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Aerospace Industrial Development Corporation
Annual Report 2018

<u>*Notice to readers*</u>

This English version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

AIDC annual report is available at：http://www.aidc.com.tw
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I. Letter to Shareholders

Dear Valued Shareholders,

Amidst fierce global competition, the Aerospace Industrial Development Corporation (hereinafter referred to as AIDC) has confronted significant challenges which have included; advanced countries adopting intelligent manufacturing with high production efficiency and tax preference to win back customers; emerging countries forming low-cost clusters with government resources to attain business opportunities; international companies demanding quality, efficiency and cost-benefit, coupled with raising trade protectionism from the US-China trade disputes. To survive this stringent environment, AIDC has continued its proactive pursuit of business opportunities. Again, with a concerted effort between employees and management, AIDC had successfully overcome all the difficulties and has hit a new record high in both revenue and profit in FY 2018.

Based on Boeing's forecasts of the commercial aviation market for the next 20 years, the Revenue Passenger Kilometer (RPK) will enjoy a 4.7% average annual growth, demand for airplanes with more than 30 seats is estimated at 42,700, representing a total market value of approximately $6.3 trillion U.S. dollars. In response to the thriving requirement for point-to-point route, single-aisle aircraft is the mainstream model which accounts for more than 70% of the demand.

The Global Market Forecast released by Airbus also provides an optimistic outlook for the next 20 years. It is estimated that the RPK will have a 4.4% average annual growth, demand for new airplane with more than 100 seats is 37,400, representing a total market value of approximately $5.8 trillion U.S. dollars. Asia-Pacific is expected to lead the demand with 40% new aircraft deliveries, followed by North America and Europe.

As for the aero engine market, Forecast International's forecast indicates that for the next 10 years there will be 156,000 deliveries, with a total value of $898 billion U.S. dollars.

The above reflects a strong market demand for commercial aircraft and engines, accordingly AIDC is planning to; construct the Turbine Center Frame, enhance talent cultivation and technology development, participate in international events such as Farnborough Air Show, Taipei Aerospace & Defense Technology Exhibition; and Aircraft Interiors Expo Hamburg to present our self-developed aircraft seat, in the hope of responding prudently to the market opportunities and challenges alike.

For the current stage and in addition to exploring additional commercial aircraft business, AIDC is dedicated to fulfilling all our contractual obligations to current customers, achieving the objective of F-16A/B upgrade, and shall continue to focus on three primary tasks; "Indigenous Development of an Advanced Jet Trainer", "Intelligent Manufacturing" and "Supply Chain Integration".

Firstly, to achieve the "indigenous development of an advanced jet trainer", AIDC is making every effort to achieve the objectives including cultivate aerospace talents, lead industry development; and consolidate self-sustaining national defense. For mid- and long-term, the focus will be upon developing primary trainer, pursuing advanced trainer commercial maintenance, joining NCSIST and private sectors to push forward future performance upgrade of the Advanced Jet Trainer and ultimately developing new-generation fighter.

Secondly, intelligent manufacturing plays an essential role in the global aerospace industry development. AIDC applies its years of experience in digitalization as a base, to plan for intelligent manufacturing from three perspectives, namely; "intelligent machinery, intelligent manufacturing and intelligent management", and has developed its own iAIDC platform to introduce intelligent production with focus on "intelligent machinery and production process" and "intelligent manufacturing and management “. In 2018 in recognition of AIDC’s continued implementation of lean production, digitalization manufacturing and intelligent management, AIDC was presented by the Industrial Bureau of Ministry of Economic Affairs an “Intelligent Machinery Model Enterprise Gold Award”. For mid- and long-term efforts, AIDC will continue to work toward intelligent plant and upgrade of its industrial competitiveness.

Thirdly, integration of Taiwan’s supply chain is a continuing effort in leading domestic aerospace and related industry members to lean transformation, expediting intelligent manufacturing and supply chain integration, jointly enhancing competitiveness, and creating a mature “Taiwan aerospace industry intelligent supply chain”. And to promote intelligent industry chain, AIDC shares its self-developed intelligent management system with domestic supply chain members, and offers free access to the iAIDC system, to execute shop floor intelligent management and to improve the value of the domestic supply chain.

Evidenced by the above, AIDC’s intelligent development is recognized by international companies such as; Airbus, Rolls-Royce, GE, Honeywell, to name a few, which have given high recognition of AIDC’s effort in promoting intelligent manufacturing, which is capable of quickly eliminating production bottlenecks, flexibly adjusting production priorities, reducing work force for repetitive and polluting work environments, and enhancing quality precision. Rolls-Royce while holding its Digital Transformation Forum on July 6, 2017, invited AIDC to make a presentation. Being the sole Asian supplier being invited, AIDC gave a report on ”iAIDC Digital Manufacturing/Intelligent Plant Promotion”.

I would like to express our most sincere appreciation and gratitude to all our valued shareholders for your unwavering support of AIDC. The summary of the report on the operation results for FY 2018 and the business plan for FY 2019 are presented hereunder.

FY 2018 Operation Highlights

Revenue and Income

AIDC had consolidated revenue of NT$28,182,100 thousand in FY 2018, which was an increase of 2.3% from NT$27,537,410 thousand in FY 2017; net income was NT$2,092,020 thousand in FY 2018, which was an increase of 19.7% from NT$1,747,980 thousand in FY 2017; and earnings per share was NT$2.22 in FY 2018, which was an increase of 19.4% comparing with NT$1.86 in FY 2017.

The cost of aviation products are closely related to factors of production scale, learning curve efficiency and product portfolio. As the product in the low rate initial production phase the benefits of the learning curve is not observed, yet cost will be reduced as the production rate climbs and establishes a plateau. The ratio of early production commercial products was comparatively high with an increase in nonrecurring costs, therefore in FY 2018 the operating profit margin was 8%, and net profit margin was 7%.

Research and Development Outlook

The R&D expenses of AIDC in FY 2018 amounted to NT$545,217 thousand with the development of "Pilot Project for Aerospace Composites and Intelligent Manufacturing Industrial Innovation" together with 25 projects, results of which could help to upgrade the overall technological capability and production capacity while facilitating the pursuit of better business opportunities.

Credentials and Awards

Corporate Governance:

＊Ranked in Top 20% Corporate Governance Evaluation TWSE listed companies in Apr. 2018

＊Selected as "TWSE Taiwan High Compensation 100 Index" stock by Taiwan Stock Exchange Corporation in Jun. 2018

＊Selected as "TWSE Corporate Governance 100 Index" stock by Taiwan Stock Exchange Corporation in Jul. 2018

＊Selected as "TWSE Taiwan Employment Creation 99 Index" stock by Taiwan Stock Exchange Corporation in Jul. 2018

＊Ranked 27th in the "CSR Award in Traditional Manufacturers Category" by the Global Views Magazine in Aug. 2018

＊Presented the "2018 Smart Machinery Model Enterprise Gold Award" by Industrial Development Bureau, Ministry of Economic Affairs in Nov. 2018

＊Awarded "2018 Taiwan Corporate Sustainability Awards"-Corporate Sustainability Report Awards (Traditional Manufacturing: Silver Medal) in Nov. 2018

＊Recognized as Pengcheng 32 Evaluation Merit Unit by National Police Agency in Dec. 2018

Sustainable Environment:

＊Received "Green Procurement Enterprise and Group" Award by Taichung City Government in Jun. 2018

＊Certified the 3 in 1 certification of ISO14001/TOSHMS Taiwan Occupational Safety and Health Management System OHSAS18001 in Sep. 2018

＊Presented "Enterprise Environment Protection Award-Silver Medal" and "Outstanding Personnel Award for the Promotion of Environment Protection " by the Environment Protection Administration, Executive Yuan in Dec. 2018

Labor-Management Relation

＊Received "Excellent Occupational Safety and Health Workplace Award" and "Outstanding Personnel Award for the Promotion of Healthy Workplace" by Kaohsiung City Government in Sep. 2018

＊Received " Excellent Occupational Safety and Health Workplace Five-Star Award" by Ministry of Labor in Sep. 2018

＊Presented "Taiwan *i*Sport Enterprise Certification Award" by the Sports Administration of the Ministry of Education in Oct. 2018

＊Presented "Excellent Health Occupational and Health Management Award" and "Outstanding Personnel Award for the Promotion of Healthy Workplace" by Health Promotion Administration, Ministry of Health and Welfare in Oct. 2018

＊Received "Excellent Occupational Safety and Health Workplace Award" by Taichung City Government in Nov. 2018 for 2 years in a row

＊Received the "Happy Workplace Three-Star Award" presented by Labor Affairs Bureau, Taichung City Government in Nov. 2018

Social Responsibility:

＊Received the first national "Enterprise Volunteer Team" award from the Ministry of Health and Welfare in Dec. 2018

Business Plan for FY 2019

Business Development Planning

＊In the area of defense business, AIDC is dedicated to expanding business in military aircraft manufacturing, maintenance, upgrade, fleet commercial maintenance, GOCO and military engine parts manufacturing and maintenance.

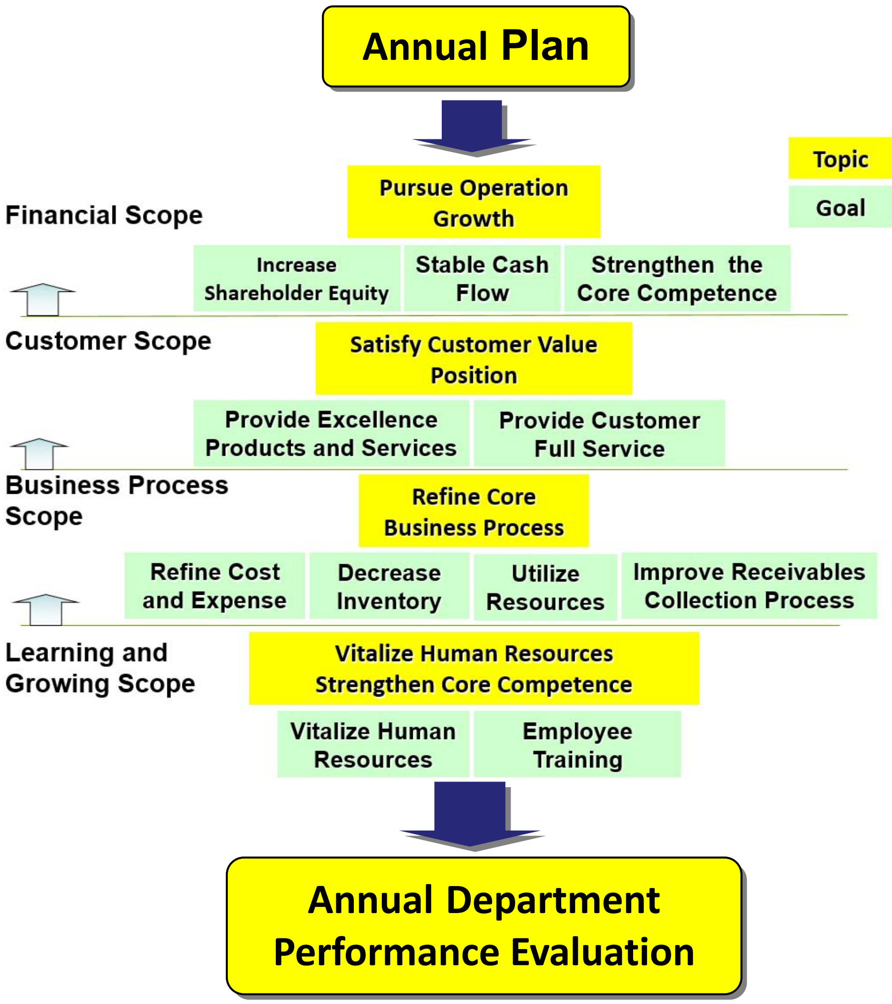
＊In the area of commercial aviation, AIDC seeks to expand business in structural parts and assemblies of commercial aircraft and engines.

＊In the area of industrial technology service, AIDC will focus on R&D, design, manufacture, testing, system integration and after-sales service of products derived from the application of aerospace technology.

Corporate Management Policy

In response to the increasingly harsh competition within the global aerospace industry, AIDC will spare no effort to secure and pursue beneficial business opportunities and will continue to adopt a Balanced Scorecard (BSC) as a management tool. This BSC system helps to align and link AIDC's vision, strategy, and objectives with major tasks and plans of each department, and with which AIDC is able to continue to improve its business management while implementing a culture of accountability.

