18)Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity owners of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity owners of the parent entity (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	For the years ended December 31,	
	2018	2017
(a) Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT$)	$41,567	$21,533
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	42,651	41,965
Basic earnings per share (NT$)	$0.97	$0.51
(b) Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT$)	$41,567	$21,533
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	42,651	41,965
Effect of dilution:		
Employee stock options (in thousands)	-	5
Employees' compensation-stock (share)	9	-
Weighted average number of ordinary shares outstanding after dilution (in thousands)	42,660	41,970
Diluted earnings per share (NT$)	$0.97	$0.51

Weighted number of ordinary shares outstanding for the year ended December 31, 2017 had been retrospectively adjusted for the capital increase from capital surplus in 2018.

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

7. Related Party Transactions

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
Mediatek Inc.	ANDES' chairman and the company's chairman is the same person

(1) Sales

	For the years ended December 31,	
	2018	2017
Mediatek Inc.	$29,929	$26,929

The collection periods for related parties and third-party customers were both month-end 30 to 75 days.

(2) Contract assets

	December 31, 2018	December 31, 2017(Note)
Mediatek Inc.	$1,536	

Note: The Group has adopted IFRS 15 since January 1, 2018. The Group elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (January 1, 2018).

(3) Trade receivables - related parties

	December 31, 2018	December 31, 2017
Mediatek Inc.	$2,580	$-

(4) Unearned revenues

	December 31, 2018(Note)	December 31, 2017
Mediatek Inc.		$2,177

Note: The Group has adopted IFRS 15 since January 1, 2018. The Group elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (January 1, 2018).

(5) Contract liabilities, current

	December 31, 2018	December 31, 2017(Note)
Mediatek Inc.	$2,200	

Note: The Group has adopted IFRS 15 since January 1, 2018. The Group elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (January 1, 2018).

(6) Others

The Group entered into office leases with Mediatek Inc. for the years ended December 31, 2018 and 2017, and lease expenses recognized were NT$790 thousand and NT$578 thousand, respectively. The rents were paid monthly.

(7) Key management personnel compensation

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	$19,446	$11,910
Post-employment benefits	540	324
Total	$19,986	$12,234

8. Assets Pledged as Collateral

None

9. Commitments and Contingencies

None

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

None

12. Others

(1) Categories of financial instruments

Financial assets

	December 31, 2018	December 31, 2017
Financial assets measured at amortized cost:		(Note)
Cash and cash equivalents (excluding petty cash)	$528,348	
Financial assets measured at amortized cost	420,000	
Trade receivables, net (including related parties)	56,138	
Other receivables	1,047	
Refundable deposits	6,115	
Total	$1,011,648	
	(Note)	
Loans and receivables:		
Cash and cash equivalents (excluding petty cash)		$688,685
Debt instrument investments for which no active market exists		394,000
Trade receivables, net		45,458
Other receivables		621
Refundable deposits		1,096
Total		$1,129,860

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Financial liabilities

	December 31, 2018	December 31, 2017
Financial liabilities at amortized cost:		
Trade payables	$1,108	$40
Other payables	26,021	23,556
Total	$27,129	$23,596

(2) Financial risk management objectives and policies

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

The Group has established appropriate policies, procedures and internal controls for financial risk management. The plans for material treasury activities are reviewed by the board of directors and supervisors in accordance with relevant regulations and internal controls. The Group complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market risk comprises foreign currency risk.

In practice, it is rarely the case that a single risk variable will change independently from other risk variables; there are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenues or expenses are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group has certain foreign currency receivables which are denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is applied.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for USD. The information of the sensitivity analysis is as follows:

When NTD appreciates or depreciates against USD by 1%, the profit for the years ended December 31, 2018 and 2017 decreases/increases by NT$1,054 thousand and NT$506 thousand, respectively.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for trade receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

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

As of December 31, 2018 and 2017, receivables from top ten customers represented 38.85% and 32.93% of the total trade receivables of the Group, respectively. The credit concentration risk of other accounts receivables was insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating. Consequently, there is no significant credit risk for these counterparties.

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial liabilities

	Less than 1 year	1 to 3 years	4 to 5 years	more than 5 years	Total
December 31, 2018					
Trade payables	$1,108	$-	$-	$-	$1,108
Other payables	26,021	-	-	-	26,021
December 31, 2017					
Trade payables	$40	$-	$-	$-	$40
Other payables	23,556	-	-	-	23,556

(6) Fair value of financial instruments

The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

The carrying amount of cash and cash equivalents, financial assets measured at amortized cost, trade receivables (including related parties), trade payables and other payables approximate their fair value due to their short maturities.

(7) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	December 31, 2018		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Financial assets			
Monetary item:			
USD	$3,579	30.715	$109,935
CNY	6,462	4.472	28,897
Financial liabilities			
Monetary item:			
USD	$148	30.715	$4,531
CNY	359	4.472	1,606

	December 31, 2017		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Financial assets			
Monetary item:			
USD	$1,815	29.760	$54,020
CNY	2,795	4.565	12,758
Financial liabilities			
Monetary item:			
USD	$115	29.760	$3,420
CNY	535	4.565	2,444

Foreign currencies of entities of the Group varied. Accordingly, the Group is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant asset and liability denominated in foreign currencies. The foreign exchange gains (losses) were NT$3,499 thousand and NT$(6,882) thousand for the years ended December 31, 2018 and 2017, respectively.

(8) Capital management

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

13. Segment Information

(1) General information

The major sales of the Group come from designing and selling CPU IP. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated and evaluates the overall performance. Therefore, the Group is aggregated into a single segment.

(2) Geographical information

A. Sales to other than consolidated entities

	For the years ended December 31,	
	2018	2017
Taiwan	$144,801	$137,308
Mainland China	96,575	72,679
Korea	23,989	23,786
United States	23,340	46,153
Japan	8,756	8,694
Europe	7,295	757
Total	$304,756	$289,377

Sales are presented by customers' country.

B. Non-current assets

	December 31, 2018	December 31, 2017
Taiwan	$146,976	$43,633
Mainland China	83	116
United States	1,378	89
Total	$148,437	$43,838

C. The major customer

There was no individual customer accounting for more than 10% of net sales for the years ended December 31, 2018 and 2017.

English Translation of a Report and Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION
PARENT COMPANY ONLY
FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

Address: A1-4, 3F, No.1, Li-Hsin First Road, Hsinchu Science Park, Hsinchu City 300, Taiwan R.O.C.
Telephone: 886-3-572-6533

The reader is advised that these parent company only financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To: Andes Technology Corporation

Opinion

We have audited the accompanying parent company only balance sheets of Andes Technology Corporation (the "Company") as of December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the parent company only financial statements, including the summary of significant accounting policies (collectively "the parent company only financial statements").

In our opinion, the parent company only financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

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

Revenue recognition

Net sales recognized by the Company amounted to NT$283,164 thousand for the year ended December 31, 2018. The Company provides embedded processor intellectual property (IP), and its revenues are mainly from licensing IP and providing IP maintenance services to clients. Considering that revenues from contracts with customers usually include more than one performance obligations, the Company recognizes revenues when the control of goods and services under each performance obligation has been transferred. However, contract terms may vary and there remains a risk of revenues being recorded in an inappropriate period because the control of the promised goods or services has not been transferred to the buyer. Therefore, we considered this a key audit matter.

Our audit procedures included (but not limited to) assessing the appropriateness of the accounting policy of revenue recognition; evaluating and testing the design and operating effectiveness of internal controls around revenue recognition; selecting samples from the contracts with customers to review significant terms and condition of contracts, identify separate performance obligations and their transaction prices, and further perform tests of details to verify the correctness of the amount and timing of revenue recognition; executing tests of journal entries prepared by management to validate the consistency with the substance of transaction and ensure the appropriateness of revenue recognition.

We also assessed the adequacy of disclosures of operating revenues. Please refer to Note 4 and 6 to the parent company only financial statements.

