

**AIR ASIA CO., LTD.**  
**AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**  
**WITH**  
**REPORT OF INDEPENDENT AUDITORS**

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.

## **Independent Auditors' Report Translated from Chinese**

To AIR ASIA CO., LTD.

### **Opinion**

We have audited the accompanying consolidated balance sheets of AIR ASIA CO., LTD. (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 (together "the consolidated financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2018 and 2017, and its 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 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. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

#### **1. Revenue Recognition**

The Group's aircraft maintenance service and aircrafts business maintenance management contracts recognized revenue when a performance obligation was satisfied over time. This method calculates the percentage of completion by the actual input of materials or labors in each contract. As the calculation of percentage of completion is complicated and estimating cost involves management's material judgment, we considered this a key audit matter.

Our audit procedures included, but were not limited to, assessing and testing the effectiveness of the internal control design and execution regarding revenue recognition, selecting samples to perform test of details, including reviewing revenue recognition terms and conditions of contracts, comparing the actual and projected costs to verify the reasonableness of total cost estimates, and testing the material requisition record and employee time record to verify the correctness of actual input and verify the correctness of the amount of revenue recognized. We also assessed the adequacy of revenue recognition. Please refer to Notes IV, V and VI to the Group's consolidated financial statements.

## 2. Valuation for slow-moving inventories

As of December 31, 2018, the Group's net material inventories amounted to NT\$267,635 thousand, which was material to the financial statement. The Group's raw material may become slow-moving inventory with the related model phase-out. Management needs to assess the adequacy of write-downs of slow-moving inventories. As identification of slow-moving inventories of the amount of inventory write downs involved management's material judgment, 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 slow-moving inventories, testing the evaluation basis of write-downs from slow-moving inventories and the reasonableness of provision ratio, testing the correctness of slow-moving inventory breakdown and the calculation of inventory aging. We also assessed the adequacy of disclosures of slow-moving inventories. Please refer to Notes IV, V and VI 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 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 audit committee or supervisors, are responsible for overseeing the financial reporting process of the Group.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

### **Other**

We have audited and expressed an unqualified opinion including an Other Matter Paragraph on the parent company only financial statement of the Company as of and for the years ended December 31, 2018 and 2017.

### **Emphasis of Matters-Applied the New Standards**

As stated in Note III of the consolidated financial statements, the Group and its subsidiaries applied the International Financial Reporting Standard 9, "Financial Instruments" and 15, "Revenue from Contracts with Customers" on 1 January 2018.

Lin, Su Wen

Yang, Chih Hui

Ernst & Young, Taiwan.  
29 January 2019

#### Notice to Readers

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China on Taiwan 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 Republic of China.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

AIR ASIA CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2018 and 2017

(Expressed in Thousand of New Taiwan Dollars)

Assets	Notes	December 31, 2018	December 31, 2017
<b>Current Assets</b>			
Cash and cash equivalents	IV/VI	\$83,444	\$98,211
Contract assets, current	IV/VI	333,180	-
Notes and accounts receivable-Net	IV/VI	802,754	724,162
Other receivable-current		16,339	6,651
Inventories-Net	IV/V/VI	1,036,084	304,866
Prepayments		66,957	17,762
Refundable deposits-current	VIII	163,457	75,777
Other current assets		237	-
<b>Total current assets</b>		<b>2,502,452</b>	<b>1,227,429</b>
<b>Non-current Assets</b>			
Property, plant and equipment	IV/VI/VIII	709,079	712,843
Intangible assets	IV/VI	2,870	3,327
Deferred income tax assets	IV/VI	70,042	59,056
Incremental costs of obtaining contracts		45,634	-
Other noncurrent assets	VI/VIII	86,890	145,330
<b>Total non-current assets</b>		<b>914,515</b>	<b>920,556</b>
<b>Total Assets</b>		<b>\$3,416,967</b>	<b>\$2,147,985</b>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
 AIR ASIA CO., LTD. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 As of December 31, 2018 and 2017  
 (Expressed in Thousand of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2018	December 31, 2017
Current Liabilities			
Short-term loans	IV/VI	\$722,075	\$30,000
Short-term notes and bills payable	IV/VI	229,925	-
Contract liabilities, current	IV/VI	1,114	-
Accounts payable		215,283	128,940
Other payables	VI	201,474	236,604
Income tax payable	IV/VI	-	2,207
Provisions-current	IV/V/VI	19,112	36,633
Advance receipts		-	22,098
Current portion of long-term loans	IV/VI	16,667	16,667
Other current liabilities		10,387	5,210
Total current liabilities		<u>1,416,037</u>	<u>478,359</u>
Non-current Liabilities			
Long-term loans-excluding current portion	IV/VI/VIII	183,332	49,999
Provisions-noncurrent	IV/V/VI	-	2,332
Net defined benefit liabilities- noncurrent	IV/V/VI	141,541	160,163
Total non-current liabilities		<u>324,873</u>	<u>212,494</u>
Total Liabilities		<u>1,740,910</u>	<u>690,853</u>
Equity			
Common stock	VI	1,222,080	1,078,296
Capital surplus	VI	365,749	153,095
Retained earnings	VI		
Legal reserve		117,066	104,727
Unappropriated earnings		12,196	120,965
Total retained earnings		<u>129,262</u>	<u>225,692</u>
Other component of equity		139	49
Treasury stock		<u>(41,173)</u>	-
Total Equity		<u>1,676,057</u>	<u>1,457,132</u>
Total Liabilities and Equity		<u>\$3,416,967</u>	<u>\$2,147,985</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

AIR ASIA CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

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

ITEMS	NOTES	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017
Operating Revenue	IV/VI	\$2,719,354	\$2,417,744
Operating Costs	VI	(2,407,030)	(2,023,450)
Net Operating Margin		<u>312,324</u>	<u>394,294</u>
Operating Expenses	VI		
Selling expenses		(62,767)	(51,354)
General and administrative expenses		(200,386)	(169,776)
Research and development expenses		(22,306)	(24,231)
Expected credit losses		(12,625)	-
Total operating expenses		<u>(298,084)</u>	<u>(245,361)</u>
Operating Income		<u>14,240</u>	<u>148,933</u>
Non-operating Income and Expenses	VI		
Other revenue		10,093	9,584
Other gains and losses		(1,761)	(1,574)
Finance costs		(14,712)	(8,917)
Total non-operating income and expenses		<u>(6,380)</u>	<u>(907)</u>
Income from Continuing Operations before Income Tax		7,860	148,026
Income Tax benefit (Expense)	IV/VI	7,545	(24,633)
Net Income		<u>\$15,405</u>	<u>\$123,393</u>
Other comprehensive income	VI		
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of the defined benefit pension plans		(9,947)	(8,517)
Income tax related to items that will not be reclassified		1,989	1,448
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		114	(305)
Income tax related to items that may be reclassified		(24)	53
Total other comprehensive income(loss), net of tax		<u>(7,868)</u>	<u>(7,321)</u>
Total comprehensive income		<u>\$7,537</u>	<u>\$116,072</u>
Net income attributable to:			
Stockholders of the parent		<u>\$15,405</u>	<u>\$123,393</u>
Comprehensive income attributable to:			
Stockholder of the parent		<u>\$7,537</u>	<u>\$116,072</u>
Earnings Per Share			
Basic earnings per share (in NT Dollar)	VI	<u>\$0.13</u>	<u>\$1.14</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

AIR ASIA CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2018 and 2017

(Expressed in Thousand of New Taiwan Dollars)

項 目	Equity attributable to the parent company						Treasury stock	Total Equity
	Stock		Capital Surplus	Retained Earnings		Other Equity Exchange Differences on Translation of Foreign Operations		
	Common Stock	Advance Receipts for Common Stock		Legal Reserve	Unappropriated Earnings/ Accumulated deficits			
Balance as of January 1, 2017	\$1,058,296	\$179	\$138,095	\$85,168	\$191,336	\$301	\$ -	\$1,473,375
Appropriations of 2016 earnings								
Legal reserve	-	-	-	19,559	(19,559)	-	-	-
Cash dividends	-	-	-	-	(167,136)	-	-	(167,136)
Net income for the year ended December 31, 2017	-	-	-	-	123,393	-	-	123,393
Other comprehensive income(loss) for the year ended December 31, 2017	-	-	-	-	(7,069)	(252)	-	(7,321)
Total comprehensive income	-	-	-	-	116,324	(252)	-	116,072
Issuance of Common Stock	20,000	(179)	15,000	-	-	-	-	34,821
Balance as of December 31, 2017	\$1,078,296	\$-	\$153,095	\$104,727	\$120,965	\$49	\$-	\$1,457,132
Balance as of January 1, 2018	\$1,078,296	\$-	\$153,095	\$104,727	\$120,965	\$49	\$ -	\$1,457,132
Appropriations of 2017 earnings								
Legal reserve	-	-	-	12,339	(12,339)	-	-	-
Cash dividends	-	-	(48,883)	-	(103,877)	-	-	(152,760)
Net income for the year ended December 31, 2018	-	-	-	-	15,405	-	-	15,405
Other comprehensive income(loss) for the year ended December 31, 2018	-	-	-	-	(7,958)	90	-	(7,868)
Total comprehensive income	-	-	-	-	7,447	90	-	7,537
Issuance of Common Stock	143,784	-	261,537	-	-	-	-	405,321
Treasury stock acquired	-	-	-	-	-	-	(41,173)	(41,173)
Balance as of December 31, 2018	\$1,222,080	\$-	\$365,749	\$117,066	\$12,196	\$139	\$(41,173)	\$1,676,057