The corporate business management policy of FY 2019 is to be formulated from the top down, and deployed from the bottom up and with confirmation. That is, the policy will be formulated through management team discussions, which encompasses three parts in the following order: (1) strategies (or directions); (2) objective of each strategy; and (3) major Key Performance Indicators (KPI) of each strategy objective. Together with the "SPEED Transformation Year" launched in 2019, this policy will be clearly illustrated and announced through corporate-level meetings for each department to deploy and develop its implementation plan accordingly as well as propose its action plans to reach KPIs from the bottom up. These tasks will be demonstrated in 87 action plans for Speed Transformation and 145 improvement proposals for lean production and will be confirmed by the management team before being included in department performance evaluation system in FY 2019. In the meantime, coordination with interfacing departments is essential in planning, and based on the "accountability" concept a clear division of work and responsibility will be established and carried through to achieve the desired results.



Faced with tremendous business opportunities and fierce competition in the global aerospace industry, AIDC will launch the “SPEED Transformation Year” to turn crisis into opportunity. The philosophy of SPEED (Smart, Process, Evolution, Effectiveness and Determination) will be implemented in each and every level and department to work in unison to facilitate AIDC’s transformation into a company with intelligent manufacturing capacity and to push forward its goal of sustainable development. AIDC will also continue making every effort to fulfill the three important missions of the “indigenous development of an advanced jet trainer”; “intelligent manufacturing”; and “integration of supply chain” while joining hands with domestic aerospace and related industries to become important players in the global aviation supply chain, which in turn will promote the upgrade of Taiwan’s domestic aerospace industry, and to boost the overall production value, while increasing AIDC’s revenue and profit thereby creating benefits for our valued; Customers, Shareholders, Suppliers, Employees and the communities which we operate in.

May I wish you all good fortune and good health.

Chairman Kai-Hung, Hu

II. Company Profile

1. Date of Establishment

Aerospace Industry Development Corp. was established on July 1, 1996.

2. Chronicle

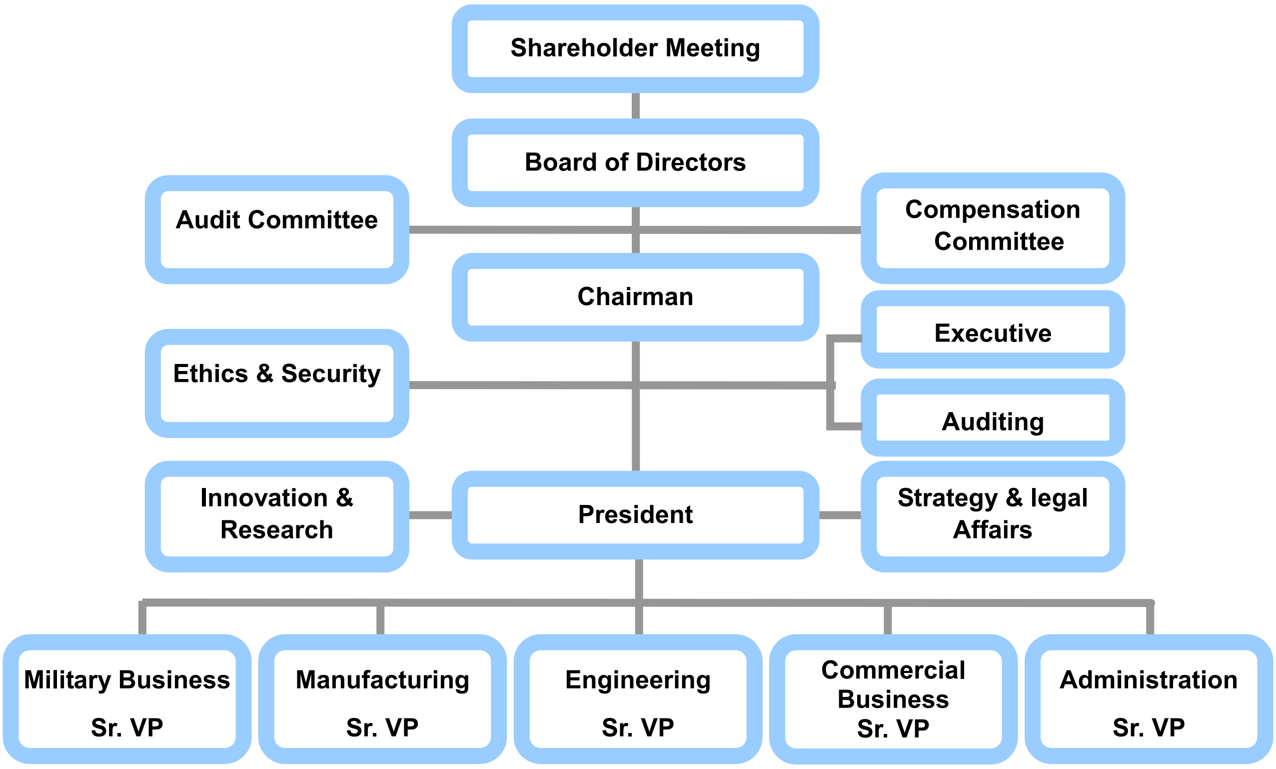
Year	Milestones
1996	1. Reorganized as "Aerospace Industry Development Corporation" and transferred to the Ministry of Economic Affairs. AIDC then moves towards the reengineering as an enterprise, privatization and internationalization. The corporate strategy has also been attuned from military aviation to military and commercial aviation. 2. Entered into a joint venture agreement with Sikorsky Aircraft United Technologies Corp. for the development of the S-92 helicopter. This is the very first time that this entity was engaged in an international big firm in aircraft manufacturing for joint design and development of an aircraft before turning into a state-owned enterprise.
1999	1. Entered into an agreement with Bombardier for the joint development of the tail for the CL300 commercial aircraft. This was a milestone of AIDC for the development of commercial aviation technology. 2. Ended the production of the IDF.
2000	Engine Casing Plant No. 1 was established. This laid down the foundation of production capacity for civil aircraft engine casing.
2006	The upgrade of IDF "Ching Kuo" under the schemed codenamed as "F-KC-1, C/D, Hsiang Sheng". The IDF has successfully launched its pilot flight in the air show after the upgrade.
2008	Delivery of the 100th S-92 helicopter cockpit.
2009	Entered into a supply agreement with MITAC of Japan for supply system parts of aircrafts, and participated in the design and manufacturing of products for the MRJ.
2010	The official opening of Taiwan Advanced Composite Center (TACC), which was a milestone for the development of the aerospace industry and composite materials industry in the history of Taiwan.
2011	1. Accomplishment of the IDF Ching Kuo upgrade program with the delivery of the first batch of upgraded jet fighters. 2. Accomplishment of the debut flight from Taichung to Kinmen, the launch of commercial chartered flight service provided by AIDC. This started the new era of AIDC in participation in commercial chartered flight business.
2012	Completion of the 400th aircraft of the CL-300 project. This is an important milestone of this project.
2013	1. Received the Boeing "Performance Excellence Award" and GE Growth (Engines) Excellence Award. 2. Approved for privatization by the Executive Yuan through public offering of stocks on September 13.
2014	1. AIDC became a private company on August 21 and was listed on TWSE for trading on August 25. 2. Delivery of the parts and components for the first MRJ, an important milestone of the project. 3. Received the "Supplier of the Year Award" from Sikorsky Aircraft United Technologies Corp., the "Supplier Excellence Award 2014" from American Helicopter Society, and the "Performance Excellence Award" from The Boeing Company. 4. Delivery of the 10,000th Rolls-Royce engine case.
2015	1. Delivery of the 300th S-92 cockpit made in Shalu Complex in April 2. Received "Award of the Year 2015 for Best Partner" from Mitsubishi Aircraft Corporation in December 3. Organized Taiwan Aviation Industry Forum in December which paved the way for Taiwan Aerospace A-Team to become a major supply chain of global aerospace industry.

Year	Milestones
2016	1. AIDC set up the US subsidiary, AIDC USA LLC, on March 2, 2016. 2. Grand opening of 3 new facilities: ECMC in April, TACC-19 in July and GE LEAP Caseline in November. 3. Delivery of the 1000th Airbus A321 16A barrel in February; delivery of the 50,000th GE Engine Case in November.
2017	1. Grand opening of the new #23 military maintenance building in February. 2. Signed the Advanced Jet Trainer Commission Agreement with National Chung Shan Institute of Science and Technology in April. 3. AIDC transferred the ITEC LLC equity it held to its subsidiary, AIDC USA LLC in April, and the transfer amount was deemed as capital injection to AIDC USA LLC. 4. AIDC and Cheng Kung University delivered the Upgraded Tracker Thermal Pump System Flight Radiator in November. 5. Completed delivery of F-CK-1 C/D to ROCAF in December.
2018	1. Held the debut of self-branded aircraft seat in March, aiming to integrate the domestic supply chain for entrance into the international civil aviation market. 2. AIDC launched assembly of the Advanced Jet Trainer in June. 3. Completed the upgrade of “F-CK-1 C/D, Hsiang Sheng” single- and twin-seat prototype jets and delivered to ROCAF in October. 4. AIDC was presented “Smart Machinery Golden Award” by the Industrial Development Bureau (IDB), under the Ministry of Economic Affairs in November, and announced 2019 as the Year of SPEED.

III. Corporate Governance Report

1. Organization

1.1 Organization Chart



1.2 Major Corporate Functions

The defense industry system is responsible for military aircraft, aircraft maintenance and avionics, flight service and GO-CO program operation.

The production system is responsible for the aircraft and aero engine parts and component fabrication, assembly, testing, service and support; and aero engine business operation.

The engineering system is responsible for engineering design and system integration, quality improvement, quality insurance policy, information technology and services, procurement, supplier integration, and outsourcing.

The civil aviation system is responsible for the commercial aircraft market analysis, business strategy and development, operations and production, program performance management, technology implementation and industrial safety and environment protection.

The administration system is responsible for finance, human resources, general affairs and investment.

2. Directors, Supervisors and Management Team

2.1 Directors (I)

March 31, 2019

Title (Note 1)	Nationality/ Country of Origin	Name	Sex	Date Elected	Term	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	R.O.C	MOEA (Note 1)		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—
	R.O.C	Representative: Hu, Kai-Hung (Note 3)	M	March 18, 2019	2.3Y	March 18, 2019	0	0.00	0	0.00	0	0	0	0	Vice Chief of the General Staff, Ministry of National Defense(MND); Inspector General, MND; Vice Commander-in-Chief, Air Force Command; Commander, Air Force Education, Training and Doctrine Development Command; Deputy Chief of Staff, Air Force Command; Director, Combat Readiness and Training Division, Air Force Command; Wing Commander, the 427th Tactical Fighter Wing; Joint Force Education, National Defense University; General Staff College of National Defense University; Air Force Academy	Chairman, AIDC	—	—	—
Executive Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—
	R.O.C	Representative: Ma, Wan-June (Note 3)	M	March 18, 2019	2.3Y	March 18, 2019	100,788	0.01	132,147	0.01	0	0	0	0	Vice President, National Chung-Shan Institute of Science and Technology(NCSIST); Vice President and Director of Aeronautical Systems Research Division, NCSIST; Director, Aeronautical Systems Research Division, NCSIST; Associate Director, Systems Development Center, NCSIST; Principal Investigator, Systems Development Center, NCSIST; Ph.D. in Power Mechanical Engineering, National Tsing Hua University; Master in Mechanical Engineering, National Central University;	President, AIDC	—	—	—