An intangible asset arising from development costs

The Company devotes itself to developing and constructing a unique system architecture and contributes significant R&D efforts in development of embedded processor IPs and hardware/software developing platforms. Therefore, the Company determined to capitalize the expenditures during development phases of certain R&D projects. Net carrying value of intangible assets arising from development recognized by the Company was NT$124,590 thousand as of December 31, 2018, NT$100,272 thousand of which was recognized during the year. Both amounts are significant to the Company. In order to meet all of the capitalization criteria, the Company's management performed assessments on each individual project based on the internal and external information available, which involved management judgement and assumptions. Therefore, we considered this a key audit matter.

Our audit procedures included (but not limited to) evaluating and testing the design and operating effectiveness of internal controls around the internally generated intangible assets, including assessing whether the Company has established appropriate written accounting policies that address the required conditions and documentations for R&D expenditure capitalization; selecting samples from research and development projects of the year to gather evidences to support the technical feasibility, future economic benefits, the availability of future resources and expenditures needed, the management's intention to complete and the ability to sell the intangible asset; and verifying the accurancy of the expenditures attributable to the intangible asset during its development phase and the amount to be capitalized.

We also assessed the adequacy of disclosures of intangible assets. Please refer to Notes 5 and 6 to the parent company only financial statements.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including supervisors, are responsible for overseeing the financial reporting process of the Company.

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the accompanying notes, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Kuo, Shao-Pin

Tu, Jia-Ling

Ernst & Young, Taiwan
March 15, 2019

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the R.O.C. and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the R.O.C.

English Translation of Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2018	%	December 31, 2017	%
Current assets					
Cash and cash equivalents	6(1)	$ 510,920	41.34	$ 677,661	57.31
Financial assets measured at amortized cost, current	3, 4, 6(2)	420,000	33.99	-	-
Contract assets, current	3 ,4, 6(12), 6(13), 7	55,443	4.49	-	-
Debt instrument investments for which no active market exists, current	3, 4, 6(3)	-	-	394,000	33.32
Trade receivables, net	3, 4, 6(4), 6(13)	33,391	2.70	31,262	2.65
Trade receivables-related parties, net	4, 6(4), 6(13), 7	18,929	1.53	12,766	1.08
Other receivables		495	0.04	621	0.05
Inventories	4, 6(5)	911	0.07	1,059	0.09
Prepayments		15,228	1.23	9,252	0.78
Total current assets		1,055,317	85.39	1,126,621	95.28
Non-current assets					
Investments accounted for using the equity method	4, 6(6)	27,898	2.26	10,705	0.91
Property, plant and equipment	4, 6(7)	21,693	1.76	3,004	0.25
Intangible assets	4, 6(8)	125,283	10.14	40,629	3.44
Deferred tax assets	4, 6(18)	276	0.02	359	0.03
Refundable deposits		5,348	0.43	1,064	0.09
Total non-current assets		180,498	14.61	55,761	4.72
Total assets		$ 1,235,815	100.00	$ 1,182,382	100.00

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai President : Jyh-Ming Lin Chief Financial Officer : Han-Chang Chou

English Translation of Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	December 31, 2018	%	December 31, 2017	%
Current liabilities					
Contract liabilities, current	3, 4, 6(12), 7	$ 18,433	1.49	$ -	-
Trade payables		126	0.01	40	-
Other payables	7	26,865	2.17	21,637	1.83
Advance receipts	3, 7	54	0.01	5,223	0.44
Other currents liabilities		1,335	0.11	1,148	0.10
Total current liabilities		46,813	3.79	28,048	2.37
Total liabilities		46,813	3.79	28,048	2.37
Equity attributable to owners of the parent					
Capital					
Common stock	6(10)	426,509	34.51	406,199	34.36
Capital surplus	6(10), 6(11)	728,972	58.99	756,338	63.97
Retained earnings	3, 6(10)				
Legal reserve		388	0.03	388	0.03
Special reserve		217	0.02	217	0.02
Undistributed earnings (accumulated deficits)		34,021	2.75	(7,056)	(0.60)
Total retained earnings		34,626	2.80	(6,451)	(0.55)
Other equity		(1,105)	(0.09)	(1,752)	(0.15)
Total equity		1,189,002	96.21	1,154,334	97.63
Total liabilities and equity		$ 1,235,815	100.00	$ 1,182,382	100.00

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai President : Jyh-Ming Lin Chief Financial Officer : Han-Chang Chou

English Translation of Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	2018	%	2017	%
Net sales	4, 6(12), 7	$ 283,164	100.00	$ 270,437	100.00
Operating costs	6(5)	(416)	(0.15)	(940)	(0.35)
Gross profit		282,748	99.85	269,497	99.65
Operating expenses	6(13), 6(14), 6(15), 7				
Selling expenses		(69,542)	(24.56)	(70,097)	(25.92)
Administrative expenses		(55,892)	(19.74)	(54,003)	(19.97)
Research and development expenses		(115,637)	(40.84)	(108,070)	(39.96)
Expected credit losses		(2,171)	(0.76)	-	-
Total operating expenses		(243,242)	(85.90)	(232,170)	(85.85)
Operating income		39,506	13.95	37,327	13.80
Non-operating income and expenses	6(16)				
Other income		6,028	2.13	4,938	1.83
Other gains and losses		2,869	1.01	(8,345)	(3.09)
Share of loss of subsidiaries, associates, and					
joint ventures accounted for using the equity method		(5,463)	(1.93)	(10,222)	(3.78)
Total non-operating income and expenses		3,434	1.21	(13,629)	(5.04)
Net income before income tax		42,940	15.16	23,698	8.76
Income tax expense	4, 6(18)	(1,373)	(0.48)	(2,165)	(0.80)
Net income		41,567	14.68	21,533	7.96
Other comprehensive income	6(17)				
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations		730	0.26	(1,234)	(0.46)
Income tax relating to those items to be reclassified to profit or loss		(83)	(0.03)	210	0.08
Other comprehensive income (loss), net of tax		647	0.23	(1,024)	(0.38)
Total comprehensive income		$ 42,214	14.91	$ 20,509	7.58
Earnings per share (NTD)					
Basic Earnings Per Share	6(19)	$ 0.97		$ 0.51	
Diluted Earnings Per Share		$ 0.97		$ 0.51	

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai President : Jyh-Ming Lin Chief Financial Officer : Han-Chang Chou

English Translation of Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent						
	Capital		Retained earnings			Other equity	
	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings (accumulated deficits)	Exchange differences resulting from translating the financial statements of foreign operations	Total equity
Balance as of January 1, 2017	$ 371,399	$ 459,761	$ 388	$ 217	$ (28,589)	$ (728)	$ 802,448
Issuance of common stock for cash	34,720	295,192	-	-	-	-	329,912
Net income for the year ended December 31, 2017	-	-	-	-	21,533	-	21,533
Other comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	(1,024)	(1,024)
Total comprehensive income (loss)	-	-	-	-	21,533	(1,024)	20,509
Share-based payment transactions	80	1,385	-	-	-	-	1,465
Balance as of December 31, 2017	406,199	756,338	388	217	(7,056)	(1,752)	1,154,334
Effects of retrospective application and restatement	-	-	-	-	(7,546)	-	(7,546)
Restated balance as of January 1, 2018	406,199	756,338	388	217	(14,602)	(1,752)	1,146,788
Changes in other capital surplus							
Capital surplus used to cover accumulated deficits	-	(7,056)	-	-	7,056	-	-
Stock dividends distributed from capital surplus	20,310	(20,310)	-	-	-	-	-
Net income for the year ended December 31, 2018	-	-	-	-	41,567	-	41,567
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	-	647	647
Total comprehensive income	-	-	-	-	41,567	647	42,214
Balance as of December 31, 2018	$ 426,509	$ 728,972	$ 388	$ 217	$ 34,021	$ (1,105)	$ 1,189,002

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai President : Jyh-Ming Lin Chief Financial Officer : Han-Chang