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

AIR ASIA CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2018 and 2017  
(Expressed in Thousand of New Taiwan Dollars)

ITEMS	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017	ITEMS	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017
Cash Flow from Operating Activities:			Cash Flow from Investing Activities:		
Net income before tax	\$7,860	\$148,026	Acquisition of property, plant and equipment	(46,813)	(34,133)
Adjustments to reconcile net income before income tax to net cash provided by operating activities:			Increase in refundable deposits	(59,818)	(12,911)
Depreciation	63,735	61,553	Acquisition of intangible assets	(4,690)	(5,088)
Amortization	5,147	5,713	Increase in other noncurrent assets	(40,413)	(11,364)
Excepted credit losses/Bad debt expense	12,625	5,097	Net cash (used in) investing activities	(151,734)	(63,496)
Interest expense	5,386	3,806			
Interest revenue	(1,481)	(1,545)	Cash Flow from Financing Activities:		
Loss on disposal of property, plant and equipment	62	845	Increase in short-term loans	692,075	10,000
Contract assets	(333,180)	-	Increase in short-term notes and bills payable	229,925	-
Notes and accounts receivable-net	(91,217)	(26,259)	Preceeds from long-term loans	150,000	-
Other receivable-current	(9,838)	(4,559)	Repayments of long-term loans	(16,667)	(16,667)
Inventories-net	(731,218)	102,605	Cash dividends	(152,760)	(167,136)
Prepayments	(49,195)	24,966	Issuance of common stock for cash	405,321	34,821
Incremental cost of obtaining contracts	150	-	Treasury stock acquired	(41,173)	-
Contract liabilities	12,137	(48,526)	Net cash provided by(used in) financing activities	1,266,721	(138,982)
Other noncurrent assets	1,114	-			
Accounts payable	86,343	(14,883)	Effect of exchange rate changes on cash and cash equivalents	114	(305)
Other payables	(35,367)	(18,843)	Net Decrease in Cash and Cash Equivalents	(14,767)	(53,664)
Provision	(19,853)	(3,312)	Cash and Cash Equivalents at Beginning of Year	98,211	151,875
Advance receipts	(22,098)	(32,371)	Cash and Cash Equivalents at End of Year	\$83,444	\$98,211
Other current liabilities	5,177	(49)			
Net defined benefit liabilities	(28,569)	(15,005)			
Cash generated from operations	(1,122,280)	187,259			
Interest received	1,631	1,643			
Interest paid	(5,149)	(3,824)			
Income tax paid	(4,070)	(35,959)			
Net cash (used in) provided by operating activities	(1,129,868)	149,119			

(The accompanying notes are an integral part of the parent company only financial statements)

AIR ASIA CO., LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Years Ended 31 December 2018 and 2017  
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Stated)

I. Organization and Business

AIR ASIA CO., LTD. was incorporated under the relevant laws of Republic of China (the “R.O.C.”) on 19 January 1955. The Group’s registered and operating address is No. 1050, Jichang Rd., Rende Dist., Tainan City, Taiwan, R.O.C. The Group’s principal activities consist of maintenances, renovation, upgrades and integrated logistic support services for the aircraft and related components.

The common shares of the company have been listed on the Taiwan Stock Exchange since 22 February 2018.

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

The consolidated financial statements of AIR ASIA CO., LTD. and its subsidiaries (the “Group”) for the years ended 31 December 2018 and 2017 were authorized for issue in accordance with a resolution of the Board of Directors’ meeting on 29 January 2019.

III. 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 recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2018. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

(1) 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 provision in IFRS 15, the Group elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (1 January 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 goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Group are summarized as follows:

- A. Please refer to Note 4 for the accounting policies before or after 1 January 2018.
  
- B. Some of the current contracts of the Group recognized revenue in accordance with IFRS 15, as the Group transfers service over time and meets performance obligation, the customer simultaneously receives and consumes the benefits provided by the Group's performance, the other entity is not require to re-perform the work currently completed by the Group. The Group recognizes revenue when a performance obligation is satisfied over time. However, for some contracts, the performance obligations were met but they do not have the right to an amount of consideration that is unconditional. These contacts should be recognized as contract assets, which is different from the accounting treatment of recognizing trade receivables before the date of initial application. Compared with the requirements of IAS 18, the trade receivables decreased by NT\$333,180 thousand and the contract assets increased by NT\$333,180 thousand as at 31 December 2018. In addition, for some contracts that render services, part of the consideration was received from customers upon signing the contract, then the Group has the obligation to provide the services subsequently. Currently the consideration received in advance was recognized as advance receipts. Starting from 1 January 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. Compared with the requirements of IAS 18, advance receipts decreased by NT\$1,114 thousand and the contract liabilities increased by NT\$1,114 thousand as at 31 December 2018.
  
- C. Please refer to Note 4, Note 5 and Note 6 for additional disclosure note required by IFRS 15.

(2) *IFRS 9 "Financial Instruments"*

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

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

B. In accordance with the transition provision 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 1 January 2018. The classifications of financial assets and its carrying amounts as at 1 January 2018 have no difference as those under IFRS 9. The measurement categories are as follows:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
At amortized cost		At amortized cost	
Cash and cash equivalents	\$83,444	Cash and cash equivalents	\$83,444
Notes and accounts receivable-Net	802,754	Notes and accounts receivable-Net	802,754
Other receivables	16,339	Other receivables	16,339
Total	<u>\$902,537</u>	Total	<u>\$902,537</u>

C. In accordance with IAS 39, the cash flow characteristics for loans and receivables are solely payments of principal. The assessment of the business model is based on the facts and circumstances that existed as at 1 January 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, no adjustment arose from the assessment of impairment losses for the aforementioned assets as at 1 January 2018. Therefore, there is no impact on the carrying amount as at 1 January 2018.

D. Please refer to Note IV, Note VI and Note XII for the related disclosures required by IFRS 7 and IFRS 9.

(3) Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”:

The Group required to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Please refer to Note 12 for more details.

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 16 “Leases”	1 January 2019
b	IFRIC 23 “Uncertainty Over Income Tax Treatments”	1 January 2019
c	IAS 28 “Investment in Associates and Joint Ventures” — Amendments to IAS 28	1 January 2019
d	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
e	Improvements to International Financial Reporting Standards (2015-2017 cycle)	1 January 2019
f	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

(1) *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.

(2) *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.

(3) *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.

*(4) 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.

*(5) 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 treat as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

*(6) 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 were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2019. Apart from item (1) explained below, the remaining standards and interpretations have no material impact on the Group:

(1)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 are summarized as follows:

- A. With respect to 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 (1 January 2019) in accordance with the transition provision in IFRS 16. The Group adopted IFRS 16 to contracts that were previously identified as leases while adopting IAS 17 and IFRIC 4; contracts that were not previously identified as containing a lease adopting IAS 17 and IFRIC 4, are not applicable under IFRS 16.

The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognized the cumulative effect of initially applying IFRS 16 on 1 January 2019 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

(a) Leases classified as operating leases

For leases that were classified as operating leases adopting IAS 17, the Group expects to measure and recognize those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on 1 January 2019, and the Group chooses, on a lease-by-lease basis, to measure the right-of-use asset based on the lease liability.

The Group expects the right-of-use asset will increase by NT\$284,974 thousand and the lease liability will increase by NT\$284,974 thousand on 1 January 2019. No adjustment to the opening balance of retained earnings.

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	To be determined by IASB
b	IFRS 17 “Insurance Contracts”	1 January 2021
c	Definition of a Business (Amendments to IFRS 3)	1 January 2020
d	Definition of Material (Amendments to IAS 1 and 8)	1 January 2020

- (1) 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

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, 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 ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the 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 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains 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.

The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

(2) 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 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.

(3) *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.

(4) *Definition of a Material* (Amendments to IAS 1 and 8)

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 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 issued by IASB have no material impact on the Group.

#### IV. Summary of Significant Accounting Policies

##### 1. Statement of Compliance

The Group's consolidated financial statements as of 31 December 2018 and 2017 were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations"), IFRSs, IASs, IFRIC and SIC, which are endorsed by FSC (TIFRSs).

##### 2. Basis of Preparation

The consolidated financial statement have been prepared on a historical cost basis, except for financial instruments measured at fair value.