Title (Note 1)	Nationality/ Country of Origin	Name	Sex	Date Elected	Term	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
															B.S. in Aeronautics and Astronautics, National Cheng Kung University				
Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—
	R.O.C	Representative: Chien, Feng-Yuan (Note 2)	M	June 26, 2018	3Y	October 17, 2014	0	0	0	0	0	0	0	0	Chief of Branch No. 5, State-Owned Enterprise Commission, MOEA; Director, Tang Eng Iron Works Co., LTD. ; Master's degree, Institute of Land Administration Studies, National Chengchi University.	Chief of Branch No.2, State-Owned Enterprise Commission, MOEA	—	—	—
Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—
	R.O.C	Representative: Chang, Ming-Pin	M	June 26, 2018	3Y	June 26, 2018	0	0.00	0	0.00	0	0	0	0	Vice Executive Secretary and Spokesperson, Investment Commission, MOEA; Head of Division, Investment Commission, MOEA; Director, Kuo Kuang Power Co., LTD; Commissioner, Review Commitee, National Development Fund , Executive Yuan; Member, Examination Commitee for Establishment Application of Business Entity in the Economic Processing Zone; Master of Laws, Edinburgh University (Scotland); Bachelor of Laws, National Taiwan University; Executive Leadership Program, Harvard University (USA)	Executive Secretary, Investment Commission, MOEA; Director General, DOIS, MOEA; CEO, Invest Taiwan Services Center, MOEA	—	—	—
Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—
	R.O.C	Representative: Shieu, Fuh-Sheng (Note 2)	M	June 26, 2018	3Y	July 22, 2016	0	0.00	0	0.00	0	0	0	0	Dean, College of Engineering, NCHU; Chairman, Department of Materials Science and Engineering, NCHU; Chairman, Institute of Materials Engineering, NCHU; Director, Office of R&D, NCHU; Master and Ph.D. in Materials Science and Engineering, Cornell University	President, National Chung Hsing University (NCHU); Director, Industrial Technology Research Institute (ITRI)	—	—	—
Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—

Title (Note 1)	Nationality/ Country of Origin	Name	Sex	Date Elected	Term	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
	R.O.C	Representative: Yu, Cheng-Tao (Note 2)	M	June 26, 2018	3Y	December 18, 2017	107,205	0.01	107,205	0.01	0	0	0	0	Chairman, Aerospace Industrial Development Corporation Labor Union in Taichung; Ph.D. in Industrial Engineering and Management, National Yunlin University of Science and Technology; Master in Industrial Engineering, Feng Chia University	Quality assurance engineer, AIDC	—	—	—
Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—
	R.O.C	Representative: Hsu, Chung-Ming	M	June 26, 2018	3Y	June 26, 2018	75,502	0.01	75,502	0.01	0	0	0	0	Technician, Production Engineer, Material Specialist, AIDC; Representative, Director,Executive Director, Aerospace Industrial Development Corporation Labor Union; Deputy Director, Director and Executive Secretary, Aerospace Industrial Development Corporation Labor Union in Gang Shan; Master in Mechatronic System Engineering, National University of Tainan; Bachelor, Department of Mold and Die Engineering, National Kaohsiung University of Applied Sciences	Material Specialist, AIDC	—	—	—
Director	R.O.C	National Defense Industrial Development Foundation (Note 1)		June 26, 2018	3Y	April 3, 2014	2,670,078	0.29	11,063,201	1.17	N/A	N/A	N/A	N/A	—	—	—	—	—
	R.O.C	Representative: Hsu, Yan-Pu (Note 3)	M	Feburary 1, 2019	2.5Y	Feburary 1, 2019	0	0.00	0	0.00	0	0	0	0	Commander, 21st Artillery Command of R.O.C Army; Commander, Lan Yang Area Command of R.O.C Army; Chief of General Staff, 8th Army Command of R.O.C Army; Commander, 6th Army Command of R.O.C Army; Vice Chief of General Staff, Ministry of	Administrative Deputy Minister, Ministry of National Defense (MND)	—	—	—

Title (Note 1)	Nationality/ Country of Origin	Name	Sex	Date Elected	Term	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
															National Defense; Administrative Deputy Minister of Ministry of National Defense; Master in Information Management, Yuan Ze University; Military Academy				
Executive and Independent Director	R.O.C	Chan, Chia-Chang	M	June 26, 2018	3Y	June 26, 2018	0	0.00	0	0.00	0	0	0	0	Chief Secretary, Chair of Department of Finance, Director of Extension Education Center, Dean of College of Management, Tunghai University; Commissioner, Review Panel of Higher Education Evaluation and Accreditation Council of Taiwan; Commissioner, Financial Planning Association of Taiwan; Director, Association of Continuing Education of Colleges and Universities in Taiwan; Member of School Evaluation Committee for community college in Taichung City; Member, Lifetime learning promotion committee; Consultant, Information Service Industry Association of Taichung City Government; Member, Review Panel of Small Business Innovation Research (SBIR) program of Miaoli County Government; Member, Review Panel of Program of the Encouragement of Investment; Ph.D. in Business Administration, National Sun Yat-Sen University	Vice President and Professor of Finance Department, Tunghai University; Independent Director, Mobiletron Group	—	—	—
Independent Director	R.O.C	Chen, Yin-Chin	F	June 26, 2018	3Y	June 26, 2018	0	0.00	0	0.00	0	0	0	0	Chair of Department of Financial and Economic Law, Chung Yuan Christian University;Associate Professor, Department of Public Finance and Taxation, Takming University of Science and Technology; Supervisor, Andes Technology Corporation (Representative of National Development Fund , Executive Yuan); Supervisor, Light's American Sportscopter Inc. (Representative of	Associate Professor, Department of Financial and Economic Law, Chung Yuan Christian University	—	—	—

Title (Note 1)	Nationality/ Country of Origin	Name	Sex	Date Elected	Term	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
															National Development Fund , Executive Yuan); Director, CSBC CORP.,Taiwan (Representative of MOEA); Commissioner, Fair Trade Commission; Commissioner, Complaint Review Board for Government Procurement, Public Construction Commission Executive Yuan; Advisory, Department of Nuclear Regulation, Atomic Energy Council; Advisory, Advisory Committee on Handling of State Compensation Cases, Atomic Energy Council; Commissioner, Complaint Review Board for Government Procurement, Taoyuan City Government; Commissioner, Medical Review Board, Health Bureau; Commissioner, Laws and Regulations Committee, MOEA; Commissioner, International Trade Commission, MOEA; Commissioner, Complaint Review Board, Ministry of National Defense; Advisory, Advisory Committee on Handling of State Compensation Cases, Ministry of National Defense; Advisory, Advisory Committee on Handling of State Compensation Cases, Army Command Headquarters; Advisory, Advisory Committee on Handling of State Compensation Cases, Taipei City Government; Commissioner, Listing Review Committee of Taiwan Stock Exchange Corporation; Commissioner, Mainboard Listing Review Committee of Taipei Exchange (GreTai Securities Market); Ph. D of Laws, National Chung Hsing University				

Note 1: The List of AIDC's Director that is an Institutional Shareholder.

March 31, 2019

Director that is an Institutional Shareholder of AIDC	Main Shareholder of the Institutional Shareholder	NOTE
Ministry of Economic Affairs, MOEA	None	N/A
National Defense Industrial Development Foundation (NDIDF)	None	N/A

Note 2: AIDC has electd the 8th Board of Directors during Annual Shareholders' Meeting on Jun. 26, 2018.

Note 3: NDIDF representative changes: Hsu, Yan-Pu replaced Po, Horng-Huei on Feb. 1, 2019.

MOEA representative changes: Hu, Kai-Hung replaced Liao, Jung-Hsin and Ma, Wan-June replaced Lin, Nan-Juh on Mar. 18, 2019.

Note 4: Implementation of Board Diversity Policy

Pursuant to Article 2 of AIDC's Procedures for Election of Directors, the members of the board of directors shall have the knowledge, skills, and experience necessary to perform their duties and shall possess the abilities to make operational judgments, perform accounting and financial analysis, conduct management administration, conduct risk management, knowledge of the industry, an international perspective, ability to lead and ability to make policy decisions. The composition of AIDC board of directors and the implementation of board diversity policy are posted on AIDC website and the MOPS.

Title	Name	Sex	Business Management	Aerospace Industry	Finance Accounting	Law	Risk Management	Government & Supervision
Chairman	Hu, Kai-Hung	M	✓	✓			✓	✓
Executive Director	Ma, Wan-June	M	✓	✓			✓	✓
Director	Chien, Feng-Yuan	M	✓				✓	✓
Director	Chang, Ming-Pin	M	✓			✓	✓	✓
Director	Shieu, Fuh-Sheng	M	✓	✓			✓	✓
Director	Yu, Cheng-Tao	M		✓			✓	✓
Director	Hsu, Chung-Ming	M		✓			✓	✓
Director	Hsu, Yan-Pu	M	✓				✓	✓
Executive and Independent Director	Chan, Chia-Chang	M	✓		✓		✓	
Independent Director	Chen, Yin-Chin	F	✓			✓	✓	

1.1 Directors (II)

Professional Qualifications and Independence Analysis of Directors and Supervisors:

March 31, 2019

Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience	Independence Criteria (Note)	Number of Other Public Companies in Which

Name	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	the Individual is Concurrently Serving as an Independent Director
Chairman Hu, Kai-Hung			✓	✓	✓	✓	✓		✓	✓	✓	✓		—
Executive Director Ma, Wan-June	✓		✓		✓	✓	✓		✓	✓	✓	✓		—
Director Chien, Feng-Yuan			✓	✓	✓	✓	✓		✓	✓	✓	✓		—
Director Chang, Ming-Pin		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		—
Director Shieu, Fuh-Sheng	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓		—
Director Yu, Cheng-Tao	✓		✓		✓	✓	✓		✓	✓	✓	✓		—
Director Hsu, Chung-Ming			✓		✓	✓	✓		✓	✓	✓	✓		—
Director Hsu, Yan-Pu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		—
Executive and Independent Director Chan, Chia-Chang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Independent Director Chen, Yin-Chin	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	—

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

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

2.2 Management Team

March 31, 2019/ Unit: shares; %

Title	Nationality/ Country of Origin	Name	Sex	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	R.O.C	Ma, Wan-June	M	108.03.18	0	—	—	—	—	—	Vice President, National Chung-Shan Institute of Science and Technology(NCSIST); Vice President and Director of Aeronautical Systems Research Division, NCSIST Director, Aeronautical Systems Research Division, NCSIST; Associate Director, Systems Development Center, NCSIST; Principal Investigator, Systems Development Center, NCSIST; Ph.D. in Power Mechanical Engineering, National Tsing Hua University; Master in Mechanical Engineering, National Central University; B.S. in Aeronautics and Astronautics, National Cheng Kung University	—	—	—	—
Vice President	R.O.C	Chen, Yi-Min	M	July 1, 2012	102,147	—	—	—	—	—	Director, Defense System and Technology Management; Technology Implementation; Aircraft Maintenance and Avionics; Military Aircraft Programs, AIDC; Bachelor and Master in Aerospace Engineering, Chung Cheng Institute of Technology.	—	—	—	—
Vice President	R.O.C	Ho, Poa-Hua	M	November 11, 2015	129,739	—	54,961	—	—	—	VP, Aero Engine Factory; Director, Quality Assurance; Deputy Director, Manufacturing, AIDC; Senior Specialist, Aircraft Factory, AIDC/CSIST, B.S. in Mechanical Engineering, Feng Chia University	Director, International Turbine Engine Company, LLC	—	—	—
Vice President	R.O.C.	Du, Shiu-Chun	M	February 1, 2016	143,260	—	—	—	—	—	Director, Strategy and Legal Affairs; Director, Engineering; Director, IT, AIDC; Ph.D. in Mechanical Engineering, National Taiwan University	—	—	—	—
Vice President	R.O.C.	Lo, Ching-Chi	M	August 8, 2017	100,020	—	—	—	—	—	Director, Procurement; Director, Business; Director, Commerical Business Development, AIDC; BS in Industrial Design, National Cheng Kung University	—	—	—	—
Vice President	R.O.C.	Huang, Shu-Yuan	F	September 28, 2018	134,565	—	123,774	—	—	—	Director, Finance & Accounting; Ph.D. in Business, Feng Chia University	—	—	—	—

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

3.1 Remuneration of Directors

December 31, 2018 / Units：NT$ thousands；%

Title	Name (Note 1)	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors who are also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation paid to Directors from an Invested Company other than the Company's Subsidiary
		Base Compensation(A)		Severance Pay(B)		Directors' Remuneration(C)		Allowances(D)				Salary, Bonuses, and Allowances(E)		Severance Pay(F)		Employee Remuneration (G)						
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	
																Cash	Stock	Cash	Stock			
Chairman	Liao, Jung-Hsin (MOEA Rep.)	2248		0		15,127		0		0.8306%		12,184		0		47	0	47	0	1.4152%		0
Executive Director	Lin, Nan-Juh (MOEA Rep.)																					
Director	Chien, Feng-Yuan (MOEA Rep.)																					
Director	Chang, Ming-Pin (MOEA Rep.)																					
Director	Shieu, Fuh-Sheng (MOEA Rep.)																					
Director	Yu, Cheng-Tao (MOEA Rep.)																					
Director	Hsu, Chung-Ming (MOEA Rep.)																					
Director	Pao, Chuan (MOEA Rep. (Note 1)																					
Director	Yu, Cheng-Te (MOEA Rep.) (Note 1)																					
Director	Po, Horng-Huei (NDIDF Rep.)																					
Executive and Independent Director	Chan, Chia-Chang																					
Executive and Independent Director	Pan, Wei-Ta (Note 1)																					
Independent Director	Chen, Yin-Chin																					
Independent Director	Hsu, Yung-Hao (Note 1)																					
Independent Director	Jeng, Huan-Guei (Note 1)																					

*Except those disclosed in the above table, remuneration received by directors for providing service to all companies in the consolidated financial statements (e.g. consultancy service without the title of an employee) in recent years : None

Note 1：The 8th term of Board of Directors were elected during Annual Shareholders' Meeting on Jun. 26, 2018.