English Translation of Financial Statements Originally Issued in Chinese

ANDES TECHNOLOGY CORPORATION

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

Description	2018	2017
Cash flows from operating activities :		
Net income before income tax	$ 42,940	$ 23,698
Adjustments for:		
The profit or loss items which did not affect cash flows:		
Depreciation	1,669	715
Amortization	15,726	2,188
Expected credit loss	2,171	5,856
Interest income	(5,069)	(4,189)
Share of loss of subsidiaries, associates, and joint ventures accounted for using the equity method	5,463	10,222
Changes in operating assets and liabilities:		
Contract assets	(36,099)	-
Trade receivables	(23,644)	10,807
Trade receivables - related parties	(6,163)	3,381
Other receivables	(245)	-
Inventories	148	368
Prepayments	(5,976)	22
Contract liabilities	5,664	-
Trade payables	86	(6)
Other payables	5,228	(4,492)
Advance receipts	54	1,855
Other current liabilities	187	162
Cash generated from operating activities	2,140	50,587
Interest received	5,151	4,072
Income tax paid	(1,084)	(1,862)
Net cash provided by operating activities	6,207	52,797
Cash flows from investing activities :		
Acquisition of financial assets measured at amortized cost	(420,000)	-
Proceeds from disposal of financial assets measured at amortized cost	394,000	-
Acquisition of debt instrument investments for which no active market exists	-	(574,000)
Proceeds from disposal of debt instrument investments for which no active market exists	-	180,000
Acquisition of investments accounted for using the equity method	(21,926)	-
Acquisition of property, plant and equipment	(20,358)	(2,628)
Increase in refundable deposits	(4,449)	(64)
Decrease in refundable deposits	165	-
Acquisition of intangible assets	(100,380)	(42,744)
Net cash used in investing activities	(172,948)	(439,436)
Cash flows from financing activities :		
Issuance of common stock for cash	-	329,912
Proceeds from exercise of employee stock options	-	1,465
Net cash provided by financing activities	-	331,377
Net decrease in cash and cash equivalents	(166,741)	(55,262)
Cash and cash equivalents at the beginning of the year	677,661	732,923
Cash and cash equivalents at the end of the year	$ 510,920	$ 677,661

The accompanying notes are an integral part of the parent company only financial statements.

Chairman : Ming-Kai Tsai President : Jyh-Ming Lin Chief Financial Officer : Han-Chang Chou

ANDES TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

1. History, Organization and Operation

As officially approved, Andes Technology Corporation ("the Company") was incorporated at Hsinchu Science Park on March 14, 2005. Since then, it has been specialized in the R&D, designing, manufacturing and marketing of embedded processor intellectual property (IP), related hardware/software developing platform and toolchains.

ANDES' shares were publicly listed on the Taiwan Stock Exchange (TWSE) on March 14, 2017. The registered location is at A1-4, 3F, No.1, Li-Hsin First Road, Hsinchu Science Park, Hsinchu City 300, Taiwan R.O.C. The operating location is at 10F, No.1, Section 3, Gongdao 5th Road, East District, Hsinchu City 300, Taiwan R.O.C.

2. Date and Procedures of Authorization of Financial Statements for Issue

The parent company only financial statements were authorized for issue in accordance with a resolution of the board meeting held on March 15, 2019.

3. Newly Issued or Revised Standards and Interpretations

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments:

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2018. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

A. *IFRS 15 "Revenue from Contracts with Customers" (including Amendments* to *IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers")*

IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations. In accordance with the transition provisions in IFRS 15, the Company elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Company also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Company's principal activities consist of the sale of CPU IP and rendering of maintenance services. The impacts arising from the adoption of IFRS 15 on the Company is summarized as follows:

a. Please refer to Note 4(15) for the accounting policies before or after January 1, 2018.

b. Starting from January 1, 2018, in accordance with IFRS 15, the Company recognizes revenue when (or as) the Company satisfies a performance obligation by transferring a promised good to a customer. However, for some contracts, if the Company has transferred the goods to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets, which is different from the accounting treatment of recognizing trade receivables before January 1, 2018. Besides, loss allowance for contract assets was assessed in accordance with IFRS 9. The amount reclassified from trade receivables to contract assets of the Company as at January 1, 2018 was NT$19,344 thousand.

c. Before January 1, 2018, revenue from rendering of maintenance service was recognized on a straight-line basis over the contract period. Starting from January 1, 2018, in accordance with IFRS 15, the Company shall recognize revenue when (or as) the Company satisfies a performance obligation by rendering of maintenance services to a customer, which has no significant impacts on the revenue recognition. However, for some maintenance services contracts, part of the consideration was received from customers upon signing the contract, and the Company has the obligation to provide the services subsequently. Before January 1, 2018, the Company recognized the consideration received in advance from customers under advance receipts. Starting from January 1, 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from advance receipts to contract liabilities of the Company as at January 1, 2018 was NT$5,223 thousand.

d. In accordance with IFRS 15, the Company shall identify performance obligations in the contract, including the commitment that in writing, orally or implied by an entity's customary business practices, and shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. For certain CPU IP contracts, the Company has identified the maintenance service as a separate performance obligation which has been bundled with those CPU IP contracts. The Company shall allocate the transaction price to the maintenance service on a relative stand-alone selling price basis and the revenue shall be recognized during the period that the Company performs its obligation. Before January 1, 2018, the consideration received for the aforementioned implied performance obligation was recognized as revenue. Starting from January 1, 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from retained earnings to contracts liabilities of the Company as at January 1, 2018 was NT$4,272 thousand.

e. The consideration promised in a contract includes a variable amount, such as the terms of deduction. In accordance with IFRS 15, The Company shall estimate an amount of variable consideration by using either the expected value method or the most likely amount method, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled. In estimating the transaction price of some or all of an amount of variable consideration, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Before January 1, 2018, the received consideration was recognized as revenue. Starting from January 1, 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from retained earnings to contracts liabilities of the Company as at January 1, 2018 was NT$3,274 thousand.

f. Please refer to Note 4(15) and Note 6(12) for additional disclosure required by IFRS 15.

g. The amount by which each financial statement line item is effected in the current reporting period by the application of IFRS 15 as compared to IAS 11, IAS 18 and related Interpretations that were in effect before the change and an explanation of the reasons for significant changes:

ANDES TECHNOLOGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Items	Amounts in accordance with IFRS 15	Amounts in accordance with IAS 18	Differences	Note
December 31, 2018				
Balance sheet:				
Contract assets	$55,443	$-	$55,443	A
Trade receivables, net	33,391	81,456	(48,065)	A
Trade receivables-related parties, net	18,929	26,307	(7,378)	A
Current liabilities:				
Contract liabilities	18,433	-	18,433	B, C, D
Advance receipts	54	13,918	(13,864)	B
Equity:				
Retained earnings	34,626	39,195	(4,569)	B, C, D

For the year ended December 31, 2018				
Statement of comprehensive income:				
Net sales	$283,164	$280,187	$2,977	B, C
Net income before income tax	42,964	39,987	2,977	
Net income	41,567	38,590	2,977	
Net income (loss) for the periods attributable to:				
Owners of the parent	41,567	38,590	2,977	
Earnings per share				
Basic earnings per share	0.97	0.90		
Diluted earnings per share	0.97	0.90		

For the year ended December 31, 2018				
Statement of cash flows:				
Cash flows from operating activities				
Contract assets	$(36,099)	$-	$(36,099)	
Trade receivables, net	(23,644)	(52,365)	28,721	
Trade receivables-related parties, net	(6,163)	(13,541)	7,378	
Contract liabilities	5,664	-	5,664	
Advance receipts	54	8,695	(8,641)	

Note：

A. In accordance with IFRS 15, for some contracts, if the Company has transferred the goods to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets.

B. For some maintenance services contracts, part of the consideration was received from customers upon signing the contract, and the Company has the obligation to provide the services subsequently. The Company recognized the consideration received in advance from customers under advance receipts, and in accordance with IFRS 15, it should be recognized as contract liabilities.

C. For certain CPU IP contracts, the Company has identified the maintenance service as a separate performance obligation which has been bundled with those CPU IP contracts. The Company shall allocate the transaction price to the maintenance service on a relative stand-alone selling price basis and the revenue shall be recognized during the period that the Company performs its obligation.