##### 3. Basis of consolidation

###### Preparation principle of consolidated financial statement

Control is achieved when the Group 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, the Group controls an investee if and only if the Group has:

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

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

- (1) the contractual arrangement with the other vote holders of the investee
- (2) rights arising from other contractual arrangements
- (3) the Group's voting rights and potential voting rights

The Group 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 the Group 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 Group, 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 the Group loses control of a subsidiary, it:

- (1) derecognizes the assets (including goodwill) and liabilities of the subsidiary
- (2) derecognizes the carrying amount of any non-controlling interest
- (3) recognizes the fair value of the consideration received
- (4) recognizes the fair value of any investment retained
- (5) recognizes any surplus or deficit in profit or loss
- (6) 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	Main businesses	Percentage of ownership (%)	
			31 Dec.2018	31 Dec.2017
AIR ASIA CO., LTD	Air Asia Group Ltd.(USA)	Logistics Services	100%	100%

#### 4. Foreign Currency Transactions

The functional currency presented in the Group's parent Group only financial statements is New Taiwan Dollars ("NT Dollars" or "NT\$").

Transactions in foreign currencies are initially recorded by the Group in the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non-monetary items that are measured at fair value in a foreign currency should be translated using the exchange rates at the date when the fair value was 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:

- (1) 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.
- (2) Foreign currency items within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are accounted for based on the accounting policy for financial instruments.
- (3) 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

Every foreign operating entity of the Group determines its own functional currency, and measures its financial statements by such functional currency. The assets and liabilities of foreign operations are translated into NT\$ 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 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 a foreign operation that result in a loss of control, loss of significant influence or joint control but retains partial equity, it is considered as disposal.

On 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 joint arrangement 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:

- (1) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- (2) The Group holds the asset primarily for the purpose of trading
- (3) The Group expects to realize the asset within twelve months after the reporting period.
- (4) 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:

- (1) The Group expects to settle the liability in its normal operating cycle
- (2) The Group holds the liability primarily for the purpose of trading
- (3) The liability is due to be settled within twelve months after the reporting period
- (4) 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 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 1 January 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.

### (1) Financial instruments: Recognition and Measurement

#### The accounting policy from 1 January 2018 as follows:

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

The Group classified 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. 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.

The accounting policy before 1 January 2018 as follows:

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

Financial assets of the Group are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition.

Loans and receivables

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

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

(2) Impairment of financial assets

The accounting policy from 1 January 2018 as follows:

The Group recognizes a loss allowance for expected credit losses on debt instrument investments measured financial asset measured at amortized cost.

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.

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 XII for further details on credit risk.

The accounting policy before 1 January 2018 as follows:

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.

The loss events of the financial assets include:

- A. significant financial difficulty of the issuer or obligor; or
- B. a breach of contract, such as a default or delinquency in interest or principal payments; or
- C. it becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- D. the disappearance of an active market for that financial asset because of financial difficulties.

For 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 exists 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.

### (3) Derecognition of financial assets

Financial asset is derecognized when:

- A. The contractual 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.

### (4) 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 (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

#### Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments (before 1 January 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 carried at amortized cost

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

## (5) 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. Inventories

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

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials – Actual purchase cost on weighted average method

Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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.

## 10. 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 recognized 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:

<u>Item</u>	<u>Useful life</u>
Buildings and structures	3~40 years
Machinery and equipment	2~20 years
Transportation equipment	5~20 years
Office equipment	2~13 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 the differences resulted from the previous estimation are recorded as changed in accounting estimates.

## 11. Leases

### Group as a lessee

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

### Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

## 12. 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 lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial 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 are 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 life is reviewed annually to determine whether the indefinite 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 recognized in profit or loss. The Group's intangible assets accounting policies are as follows:

	<u>Software</u>	<u>Acquired special technology</u>
Useful life	Limited useful life of 1~5 years	Limited useful life of 1~9 years
Amortization methods	Straight-line method	Straight-line method
Internally generated or outside acquisition	Outside Acquisition	Outside Acquisition

## 13. Impairment of Non-Financial Assets

The Group assesses at each reporting date 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 completes impairment testing for the cash-generating unit ("CGU") to which the individual assets belong. Where the carrying amount of an asset or a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount of an individual asset or a CGU is the higher of its fair value less costs to sell and its value in use.

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 cash-generating unit'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.

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

#### 14. Provision

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

##### Provision of Maintenance Warranties

Provision of maintenance warranties is estimated based on the terms of the product sales contracts and the best estimates made by the management on account of the future outflow of economic benefits from the maintenance warranty obligation (on the basis of historical warranty experiences).

##### Provision of Restoration and Repair

The Tainan maintenance base of the Group was declared by the Tainan city government as soil pollution control site and designated as the soil pollution control area. Provisions will arise to recover the site and will be recognized in the amount of the best estimates based on the related expenses expected in the obligation to improve the site. The above improvement work had been finished in 2018.

## 15. Revenues Recognition

The accounting policy from 1 January 2018 as follows:

The Group's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policies are explained as follows:

### Sale of goods

The Group sells goods. Sales are recognized when control of the goods is transferred to the customer and the customer gains control of the goods (namely the customer leads the use of the commodity and obtains almost all of the remaining benefits of the commodity).

The Group provides its customer with a warranty with the purchase of the products. The warranty provides assurance that the product will operate as expected by the customers. The warranty is treated in accordance with IAS 37.

The credit period of the Group's sale of goods is from 15 to 60 days. For most of the contracts, when the Group transfers control of the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

### Rendering of services

Some of the current contracts of the Group recognized revenue in accordance with IFRS 15, as the Group transferred services over time and meets performance obligation, the client simultaneously receives and consumes the benefits provided by the Group's performance. The other entity has almost no need to re-perform the work currently completed by the Group. The Group recognizes revenue when a performance obligation is satisfied over time.

For some contracts, when the Group has transferred the services to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be recognized as contract assets. However, for some rendering of 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; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year and did not result in any significant financial component.

#### Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are recognized as assets if the entity expects to recover those costs. The costs are amortized on a straight-line basis according to the contract periods.

The incremental costs of obtaining a contract are costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense.

#### The accounting policy before 1 January 2018 is as follows:

Revenue is recognized when economic benefits are likely to flow into the Group and the amount can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable. The conditions and methods for recognizing various incomes are as follows:

##### Sales of Goods

Revenue from sale of goods is recognized when all the following conditions have been satisfied: the significant risks and rewards of ownership of the goods have transferred to the buyer; neither continuing managerial involvement nor effective control over the goods sold have been retained; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### Rendering of Services

The Group's service revenue mainly comes from providing maintenance services and revenue from services is recognized by reference to the stage of completion. Stage of completion is measured by reference to the proportion that contract cost incurred for work performed to date bear to the estimated total contract costs. When the contract result cannot be reasonably estimated, revenue is recognized with respect to expense incurred that's expected to be recovered.

#### Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are recognized as assets. The costs are amortized on a straight-line basis according to the contract periods.

The incremental costs of obtaining a contract are costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense.

## 16. Borrowing Cost

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## 17. Post-Employment Benefits

All regular employees of the Group are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Group. Therefore fund assets are not included in the parent Group only financial statements.

For the defined contribution plan, the Group 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 Group recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- (1) the date of the plan amendment or curtailment, and
- (2) the date that the Group recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

## 18. Share-based payment transactions

The cost of share-based payment transactions between the Group and the 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.

When the cash is retained for the purpose of reimbursing the shares to the employees, the grant date shall be the date on which the Group confirms the number of shares subscribed by the employee.

## 19. Income Tax

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 income 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 income tax

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

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

- (1) Where the deferred income 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
- (2) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, 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 income tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that future 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:

- (1) Where the deferred income 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
- (2) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income 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 income 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 income tax assets and deferred income 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 income tax relating to items recognized outside profit or loss is not recognized in profit or loss but rather in other comprehensive income or directly in equity. Deferred income tax assets are reassessed and recognized at each reporting date.

Deferred income tax assets and deferred income 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 income taxes relate to the same taxable entity and the same taxation authority.

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

## V. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's parent Group only financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. 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.

The key assumptions concerning the future and other key sources for estimating uncertainty at the reporting date that would have a significant risk for a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

### (1) Revenue Recognition

The Group's aircraft maintenance service and aircrafts business maintenance management contracts recognized revenue by the percentage of completion method. This method calculates the percentage of completion by the actual input of materials or labors in each contract. The estimation cost of contracts includes the inputs of labors and overheads. Its related information and assumption basis is highly uncertain and involves management's material judgement. It may cause significant effect to the measurement of total cost, and then affect the measurement of recognition of revenue.

### (2) Inventories

The net realizable value of inventories is estimated under the circumstances of being damaged or fully or partially obsolete or declining selling price. The expected net value of inventories is made according to the best evidence during the estimation process. Please refer to Note 6.

### (3) Post-Employment Benefits

The cost of post-employment benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, etc..