Note 2：The calculation base depends on the individual tenure.

Note 3：The amount is accrued, and hasn't been issued yet.

Remuneration Paid to Directors

<table>
<tr><th rowspan="3">Bracket</th><th colspan="4">Name of Directors</th></tr>
<tr><th colspan="2">Total of (A+B+C+D)</th><th colspan="2">Total of (A+B+C+D+E+F+G)</th></tr>
<tr><th>The company</th><th>Companies in the consolidated financial statements (H)</th><th>The company</th><th>Companies in the consolidated financial statements (I)</th></tr>
<tr><td>Under NT$ 2,000,000</td><td>Liao, Jung-Hsin; Lin, Nan-Juh; Chien, Feng-Yuan; Chang, Ming-Pin; Shieu, Fuh-Sheng; Yu, Cheng-Tao; Hsu, Chung-Ming; Pao, Chuan; Yu, Cheng-Te; Po, Horng-Huei; Chan, Chia-Chang; Pan, Wei-Ta; Chen, Yin-Chin; Hsu, Yung-Hao; Jeng, Huan-Guei; NDIDF</td><td>Same as left</td><td>Chien, Feng-Yuan; Chang, Ming-Pin; Shieu, Fuh-Sheng; Yu, Cheng-Tao; Hsu, Chung-Ming; Pao, Chuan; Yu, Cheng-Te; Po, Horng-Huei; Chan, Chia-Chang; Pan, Wei-Ta; Chen, Yin-Chin; Hsu, Yung-Hao; Jeng, Huan-Guei; NDIDF</td><td>Same as left</td></tr>
<tr><td>NT$2,000,000 ~ NT$5,000,000</td><td>—</td><td>—</td><td>Lin, Nan-Juh</td><td>Same as left</td></tr>
<tr><td>NT$5,000,000 ~ NT$10,000,000</td><td>—</td><td>—</td><td>Liao, Jung-Hsin</td><td>Same as left</td></tr>
<tr><td>NT$10,000,000 ~ NT$15,000,000</td><td>Ministry of Economic Affairs</td><td>Same as left</td><td>Ministry of Economic Affairs</td><td>Same as left</td></tr>
<tr><td>NT$15,000,000 ~ NT$30,000,000</td><td>—</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td>NT$30,000,000 ~ NT$50,000,000</td><td>—</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td>NT$50,000,000 ~ NT$100,000,000</td><td>—</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td>Over NT$100,000,000</td><td>—</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td>Total</td><td>17 persons</td><td>Same as left</td><td>17 persons</td><td>Same as left</td></tr>
</table>

3.2 Compensation of President and Vice Presidents

December 31, 2018 / Units：NT$ thousands；%

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="2">Salary(A) (Note1)</th><th colspan="2">Severance Pay(B)</th><th colspan="2">Bonuses and Allowances(C)</th><th colspan="4">Employee Remuneration (D)</th><th colspan="2">Ratio of Total Compensation (A+B+C+D) to Net Income (%)</th><th rowspan="3">Compensation paid to the President and Vice President from an Invested Company other than the Company's Subsidiary</th></tr>
<tr><th rowspan="2">The company</th><th rowspan="2">Companies in the consolidated financial statements</th><th rowspan="2">The company</th><th rowspan="2">Companies in the consolidated financial statements</th><th rowspan="2">The company</th><th rowspan="2">Companies in the consolidated financial statements</th><th colspan="2">The company</th><th colspan="2">Companies in the consolidated financial statements</th><th rowspan="2">The company</th><th rowspan="2">Companies in the consolidated financial statements</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>President</td><td>Lin, Nan-Juh</td><td rowspan="6">11,856</td><td rowspan="6">11,856</td><td rowspan="6">0</td><td rowspan="6">0</td><td rowspan="6">7,953</td><td rowspan="6">7,953</td><td rowspan="6">146</td><td rowspan="6">0</td><td rowspan="6">146</td><td rowspan="6">0</td><td rowspan="6">0.9538%</td><td rowspan="6">0.9538%</td><td rowspan="6">0</td></tr>
<tr><td>Vice President</td><td>Chen, Yi-Min</td></tr>
<tr><td>Vice President</td><td>Ho, Poa-Hua</td></tr>
<tr><td>Vice President</td><td>Du, Shiu-Chun</td></tr>
<tr><td>Vice President</td><td>Lo, Ching-Chi</td></tr>
<tr><td>Vice President</td><td>Huang, Shu-Yuan(Note 1)</td></tr>
</table>

Note 1: The remuneration to managerial officers is calculated on a yearly basis for FY 2018. Huang, Shu-Yuan was appointed on Sep. 28, 2018.

Remuneration Paid to President and Vice Presidents

Bracket	Name of President and Vice Presidents	
	The company	Companies in the consolidated financial statements
Under NT$ 2,000,000	Huang, Shu-Yuan	Same as left
NT$2,000,000 ~ NT$5,000,000	Lin, Nan-Juh; Chen, Yi-Min; Ho, Poa-Hua; Du, Shiu-Chun, Lo, Ching-Chi	Same as left
NT$5,000,000 ~ NT$10,000,000	—	—
NT$10,000,000 ~ NT$15,000,000	—	—
NT$15,000,000 ~ NT$30,000,000	—	—
NT$30,000,000 ~ NT$50,000,000	—	—
NT$50,000,000 ~ NT$100,000,000	—	—
Over NT$100,000,000	—	—
Total	6 persons	6 persons

3.3 Employee Remuneration of Managerial Officers

Dec 31, 2018 / Unit: NT$ thousands

	Title	Name	Shares Total	Cash Total	Total	Ratio of Total Remuneration to Net Income (%)
Managerial Officers	President	Lin, Nan-Juh	0	146	146	0.0070%
	Vice President	Chen, Yi-Min				
	Vice President	Ho, Poa-Hua				
	Vice President	Du, Shiu-Chun				
	Vice President	Lo, Ching-Chi				
	Vice President	Huang, Shu-Yuan				

Note1: Pursuant to the Articles of Incorporation, managerial officers refers to president and vice president. Above table list the managerial officers (vice president) whose employee remuneration will submmitted to the Board for resolution.

Note2: The amount is accrued, and hasn't been issued yet. Employee remuneration is calculated based on individual tenure.

Note3: President didn't receive employee remuneration.

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

A. The Ratio of Total Remuneration Paid by the Company and by all Companies included in the Consolidated Financial Statements for the Most Recent Two Fiscal Years to Directors, Presidents and Vice Presidents of the Company, to the Net Income

Unit：NT$ thousands

Year / Identity	2017		2018	
	The company	Companies in the consolidated financial statements (Note)	The company	Companies in the consolidated financial statements (Note)
Director fee	15,676	15,676	17,375	17,375
Director fee in proportion to corporate earnings (%)	0.8968%	0.8968%	0.8306%	0.8306%
Supervisor fee	0	—	0	0
Supervisor fee in proportion to corporate earnings (%)	0	—	0	0
Remuneration to the President and Vice Presidents	17,738	17,738	19,954	19,954
Remuneration to the President and Vice Presidents in proportion to corporate earnings (%)	1.0148%	1.0148%	0.9538%	0.9538%

Note：The remuneration listed above does not include employee remuneration.

B. The Policies, Standards, and Portfolios for the Payment of Remuneration, the Procedures for Determining Remuneration, and the Correlation with Business Performance

Pursuant to the Articles of Incorporation, remuneration to directors (including chairman and independent directors) shall be determined by the board of directors as authorized. Further, in the event of earnings, not more than 0.58% EBT shall be set aside as remuneration to directors, while not less than 0.58% and not more than 4.65% as bonus of employees; however if the Company sustains an accumulated loss, amount of which shall be set aside to cover the loss.

Pursuant to Subparagraph 2, Paragraph 2, Article 7 of “AIDC Remuneration Committee Charter”, performance evaluation and remuneration to directors and managers shall take the following as references including, industry average remuneration, the time invested by the individual, the responsibilities of the individual, the achievement of personal goals, the performance of undertaking other positions, the average salary of the same position in recent years in the Company, the performance of reaching short-term and long-term business objectives of the Company, the Company's financial status, etc., to assess the relevance of individual performance to the company's operating performance and future risks.

4. Implementation of Corporate Governance

4.1 Board of Directors

A total of 7 meetings of the board of directors were held in the previous period (A). Attendance of directors and supervisors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Required(A)	Attendance Rate (%) [B/A](Note)	Remarks

Chairman	Liao, Jung-Hsin (MOEA Rep.)	7	0	7	100.00%	Re-elected on June 26, 2018
Executive Director	Lin, Nan-Juh (MOEA Rep.)	7	0	7	100.00%	Re-elected on June 26, 2018
Director	Pao, Chuan (MOEA Rep.)	2	0	2	100.00%	Discharged on June 26, 2018
Director	Chang, Ming-Pin (MOEA Rep.)	5	0	5	100.00%	Appointed on June 26, 2018
Director	Shieu, Fuh-Sheng (MOEA Rep.)	7	0	7	100.00%	Re-elected on June 26, 2018
Director	Chien, Feng-Yuan (MOEA Rep.)	7	0	7	100.00%	Re-elected on June 26, 2018
Director	Yu, Cheng-Tao (MOEA Rep.)	7	0	7	100.00%	Re-elected on June 26, 2018
Director	Yu, Cheng-Te (MOEA Rep.)	2	0	2	100.00%	Discharged on June 26, 2018
Director	Hsu, Chung-Ming (MOEA Rep.)	5	0	5	100.00%	Appointed on June 26, 2018
Director	Po, Horng-Huei (NDIDF Rep.)	4	3	7	57.14 %	Re-elected on June 26, 2018
Executive and Indepen-dent Director	Pan, Wei-Ta	1	1	2	50.00 %	Discharged on June 26, 2018
Executive and Indepen-dent Director	Chan, Chia-Chang	5	0	5	100.00%	Appointed on June 26, 2018
Independent Director	Hsu, Yung-Hao	2	0	2	100.00 %	Discharged on June 26
Independent Director	Jeng, Huan-Guei	2	0	2	100.00 %	Discharged on June 26
Independent Director	Chen, Yin-Chin	5	0	5	100.00%	Appointed on June 26, 2018

Note: Attendance rate (%) is calculated by the required and actual attendances during the tenure of each director.

Important notice:

I. For the Board of Directors meetings that meet any of the following descriptions, details such as the date and session of the meeting, contents of the motion, opinions of all independent directors, and how the company responded to their opionions are disclosed in the following table:

(1) Particulars described in Article 14-3 of the Securities and Exchange Act.