D. The consideration promised in a contract includes a variable amount, such as the terms of deduction. In accordance with IFRS 15, The Company shall estimate an amount of variable consideration by using either the expected value method or the most likely amount method, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled.

B. IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. In accordance with the transition provisions of IFRS 9, the Company elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Company:

a. The Company adopted IFRS 9 since January 1, 2018 and it adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.

b. In accordance with the transition provisions in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications of financial assets and its carrying amounts as at January 1, 2018 are as follows:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
At amortized cost		At amortized cost (including cash and cash equivalents (excluding petty cash), notes receivables, trade receivables, financial assets measured at amortized cost, other receivables and refundable deposits)	
Loans and receivables (including cash and cash equivalents (excluding petty cash), notes receivables, trade receivables, debt instrument investments for which no active market exists, other receivables and refundable deposits)	$1,098,010		$1,098,010

c. The transition adjustments from IAS 39 to IFRS 9 for the classifications of financial assets as at January 1, 2018 are as follow:

IAS 39		IFRS 9				
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts	Difference	Retained earnings Adjustment	Other components of equity Adjustment
Loans and receivables (Note)		At amortized costs				
Debt instrument investments for which no active market exists	$394,000	Financial assets measured at amortized costs	$394,000	$-	$-	$-
	677,641		677,641			
Cash and cash equivalents	11,918	Cash and cash equivalents	11,918	-	-	-
Trade receivables	12,766	Trade receivables	12,766	-	-	-
Other receivables	621	Other receivables	621	-	-	-
Refundable deposits	1,064	Refundable deposits	1,064	-	-	-
Total	$1,098,010	Total	$1,098,010		$-	$-

Note:
In accordance with IAS 39, the cash flow characteristics for loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at January 1, 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arisen from the assessment of impairment losses for the aforementioned assets as at January 1, 2018. Therefore, there is no impact on the carrying amount as at January 1, 2018.

(2) Standards or interpretations issued, revised or amended by IASB and endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below.

Items	The Projects of Standards or Interpretations	Effective Dates
A	IFRS 16 “Leases”	January 1, 2019
B	IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019
C	IAS 28 “Investments in Associates and Joint Ventures” (Amendment to IAS 28)	January 1, 2019
D	Prepayment Features with Negative Compensation (Amendment to IFRS 9)	January 1, 2019
E	Improvements to International Financial Reporting Standards (2015-2017 cycle)	January 1, 2019
F	Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	January 1, 2019

A. IFRS 16 “Leases”

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the statements of comprehensive income. Besides, lessors’ classification remains unchanged as operating or finance leases, but additional disclosure information is required.

B. IFRIC 23 “Uncertainty Over Income Tax Treatments”

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments.

C. IAS 28 “Investment in Associates and Joint Ventures” (Amendments to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

D. Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

E. Improvements to International Financial Reporting Standards (2015-2017 cycle):

IFRS 3 “Business Combinations”
The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 “Joint Arrangements”
The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 “Income Taxes”
The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 “Borrowing Costs”

The amendments clarify that an entity should treats any borrowing made specifically to obtain an asset as part of general borrowings when the asset is ready for its intended use or sale.

F. Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2019. Apart from the potential impact of the standards listed under A which is described below, the remaining standards and interpretations have no material impact on the Company.

A. IFRS 16 “Leases”

IFRS 16 “Leases” replaces IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases - Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The impact arising from the adoption of IFRS 16 on the Company is summarized as follows:

a. For the definition of a lease, the Company elects not to reassess whether a contract is, or contains, a lease at the date of initial application (January 1, 2019) in accordance with the transition provision in IFRS 16. Instead, the Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Company recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

Leases classified as operating leases

For leases that were classified as operating leases applying IAS 17, the Company expects to measure and recognize those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Also, the Company chooses, on a lease-by-lease basis, to measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

The Company expects the right-of-use asset will increase by NT$139,811 thousand and the lease liability will increase by NT$139,811 thousand on January 1, 2019.

b. The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.

(3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Company's financial statements are listed below:

Items	The Projects of Standards or Interpretations	Effective Date issued by IASB
A	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (Amendment)	To be determined by IASB
B	IFRS 17 "Insurance Contracts"	January 1, 2021
C	Definition of a Business (Amendment to IFRS 3)	January 1, 2020
D	Definition of material (Amendment to IAS 1 and 8)	January 1, 2020

A. IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (Amendment)

The amendments address the inconsistency between the requirements in IFRS 10 “Consolidated Financial Statements” (IFRS 10) and IAS 28 “Investments in Associate and Joint Ventures” (IAS 28), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture. IFRS 10 requires full profit or loss recognition on the loss of control of a subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 “Business Combinations” (IFRS 3) between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture.

B. IFRS 17 “Insurance Contracts”

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

a. estimates of future cash flows;
b. Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
c. a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

C. Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

D. Definition of Material (IAS 1 and IAS 8 Amendment)

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date when the Company's financial statements were authorized for issue, the local effective dates are to be determined by FSC. The abovementioned standards and interpretations have no material impact on the Company.

4. Summary of Significant Accounting Policies

(1) Statement of Compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

(2) Basis of Preparation

According to article 21 of the Regulations, the profit or loss and other comprehensive income presented in the parent company only financial reports will be the same as the allocations of profit or loss and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a parent company only basis, and the owners' equity presented in the parent company only financial reports will be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis. Therefore, the investments in subsidiaries will be disclosed under "Investments accounted for using the equity method" in the parent company only financial report and change in value will be adjusted.

The parent company only financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The parent company only financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

(3) Foreign currency transactions

The Company's parent company only financial statements are presented in NT$.

Transactions in foreign currencies are initially recorded by the Company's functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

a. exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

b. foreign currency items within the scope of IFRS 9 *Financial Instruments* (before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are accounted for based on the accounting policy for financial instruments.

c. exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(4) Translation of financial statements in foreign currency

Each foreign operation of the Company determines its function currency upon its primary economic environment and items included in the financial statements of each operation are measured using that functional currency. The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of foreign operations that result in a loss of control, loss of significant influence or joint control but retain partial equity is considering as disposal.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is adjustment in “investments accounted for using the equity method”. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(5) Current and non-current distinction

An asset is classified as current when:

a. the Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
b. the Company holds the asset primarily for the purpose of trading.
c. the Company expects to realize the asset within twelve months after the reporting period.
d. the asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

a. the Company expects to settle the liability in its normal operating cycle.
b. the Company holds the liability primarily for the purpose of trading.
c. the liability is due to be settled within twelve months after the reporting period.
d. the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within six months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 *Financial Instruments* (before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: Recognition and Measurement

The accounting policy from January 1, 2018 as follow:

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

The Company classifies financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

a. the Company's business model for managing the financial assets and
b. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

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

Such financial assets are subsequently measured at amortized cost and are not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

a. purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
b. financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

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

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

a. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
b. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
c. Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Company made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets were classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from measurement are recognized in profit or loss which includes any dividend or interest received on such financial assets.

The accounting policy before January 1, 2018 as follow:

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

a. it is acquired or incurred principally for the purpose of selling or repurchasing it in short term.
b. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
c. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

a. it eliminates or significantly reduces a measurement or recognition inconsistency, or
b. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the company is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investment for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

B. Impairment of financial assets

The accounting policy from January 1, 2018 as follow:

The Company recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

The Company measures expected credit losses of a financial instrument in a way that reflects:

a. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b. the time value of money; and
c. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

a. at an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on financial asset has increased significantly since initial recognition is no longer met.
b. at an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
c. for trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policy before January 1, 2018 as follow:

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has

an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

a. significant financial difficulty of the issuer or obligor;
b. a breach of contract, such as a default or delinquency in interest or principal payments;
c. it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; and
d. the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity instruments classified as available-for-sale, where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

C. Derecognition of financial assets

A financial asset is derecognized when:

a. the rights to receive cash flows from the asset have expired.
b. the Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
c. the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Financial liabilities and equity

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 *Financial Instruments* (before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:

a. it is acquired or incurred principally for the purpose of selling or repurchasing it in short term.
b. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
c. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

a. it eliminates or significantly reduces a measurement or recognition inconsistency; or
b. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the company is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Before January 1, 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(8) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

a. in the principal market for the asset or liability, or
b. in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques which are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(9) Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Inventory costs include costs incurred in bringing each inventory to its present location and Condition:
Raw materials – valued at purchase cost
Finished goods and work in progress – Cost of direct materials and a proportion of manufacturing overheads are calculated by the weighted-average method.
Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Starting from January 1, 2018, rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

(10) Investments accounted for using the equity method

The Company's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the Company's related interest in the associate.