### (4) Provisions

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

## VI. Content of Significant Accounts

### 1. Cash and cash equivalents

	31 Dec. 2018	31 Dec. 2017
Cash on hand and saving account	\$83,444	\$83,150
Time deposits	-	15,061
Total	<u>\$83,444</u>	<u>\$98,211</u>

## 2. Notes and accounts receivable, net

	31 Dec. 2018	31 Dec. 2017
Notes receivable	\$95	\$818
Accounts receivable	831,300	739,360
Less: Allowance for doubtful accounts	(28,641)	(16,016)
Net	802,659	723,344
Total	<u>\$802,754</u>	<u>\$724,162</u>

Notes and accounts receivable were not pledged.

The Group adopted IFRS 9 for impairment assessment on 1 January 2018. Please refer to Note VI(16) for more details on accumulated impairment. Please refer to Note XII for more details on credit risk.

The payment term granted to customers were month end 15-60 days. The movements of the allowance for doubtful receivables and aging analysis were as follows (Please refer to Note XII for more details on credit risk):

	Individual assessment to impairment loss	Collective impairment	Total
1 Jan. 2017	\$10,919	\$-	\$10,919
Provision/(Reversal)	3,501	1,596	5,097
31 Dec. 2017	<u>\$14,420</u>	<u>\$1,596</u>	<u>\$16,016</u>

The past due account aging analysis of net account receivables was as follows:

	Neither past due nor impaired	Past due but not impaired account receivables					Total
		< 90 days	91-180 days	181-270 days	271-365 days	>365 days	
31 Dec. 2017	697,268	6,024	20,052	-	-	-	723,344

To work in line with public sector's budget execution, the accounts receivables from public sector clients might be collected later than the expected credit period. If the outstanding balance was not overdue for more than one year, it was not considered overdue and carried no risk of impairment.

3. Inventories, net

	<u>31 Dec. 2018</u>	<u>31 Dec. 2017</u>
Raw materials	\$267,635	\$159,804
Work in process	643,634	97,627
Finished goods	<u>124,815</u>	<u>47,435</u>
Total	<u><u>\$1,036,084</u></u>	<u><u>\$304,866</u></u>

The cost of inventories recognized in expenses amounted to NT\$2,407,030 thousand and NT\$2,023,450 thousand for the years ended 31 December 2018 and 2017, respectively, including the obsolete inventory recognized as expense for the period in the amount of NT\$2,440 thousand and NT\$1,050 thousand for the years ended 31 December 2018 and 2017, respectively.

No inventories noted above were pledged.

#### 4. Property, plant and equipment

	Land	Buildings	Machinery and equipment	Office equipment	Transportati on equipment	Construction in progress and equipment awaiting inspection	Total
Cost:							
1 Jan. 2018	\$255,076	\$651,986	\$554,787	\$45,099	\$61,247	\$321	\$1,568,516
Addition	-	3,055	36,083	4,073	1,199	2,403	46,813
Disposal	-	-	(430)	(1,028)	(198)	-	(1,656)
Transfer	-	-	14,037	1,907	-	(2,724)	13,220
31 Dec. 2018	<u>\$255,076</u>	<u>\$655,041</u>	<u>\$604,477</u>	<u>\$50,051</u>	<u>\$62,248</u>	<u>\$-</u>	<u>\$1,626,893</u>
1 Jan. 2017	\$255,076	\$646,547	\$521,941	\$44,373	\$55,551	\$8,323	\$1,531,811
Addition	-	6,817	13,938	5,740	7,018	620	34,133
Disposal	-	(1,378)	(7,883)	(5,014)	(2,585)	-	(16,860)
Transfer	-	-	26,791	-	1,263	(8,622)	19,432
31 Dec. 2017	<u>\$255,076</u>	<u>\$651,986</u>	<u>\$554,787</u>	<u>\$45,099</u>	<u>\$61,247</u>	<u>\$321</u>	<u>\$1,568,516</u>
Depreciation and impairment:							
1 Jan. 2018	\$-	\$341,459	\$437,829	\$33,661	\$42,724	\$-	\$855,673
Depreciation	-	21,694	34,755	4,692	2,594	-	63,735
Disposal	-	-	(367)	(1,029)	(198)	-	(1,594)
31 Dec. 2018	<u>\$-</u>	<u>\$363,153</u>	<u>\$472,217</u>	<u>\$37,324</u>	<u>\$45,120</u>	<u>\$-</u>	<u>\$917,814</u>
1 Jan. 2017	\$-	\$320,142	\$412,745	\$34,978	\$43,005	\$-	\$810,870
Depreciation	-	22,585	32,967	3,697	2,304	-	61,553
Disposal	-	(1,268)	(7,883)	(5,014)	(2,585)	-	(16,750)
31 Dec. 2017	<u>\$-</u>	<u>\$341,459</u>	<u>\$437,829</u>	<u>\$33,661</u>	<u>\$42,724</u>	<u>\$-</u>	<u>\$855,673</u>
Net book value:							
31 Dec. 2018	<u>\$255,076</u>	<u>\$291,888</u>	<u>\$132,260</u>	<u>\$12,727</u>	<u>\$17,128</u>	<u>\$-</u>	<u>\$709,079</u>
31 Dec. 2017	<u>\$255,076</u>	<u>\$310,527</u>	<u>\$116,958</u>	<u>\$11,438</u>	<u>\$18,523</u>	<u>\$321</u>	<u>\$712,843</u>

Please refer to Note VIII for more details on property, plant and equipment under pledge.

## 5. Intangible assets

	Acquired special technology	Software	Total
Cost:			
1 Jan. 2018	\$7,575	\$4,584	\$12,159
Addition - acquired separately	2,833	1,857	4,690
Decrease	-	-	-
31 Dec. 2018	<u>\$10,408</u>	<u>\$6,441</u>	<u>\$16,849</u>
1 Jan. 2017	\$6,735	\$4,854	\$11,589
Addition - acquired separately	5,088	-	5,088
Decrease	(4,248)	(270)	(4,518)
31 Dec. 2017	<u>\$7,575</u>	<u>\$4,584</u>	<u>\$12,159</u>
Amortization and impairment:			
1 Jan. 2017	\$5,824	\$3,008	\$8,832
Amortization	3,743	1,404	5,147
Decrease	-	-	-
31 Dec. 2018	<u>\$9,567</u>	<u>\$4,412</u>	<u>\$13,979</u>
1 Jan. 2016	\$5,338	\$2,299	\$7,637
Amortization	4,734	979	5,713
Decrease	(4,248)	(270)	(4,518)
31 Dec. 2017	<u>\$5,824</u>	<u>\$3,008</u>	<u>\$8,832</u>
Net book value:			
31 Dec. 2018	<u>\$841</u>	<u>\$2,029</u>	<u>\$2,870</u>
31 Dec. 2017	<u>\$1,751</u>	<u>\$1,576</u>	<u>\$3,327</u>

### Intangible assets amortization:

	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017
Included operating costs	<u>\$4,144</u>	<u>\$4,845</u>
Included in operating expenses	<u>\$1,003</u>	<u>\$868</u>

6. Other non-current assets

	31 Dec. 2018	31 Dec. 2017
Prepayment for equipment	\$26,816	\$425
Refundable deposits	58,870	86,732
Incremental costs of obtaining contracts	(Note)	57,771
Other non-current assets-others	1,204	402
Total	<u>\$86,890</u>	<u>\$145,330</u>

Please refer to Note VIII for more details on refundable deposits-noncurrent as performance bond.

Note: The Group adopted IFRS 15 since 1 January 2018. The incremental cost of obtaining the contract is separately listed in the newly applicable accounting subject. For details, please refer to Note VI(15).

7. Short-term loans

	31 Dec. 2018	31 Dec. 2017
Unsecured loans	<u>\$722,075</u>	<u>\$30,000</u>
Interest rate range	<u>0.62%~1.22%</u>	<u>0.69%~1.22%</u>

The Group's unused short-term lines of credits amounted to NT\$297,925 thousand and NT\$1,212,000 thousand as of 31 December 2018 and 31 December 2017, respectively.

8. Short-term notes and bills payable

Guarantee or acceptance agency	31 Dec. 2018		
	Interest rate	Amount	Pledge
<u>Short-term notes</u>			
China Bills Finance Corporation	0.617%	\$150,000	None
DAH Chung Bills Finance Corporation	0.652%	80,000	//
Subtotal		<u>230,000</u>	
Discount of short-term notes		<u>(75)</u>	
Total		<u>\$229,925</u>	

31 December 2018: None.

9. Other payables

	31 Dec. 2018	31 Dec. 2017
Operating expenses	\$182,761	\$225,310
Payables on equipment	4,163	1,323
Employee bonus	160	3,021
Others	14,352	6,950
Total	<u>\$201,436</u>	<u>\$236,604</u>

10. Long-term loans

(1) The details of long-term loans were as follows:

Creditors	Nature	Period	31 Dec. 2018	Interest rate	Redemption
Chang Hwa Bank	Secured Long-Term Loan	2018.11.26~ 2023.11.26	\$150,000	1.36%	First installment starting from one year maturity following the first drawdown, repaid by 16 installments with every 3 months as one installment .
	Secured Long-Term Loan	2014.12.10~ 2021.12.10	49,999	1.36%	First installment starting from one year maturity following the first drawdown, repaid by 24 installments with every 3 months as one installment .
Less: current portion			<u>(16,667)</u>		
Total			<u>\$183,332</u>		

Creditors	Nature	Period	31 Dec. 2017	Interest rate	Redemption
Chang Hwa Bank	Secured Long-Term Loan	2014.12.10~ 2021.12.10	\$66,666	1.36%	First installment starting from one year maturity following the first drawdown, repaid by 24 installments with every 3 months as one installment .
Less: current portion			<u>(16,667)</u>		
Total			<u>\$49,999</u>		

(2) Please refer to Note VIII for the detail of the assets pledged as collateral for the above liabilities.