Date	Session	Motions and subsequent actions	Particulars described in Article 14-3 of the Securities and Exchange Act	Adverse or qualified opinions of independent directors
March 27, 2018	The 15th session of the 7th term of the Board	• Donation for Hualien earthquake relief • Business Report for FY 2017 • Allocation amount of remuneration to employees and directors for FY 2017 • Financial Report for FY 2017 • Distribution of earnings for FY 2017 • Declaration of Internal Control for FY 2017 • The re-election of the 8th term of the Board • Lift the ban of non-compete on directors and their representatives elected to the new term of office • Calling for the regular session of the General Meeting in FY 2018	Yes	No
		• Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2017	Yes	No

		• Principles for bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2018 • AIDC early retirement scheme for FY 2019	Yes	No	
		Number of independent directors attending in person: 2			
		Opinions of independent directors: None			
		Company's response to independent directors' opinions: None			
		Resolution: Passed by all attending members			
May 8, 2018	The 16th session of the 7 th term of the Board	• Qualification review of director and independent director nominees by shareholders • Lift the ban of non-compete on the director nominees for the 8th term			
		Number of independent directors attending in person: 3			
		Opinions of independent directors: None			
		Company's response to independent directors' opinions: None			
		Resolution: Passed by all attending members			
June 26, 2018	The 1 st special session of the 8th term of the Board	• The elections of 8th term of Executive Director of the Board • The election of AIDC Chairman • The election of AIDC President			
		Number of independent directors attending in person: 2			
		Opinions of independent directors: None			
		Company's response to independent directors' opinions: None			
		Resolution: Passed by all attending (including proxy) members			
August 9, 2018	The 1st session of the 8th term of the Board	• 2018 Q2 Consolidated Financial Report • Appointment of the 3rd term of Remuneration Committee members • Amendment to "Division of Powers and Obligations of Board of Directors, Chairman and President"	Yes	None	
		Number of independent directors attending in person: 2			
		Opinions of independent directors: None			
		Company's response to independent directors' opinions: None			
		Resolution: Passed by all attending (including proxy) members			
September 28, 2018	The 2 nd special session of the 8th term of the Board	• Appointment of one Senior Vice-President • Change of Director of Finance Department • Change of Chief Audit Officer of Internal Audit Office • Amendment to AIDC Organizational Charter	Yes Yes	None None	
		Number of independent directors attending in person: 2			
		Opinions of independent directors: None			
		Company's response to independent directors' opinions: None			
		Resolution: Passed by all attending (including proxy) members			
November 9, 2018	The 3rd session of the 8th term of the Board	• The replacement of Remuneration Committee member • Appointment of Managing Officer for handling derivatives trading procedure • AIDC 2019 Unsecured Corporate Bond	Yes Yes	None None	

		issue • Internal Audit Plan for FY 2019	Yes	None
		Number of independent directors attending in person: 2		
		Opinions of independent directors: None		
		Company's response to independent directors' opinions: None		
		Resolution: Passed by all attending (including proxy) members		
December 14, 2018	The 4th session of the 8th term of the Board	• Business Plan for FY 2019 • Adjustment to remuneration of directors • Execution expenses of members of Audit/Quasi-Audit Committee • Appointment of President of AIDC USA LLC • AEF TCF construction project • Disposal of AEF ceramic core shop natural gas pipeline attachments	Yes Yes	None None
		Number of independent directors attending in person:2		
		Opinions of independent directors: None		
		Company's response to independent directors' opinions: None		
		Resolution: Passed by all attending (including proxy) members		
January 21, 2019	The 5th session of the 8th term of the Board	• By-election of one Independent Director • Lift the ban of non-compete on directors elected to the office • Amendment to AIDC Corporation Charter (Articles of Incorporation) • Calling for the regular session of the General Meeting in FY 2019		
		Number of independent directors attending in person: 2		
		Opinions of independent directors: None		
		Company's response to independent directors' opinions: None		
		Resolution: Passed by all attending members		
March 18, 2019	The 2nd special session of the 8th term of the Board	• By-election of two Executive Directors: Director Hu, Kai-Hung and Director Ma, Wan-June were elected to fill in the designated tenure from March 18, 2019 to June 25, 2021 • Election of AIDC Chairman: Executive Director Hu, Kai-Hung was elected among 3 Executive Directors as AIDC Chairman to fill in the designated tenure from March 18, 2019 to June 25, 2021 • Discharge and appointment of AIDC President: (1) Mr. Lin, Nan-Juh was discharged as AIDC President by resolution of all attending members, effective March 18, 2019. (2) Mr. Ma, Wan-June was appointed as AIDC President by resolution of all attending members, effective March 18, 2019.		
		Number of independent directors attending in person: 2		
		Opinions of independent directors: None		
		Company's response to independent directors' opinions: None		

		Resolution: Passed by all attending members		
March 28, 2019	The 15th session of the 7th term of the Board	• Business Report for FY 2018 • Allocation amount of remuneration to employees and directors for FY 2018 • Financial Report for FY 2018 • Distribution of earnings for FY 2018 • Declaration of Internal Control for FY 2018 • Project Finance Plan • Amendment to the “AIDC Procedures for Assets Acquisition and Disposition” • Establishment of the regulation of “AIDC Standard Operating Procedure for Handling the Requirements of the Directors” • Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2018		
		Number of independent directors attending in person: 2		
		Opinions of independent directors: None		
		Company’s response to independent directors’ opinions: None		
		Resolution: Passed by all attending members		

(2) Except those stated above, any other adverse opinions or qualified opinions of independent directors on the resolutions of the Board with record or declaration in writing: None

II. The avoidance of conflict of interests of particular motions by the Directors, specify the names of the Directors, the content of the motions, the reasons for avoidance of the conflict of interest, and the participation in voting:

Date of Board Session	Content of the Motion	Reasons for the Avoidance of Conflict of Interest	Voting
March 27, 2018, 7th term, 15th BOD meeting	Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2017	Personal bonus	Chairman Liao, Jung-Hsin and President Lin, Nan-Juh entered recusal during discussion and voting
March 27, 2018, 7th term, 15th BOD meeting	Principles for bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2017	Personal bonus	Chairman Liao, Jung-Hsin and President Lin, Nan-Juh entered recusal during discussion and voting
June 26, 2018, 8th term, 1st special BOD meeting	Appointment of AIDC President	Personal appointment	President Lin, Nan-Juh entered recusal during discussion and voting
August 9, 2018, 8th term, 1st BOD meeting	Appointment of the Third-Term Remuneration Committee	Personal appointment	Independent Director Chan, Chia-Chang, Independent Director Chen, Yin-Chin and Director Chang, Ming-Pin entered recusal during discussion and voting
December 14, 2018, 8th term, 4th BOD meeting	Bonus adjustment of Directors	Personal bonus	Director Chien, Feng-Yuan, Director Chen, Yin-Chin, and Director Shieu, Fuh-Sheng entered recusal during discussion and voting. Chairman Liao, Jung-Hsin didn’t vote in proxy of Director Po, Horng-Huei.
December 14, 2018, 8th term, 4th BOD meeting	Execution expenses of members of Audit/Quasi-Audit Committee	Personal bonus	Independent Director Chan, Chia-Chang, and Independent Director Chen, Yin-Chin entered recusal during discussion and voting.
March18, 2019	Appointment of AIDC	Personal	President Ma, Wan-June

8^{th} term, 2^{nd} special BOD meeting	President	appointment	entered recusal during discussion and voting

III. The evaluation of the objective the Board in fortifying its function (e.g., the establishment of the Audit Committee, enhancement of transparency in disclosure) in current year and the previous years, and the pursuit of the objective:

(I) Fortification of the function of the Board:

AIDC has 3 independent directors, with specialties in finance, law and aviation safety, who shall provide sound and professional recommendations to Board of Directors on matters relating to internal audit, business and finance. Functional committees of the Board of Directors including Audit Committee and Remuneration Committee comprising all the independent directors have been set up. They shall provide Board of Directors professional and impartial review comments to ensure the integrity of company's financial and non-financial reports, effectiveness of internal audit system, improve remuneration system of directors and management. However, during the Board election held on 26 June 2018, the number of independent directors failed to meet the requirements of three persons with one vacancy, which according to Articles 14-2 of the Securities and Exchange Act a by-election shall be held to fill the vacancy. In order to implement corporate governance, a quasi-Audit Committee was formed in September by the entire independent directors (2 members) to continue executing the powers of the Audit Committee until the vacancy is filled. Furthermore, to consolidate corporate governance, and to establish the communication and interactive mechanism between the Board and the shareholders, AIDC set up Investor Relations section on website which provides the major resolutions of the Board and financial information etc, and also set up the Board mailbox –to enhance mutual understanding of the objectives of the Company, push forward the sustainable development of the Company, and ensure the agreement of long term interest between the Company and shareholders.

(II) Enhancement of transparency in disclosure:

The financial statements of AIDC were audited and certified by the certified public accountants of Deloitte & Touché Taiwan. As required by law, AIDC has appointed designated personnel to disclose relevant areas of information, and made announcement on the revenue and financial reports and called for institutional investor conferences at regular intervals. AIDC has established a viable spokesman system to ensure the timely disclosure of vital information for the reference of the shareholders and stakeholders on the financial position and the operation of the Company.

(III) Evaluation of the performance of the Board:

- Pursuant to "Regulations Governing Procedure for Board of Directors Meetings of Public Companies" AIDC developed "Regulations Governing Procedure for Board of Directors Meetings" as a guideline for the BOD meeting and for consolidation of corporate governance. Attendances of directors were posted on the MOPS and major resolutions of the board meetings were disclosed on AIDC website.
- Pursuant to Article 14-4 of Securities and Exchange Act, AIDC Corporate Charter adopts the establishment of an audit committee that is composed of entire number of independent directors; and pursuant to the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter" adopts establishment of a remuneration committee, which by resolution of the board is composed of entire number of independent directors.
- Per the amendments by Ministry of Economic Affairs to "Company Act" dated August 1, 2018, AIDC reviewed its regulations on dividend policy and business operation, and submitted the amendment to "Articles of Incorporation" for Board approval, and will submitted the amendment to Annual Shareholders' Meeting for resolution.
- To consolidate implementation of internal control, the matters that require authorization of the Board were submitted accordingly for resolution and implementation. Matters specified in Articles of Incorporation and Articles 14-3 and 14-5 of Securities and Exchange Act, that are subject to the consent of audit committee (quasi-audit committee) or resolution of the Board were so executed and implemented. The annual and semi-annual financial reports were so executed per Article 14-5 of the Securities and Exchange Act and Article 8 of Regulations Governign the Exercise of Powers by Audit Committee of Public Companies.
- AIDC has been dedicated to implementing corporate governance, and has adopted the candidate nomination system for elections of directors, and re-electd Directors of 8^{th} term of the Board on Shareholders' Meeting on June 26, 2018.
- Pursuant to the corporate governance evaluation indicators announced by Taiwan Securities Exchange each year, AIDC has been working on self-evaluations and improvements on dimensions including "Protecting Shareholders Rights and Interests and Treating Sharholders Equitably", "Enhancing Board Composition and Operation", "Increasing Information Transparency", "Putting Corporate Social Responsibility into Practice", and "Continuing Education/Training of Directors". For the function and performance evaluation of the Board, please refer to this

Chapter, Paragraph 4.3 ”Corporate Governance Execution”.

(IV) The protection of the Directors and Supervisors by professional liability insurance:

With respect to liabilities resulting from the directors and company exercising their duties during their terms of occupancy so as to reduce and spread the risk of material harm to the company and shareholders arising from the wrongdoings or negligence of the directors or company, the Company has taken out liability insurance with Chung Kuo Insurance on June 28, 2018 for all directors and managerial team for FY 2018. Pursuant to Article 39 of “Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies”, the Company reported the insured amount, coverage, premium rate, and other major contents of the liability insurance it has taken out at the 8th term, 1st session board meeting on Aug. 9, 2018 on record. Details of liability insurance for directors and managerial team are posted on the MOPS.