When changes in the net assets of an associate occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Company's percentage of ownership interests in the associate, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate on a pro rata basis.

When the associate issues new shares, and the Company's interest in an associate is reduced or increased as the Company fails to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in capital surplus and investments accounted for using the equity method. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate.

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired (IAS 39 before January 1, 2018) in accordance with IAS 28 *Investment in Connected Enterprises and Joint Ventures*. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value

and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IFRS 36 *Impairment of financial assets*. In determining the value in use of the investment, the Company estimates:

A. Its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
B. The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

(11)Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in

the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Machinery and equipment	3 years
Computer and telecommunication equipment	3 years
Office equipment	3 years
Leasehold improvements	10 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate, and are treated as changes in accounting estimates.

(12)Leases

Company as a lessee

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

(13)Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortized over the useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each fiscal year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and is treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

Development costs - research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognized as an intangible asset when the Company can demonstrate:

a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
b. its intention to complete and its ability to use or sell the asset;
c. how the asset will generate future economic benefits;
d. the availability of resources to complete the asset; and
e. the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. During the period of development, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit as follow:

Computer software	3 years
Technologies	3 years

A summary of the policies applied to the Company's intangible assets is as follows:

	Computer software	Technologies
Useful lives	Finite	Finite
Amortization method used	Amortized on a straight-line basis over the estimated useful life	Amortized on a straight- line basis over the period of expected future benefit
Internally generated or acquired	Acquired	Internally generated

(14)Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A CGU, or groups of CGUs, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the CGU (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(15)Revenue recognition

The accounting policy from January 1, 2018 as follow:

The Company's revenues arising from contracts with customers are primarily related to licensing of CPU IP, rendering of maintenance services and, royalty revenues. The accounting policies are explained as follows:

Licensing of CPU IP

When a promised CPU IP is licensed to a customer, the customer can direct the

use of, and obtain substantially all of the remaining benefits from the license. The nature of the Company's promise is to provide a right to use the CPU IP at the point in time at which the license of the CPU IP is granted to the customer. Therefore, revenue is recognized when the control of the promised goods has been transferred to the customer. The considerations promised in the contract may vary such as the terms of deduction, the Company shall estimate an amount of variable consideration by using either the expected value method or the most likely amount method, depending on which method the Company expects to better predict the amount of consideration to which it will be entitled. An amount of variable consideration is estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved. During the period specified in the contract, contract liabilities are recognized for the expected deductions.

For some of the contracts, the Company has transferred the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. In addition, in accordance with IFRS 9, the Company measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

Rendering of maintenance services

In addition to a promise to grant licences to a customer, the Company may also promise to transfer maintenance services to a customer. Maintenance services include support and enhancements on delivered CPU IPs or developing tools. Due to the maintenance services and CPU IPs are not highly interdependent or highly interrelated, it is identified as a separate performance obligation. The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis. Revenues of maintenance services are recognized on a straight-line basis over the contract period.

For some rendering of maintenance services, part of the consideration was received from customers upon signing the contract, and the Company has the obligation to provide the services subsequently; accordingly, these amounts are

recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component is arisen.

Royalty revenues

The Company recognizes revenue for a sales-based royalty promised in exchange for a licence of CPU IP when the subsequent sale occurs.

The accounting policy before January 1, 2018 as follow:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

A. Sale of goods

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

a. the significant risks and rewards of ownership of the goods have passed to the buyer;
b. neither continuing managerial involvement nor effective control over the goods sold have been retained;
c. the amount of revenue can be measured reliably;
d. it is probable that the economic benefits associated with the transaction will flow to the entity; and
e. the costs incurred in respect of the transaction can be measured reliably.

B. Interest income

For all financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

C. Licensing fees and royalties

Fees and royalties are normally recognized based on the substance of the agreement and on an accrual basis.

a. Licensing of CPU IP
The Company licenses its CPU IP to customers that allows customers to use its CPU IP freely. The license agreements are usually non-cancellable, with fixed fees, and, after licenses delivered, the Company has no further obligations. Accordingly, the licensing of Company's CPU IP is in substance a sale.

b. Rendering of maintenance services
Maintenance services include support and enhancements on delivered CPU IPs or developing tools. Revenues of maintenance service are recognized on a straight-line basis over the contract period.

c. Royalty revenues
Royalty revenues are recognized only when the Company has the right to receive the royalty.

(16)Post-employment benefits

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

(17)Share-based payment transactions

The cost of equity-settled transactions between the Company and its employees is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it fully vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award substitutes the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(18)Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

a. where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

b. in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

a. where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
b. in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's parent company only financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

(1) Judgement

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the parent company only financial statements:

An intangible asset arising from development costs

The Company assessed that certain internally generated intangible assets have attained technical feasibility, and will be available for use or sale. The assessment was mainly based on the fact that the Company has possessed matured technology, resources, clear judgement of development timelines and products specifications for those development projects. The Company also assessed that those assets will generate future economic benefits and the benefits will exceed costs input.

The Company capitalizes development phase expenditures only when all the capitalization criteria are met.

(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

A. Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 6(11).

B. Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could cause future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6(18) for more details on unrecognized deferred tax assets.

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Petty cash	$20	$20
Checking and savings accounts	54,333	26,073
Time deposits	278,600	406,600
Reverse repurchase agreements-corporate bonds	177,967	244,968
Total	$510,920	$677,661

(2) Financial assets measured at amortized cost, current

	December 31, 2018	December 31, 2017(Note)
Time deposits	$420,000	-

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company classified certain financial assets as financial assets measured at amortized cost. The financial assets measured at amortized cost were not pledged. Please refer to Note 12 for more details on credit risk.

(3) Debt instruments investments for which no active market exists, current

	December 31, 2018(Note)	December 31, 2017
Time deposits	-	$394,000

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company adopted IAS 39 before January 1, 2018 and classified certain financial assets as debt instrument investments for which no active market exists. The aforementioned debt instrument was not pledged.

(4) Trade receivables and trade receivables – related parties

	December 31, 2018	December 31, 2017
Trade receivables	$38,699	$37,118
Less: allowance	(5,308)	(5,856)
Subtotal	33,391	31,262
Trade receivables – related parties	18,929	12,766
Total	$52,320	$44,028

Trade receivables and trade receivables – related parties were not pledged.

Trade receivables are generally on 30-75 day terms. The Company adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6(13) for more details on impairment of trade receivables. The Company adopted IAS 39 for impairment assessment before January 1, 2018. The movements in the provision for impairment of trade receivables are as follows (please refer to Note 12 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of January 1, 2017	$-	$-	$-
Charge for the current period	5,856	-	5,856
Write off	-	-	-
As of December 31, 2017	$5,856	$-	$5,856

Aging analysis of trade receivables (net) that are past due as at the end of the reporting period but not impaired is as follows:

		Past due but not impaired					
	Neither past due nor impaired	<=30 days	31~60 days	61~90 days	91~120 days	>=121 days	Total
December 31, 2017	$41,027	$-	$1,538	$-	$-	$1,463	$44,028

(5) Inventories

	December 31, 2018	December 31, 2017
Raw materials	$436	$356
Work in progress	103	61
Finished goods	372	642
Net amount	$911	$1,059

For the year ended December 31, 2018, the cost of inventories recognized in expenses amounted to NT$416 thousand, including the reversal of write-down of inventories of NT$175 thousand.

For the year ended December 31, 2017, the cost of inventories recognized in expenses amounted to NT$940 thousand, including the write-down of inventories of NT$270 thousand.

Inventories were not pledged.