## 11. Post-employment benefits

### Defined contribution plan

The Group adopted a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Group will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Group has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plan for the years ended 31 December 2018 and 2017 are NT\$29,481 thousand and NT\$22,461 thousand, respectively.

### Defined benefit plan

The Group adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Group contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Group assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Group will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanisms based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Group does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute 37,086 thousand to its defined benefit plan during the following year beginning after 31 December 2018.

The average duration of the defined benefits plan obligation as of 31 December 2018 and 2017 are 9 years and 10 years.

The costs of defined benefit plan recognized to profit or loss were as follows:

	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017
Current service cost	\$6,803	\$7,372
Net interest of net defined benefit liabilities(assets)	1,714	2,499
Past Service cost	-	-
Total	<u>\$8,517</u>	<u>\$9,871</u>

The reconciliation of present value of defined benefit obligation and fair value of plan assets were as follows:

	31 Dec. 2018	31 Dec. 2017
Present value of the defined benefit obligation	\$144,416	\$314,753
Fair value of plan assets	(2,875)	(154,590)
Other non-current liabilities-net defined benefit liabilities recognized on the balance sheets	<u>\$141,541</u>	<u>\$160,163</u>

The reconciliation of net defined benefit liabilities (assets):

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities (assets)
1 Jan. 2017	\$302,827	\$(136,176)	\$166,651
Current service cost	7,372	-	7,372
Interest cost/revenue	4,542	(2,043)	2,499
Past service cost and gains and losses from settlement	-	-	-
Subtotal	<u>314,741</u>	<u>(138,219)</u>	<u>176,522</u>
Remeasurements of defined benefit liabilities/assets			
Actuarial gains and losses resulting from changes in demographic assumptions	5,393	-	5,393
Actuarial gains and losses resulting from changes in financial assumptions	-	-	-
Experience adjustment	2,330	-	2,330
Remeasurements of defined benefit assets	-	794	794
Subtotal	<u>7,723</u>	<u>794</u>	<u>8,517</u>
Benefits paid	(7,711)	7,711	-

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities (assets)
Contribution by employer	-	(24,876)	(24,876)
31 Dec. 2017	<u>\$314,753</u>	<u>\$(154,590)</u>	<u>\$160,163</u>
Current service cost	6,803	-	6,803
Interest cost/revenue	3,368	(1,654)	1,714
Past service cost and gains and losses from settlement	-	-	-
Subtotal	<u>324,924</u>	<u>(156,244)</u>	<u>168,680</u>
Remeasurements of defined benefit liabilities/ assets			
Actuarial gains and losses resulting from changes in demographic assumptions	31	-	31
Actuarial gains and losses resulting from changes in financial assumptions	809	-	809
Experience adjustment	13,564	-	13,564
Remeasurements of defined benefit assets	-	(4,457)	(4,457)
Subtotal	<u>14,404</u>	<u>(4,457)</u>	<u>9,947</u>
Benefits paid	(194,912)	194,912	-
Contribution by employer	-	(37,086)	(37,086)
31 Dec. 2018	<u>\$144,416</u>	<u>\$(2,875)</u>	<u>\$141,541</u>

The following significant actuarial assumptions were used to determine the present value of the defined benefit obligation:

	31 Dec. 2018	31 Dec. 2017
Discount rate	1.25%	1.07%
Future salary increase rate	1.00%	1.00%

A sensitivity analysis for significant assumption as of 31 December 2018 and 2017 is shown below:

	1 Jan.~31 Dec. 2018		1 Jan.~31 Dec. 2017	
	Increase in defined benefit obligation	Decrease in defined benefit obligation	Increase in defined benefit obligation	Decrease in defined benefit obligation
Discount rate increase by 0.5%	\$1,122	\$-	\$-	\$13,421
Discount rate decrease by 0.5%	-	1,226	14,762	-
Future salary increase by 0.5%	454	-	14,696	-
Future salary decrease by 0.5%	-	419	-	13,494

The sensitivity analysis above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analysis compared to the previous period.

## 12. Provision

	31 Dec. 2018	31 Dec. 2017
Current	\$19,112	\$36,633
Non-current	-	2,332
Total	<u>\$19,112</u>	<u>\$38,965</u>

### Maintenance Warranty

A provision was recognized for expected warranty claims on acceptance by client, based on past experience, management's judgment and other known factors:

	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017
Balance at beginning of the year	\$18,132	\$18,277
Current additions	9,859	11,659
Current used	(2,956)	(2,929)
Current reversed	(5,923)	(8,875)
Balance at end of the year	<u>\$19,112</u>	<u>\$18,132</u>

### Provision of Remediation and Improvement

	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017
Balance at beginning of the year	\$20,833	\$24,000
Current additions	-	-
Current used	(20,833)	(3,167)
Balance at end of the year	<u>\$-</u>	<u>\$20,833</u>

The Group received a letter from Tainan City Government on 9 November 2015 stating that the Group's maintenance base in Tainan (at Land Lot No. 0553-0000, Er-ren Segment, Ren-de District) has been declared a soil pollution control site. The Group recognized provision at the best estimates based on the related expenditure with respect to the soil pollution improvement work required for the scope of the remediation and improvement obligations. The above-mentioned work has already finished in 2018.

## 13. Equity

### (1) Common stock

As of 31 December 2018 and 31 December 2017, the Group's authorized common stock both amounted to NT\$1,300,000 thousand. The outstanding common stocks were respectively NT\$1,222,080 thousand and NT\$1,078,296 thousand, divided into 122,208 thousand shares and 107,830 thousand shares and at NT\$10 par value.

The Group passed a resolution at the board of directors' meeting on 25 December 2017 to raise capital by cash in the amount of NT\$143,784 thousand. The Group issued 14,378 thousand shares of common stock at NT\$10 par value. Pursuant to the R.O.C. Group Act, 300 thousand shares were retained for employees to subscribe. The record date for capital increase was resolved at the board meeting to be 14 February 2018.

The Group passed a resolution at the board of directors' meeting on 22 November 2016 to raise capital by cash in the amount of NT\$20,000 thousand. The Group issued 2,000 thousand shares of common stock at NT\$10 par value. Pursuant to the R.O.C. Group Act, 300 thousand shares were retained for employees to subscribe. The record date for capital increase was resolved at the board meeting to be 10 January 2017.

### (2) Capital reserve

	31 Dec. 2018	31 Dec. 2017
Additional paid-in capital	\$265,686	\$53,032
Gain on disposal of assets	100,063	100,063
Total	<u>\$365,749</u>	<u>\$153,095</u>

According to the Group Act, the capital reserve shall not be used except for making good the deficit of the Group. When a Group incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the Group. 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.

The Board of Directors meeting on 29 January 2019 approved to distribute cash dividends out of its capital surplus in the amount of NT\$110,510 thousand (NT\$ 0.92 per share).

The shareholders' meeting resolved on 11 June 2018 to cover the Group's accumulated deficits by its capital surplus in the amount of NT\$48,883 thousand (NT\$ 0.4 per share).

### (3) Retained earnings and dividend policies

According to the amended Article 235-1 of the Group Act announced on 20 May 2015, the Group shall provide a fixed amount or percentage of the profit for the year to be distributed as “employees’ compensation”. The Group had amended its Articles of Incorporation in order to comply with the preceding law and regulations at a shareholders’ meeting on 8 June 2016. The plans were as follows:

- A. According to the Articles of Incorporation, 1%~3% of profit of the current year is distributable as employees’ compensation. However, the Group's accumulated deficits shall have been covered.
- B. The Group’s Articles of Incorporation provide that the current net income, after deducting the previous years’ losses, shall set aside 10% as legal reserve and special reserve according to the relevant laws and other regulations of R.O.C. Then the balance is added up with the accumulated retained earnings in the previous year. The distribution of the remaining portion, if any, will be proposed by the board of directors for approval in the stockholders’ meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders’ meeting.