(V) Continuing Education/Training of Directors in 2018:

Title	Name	Date First Elected	Date Elected	Attending Date		Host by	Course Title	Hours	Total
				From	To				
Chairman	Liao, Jung-Hsin	March 2, 2015	June 26, 2018	October 15, 2018	October 15, 2018	Financial Supervisory Commission	The 12th Taipei Corporate Governance Forum	6	9
				November 2, 2018	November 2, 2018	Business Weekly	ESG Forum	3	
Executive Director	Lin, Nan-Juh	July 5, 2017	June 26, 2018	July 13, 2018	July 13, 2018	Securities & Futures Institute	2018 Seminar on Regulations Governing Share Change of Insider of Public Companies and Non-exchange-listed or Non-OTC-listed Companies	3	9
				September 9, 2018	September 9, 2018	Dadushan Industrial Innovation Foundation	Co-opetition and Challenges of Taiwan Enterprises; and Inspiration of New Company Act	3	
				September 9, 2018	September 9, 2018	Dadushan Industrial Innovation Foundation	Let Taiwan Enterprises be Recognized Globally-Applying M&A Law	3	
Director	Chien, Feng-Yuan	October 17, 2014	June 26, 2018	August 1, 2018	August 1, 2018	Taiwan Insurance Institute	Cyber Insurance and Corporate Governance	3	6
				September 19, 2018	September 19, 2018	Taiwan Corporate Governance Association	The 14th International Corporate Governance Summit Forum	3	
Director	Chang, Ming-Pin	June 26, 2018	June 26, 2018	November 7, 2018	November 7, 2018	Securities & Futures Institute	Case Study of Offenses of Breach of Trust by Directors and Supervisors	3	6
				November 13, 2018	November 13, 2018	Securities & Futures Institute	Case Study on Corporate Financial Statement Fraud	3	
Director	Shieu, Fuh-Sheng	July 22, 2016	June 26, 2018	August 3, 2018	August 3, 2018	Taiwan Corporate Governance Association	How do Directors lead tehe company to react to the everchanging technological environment	3	6
				December 14, 2018	December 14, 2018	Taiwan Corporate Governance Association	Exploit Competence of Directors to Consolidate Corporate Governance	3	
Director	Yu, Cheng-Tao	December 18, 2017	December 18, 2017	March 30, 2018	March 30, 2018	Taiwan Corporate Governance Association	Case Study on Business Management and News Crisis Management	3	12
			June 26, 2018	July 13, 2018	July 13, 2018	Securities & Futures Institute	2018 Seminar on Regulations Governing Share Change of Insider of Public Companies and Non-exchange-listed or Non-OTC-listed Companies	3	

				September 13, 2018	September 13, 2018	Ministry of Labor	2018 Professional Competences Training for Labor Directors	9	
Director	Hsu, Chung-Ming	June 26, 2018	June 26, 2018	July 13, 2018	July 13, 2018	Securities & Futures Institute	2018 Seminar on Regulations Governing Share Change of Insider of Public Companies and Non-exchange-listed or Non-OTC-listed Companies	3	12
				September 13, 2018	September 13, 2018	Ministry of Labor	2018 Professional Competences Training for Labor Directors	9	
Director	Pao, Chuan	January 5, 2016	January 5, 2016	May 11, 2018	May 11, 2018	Taiwan Corporate Governance Association	Case Study on Major Corporate Economic Crimes and the Legal Liablity	3	6
				June 1, 2018	June 1, 2018	Taiwan Corporate Governance Association	Hidden Key Messages of Finanacial Reports	3	
Director	Yu, Cheng-Te	December 23, 2014	June 23, 2015	May 30, 2018	May 30, 2018	Taiwan Corporate Governance Association	Case Study on Business Management and News Crisis Management	3	3
Executive and Independent Director	Chan, Chia-Chang	June 26, 2018	June 26, 2018	July 13, 2018	July 13, 2018	Securities & Futures Institute	2018 Seminar on Regulations Governing Share Change of Insider of Public Companies and Non-exchange-listed or Non-OTC-listed Companies	3	6
				July 27, 2018	July 27, 2018	Taiwan Corporate Governance Association	Case Study on Corporate Competitiveness and Innovation	3	
Independent Director	Chen, Yin-Chin	June 26, 2018	June 26, 2018	July 11, 2018	July 11, 2018	Securities & Futures Institute	Review of New Corporate Governance Roadmap and Reinforcemet of Goverance Mechanism	3	6
				August 2, 2018	August 2, 2018	Securities & Futures Institute	Case Study on Prevention of Business Bribery	3	
Executive and Independent Director	Pan, Wei-Ta	June 23, 2015	June 23, 2015	March 22, 2018	March 22, 2018	Chinese National Association of Industry and Commerce (CNAIC)	Case Study on Major Corporate Economic Crimes and the Legal Liablity	3	6
				April 18, 2018	April 18, 2018	Taiwan Securities Association	Applying Big Data Analysis to Improve Operational Performance	3	

4.2 Audit Committee（Attendance of Supervisors for Board Meeting）

A. Audit Committee

AIDC Audit Committee was set up on June 23, 2015, comprising 3 independent directors. A total of 2 meetings were held from Jan. 1, 2018 to May 31, 2018. However, during the Board election held in June 2018, the number of independent directors failed to meet the requirements of three persons with one vacancy. In order to implement corporate governance, a quasi-Audit Committee was formed in September by the entire membership (2 members) to continue executing the powers of the Audit Committee. Implementation status of Audit Committee /quasi-Audit Committee from January 2018 to March 2019 includes:

1. Review Financial report, Business Report, and Distribution of earnings for FY 2017 and 2018
2. Review Effectiveness of Internal Control

3. Review the change of Director of Finance Department and Chief Audit Officer of Internal Audit Office
4. Review important investment project
5. Review AIDC Risk Management Report
6. Review the adoption of IFRS 16 Leases Standard
7. Review the assessment report on the independence and competency of the CPA firm
8. Review Internal Audit Report

A total of 3 meetings were held from Sep. 1, 2018 to Mar. 31, 2019; attendance of the committee members was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance rate (%) (B/A)	Remarks
Independent Director	Jeng, Huan-Guei	2	0	100.00%	Previous term
Executive and Independent Director	Pan, Wei-Ta	2	0	100.00%	Previous term
Independent Director	Hsu, Yung-Hao	2	0	100.00%	Previous term
Executive and Independent Director	Chan, Chia-Chang	3	0	100.00%	Current term
Independent Director	Chen, Yin-Chin	3	0	100.00%	Current term

Important notices：

1. Matters specified in Article 14-5 of Securities and Exchange Act:

Date	Session	Motions	Resolution	Action Status
March 27, 2018	The 15th session of the 7th term of the Board	• Business Report for FY 2017 • Financial report for FY 2017 • Distribution of earnings for FY 2017 • Declaration of internal control for FY 2017	Submit to the Board for approval	Approved by the Board
August 9, 2018	The 1st session of the 8th term of the Board	• Q2 2018 Consolidated Financial Report	Submit to the Board for approval	Approved by the Board
September 28, 2018	The 2nd session of the 8th term of the Board	• Change of Director of Finance Department • Change of Chief Audit Officer of Internal Audit Office	Submit to the Board for approval	Approved by the Board
March 28, 2019	The 6th session of the 8th term of the Board	• Business Report for FY 2018 • Financial report for FY 2018 • Distribution of earnings for FY 2018 • Declaration of internal control for FY 2018	Submit to the Board for approval	Approved by the Board

2. There was not matter that required recusal of independent directors in 2018.
3. Communications between independent directors, internal auditor and CPA firm from Jan.1, 2018 to Mar.31, 2019

   3.1 Communications between independent directors and internal auditor from Jan.1, 2018 to Mar.31, 2019: Independent directors and internal auditor maintain good communication as follows:

Date	Method	Motioins	Resolution
March 20, 2018	Meeting	• Q4 2017 Internal Audit Report • Declaration of Internal Control for FY 2017	Consented to the contents of the report and declaration; submitted to the BOD by Audit Office.
April 24, 2018	Meeting	Q1 2018 Internal Audit Report	Consented to the amendment; submitted to the BOD for approval by Audit Office
August 9, 2018	Meeting	Q2 2018 Internal Audit Report	Consented to the contents of the report; reported to the BOD by Audit Office
September 20, 2018	Meeting	Internal Audit Report on June and July 2018	Consented to the contents of the report; reported to the BOD by Audit Office
October 29, 2018	Meeting	Internal Audit Report on July and August 2018	Consented to the contents of the report; reported to the BOD by Audit Office
March 21, 2019	Meeting	• Q4 2018 Internal Audit Report • Declaration of Internal Control for FY 2018	Consented to the contents of the report; reported to the BOD by Audit Office

3.2 Communications between independent directors and CPA firm from Jan.1, 2018 to Mar.31, 2019: Independent directors and and CPA firm maintain good communication as follows:

Date	Method	Motions	Resolution
March 20, 2018	Meeting	• Financial Report for FY 2017 • Adoption of IFRS 16 Leases Standard	• CPA reported 2017 financial statement audit results and key audit matters. • CPA reported preliminary impact assessment of adopting IFRS 16 Leases Standard. All with good communication with the independent directors, the motion was approved.
April 24, 2018	Meeting	• Q1 2018 Financial Report • Q2 Implementation of IFRS 16 Leases Standard	• CPA reported Q1 2018 financial report audit results. • CPA reported the implementation of IFRS 16 Leases Standard on Q2, and report to the Board for the follow-ups as recommended by Independent Directors. All With good communication with the independent directors, the motion was approved.
August 9, 2018	Meeting	• Q2 2018 Financial Report • Q3 Implementation of IFRS 16 Leases Standard	CPA provided Q2 2018 financial report audit results, and the implementation of IFRS 16 Leases Standard on Q3. With good communication with the

				independent directors, the motion was approved.
	October 29, 2018	Meeting	• Q3 2018 Financial Report • Implementation of IFRS 16 Leases Standard • Annual financial report audit plan and key audit matters for FY 2018	CPA reported Q3 2018 financial report audit results, the implementation of IFRS 16 Leases Standard, 2018 financial report audit plan and key audit matters. With good communication with the independent directors and the Company management, the motion was approved.
	March 21, 2019	Meeting	Financial Report for FY 2018	CPA reported 2018 financial statement audit results and key audit matters. With good communication with the independent directors, the motion was approved.

4.3 Corporate Governance Execution Status and Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies"

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
I. Has the Company established best practice principles of corporate governance in accordance with the "Best Practice Principles of Corporate Governance for TWSE/GTSM-listed Companies"?	✓		AIDC has established the "Corporate Governance Guideline for Aerospace Industrial Development Corp." and has uploaded the information to MOPS and the official website of the Company. http://www.aidc.com.tw/tw/investor/governance/regulation	No Significant Variation
II. Shareholder structure and equity (I) Has the Company established the internal procedures for responding to the suggestions, queries, disputes, and legal actions of the shareholders and comply with the procedures in these matters?	✓		(I) AIDC has called for the General Meeting of Shareholders as required by law, and responded to the opinions representing the equity holding of the shareholders one by one and kept as minutes on record. The Company has also established the spokesman system, mailbox of the Board and customer service hotline, and the telephone and e-mail for access to the Supervisors, Spokesman and Deputy Spokesman.	No Significant Variation
(II) Has the Company kept the dominant shareholders in control, and the list of the final shareholders of these dominant shareholders on	✓		(II) AIDC has entrusted a share registration service agent for assistance in handling share registration, transfer and related matters for the shareholders, and can keep the dominant shareholders of the Company in	No Significant Variation

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
track?			control and the list of the final shareholders of these dominant shareholders on track.	
(III) Has the Company established and exercised risk control between the Company and its affiliates and a firewall for such purpose?	✓		(III) AIDC has established related operation procedures for risk control.	No Significant Variation
(IV) Has the Company established internal code for the prohibition of the use of insider information for securities trade before going public?	✓		(IV) AIDC has established the "Aerospace Industrial Development Corp. Guidelines for Materiality Management and the Prevention of Insider Trade", and has been passed by the Board of Directors.	No Significant Variation
III. The organization and functions of the Board (I) Has the Board mapped out a plan for the diversity of its members and properly implemented the plan?	✓		(I) According to the Amendment to the "Corporate Governance Guideline for Aerospace Industrial Development Corp." and the Board Election Procedure, the composition of BOD shall consider diversification and has drawn up diversity policy based on its operation, business model and development, and all members of the Board shall be qualified with a diversity of knowledge, skill and competence in performing their duties. For purpose of corporate governance, the Board with the diverse abilities shall be capable of making judgment on the operation, corporate management, crisis management, and possess industry knowledge, a broad view of the international market, leadership, and decision-making latitude. Composition of the BOD elected on 26 June 2018 shareholders meeting and the directors by-election on 18 March 2019 includes: 1. Total 10 directors, comprising one female director (independent), and nine male directors; with an average age of 59.14 years. 2. Qualification of Directors: The academic degrees and specialties they possess include; Master of Laws, Edinburgh University; Ph.D. in Materials Science and Engineering, Cornell University; War College of National Defense University; Ph.D. in Power Mechanical Engineering, National Tsing Hua University; Master's degree, Institute of Land Administration Studies, National Chengchi	No Significant Variation