(6) Investments accounted for using the equity method

	December 31, 2018		December 31, 2017	
Investees:	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Subsidiaries:				
Everest Peaks Technology Corporation	$27,898	100.00	$10,705	100.00

The Company increased its investment in Andes Technology USA Corporation in the amount of US$750 thousand through Everest Peaks Technology Corporation in March 2018.

(7) Property, plant and equipment

	Computer and telecommunication equipment	Office equipment	Leasehold improvements	Total
Cost:				
As of January 1, 2018	$1,582	$2,318	$-	$3,900
Additions	1,406	3,962	14,990	20,358
As of December 31, 2018	$2,988	$6,280	$14,990	$24,258
As of January 1, 2017	$805	$662	$-	$1,467
Additions	872	1,756	-	2,628
Disposals	(95)	(100)	-	(195)
As of December 31, 2017	$1,582	$2,318	$-	$3,900

	Computer and telecommunication equipment	Office equipment	Leasehold improvements	Total
Depreciation and impairment:				
As of January 1, 2018	$470	$426	$-	$896
Depreciation	509	744	416	1,669
As of December 31, 2018	$979	$1,170	$416	$2,565
As of January 1, 2017	$246	$130	$-	$376
Depreciation	319	396	-	715
Disposals	(95)	(100)	-	(195)
As of December 31, 2017	$470	$426	$-	$896
Net carrying amount as of:				
December 31, 2018	$2,009	$5,110	$14,574	$21,693
December 31, 2017	$1,112	$1,892	$-	$3,004

Property, plant and equipment were not pledged.

(8) Intangible assets

	Development costs	Technologies	Computer software	Total
Cost:				
As of January 1, 2018	$6,020	$35,700	$1,119	$42,839
Additions-internally generated	100,272	-	-	100,272
Additions-acquired separately	-	-	108	108
Disposals	-	-	(95)	(95)
Transfers	(21,207)	21,207	-	-
As of December 31, 2018	$85,085	$56,907	$1,132	$143,124

	Development costs	Technologies	Computer software	Total
As of January 1, 2017	$-	$-	$1,257	$1,257
Additions-acquired separately	41,720	-	-	41,720
Additions-acquired separately	-	-	1,024	1,024
Disposals	-	-	(1,162)	(1,162)
Transfers	(35,700)	35,700	-	-
As of December 31, 2017	$6,020	$35,700	$1,119	$42,839
Amortization and impairment:				
As of January 1, 2018	$-	$2,058	$152	$2,210
Amortization	-	15,344	382	15,726
Disposals	-	-	(95)	(95)
As of December 31, 2018	$-	$17,402	$439	$17,841
As of January 1, 2017	$-	$-	$1,184	$1,184
Amortization	-	2,058	130	2,188
Disposals	-	-	(1,162)	(1,162)
As of December 31, 2017	$-	$2,058	$152	$2,210
Net carrying amount as of:				
December 31, 2018	$85,085	$39,505	$693	$125,283
December 31, 2017	$6,020	$33,642	$967	$40,629

The amortization amounts of intangible assets are as follows:

	For the years ended December 31,	
	2018	2017
Selling expenses	$36	$-
Administrative expenses	$341	$70
Research and development expenses	$15,349	$2,118

(9) Post-employment benefits

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Pension expenses under the defined contribution plan for the years ended December 31, 2018 and 2017 were NT$8,568 thousand and NT$7,407 thousand, respectively.

(10) Equity

A. Common stock

The Company's authorized capital as of December 31, 2018 and 2017 was NT$700,000 thousand, divided into 70,000 thousand shares, each at a par value of NT$10. The Company's issued capital was NT$426,509 thousand, and NT$406,199 thousand, divided into 42,651 thousand shares, and 40,620 thousand shares as of December 31, 2018 and 2017, respectively. Each share has one voting right and a right to receive dividends.

The Company issued 8 thousand new shares for the year ended December 31, 2017, for the exercise of employee stock options. Newly shares had been registered and all employee stock options had been exercised by the end of 2017.

The shareholders meeting held on June 21, 2018 approved to distribute stock dividends form capital surplus in the amount of NT$20,310 thousand and issue 2,031 thousand new shares, each at a par value of NT$10. The board meeting approved the record date of the issuance to be September 2, 2018, and the newly issued shares had been registered.

B. Capital surplus

	December 31, 2018	December 31, 2017
Additional paid-in capital	$727,198	$754,564
Employee stock options	1,774	1,774
Total	$728,972	$756,338

According to the Company Act, the capital surplus shall not be used except for making good the deficit of the Company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

C. Retained earnings and dividend policy

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

a. Reserve for tax payments
b. Offset accumulated losses in previous years, if any
c. Legal reserve, which is 10% of leftover profits. However, this restriction does not apply in the event that the amount of the accumulated legal reserve equals or exceeds the Company's total capital stock
d. Allocation or reverse of special reserves as required by law or government authorities
e. The remaining net profits and the retained earnings from previous years will be allocated as shareholders' dividend. The Board of Directors will prepare a distribution proposal and submit the same to the shareholders' meeting for review and approval by a resolution

The policy of dividend distribution should reflect factors such as sustainable development, stable growth, the interest of the shareholders, and healthy financial structure as the goal. The board of directors shall make the distribution proposal according to funding needs. The dividends to shareholders shall be distributed at no lower than 2% of distributable earnings. If the Company decides to issue dividends, cash dividends shall not be lower than 10% of the total dividends.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Following the adoption of TIFRS, the FSC on April 6, 2012 issued Order No. Jin-Guan-Zheng-Fa-Zi 1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

There was no special reserve set aside for the first-time adoption of the TIFRS.

D. Due to the deficits, no distribution of earnings for 2017 was proposed and approved at the board meeting held on March 15, 2019 and the shareholders meeting on June 21, 2018.

	Retained earnings and dividend policy	
	December 31, 2018	December 31, 2017
Legal reserve	$3,402	$-
Aside to special reserve	888	-
Cash dividend	$29,731	$-

The shareholders' meeting on June 21, 2018 resolved to transfer capital surplus to offset accumulated deficits in the amount of NT$7,056 thousand.

Please refer to Note 6(15) for information on the employees' compensation and remuneration to directors.

(11) Share-based payment plans

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

A. Share-based payment plan for employees of the parent entity

The board meeting approved the 1st share-based payment plan of 2014 and would issue employee share options with a total number of 3,000 units on April 1, 2014. Each unit entitles an option to subscribe for 1,000 shares of the Company's common shares. When employees exercise the share options, new shares will be issued. The exercise price is the higher of the net asset value of each share calculated by the most recent audited financial statement or par value of common stock of NT$10. The share options may be exercised after being vested, and such share option is effective for six years.

There are no cash settlement alternatives. The Company has never settled these employee share options in cash before.

The relevant details of the aforementioned share-based payment plan are as follows:

Grant date	Total number of share options granted	Exercise price of share options (NT$)
July 21, 2014	3,000	10.00
October 3, 2014		10.00
December 26, 2014		10.00
March 27, 2015		22.50

The following table lists the inputs to the model used for the plan granted during 2015 and 2014:

Grant date	Expected volatility (%)	Dividend yield (%)	Risk free interest rate (%)	Expected option life	Option pricing model
July 21, 2014	30.14%	-%	0.39%	1 year	Black-Scholes
October 3, 2014	38.71%	-%	1.40%	3 years	Black-Scholes
December 26, 2014	37.56%	-%	1.10%	3 years	Black-Scholes
March 27, 2015	35.58%	-%	0.3844%	3 years	Black-Scholes

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The following table contains further details on the aforementioned share-based payment plan:

	For the year ended December 31, 2017	
	Number of share options outstanding (in thousands)	Weighted average exercise price of share options (NT$)
Outstanding at beginning of year	8	20.18
Granted	-	-
Exercised	(8) [1]	20.18
Expired	-	-
Outstanding at end of year	-	
Exercisable at end of year	-	
Weighted-average fair value of options granted during the year (NT$)	-	

[1] The weighted average share price at the date of exercise was NT$124.

The share-based payment plans had all been exercised by the end of 2017.