According to the Group Act, the Group 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 make good the deficit of the Group. When the Group incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

The Group’s distribution of earnings and cash dividends per share in 2018 and 2017 were approved respectively through the board of directors meeting on 29 January 2019 and the stockholders’ meeting on 11 June 2018 as shown below:

	Appropriation of earnings		Cash dividend per share	
	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017
Legal reserve	\$1,540	\$12,339	\$-	\$-
Cash dividends	9,610	103,877	0.08	0.85

Please refer to Note VI (18) for relevant information about estimation basis and recognized amounts for employees’ compensation and remuneration to directors.

#### 14. Treasury stock

Pursuant to the treasury stock system, the Group repurchased treasury stocks from Taiwan Stock Exchange Corporation (TWSE).

As of 31 December 2018, the reason of the repurchase and the changes in the stocks were as follows:

The reason of repurchase	Beginning of the period	Increase	Decrease	End of the period
To maintain the Group's reputation and shareholders rights and interest	-	1,717 shares	-	1,717 shares

#### 15. Sales

	1 Jan.~31 Dec. 2018(Note)	1 Jan.~31 Dec. 2017
Sales-maintenances	\$2,622,501	\$2,353,636
Sales-materials	96,853	64,108
Total	\$2,719,354	\$2,417,744

Note: The Group adopted IFRS 15 on 1 January 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 (1 January 2018).

The Group has adopted IFRS 15 from 1 January 2018. Analysis of revenue from contracts with customers during the year is as follows:

##### (1) Disaggregation of revenue

	1 Jan.~31 Dec. 2018
Aircraft maintenance	\$925,433
Fleet maintenance and repair supply	399,926
Repairing entrusted to other units and air material selling	476,751
Components maintenance	917,244
Total	\$2,719,354

Timing of revenue recognition:

At a point in time	
Aircraft maintenance	486,547
Fleet maintenance and repair supply	398,611
Outsourced repair and air material transaction	476,751
Components maintenance	845,378
Total	<u><u>\$2,207,287</u></u>
Over time	
Aircraft maintenance	\$438,886
Fleet maintenance and repair supply	1,315
Outsourced repair and air material transaction	-
Components maintenance	71,866
Total	<u><u>\$512,067</u></u>

(2)Contract balances

A. Contract assets - current

	<u>31 Dec. 2018</u>
Rendering of services	\$333,180

As of 31 December 2018, the Group performed its obligation for some contracts by transferring of services, however it has not obtained an unconditional right to receive the consideration during the period in the amount of NT\$333,180 thousand. Please refer to Note VI for more details on the impairment impact.

B. Contract liabilities – current

	<u>31 Dec. 2018</u>
Rendering of services	\$1,114

Some of the Group's contracts as at 31 December 2018 received partial consideration when signing up with the client. The Group bears the responsibility to perform the obligation of providing services subsequently. The Group recognized contract liabilities in the amount of NT\$1,114 thousand.

The period of contract liabilities transfer into revenue is usually within one year and did not result in any significant financial components.

(3) Transaction price allocated to unsatisfied performance obligations

As 31 December 2018, the Group expected to recognize average revenue in the amount of NT\$303,541 thousand from 2019 to 2021. In addition, the Group has signed a number of multi-year military maintenance contracts with the military department. Although the contract stated the budget, the actual performance obligation is based on the maintenance work order and recognized revenue based on each order. The maintenance period of the work orders obtained as of 31 December 2018 were less than one year, so there is no need to provide information on outstanding performance obligations.

(4) Assets recognized from costs to fulfil a contract

	<u>31 Dec. 2018</u>	<u>31 Dec. 2017 (Note)</u>
Incremental costs of obtaining contracts	\$57,771	
Current additions	2,966	
Accumulated amortization	(15,103)	
Accumulated impairment	-	
Total	<u>\$45,634</u>	

Note: The Group adopted IFRS 15 on 1 January 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 (1 January 2018).

The related expenses paid by the Group for the acquisition of the aircraft maintenance business are expected to be recoverable and therefore were recognized as assets and amortized over the contract period of the aircraft maintenance business. Amortization expenses of NT\$15,103 thousand were recognized from 1 January to 31 December 2018.

16. Expected credit losses/ (gains)

	<u>1 Jan.~31 Dec. 2018</u>	<u>1 Jan.~31 Dec. 2017 (Note)</u>
Operating Expense – Expected credit losses/ (gains)		
Contract assets	\$-	
Notes receivable	-	
Trade receivables	12,625	
Total	<u>\$12,625</u>	

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

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

The Group measures the loss allowance of its contract assets and trade receivables (including note receivables and trade receivables) at an amount equal to lifetime expected credit losses. The Group considers the grouping of trade receivables by counterparties' credit rating, geographical region and industry sector and its loss allowance is measured by using a provision matrix. The details are as follows:

	Not yet due	Overdue				Total	
		1-90 days	91-180 days	181-270 days	271-365 days		>=365 days
Notes receivable	\$95	\$-	\$-	\$-	\$-	\$95	
Trade receivables	383,001	419,658	-	-	-	28,641	831,300
Contract assets carrying amount	333,180	-	-	-	-	-	333,180
	<u>\$716,276</u>	<u>\$419,658</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$28,641</u>	<u>\$1,164,575</u>
Loss ratio	<u>0%</u>	<u>0%</u>	<u>20%</u>	<u>30%</u>	<u>50%</u>	<u>100%</u>	
Lifetime expected credit losses	-	-	-	-	-	28,641	28,641
Total	<u>\$716,276</u>	<u>\$419,658</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$1,135,934</u>

If the receivables of government customers cannot be collected within the prescribed credit period due to budgeting of the central government, the amount of the receivables will be regard as not overdue with no impairment risk, if not overdue for more than 365 days,

The movement in the provision for impairment of contract assets, note receivables and trade receivables for the year ended 31 December 2018 is as follows:

	Contract assets	Note receivables	Trade receivables
Beginning balance (in accordance with IAS 39)	\$-	\$-	\$16,016
Current addition	-	-	12,625
Ending balance (in accordance with IAS 39)	<u>\$-</u>	<u>\$-</u>	<u>\$28,641</u>

## 17. Operating leases

### The Group as a lessee

The Group signed a lease contract of national land and buildings for an average period of 5 to 10 years and cannot be renewed upon expiration. There is no restriction imposed on the Group in the contract.

Under the non-cancellable operating leases contract, the future minimum lease payments as of 31 December 2018 and 31 December 2017 are as follows:

	31 Dec. 2018	31 Dec. 2017
Not later than 1 year	\$15,092	\$17,049
Later than 1 year but not later than 5 years	60,367	19,354
Over 5 years	60,367	-
Total	<u>\$135,826</u>	<u>\$36,403</u>

Operating leases recognized as expenses were as follows:

	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017
Minimum lease payments	<u>\$16,373</u>	<u>\$17,049</u>

## 18. Employee benefit, depreciation, and amortization expense are summarized as follows:

Nature \ Function	1 Jan.~31 Dec. 2018			1 Jan.~31 Dec. 2017		
	Classified as operating costs	Classified as operating expenses	Total	Classified as operating costs	Classified as operating expenses	Total
Employee benefit expenses						
Salaries	\$479,561	\$122,156	\$601,717	\$429,989	\$100,200	\$530,189
Insurances	49,909	15,342	65,251	43,232	9,478	52,710
Pensions	29,643	8,355	37,998	25,856	6,476	32,332
Remuneration to directors	-	1,985	1,985	-	670	670
Other employee benefit expenses	31,196	11,377	42,573	17,519	3,455	20,974
Depreciation	59,843	3,892	63,735	58,286	3,267	61,553
Amortization	4,144	1,003	5,147	4,845	868	5,713

Note: The number of employees of the Group as at 2018 and 31 December 2017 was 1,033 and 864 respectively, including 9 non-employee directors.

A resolution was passed at a general shareholders' meeting of the Group held on 8 June 2016 to amend the Articles of Incorporation of the Group. According to the Articles of Incorporation, 1%~3% of profit of the current year is distributable as employees' compensation. However, the Group's accumulated deficits shall have been covered first. The Group may, by a resolution adopted by a majority vote at a 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 and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on the profit level, the Group estimated the amounts of the employees' compensation for the year ended 31 December 2018 and the year ended 31 December 2017. The Group recognized NT\$160 thousand in 2018 and NT\$3,021 thousand in 2017. The amounts were recognized as salary expenses.

A resolution was passed at the board meeting held on 29 January 2019 to distribute employees' compensation in cash in the amount of NT160 thousand. No material differences existed between the estimated amount and the actual amount distributed for the year ended 31 December 2018.

The actual amount distributed as employees' compensation in 2017 was NT\$3,021 thousand. No material difference existed between the estimated amount and actual amount recognized in the financial statement for the year ended 2017.