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
			University; and Ph.D. in Industrial Engineering and Management, Aerospace Engineering. They hold (or held) important positions in domestic and foreign industries, government agencies, universities and research institutes, and have qualified professionalism. 3. Qualification of Independent Directors One has a Ph.D. degree in Business Administration, National Sun Yat-Sen University，holds a management position in the university, teaches financial and management related courses, acts as an independent director of a listed company, and served as Commissioner, Review Panel of Higher Education Evaluation and Accreditation Council of Taiwan and Commissioner, Financial Planning Association of Taiwan. One has a Ph.D. degree in Laws, National Chung Hsing University)，holds a management position in the university, teaches financial and ecomonic laws courses; experience includes; supervisor and director of listed companies; Commissioner of Fair Trade Commission; Commissioner of Complaint Review Board for Government Procurement, Public Construction Commission Executive Yuan; Advisor of Department of Nuclear Regulation, Atomic Energy Council; Member of Advisory Committee on Handling of State Compensation Cases, Atomic Energy Council; Commissioner of Laws and Regulations Committee, MOEA; Commissioner of International Trade Commission, MOEA; Commissioner of Complaint Review Board, MND; Member of Advisory Committee on Handling of State Compensation Cases, MND; Commissioner of Complaint Review Board for Government Procurement, Taoyuan City Government; and Commissioner of Medical Review Board, Health Bureau. Both independent directos possess the required professionalism. 4. For the diversity and qualification of the BOD members, please refer to AIDC website below. http://www.aidc.com.tw/tw/investor/governance.	
(II) Has the Company voluntarily established		✓	(II) Further to the establishment of the Remuneration Committee an Audit	AIDC has not yet established various

Item	Implementation Status			Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Y	N	Abstract	
different types of functional committees further to the mandatory Remuneration Committee?			Committee was set up on June 23, 2015.	types of functional committees.
(III) Has the Company established the regulations governing the evaluation of performance of the Board, and has conducted routine evaluation on performance every year?	✓		(III) AIDC will formulate and implement “Regulations for Board of Directors Performance Evaluation”, with which periodic evaluations on aspects such as participation in the operation of the company, board performance and target attainment will be conducted every year.	No Significant Variation
(IV) Has the Company conducted routine evaluation on the independence of the external auditors?	✓		(IV) AIDC conducted routine evaluation on the independence of the external auditors: 1. AIDC set up an Audit Committee in June 2015, and one of its major functions is to assess the independence and competency of the external auditors. 2. The Audit Committee shall assess once a year the independence and competency of the CPA firm per following processes and report the result to the Board: 2.1 The Company shall draw up a questionnaire per the “No. 10 Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China -Integrity, Objectivity and Independence”, and provide it with CPA firm’s declaration of independence and its performance report to the directors and major management departments of the Company for assessment, and shall prepare the assessment report for submittal to Audit Committee. 2.2 Confirm the audit is not conducted by the same external auditors for more than 7 consecutive years 3. To conform with coporate governance principles and business operation, the quasi-Audit Committee was established by all the independent directors in September 2018, and function as the Audit Committee and implement its related authorities before the Company accomplishes the special election to fill the seat of the Independent Director. 4. The assessment report on the independence and competency of the CPA firm for FY 2018 has been submitted	No Significant Variation

Item	Implementation Status			Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Y	N	Abstract	
			to Quasi-Audit Committee on Oct. 29, 2018 and was approved and duly recognized by the Board of Directors on Nov. 9, 2018.	
IV. Has the Company established a full- (or part-) time unit or personnel to be in charge of corporate governance affairs (including but not limited to; furnishing information required by business execution by directors and supervisors, handling matters relating to board meetings and shareholders meetings according to laws, handling corporate registration and amendment registration, and producing minutes of board meetings and shareholders meetings?	✓		Pursuant to “Regulations Governing Procedure for Board of Directors Meetings of Public Companies” AIDC adopted the establishment of Executive Office and designated full-time personnel to be in charge of corporate governance affairs including; handling matters and minutes relating to board meetings and shareholders meetings, furnishing information required for business execution by directors and assisting them with legal compliance, and fortifying the function of the board. Further to improve corporate governance unit of business management were charged with implementation of CSR and internal control, and finance unit with investor relations. The abovementioned tasks are supervised by officers who have at least three years of experience in handling legal, financial or stock affairs. Implementation status of 2018 include: 1. Planning the Appointment of corporate governance officer according to “Operation Directions for Appointment of Board of Directors by TWSE Listed Companies”. 2. Calling of BOD meetings and shareholders meeting per laws. 3. Producing, distributiing and disclosing the minutes of board meetings and shareholders meeting. 4. Assisting in onboarding and continuous education of directors elected on 26 June 2018. 5. Furnishing information required for business execution by director to facilitate communication with AIDC management. 6. Assisting directors with legal compliance by providing corporate governance related data irregularly. 7. Urging management departments to follow regulations and internal audit procedure; reporting or soliciting approval of the BOD on major financial issues to ensure the operation with legal compliance. 8. Urging management departments to complete periodical and irregular announcements and reporting within the year and to complete announcement of material information per “Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of	No Significant Variation

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
			Material Information of Companies with Listed Securities" to ensure information transparency and investor trading protection. 9. Completing incorporation change registration, and factory registration per laws, and keeping good management of the validity of registration documents. For AIDC corporate governance and major BOD resolutions, please refer to the MOPS and AIDC website (http://www.aidc.com.tw/tw/investor).	
V. Has the Company established channels for communications with the stakeholders (including but not limited to shareholders, employees, customers and suppliers) , and has reserved a special zone for the stakeholders in the website with appropriate responses to the issues of corporate social responsibility concerned by the stakeholders?	✓		There is a special zone reserved for stakeholders (including but not limited to shareholders, employees, customers and suppliers) on the web pages of the AIDC website at http://www.aidc.com.tw/tw/cse/stakeholder. All the matters and issues of corporate social responsibility concerned by the stakeholders will be duly responded.	No Significant Variation
VI. Has the Company entrusted a professional share registration service agent for handling matters related the General Meeting of Shareholders?	✓		AIDC has entrusted Fubon Securities for handling matters related to the General Meeting of Shareholders	No Significant Variation
VII. Disclosure (I) Has the Company installed a website for disclosure of its financial information and corporate governance information?	✓		(I) There is a special area reserved for corporate governance on the AIDC website at http://www/aidc.com.tw/tw/investor/governance/principle posting information for the viewing of the stakeholders. There is also a link connecting to MOPS for disclosure of the financial information and corporate governance information on AIDC.	No Significant Variation
(II) Has the Company adopted other means of disclosure (e.g., the installation of a website in English, collection and disclosure of information by designated personnel, materialization of the spokesman system, minutes of the institutional investor conference posted at the website)?	✓		(II) AIDC has designated personnel responsible for the collection and disclosure of information, and has installed a website in the English language at http://www.aidc.com.tw/tw. The spokesman system is in place as required for responding to relevant issues. The minutes of the institutional investor conference have been posted at the website for viewing.	No Significant Variation

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons</th></tr>
<tr><th>Y</th><th>N</th><th>Abstract</th></tr>
<tr><td>VIII. Is there other vital information that may help to understand the pursuit of corporate governance by the Company (including but not limiting to employee rights and privileges, employee care, investor relation, supplier relation, rights of the stakeholders, continuing education of the Directors and the Supervisors, risk management policy, the implementation of the standard of risk assessment, the implementation of customer policy, the protection of the Directors and Supervisors by professional liability insurance)?</td><td>✓</td><td></td><td>(I) Employee rights and privileges and employee care:
1. AIDC has established an industry labor union and labor-management meeting as the platform for two-way communication between the management and the labor.
2. AIDC has also established an employee welfare committee for providing fringe benefits for the employees.
3. Employment of the physically and mentally impaired for work.
(II) Investor relation:
AIDC has disclosed information required for disclosure at MOPS and the system of spokesman and deputy spokesman for responding to relevant issues to maintain positive interactions and relation with the investors.
(III) Supplier relation:
AIDC is on good terms with the suppliers and convened with each other regularly for exchange of opinions. AIDC has requested suppliers' cooperation in compliance with laws and regulations of environmental protection, industrial safety and health, as well as improvement of CSR.
(IV) Rights of the stakeholders: AIDC has established the system of spokesman as the channel for communications with the stakeholders. AIDC has also established special news zone and corporate governance zone at its website for providing information on the operation and financial position.
(V) Continuing education of the Directors: In 2018 the status of continuing education of the Directors has been disclosed at MOPS and listed on page 27 of the Annual Report.
(VI) AIDC has established the "Risk Management Guidelines" and formed a Risk Management Committee in charge of risk assessment. The Business Management Department formulates Annual Risk Management Plan in Q1, which contains risk policy, risk profile, risk management list and risk strategy that accords to operation strategy and goals and risk management policy, and reports to Risk Management Committee for approval. The performance of previous year, the current year risk policy and risk profile are reported to Board of Directors for record.
(VII) The pursuit of customer policy:</td><td>No Significant Variation</td></tr>
</table>

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
			AIDC has designated bodies for taking care of customer issues. (VIII) The protection of the Directors and Supervisors by professional liability insurance: AIDC has taken professional liability insurance coverage for the Directors and managerial officers since 2014. The detailed information could be found at MOPS.	

IX. As per the corporate governance evaluation result for the last year announced by the Corporate Governance Center, improvements and measures taken on yet improved matters are listed as below. AIDC being ranked in top 20% in Corporate Governance Evaluation TWSE listed companies from 2015-2017, which demonstrated our efforts in information disclosure.

1. Improvements made in year 2018:
   (1) The Company has established Stakeholder Area on the website to provide channels for the Company to communicate with stakeholders on major CSR issues.
   (2) The board diversity policy and the capabilities evaluation of the Board has disclosed on annual report and official website.
2. Priority matters and actions to be taken in 2018-2019:
   (1) The Company will convene its 2019 Regular Shareholders' Meeting by end of May.
   (2) Complete pre-evaluation of "CSR Third Party Certification" in 2018 while evaluation is scheduled to complete in 2019.
   (3) The Company is planning on the appointment of Corporate Governance officer.
   (4) The Compnay is planning on establish Board of Directors Performance Evaluation.
   (5) The results of the shareholders' meeting report to the designated Internet information reporting system on the day of the shareholders' meeting.
   (6) In compliance with Financial Supervisory Commission's regulation, the Company shall continue to reinforce corporate governance and information disclosure.

4.4 Composition, Responsibilities and Operations of Remuneration Committee

4.4.1 Professional Qualifications and Independence Analysis of Committee Members

Title	Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)								Number of Other Public Companies in which the Individual is Concurrently Serving as a Committee Member	Remarks
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8		
Executive and Independent Director	Pan,Wei-Da	✓			✓	✓	✓	✓	✓	✓	✓	✓	0	Second
Independent Director	Jeng,Huan-Guei			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Second
Independent Director	Hsu, Yung-Hao			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Second
Independent Director	Chan, Chia-Chang	✓			✓	✓	✓	✓	✓	✓	✓	✓	0	Third
Independent Director	Chen, Yin-Chin	✓			✓	✓	✓	✓	✓	✓	✓	✓	0	Third
Director	Zhang, Ming-Bin			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Third (resigned on Nov. 9, 2018)
Other	Xu, En-De	✓			✓	✓	✓	✓	✓	✓	✓	✓	0	Third (appointed on Nov. 9, 2018)

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

1. Not an employee of the company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
3. Not a nature-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under other's names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, or any of the above persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as one of its top five shareholders.
6. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof.
8. Not been a person of any conditions defined in Article 30 of the Company Law.

4.4.2 Operations of Remuneration Committee

The Remuneration Committee is comprised of three members for each term.