B. New shares reserved for employees' subscription

An initial public offering was approved by the board meeting on December 21, 2016. Andes totally issued 3,472 thousand shares, of which 348 thousand shares were reserved for employees to subscribe. The record date of subscription was on March 10, 2017, and the newly issued shares were registered.

The relevant information to aforementioned share-based payment plan is as follows:

Date of grant	Total number of share options granted (in thousands)	Exercise price of share options (NT$)
February 16, 2017	348	65.10

The following table lists the inputs to the model used for the aforementioned share-based payment plans:

	Issuance of common stock for cash retained for employees
Expected dividend yield (%)	-
Expected volatility (%)	26.92
Risk-free interest rate (%)	0.237
Expected life (Years)	0.052
Weighted average share price ($)	68.34
Option pricing model	Black - Scholes

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

C. Share-based compensation expenses recognized for the years ended December 31, 2018 and 2017 are shown in the following table:

	For the years ended December 31,	
	2018	2017
Total expense arising from equity-settled share-based payment transactions	$-	$1,304

D. No modification or cancellation of share-based payment plan has occurred during the years ended December 31, 2018 and 2017.

(12) Sales

	For the year ended December 31, 2018	Percent of total sales	For the year ended December 31, 2017	Percent of total sales
Revenues from contracts with customers				
Licensing of CPU IP	$191,467	68%	$221,812	82%
Royalty revenues	74,629	26%	38,287	14%
Maintenance services	15,642	5%	8,420	3%
Subtotal	281,738	99%	268,519	99%
others	1,426	1%	1,918	1%
Total	$283,164	100%	$270,437	100%

Note: The Company has adopted IFRS 15 since January 1, 2018. The Company elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application.

The Company has adopted IFRS 15 since January 1, 2018. Relevant information of revenue from contracts with customers for the year ended December 31, 2018 is as follows:

A. Disaggregation of revenue

	For the year ended December 31, 2018	
Timing of revenue recognition:		
At a point in time	$267,522	(Note)
Over time	15,642	
Total	$283,164	

Note: The amount includes royalty revenues of NT$74,629 thousand, which is calculated on sale basis and recognized when subsequent sale occurs.

B. Contract balance

a. Contract assets, current

	January 1, 2018	December 31, 2018	Difference
Licensing of CPU IP	$19,344	$55,443	$36,099

Contract assets represent the amount that the Company has transferred CPU IPs to customers but not yet billed. Contract assets will be transferred to trade receivables as the Company obtains an unconditional right to receive the consideration. The Company transferred NT$19,344 thousand of the beginning balance of contract assets to trade receivables during 2018. Please refer to Note 6(13) for more details on the impairment impact.

b. Contract liabilities

	January 1, 2018	December 31, 2018	Difference
Contract liabilities, current			
Licensing of CPU IP	$-	$3,912	$3,912
Maintenance services	9,495	11,247	1,752
Deductions	3,274	3,274	-
Total	$12,769	$18,433	$5,664

NT$8,734 thousand of beginning balance of contract liabilities has been recognized as revenues. The increase of contract liabilities by the end of 2018 is because part of the performance obligations have not been satisfied.

(13) Expected credit losses

	For the years ended December 31,	
	2018	2017(Note)
Operating expenses – expected credit losses		
Trade receivables	$(2,171)	

Note: The Company has adopted IFRS 9 since January 1, 2018. The Company elected not to apply restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12 for more details on credit risk.

The Company measures the loss allowance of its contract assets and receivables (including trade receivables - related parties) at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance as at December 31, 2018 is as follows:

The Company determines the grouping of trade receivables by considering counterparties' credit ratings, geographical regions and industry sectors and its loss allowance is measured by using a provision matrix. Details are as follows:

		Past due						
Group 1 (Note 1) :	Neither past due (Note 2)	<=30 days	31~90 days	91~120 days	121~180 days	181~360 days	>=361 days	Total
Gross carrying amount	$74,324	$-	$-	$921	$1	$-	$1,129	$76,375
Loss ratio	-%	-%	2%	10%	30%	50%	100%	
Lifetime expected credit losses	-	-	-	(92)	-	-	(1,129)	(1,221)
Subtotal	$74,324	$-	$-	$829	$1	$-	$-	$75,154

		Past due					
Group 2 (Note 1)：	Neither past due (Note 2)	<=30 days	31~90 days	91~120 days	121~180 days	181~360 days	>=361 days
Gross carrying amount	$32,226	$-	$-	$323	$154	$3,993	$36,696
Loss ratio	-%	-%	3%	10%	40%	100%	
Lifetime expected credit losses	-	-	-	(32)	(62)	(3,993)	(4,087)
Subtotal	$32,226	$-	$-	$291	$92	$-	$32,609
Carrying amount of contract assets and receivables (including trade receivables-related parties)							$107,763

Note 1: The group 1 and group 2 are classified based on where the counterparties are located. Expected loss ratio is evaluated by each customer under each group.

Note 2: The contract assets were not past due.

The movement in the provision for impairment of contract assets and trade receivables during the year is as follows:

	Contract assets	Trade receivables
Beginning balance (in accordance with IAS 39)	$-	$5,856
Beginning adjusted retained earnings	-	-
Beginning balance (in accordance with IFRS 9)	-	5,856
Addition for the current period	-	2,171
Write off	-	(2,719)
Ending balance	$-	$5,308

(14) Operating leases

The Company as a lessee

The Company has entered into commercial leases of office for operating uses. These leases have an average life of one to five years with no renewal options. There are no restrictions placed upon the Company by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	$16,770	$3,203
Later than one year but not later than five years	61,778	1,635
Total	$78,548	$4,838

Operating lease expenses recognized are as follows:

	For the years ended December 31,	
	2018	2017
Minimum lease payments	$8,504	$3,423

(15) Summary statement of employee benefits, depreciation and amortization expenses by function

	For the years ended December 31					
	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	$-	$113,720	$113,720	$-	$133,081	$133,081
Labor and health insurance	-	13,626	13,626	-	11,744	11,744
Pension	-	8,568	8,568	-	7,407	7,407
Director's emoluments	-	559	559	-	104	104
Others	-	525	525	-	462	462
Depreciation	-	1,669	1,669	-	715	715
Amortization	-	15,726	15,726	-	2,188	2,188

According to the Articles of Incorporation of the Company, no lower than 2% of profit of the current year is distributable as employees' compensation and no higher than

1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the Company's accumulated losses shall have been covered (if any). The Company may, by a resolution adopted by a majority vote at the meeting of board of directors attended by two thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the board of directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on the profit for the year ended December 31, 2018, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2018 to be 2% and 0.99% of profit for the year ended December 31, 2018. As such, employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2018 amounted to NT$ 730 thousand and NT$ 363 thousand, respectively.

The Company did not estimate the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2017.

(16) Non-operating income and expenses

(a) Other income

	For the years ended December 31,	
	2018	2017
Interest income (Note)		$4,189
Financial assets measured at amortized cost	$5,069	-
Others	959	749
Total	$6,028	$4,938

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(b) Other gains and losses

	For the years ended December 31,	
	2018	2017
Foreign exchange gains (losses), net	$3,621	$(7,090)
Others	(752)	(1,255)
Total	$2,869	$(8,345)

(17) Components of other comprehensive income

For the year ended December 31, 2018:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	$730	$-	$730	$(83)	$647

For the year ended December 31, 2017:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	$(1,234)	$-	$(1,234)	$210	$(1,024)

(18) Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

The major components of income tax expense are as follows:

Income tax expense recognized in profit or loss

	For the years ended December 31,	
	2018	2017
Current income tax expenses:		
Current income tax charge	$-	$-
Adjustments in respect of current income tax of prior periods	-	378
Deferred tax expense (income):		
Others	1,373	1,787
Income tax expense	$1,373	$2,165

Income tax related to components of other comprehensive income

	For the years ended December 31,	
	2018	2017
Deferred tax income:		
Exchange differences resulting from translation the financial statements of foreign operations	$(83)	$210
Income tax relating to components of other comprehensive income	$(83)	$210