#### 19. Non-operating income and expenses

##### (1) Other income

	<u>1 Jan.~31 Dec. 2018</u>	<u>1 Jan.~31 Dec. 2017</u>
Rent income	\$487	\$487
Interest income	1,481	1,545
Other income-other	8,125	7,552
Total	<u>\$10,093</u>	<u>\$9,584</u>

##### (2) Other gains and losses

	<u>1 Jan.~31 Dec. 2018</u>	<u>1 Jan.~31 Dec. 2017</u>
(Loss) on disposal of property, plant and equipment	\$(62)	\$(110)
Foreign exchange (loss) gain -net	(449)	(1,089)
Miscellaneous Disbursements	(1,250)	(375)
Total	<u>\$(1,761)</u>	<u>\$(1,574)</u>

(3) Financial Cost

	<u>1 Jan.~31 Dec. 2018</u>	<u>1 Jan.~31 Dec. 2017</u>
Financial expense	\$(9,326)	\$(5,111)
Interest expense	(5,386)	(3,806)
Total	<u>\$(14,712)</u>	<u>\$(8,917)</u>

20. Components of Other Comprehensive Income (Loss)

For the year ended 31 December 2018

	<u>Arising during the period</u>	<u>Income tax benefit (expense)</u>	<u>Other comprehensive income(loss), net of tax</u>
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit pension plans	\$(9,947)	\$1,989	\$(7,958)
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	114	(24)	90
Total	<u>\$(9,833)</u>	<u>\$1,965</u>	<u>\$(7,868)</u>

For the year ended 31 December 2017

	<u>Arising during the period</u>	<u>Income tax benefit (expense)</u>	<u>Other comprehensive income(loss), net of tax</u>
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of the defined benefit pension plans	\$(8,517)	\$1,448	\$(7,069)
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	(305)	53	(252)
Total	<u>\$(8,822)</u>	<u>\$1,501</u>	<u>\$(7,321)</u>

21. Income Tax

Based on the amendments to the Income Tax Act announced on 7 February 2018, the Group's applicable corporate income tax rate for the year ended 31 December 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 (benefit) were as follows:

Income tax expense recorded in profit or loss

	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017
Current income tax expense (benefit):		
Current income tax payable	\$-	\$19,165
Adjustments in respect of current income tax of prior periods	1,474	1,731
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) related to origination and reversal of temporary differences	1,403	3,737
Deferred income tax expense (income) relating to changes in tax rate or the imposition of new taxes	(10,422)	-
Income tax expense	<u><u>\$(7,545)</u></u>	<u><u>\$24,633</u></u>

Income tax expense recorded in other comprehensive income

	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017
Deferred income tax expense (benefit):		
Remeasurements of defined benefit pension plans	\$1,989	\$1,448
Exchange differences on translation of foreign operations	(24)	53
Income tax relating to components of other comprehensive income	<u><u>\$1,965</u></u>	<u><u>\$1,501</u></u>

A reconciliation between income tax expense and income before tax at applicable tax rate was as follows:

	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017
Income before tax from continuing operations	<u><u>\$7,860</u></u>	<u><u>\$148,026</u></u>
At statutory income tax rate of 20%	\$1,572	\$25,164
Investment tax credits under Statue for Industrial Innovation this year	(187)	(2,940)
Tax effect due to non-deductible expenses	7	214
Deferred income tax related to changes in tax rates	(10,422)	-
10% income tax on unappropriated earnings	11	464
Adjustments in respect of current income tax of prior periods	1,474	1,731
Total of income tax expense recorded in profit or loss	<u><u>\$(7,545)</u></u>	<u><u>\$24,633</u></u>

Deferred income tax assets (liabilities) amounts relating to the following items:

For the year ended 31 December 2018

	Balance at beginning	Recognized to profit or loss	Recognized to other comprehensive income	Balance at end
Temporary difference				
Unrealized exchange loss	\$264	\$(159)	\$-	\$105
Allowance for doubtful debts	2,722	3,006	-	5,728
Allowance for losses on inventory market decline and obsolescence	19,039	3,848	-	22,887
Investments accounted for under the equity method	447	95	-	542
Impairment of available-for-sale financial asset	425	75	-	500
Impairment of property, plant and equipment	1,038	(24)	-	1,014
Temporary difference from unpaid expenses payable	4,265	(4,265)	-	-
Provisions- noncurrent	3,542	(3,542)	-	-
Net defined benefit liabilities (assets)	27,228	(909)	1,989	28,308
Loss Carryforwards	-	10,720	-	10,720
Tax credit of investment	-	176	-	176
Exchange difference on translation of foreign operation	86	-	(24)	62
Deferred income tax (expense)/benefit		<u>\$9,021</u>	<u>\$1,965</u>	
Deferred income tax assets-net	<u>\$59,056</u>			<u>\$70,042</u>
Information presented in the balance sheet is as follows:				
Deferred income tax assets	<u>\$59,056</u>			<u>\$70,042</u>
Deferred income tax liabilities	<u>\$-</u>			<u>\$-</u>

For the year ended 31 December 2017

	Balance at beginning	Recognized to profit or loss	Recognized to other comprehensive income	Balance at end
Temporary difference				
Unrealized exchange loss	\$204	\$60	\$-	\$264
Allowance for doubtful debts	1,856	866	-	2,722
Allowance for losses on inventory market decline and obsolescence	18,860	179	-	19,039
Investments accounted for under the equity method	433	14	-	447
Impairment of available-for-sale financial asset	425	-	-	425
Impairment of property, plant and equipment	1,248	(210)	-	1,038
Impairment of other assets	217	(217)	-	-
Temporary difference from unpaid expenses payable	5,606	(1,341)	-	4,265
Provisions- noncurrent	4,080	(538)	-	3,542
Net defined benefit liabilities (assets)	28,331	(2,551)	1,448	27,228
Exchange difference on translation of foreign operation	33	-	53	86
Deferred income tax (expense)/benefit		<u>\$(3,738)</u>	<u>\$1,501</u>	
Deferred income tax assets-net	<u>\$61,293</u>			<u>\$59,056</u>
Information presented in the balance sheet is as follows:				
Deferred income tax assets	<u>\$61,293</u>			<u>\$59,056</u>
Deferred income tax liabilities	<u>\$-</u>			<u>\$-</u>

Unrecognized deferred income tax assets

As of 31 December 2018 and 2017, the unrecognized deferred income tax assets of the Group separately were amounted to NT\$ 176 thousand and NT\$ 573 thousand.

The Group's earnings generated in the year ended 31 December 1997 and prior years were fully appropriated.

Approval of income tax returns

As of 31 December 2018, the Group's income tax returns for all the fiscal years up to 2016 were assessed and approved by the National Taxation Bureau of Southern Area.

22. Earnings Per Share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

The calculation of diluted earnings per share is to divide the profit or loss for the period attributable to the ordinary equity holders of the parent Group (after adjusting the interests of convertible bonds) by the weighted average number of ordinary shares outstanding for the period, plus the weighted average ordinary shares which will be issued when all potential ordinary shares with dilutive effect are converted into ordinary shares.

	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017
Basic earnings per share (in NT dollar)		
Income attributable to the Group's stockholders (thousand dollars)	<u>\$15,405</u>	<u>\$123,393</u>
Weighted-average number of ordinary shares for basic earnings per share (thousand shares)	<u>121,601</u>	<u>107,830</u>
Earnings per share — basic (in NT dollar)	<u>\$0.13</u>	<u>\$1.14</u>

VII. Related-Party Transactions

1. Key management personnel compensation

	1 Jan.~31 Dec. 2018	1 Jan.~31 Dec. 2017
Short-term employee benefits	\$16,571	\$8,863
Post-employment benefits	553	179
Total	<u>\$17,124</u>	<u>\$9,042</u>

### VIII. Assets Pledged as Collateral

The Group has assets pledged as collateral as follows:

Item	Amount		Purpose of pledge
	31 Dec. 2018	31 Dec. 2017	
Refundable deposits-current	\$163,457	\$75,777	Guarantee Deposits
Refundable deposits-noncurrent (recognized as other noncurrent assets)	58,870	86,732	Guarantee Deposits
Property, plant and equipment- Land	255,076	255,076	Long-term loans
Property, plant and equipment- Buildings	246,860	260,936	Long-term loans
Total	<u>\$724,263</u>	<u>\$678,521</u>	

### IX. Significant Contingencies and Unrecognized Contract

1. As of 31 December 2018, the maintenance bond and customs bond offered by banks were as follows:

Currency	Amount
NTD	\$1,652,489
USD	258 thousand

2. As of 31 December 2018, the Group provided performance bond as follows:

Group	Content	Amount
Aerospace Industrial Development Corporation	Performance Bond	\$271,280

### X. Significant Disaster Loss

None.

### XI. Significant Subsequent Events

None.

## XII. Others

### 1. Categories of financial instruments

#### Financial Assets

	<u>31 Dec. 2018</u>	<u>31 Dec. 2017</u>
Loans and receivables	\$80,813	\$95,651
Cash and cash equivalents (excludes cash on hand)	163,457	75,777
Refundable deposits – current	58,870	86,732
Refundable deposits – noncurrent (recognized as other noncurrent assets)	802,754	724,162
Notes and accounts receivable-net	16,339	6,651
Total	<u>\$1,122,233</u>	<u>\$988,973</u>

#### Financial Liabilities

	<u>31 Dec. 2018</u>	<u>31 Dec. 2017</u>
Financial liabilities at amortized cost:		
Short-term loans	\$722,075	\$30,000
Short-term notes and bills payable	229,925	-
Accounts payable	215,283	128,940
Other payables	201,436	236,604
Long-term loans (current portion included)	199,999	66,666
Total	<u>\$1,568,718</u>	<u>\$462,210</u>

### 2. Financial risk management objectives

The Group's 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 policy and risk preference.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant financial activities, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. 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 changes in market prices. Market prices comprise currency risk, interest rate risk, and other price risk (such as equity price risk). In practice, it is unlikely that changes in a single risk variable would occur in isolation of one another; there are usually interdependencies between risk variables. However, the following sensitivity analysis of each risk does not consider the interdependencies between relevant 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 revenue or expense is denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group has foreign currency risk arising from purchases or sales and applies natural hedges. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

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 affected by USD. Sensitivity analysis was as follows:

Foreign currency	31 Dec.2018			Sensitivity analysis	
	Carrying amount		NTD	Foreign currency movement	Benefit /(loss)
	Foreign currency (thousand)	foreign exchange rates			
Financial asset					
Currency item					
USD	\$2,719	30.665	\$83,378	increase1%	\$834
Financial liability					
Currency item					
USD	1,727	30.765	53,131	increase 1%	(531)

31 Dec.2017

Foreign currency	Carrying amount			Sensitivity analysis	
	Foreign currency (thousand)	foreign exchange rates	NTD	Foreign currency movement	Benefit /(loss)
Financial asset					
Currency item					
USD	\$2,930	29.71	\$87,050	increase1%	\$871
Financial liability					
Currency item					
USD	1,818	29.81	54,195	increase 1%	(542)

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans and receivables at floating interest rates, bank borrowings with fixed interest rates and floating interest rates.

The Group manages the risk of interest rate by maintaining an appropriate combination of fixed and floating interest rates, which however, is not suitable for hedge accounting as it does not comply with the rules of hedge accounting.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period, including investments and borrowings with floating interest rates and interest rate swaps. At the reporting date, a change of 10 basis points of interest rate in a reporting period could cause the profit for the years ended 31 December 2018 and 2017 to decrease/increase by NT\$1,071 thousand and NT\$1 thousand, respectively.

#### 4. Credit risk management

Credit risk is the risk that a 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 accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

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

As of 31 December 2018 and 2017, accounts receivables from top ten customers represented 89% and 91% of the total accounts receivables of the Group, respectively. The credit concentration risk of other accounts receivables is 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 and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

The Group adopted IFRS 9 to assess the expected credit losses since 1 January 2018.

	Indicator	Loss ratio	Measurement method for expected credit losses
Credit risk significantly increased	Contract payment overdue 90~365 days	20%~50%	Lifetime expected credit losses
Credit-impaired	Contract payment overdue 365 days Other impaired evidence	100%	Lifetime expected credit losses

Financial assets are written off when there is no realistic prospect of future recovery (the issuer or the debtor is in financial difficulties or bankruptcy).

When the credit risk on debt instrument investment has increased, the Group will dispose that investment in order to minimize the credit losses. When assessing the expected credit losses in accordance with IFRS 9, the evaluation of the forward-looking information (available without undue cost and effort) is mainly based on the macroeconomic information and the credit loss ratio is further adjusted if there is significant impact from forward-looking information.

## 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 and bank borrowings. 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 floating interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

### Non-derivative financial instruments

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	>5 years	Total
31 Dec. 2018							
Loans	\$739,410	\$56,384	\$55,647	\$38,329	\$37,819	\$-	\$927,589
Short-term notes and bills payable	229,925	-	-	-	-	-	229,925
Payables	416,719	-	-	-	-	-	416,719
31 Dec. 2017							
Loans	\$47,488	\$17,262	\$17,035	\$16,808	\$-	\$-	\$98,593
Payables	365,508	-	-	-	-	-	365,508

## 6. Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended 31 December 2018:

	Short-term borrowings	Long-term borrowings	Short-term notes and bills payable	Total liabilities from financing activities
As at 1 Jan. 2018	\$30,000	\$66,666	\$-	\$96,666
Cash flows	692,075	133,333	229,925	1,055,333
As at 31 Dec. 2018	<u>\$722,075</u>	<u>\$199,999</u>	<u>\$229,925</u>	<u>\$1,151,999</u>

Reconciliation of liabilities for the year ended 31 December 2017:

None.

## 7. Fair value of financial instruments

(1) The methods and assumptions applied in determining the fair value of financial instruments:

The fair value of the financial assets and liabilities represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a force or liquidation sale. The following methods and assumptions were used to estimate the fair values:

A. The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, Debt instrument investments for which no active market exists, receivables, payables and other current liabilities.

B. The fair value of short-term borrowings and long-term borrowings (including current portion) are estimated by the carrying amount. As the Group's loan applied short-term revolving borrowings are used in floating interest rates, which have been adjusted with the market status, and thus the rate of the Group's borrowings shall be similar to the market rate.

C. The fair value of guarantee deposits paid is estimated by the carrying amounts, since the expected future received or paid amounts are similar to the carrying amounts.

## 8. Fair value measurement hierarchy

### (1) Fair value measurement hierarchy

All assets and liabilities for which fair value are measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 - Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(2) Information of fair value measurement hierarchy: None.

## 9. Significant assets and liabilities denominated in foreign currencies

The Group's significant assets and liabilities denominated in foreign currencies were as follows:

	Units: in thousands		
	31 Dec. 2018		
	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>			
Monetary items:			
USD	\$2,719	30.665	\$83,378
<u>Financial Liabilities</u>			
Monetary items:			
USD	\$1,727	30.765	\$53,131
		31 Dec. 2017	

	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>			
Monetary items:			
USD	\$2,930	29.71	\$87,050
<u>Financial Liabilities</u>			
Monetary items:			
USD	\$1,818	29.81	\$54,195

The Group has various functional currencies; no information about the foreign exchange gains or losses by a specific currency is available. For the years ended 31 December 2018 and 2017, the foreign exchange gains or (losses) on monetary financial assets and financial liabilities were amounted to NT\$(449) thousand and NT\$(1,089) thousands, respectively.

#### 10. 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.

#### 11. Others

Four employees of the Group were prosecuted for forgery and fraud by the Tainan District Prosecutors Office on 25 June 2009. The four individuals were found innocent at the first instance court on 1 March 2016. The prosecutor appealed on 27 April 2016. The Taiwan High Court, Tainan Branch rejected the appeal and the defendants were acquitted on 18 August 2017.

### XIII. Additional disclosures

1. The additional disclosures for the Group and its affiliates listed below are required by the R.O.C. Securities and Futures Bureau:

(1) Financing provided to others for the year ended 31 December 2018: None.

(2) Endorsement/Guarantee provided to others for the year ended 31 December 2018: None.

(3) Securities held as of 31 December 2018 (excluding subsidiaries, associates and joint venture): None.

(4) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended 31 December 2018: None.

(5) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended 31 December 2018: None.

(6) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended 31 December 2018: None.

(7) Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended 31 December 2018: None.

(8) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of capital stock as of 31 December 2018: None.

(9) Financial instruments and derivative transactions: None.

## 2. Transfer investment related information

(1) The investee company has significant influence or controller directly or indirectly: None.

(2) If the investee company has direct or indirect control, it must disclose the information of the invested Group engaged in the first to ninth transactions of the preceding paragraph: None.

## 3. Investment in Mainland China: None.

#### XIV. Operating segment information

##### 1. The information of the segment's revenue, income, assets and liabilities

The Group is principally engaged in the maintenance of aircrafts and spare parts. The Group's decision makers assess the performance and allocate resources based on the overall financial statements. It is recognized that the parent company is a single operating department for the years ended 31 December 2018 and 2017. The measurement basis for the income, profit and loss, assets and liabilities of the operating divisions for the year can be based on the consolidated balance sheet and consolidated income statement of 31 December 2018 and 2017.

##### 2. Geographic information:

From outside client revenue:

Country	31 Dec. 2018	31 Dec. 2017
Taiwan	\$2,234,871	\$1,700,866
Others	484,483	716,878
Total	\$2,719,354	\$2,417,744

Non-current assets:

Country	31 Dec. 2018	31 Dec. 2017
Taiwan	\$914,515	\$920,556
America	-	-
Total	\$914,515	\$920,556

##### 3. Important client information:

	31 Dec. 2018		31 Dec. 2017	
	Amount	% of net sales	Amount	% of net sales
		revenue		revenue
Client A	\$1,116,919	42%	\$-	-%
Client B	462,592	17%	826,782	34%
Client C	292,470	11%	377,142	16%
Client D	166,205	6%	-	-%
	\$2,038,186	76%	\$1,203,924	50%