A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the years ended December 31,	
	2018	2017
Accounting profit (loss) before tax from continuing operations	$42,940	$23,698
At the Company's statutory income tax rate (2018:20%, 2017:17%)	$8,588	$4,029
Adjustments in respect of current income tax of prior periods	-	378
Recognition of tax losses or temporary differences of prior periods not recognized	(8,588)	(4,029)
Others	1,373	1,787
Income tax expense recognized in profit or loss	$1,373	$2,165

Deferred tax assets (liabilities) related to the following:

For the year ended December 31, 2018

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Generated from consolidation	Exchange differences	Ending balance
Temporary differences							
Investments accounted for using the equity method	$359	$-	$(83)	$-	$-	$-	$276
Deferred income tax		$-	$(83)	$-	$-	$-	
Net deferred tax assets (liabilities)	$359						$276
Reflected in balance sheet as follows:							
Deferred tax assets	$359						$276
Deferred tax liabilities	$-						$-

A summary of the unused loss carry-forward of the Company is as follows:

		Unutilized accumulated loss		
Occurrence year	Accumulated loss	December 31, 2018	December 31, 2017	Expiration year
2007	$107,266	$-	$67,726	2017
2008	82,011	40,688	82,011	2018
2009	145,944	145,944	145,944	2019
2010	119,980	119,980	119,980	2020
2011	114,257	114,257	114,257	2021
2012	88,644	88,644	88,644	2022
2013	87,983	87,983	87,983	2023
2016	18,406	18,406	18,406	2026
Total		$615,902	$724,951	

Unrecognized deferred income tax assets

As of December 31, 2018 and 2017, the Company's unrecognized deferred income tax assets were NT$145,542 thousand and NT$141,240 thousand, respectively.

The assessment of income tax returns

As of December 31, 2018, the income tax returns of the Company through 2016 have been assessed by the tax authorities.

(19) Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity owners of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity owners of the parent entity (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	For the years ended December 31,	
	2018	2017
(a) Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT$)	$41,567	$21,533
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	42,651	41,965
Basic earnings per share (NT$)	$0.97	$0.51
(b) Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT$)	$41,567	$21,533
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	42,651	41,965
Effect of dilution:		
Employee stock options (in thousands)	-	5
Employees' compensation-stock (share)	9	-
Weighted average number of ordinary shares outstanding after dilution (in thousands)	42,660	41,970
Diluted earnings per share (NT$)	$0.97	$0.51

Weighted average number of ordinary shares outstanding for the year ended December 31, 2017 had been retrospectively adjusted for the capital increase from capital surplus in 2018.

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

7. Related Party Transactions

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
Mediatek Inc.	Substantive related party
Andes Technology (Wuhan) Corporation	Subsidiary
Andes Technology (Samoa) Corporation	Subsidiary
Andes Technology USA Corporation	Subsidiary
Everest Peaks Technology Corporation	Subsidiary

(1) Sales

	For the years ended December 31,	
	2018	2017
Mediatek Inc.	$29,929	$26,929
Subsidiaries	32,889	49,145
Total	$62,818	$76,074

The collection periods for related parties and third-party customers were both month-end 30 to 75 days.

(2) Contract assets

	December 31, 2018	December 31, 2017(Note)
Mediatek Inc.	$1,536	
Subsidiaries	5,842	
Total	$7,378	

Note: The Company has adopted IFRS 15 since January 1, 2018. The Company elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (January 1, 2018).

(3) Trade receivables - related parties

	December 31, 2018	December 31, 2017
Mediatek Inc.	$2,580	$-
Subsidiary	16,349	12,766
Total	$18,929	$12,766

(4) Unearned revenues

	December 31, 2018(Note)	December 31, 2017
Mediatek Inc.		$2,177
Subsidiary		579
Total		$2,756

Note: The Company has adopted IFRS 15 since January 1, 2018. The Company elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (January 1, 2018).

(5) Contract liabilities, current

	December 31, 2018	December 31, 2017(Note)
Mediatek Inc.	$2,200	
Subsidiaries	2,085	
Total	$4,285	

Note: The Company has adopted IFRS 15 since January 1, 2018. The Company elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (January 1, 2018).

(6) Others

A. The Company entered into office leases with Mediatek Inc. for the years ended December 31, 2018 and 2017, and lease expenses recognized were NT$790 thousand and NT$578 thousand, respectively. The rents were paid monthly.

B. The Company paid NT$6,520 thousand and NT$14,115 thousand as commission expenses to the subsidiaries for the years ended December 31, 2018 and 2017, respectively.

C. The Company paid NT$7,409 thousand of R&D and design fees to the subsidiaries for the year ended December 31, 2018.

D. Other payables to related parties

	December 31, 2018	December 31, 2017
Subsidiaries	$3,686	$2,232

(7) Key management personnel compensation

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	$19,446	$11,910
Post-employment benefits	540	324
Total	$19,986	$12,234

8. Assets Pledged as Collateral

None

9. Commitments and Contingencies

None

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

None

12. Others

(1) Categories of financial instruments

Financial assets

	December 31, 2018	December 31, 2017
Financial assets measured at amortized cost:		(Note)
Cash and cash equivalents (excluding petty cash)	$510,900	
Financial assets measured at amortized cost	420,000	
Trade receivables, net (including related parties)	52,320	
Other receivables	495	
Refundable deposits	5,348	
Total	$989,063	
	(Note)	
Loans and receivables:		
Cash and cash equivalents (excluding petty cash)		$677,641
Debt instrument investments for which no active market exists		394,000
Trade receivables, net		44,028
Other receivables		621
Refundable deposits		1,064
Total		$1,117,354

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Financial liabilities

	December 31, 2018	December 31, 2017
Financial liabilities at amortized cost:		
Trade payables	$126	$40
Other payables	26,865	21,637
Total	$26,991	$21,677

(2) Financial risk management objectives and policies

The Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Company identifies, measures and manages the aforementioned risks based on the Company's policy and risk tendency.

The Company has established appropriate policies, procedures and internal controls for financial risk management. The plans for material treasury activities are reviewed by the board of directors and supervisors in accordance with relevant regulations and internal controls. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market risk comprises foreign currency risk.

In practice, it is rarely the case that a single risk variable will change independently from other risk variables; there are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenues or expenses are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries.

The Company has certain foreign currency receivables which are denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is applied.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates for USD. The information of the sensitivity analysis is as follows:

When NTD appreciates or depreciates against USD by 1%, the profit for the years ended December 31, 2018 and 2017 decreases/increases by NT$1,013 thousand and NT$504 thousand, respectively.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for trade receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Credit risk is managed by each business unit subject to the Company's established policy, procedures and controls relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria, etc. Certain counter parties' credit risk will also be managed by taking credit enhancement procedures, such as requesting for prepayment.

As of December 31, 2018 and 2017, receivables from top ten customers represented 54.40% and 62.28% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables was insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Company's treasury in accordance with the Company's policy. The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counterparties.

(5) Liquidity risk management

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial liabilities

	Less than 1 year	1 to 3 years	4 to 5 years	more than 5 years	Total
December 31, 2018					
Trade payables	$126	$-	$-	$-	$126
Other payables	26,865	-	-	-	26,865
December 31, 2017					
Trade payables	$40	$-	$-	$-	$40
Other payables	21,637	-	-	-	21,637

(6) Fair value of financial instruments

The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

The carrying amount of cash and cash equivalents, financial assets measured at amortized cost, trade receivables (including related parties), trade payables and other payables approximate their fair value due to their short maturities.

(7) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	December 31, 2018		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Financial assets			
Monetary item:			
USD	$3,514	30.715	$107,943
Financial liabilities			
Monetary item:			
USD	215	30.715	6,603

	December 31, 2017		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Financial assets			
Monetary item:			
USD	$1,825	29.76	$54,304
Financial liabilities			
Monetary item:			
USD	133	29.76	3,953

Foreign currencies of entities of the Company varied. Accordingly, the Company is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant asset and liability denominated in foreign currencies. The foreign exchange gains (losses) were NT$3,621 thousand and NT$(7,090) thousand for the years ended December 31, 2018 and 2017, respectively.

(8) Capital management

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