The tenure of the 2nd term committee members starts from August 12, 2015 and ends on June 22, 2018. The tenure of the 3rd term committee members starts from August 9, 2018 and ends on June 25, 2021. A total of 4 meetings of Remuneration Committee were held in the most recent period. Member attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks (term)
Chair	Pan, Wei-Ta	1	0	100%	Second
Member	Jeng, Huan-Guei	1	0	100%	Second
Member	Hsu, Yung-Hao	1	0	100%	Second
Chair	Chan, Chia-Chang	3	0	100%	Third
Member	Chen, Yin-Chin	3	0	100%	Third
Member	Zhang, Ming-Bin	1	0	100%	Third (resigned on Nov. 9, 2018)
Member	Xu, En-De	2	0	100%	Third (appointed on Nov. 9, 2018)

4.4.3 Important notices

Date	Session	Motions	Resolution	Action Status
March 2, 2018	The 10th session of the 2nd term of the Board	• Allocation of remuneration to employees and directors for FY 2017 • Distribution of bonus of managerial officers for FY 2017 • Principles for bonus of managerial officers for FY 2018	Submit to the Board for approval	Approved by the Board
September 6, 2018	The 1st session of the 3rd term of the Board	• Organizational Charter of Remuneration Committee • Resolutions and pending matters of all previous terms of Remuneration Committee • Employees and directors remuneration distribution report for FY 2017	Agreed by all attending members	
November 23, 2018	The 2nd session of the 3rd term of the Board	• Fees for attendance, audit and transportation of Audit/Quasi-Audit Committee members • Adjustment to remuneration of directors	Submit to the Board for approval	Approved by the Board
March 15, 2019	The 3rd session of the 3rd term of the Board	• Allocation of remuneration to employees and directors for FY 2018 • Distribution of bonus of managerial officers for FY 2018	Submit to the Board for approval	Approved by the Board

4.5 Social Responsibility Implementation

Item	Implementation Status	Deviations from "Corporate Social Responsibility Best Practice Principles

	Y	N	Abstract	for TWSE/GTSM-listed Companies" and Reasons
I. Conduct of Corporate Governance (I) Has the Company made the policy or system of corporate social responsibility and has review the effect of implementation?	✓		(I) AIDC has explicitly established its corporate social responsibility policy and reviewed its implementation at regular intervals. The content of the policy is elaborated below: 1. Duly observe applicable laws governing corporate social responsibility and perform the obligation as a corporate citizen. 2. Treasure corporate governance and make management information transparent to protect the rights and privileges of the stakeholders. 3. Concern for environmental protection, energy saving, and carbon reduction for protection of the environment on earth. 4. Provide a safe and healthy work environment to protect the physical and psychological health of the employees. 5. Concern for the disadvantaged and participate in social charity positively.	No Significant Variation
(II) Has the Company organized training programs in corporate social responsibility regularly?	✓		(II) AIDC has organized online training program in corporate social responsibility for the employees, and advocates the ideas of corporate social responsibility through the eNews column and routine meetings.	No Significant Variation
(III) Has the Company established a designated body (part-time body) for the advocacy of corporate social responsibility with the appointment of a senior officer by the Board for handling related affairs with report to the Board on the progress?	✓		(III) AIDC business management unit has established "CSR Consultation Committee" which is responsible for the advocacy of corporate social responsibility, and in charge of formulating CSR policy, system, management guidelines and implementation plan, and reporting to the Board on the result at regular intervals. The CSR implementation is also disclosed on the Company's website (http://www.aidc.com.tw/tw/cse).	No Significant Variation
(IV) Has the Company made a reasonable remuneration policy and integrated the employee performance evaluation system and its corporate social responsibility policy, and has also established a clear-cut reward and punishment system?	✓		(IV) Persuant to Article 28 of Articles of Incorporation, in the event of earnings, the Company shall set aside remuneration to employees. AIDC has established the "Guidelines for AIDC Human Resources Spending Management" and "Regulations for AIDC Payroll Management", and by incorporating corporate social responsibility policy further developed the "Directions for AIDC Business Performance Bonus" as a guideline for remuneration distribution based on the performance of the Company and individual employee of the current year. In addition, AIDC has also established the "AIDC Criteria for Reward and Punishment" for fair	No Significant Variation

Item	Implementation Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	
			and just reward and punishment.	
II. Environment for Sustainable Development (I) Has the Company committed its effort in upgrading the efficient use of all resources and used recycled materials for mitigating the impact on the environment?	✓		(I) AIDC continues its effort in supporting the policy of the Environmental Protection Administration in making green purchase, and achieved 100% green purchase within the green purchase category in 2018. AIDC has installed Reverse Osmosis (ROR) wastewater storage tank to improve water recovery in manufacturing process, which increased from 20% in 2016 to 30% in 2018, and the water recovery rate in Gang Shan factory has surged to 58%. Also AIDC is dedicated in renewable energy promotion, and has installed solar-power generation facilities both in Taichung and Gang Shan. The GHG inventory and carbon emission for the recent two years were disclosed in the corporate social responsibility report at website http://www.aidc.com.tw/tw/cse/report.	No Significant Variation
(II) Has the Company established suitable environmental management system relevant with its specific industry feature?	✓		(II) AIDC has successfully passed the accreditation of ISO-14001 by SGS since December 1999, and has been accredited the ISO-50001 system by SGS in December 2013 in energy management to ensure all environmental management policies are in conformity to environmental protection policy of the Company, the lastest accreditation are as follows: 1. ISO-14001: Valid from September 2018 to October 2021. 2. ISO-50001: Valid from December 2016 to December 2019.	No Significant Variation
(III) Has the Company paid attention to the effect of climate change on its operation, and proceeds to the inspection of greenhouse gas, establishment of energy saving and carbon reduction, and greenhouse gas emission reduction strategy?	✓		(III) AIDC has includes the effect of climate change in the Risk Assessment explicitly stated its energy policy , and set energy saving target at 1% per year, the measures is elaborated below: 1. Continue to reduce the consumption of energy. 2. Continue the upgrading of energy efficiency. 3. Continue to commit its effort in energy to achieve the energy objective and standard. 4. Duly abide applicable laws and other requirements of energy. 5. Fully consider energy efficiency in the design of facilities and equipment, and related repairs.	No Significant Variation

Item	Implementation Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	
			6. Efficient purchase and the use of high-energy efficiency products and service.	
III. Social Charity (I) Has the Company established related management policies and procedures in accordance with applicable legal rules and international conventions of human rights?	✓		(I) AIDC will continue to enforce Labor Standards Act, Employment Service Act, Act of Gender Equality in Employment, and other applicable legal rules for the protection of the rights and privileges of the employees under law. With due consideration of the International Bill of Human Rights and the equal rights of men and women, AIDC has established a Sexual Harassment Complaints Review Committee to ensure a gender equality working environment for employees.	No Significant Variation
(II) Has the Company established the mechanism and channels for the complaints of the employees and properly managed the channels?	✓		(II) AIDC has established different channels for filing complaints. Employees can file their complaints via the intranet, employee concern system, labor union, labor-management meeting, and designated channels. All complaints will be responded properly.	No Significant Variation
(III) Has the Company provided a safe and healthy work environment, and provided labor safety and health education for the employees regularly?	✓		(III) AIDC has duly observed the laws and regulations governing health and safety promulgated by the government and provided the employees a healthy, safe, and clean work environment. AIDC implements safety and health management system and management plan, and has been certified by occupational safety and health management system OHSAS 18001 and CNS 15506 (formerly TOSHMS). In 2018, AIDC provided a general physical examination to 3,924 employees, low-dose chest CT to managerial team, and special physical examination and follow-up checkup to employees engaged in special duties. In addition, training of CPR and AED, medication safety were provided and advocated. All plant sites have designed their own fire safety plans and conduct exercise drill in fire fighting. Training in all kinds of labor safety has also been provided.	No Significant Variation
(IV) Has the Company developed the mechanism for routine communications with the employees and informed the employees of any change in the operation that may cause significant	✓		(IV) AIDC makes use of its intranet, labor union, labor union representatives meeting, labor-management meeting, executive meetings, and incentive meetings for communications with the employees in order to allow the employees understand the operation performance of AIDC and any	No Significant Variation

Item	Implementation Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	
impact in reasonable means?			change in the operation.	
(V) Has the Company established an effective scheme for helping the employees in career planning and development?	✓		(V) AIDC reviews and trains competent people in key technical skills in accordance with the operation plan and development objective, and pools up reserve human resources in management in accordance with the "AIDC Guidelines for the Development and Use of Management Personnel".	No Significant Variation
(VI) Has the Company established relevant policies and procedures for complaints in research and development, procurement, production, operation, and service for the protection of the consumers?	✓		(VI) AIDC has explicitly stated the quality policy of "Comprehensive Quality Assurance and Continuous Customer satisfaction", and provided e-mail, customer satisfaction survey, and customer visit and other channels for filing complaints. In addition, there is a 24-hour customer complaint response system in place to protect the rights of the customers.	No Significant Variation
(VII) Has the Company followed applicable legal rules and international standards in the marketing and labeling of products and services?	✓		(VII) AIDC is a manufacturer of aircrafts and related parts and components. Domestic marketing of these products must be in conformity to the requirements of the military of the ROC. For export sale marketing, products must be conforming to the accreditation standards of world-class aircrafts including D6-82479 of Boeing, AP2190 and GEAE S-1000 of Airbus, ASQR-01 of UTAC, SPOC, MITAC MRJ-SQC-01 of Honeywell, Alenia IAYC 05C, QPS100/200/300 of Bell, and QD 4.6-40 of Bombardier.	No Significant Variation
(VIII) Has the Company evaluated the suppliers on their record of negative influence on the environment and society before engaging in partnership with these suppliers?	✓		(VIII) Before entering into supply agreements with the suppliers, AIDC will evaluate these suppliers to ensure no record on impact on the environment and society. If AIDC discovers any supplier causing impact on the environment and society in production, manufacturing, and others after entering into agreements, AIDC will discharge the agreements, return all goods and suspend their rights as suppliers and disqualifies them from the list of suppliers.	No Significant Variation
(IX) Do the agreements binding the Company and its major suppliers contain the clauses that the Company may	✓		(IX) The principal clauses contained in the agreements binding AIDC and its suppliers contain the following elements: AIDC shall terminate or discharge the agreement in	No Significant Variation

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies” and Reasons</th></tr>
<tr><th>Y</th><th>N</th><th>Abstract</th></tr>
<tr><td>terminate or discharge the agreements at any time if the suppliers were found violation of its corporate social responsibility policy and has significant impact on the environment and society?</td><td></td><td></td><td>whole or in part on any violation of the environmental protection laws and laws governing labor safety and health without compensation of any form to the supplier.</td><td></td></tr>
<tr><td>IV. Bolstering disclosure
(I) Has the Company made disclosure on relevant and reliable information related to corporate social responsibility at its official website or MOPS?</td><td>✓</td><td></td><td>AIDC duly follows the principle of transparency in disclosure, and has posted relevant and reliable information on corporate social responsibility at its official website at http://www.aidc.com.tw/tw/cser and MOPS.</td><td>No Significant Variation</td></tr>
<tr><td colspan="5">V. If the Company has established the best practice principles of corporate social responsibility in accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies”, specify the variation:
AIDC has established the “AIDC Corporate Social Responsibility Best Practice Principles” (http://www.aidc.com.tw/Content/File/2634_SOP_CSR_AR019.pdf), which is not significantly varied with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies”.</td></tr>
<tr><td colspan="5">VI. Any other important information that helps to understand the conduct of corporate social responsibility:
In the area of “social concern”:
1. AIDC stock was included in the “Taiwan High Compensation 100 Index” since 2015 and “TWSE RA Taiwan Employment Creation 99 Index” by TWSE. The remuneration policy for employees shall maintain a balance among sustainable development of the Company, shareholders’ equity and employee care.
2. For better care of the employees and the stability of Company’s operation, in consideration of the business status and financial concern, AIDC launched the “employee stock ownership trust” program in Sept. 2016. Employees are free to join the program and determine the dollar amount they want to invest; the Company shall in return provide subsidy by a fixed ratio based on the investment of each employee. Participation of employees is growing.
3. AIDC utilized its flight engineering resources to support 3 typhoon surveillance missions for a total of 11 hours; and through which enabled DOTSTAR program make more accurate typhoon forecast while helping government take effective measures to significantly prevent the damages and losses of property and people. To support Government’s New Southbound Policy, AIDC vigorously expanded international medical collaboration with South Asia countries, and completed 2 rescue missions in Cambodia and Malysia respectively in 2018. From June 2013 to the end of 2018, an extension to 41 overseas destinations and 108 cases of successful transport were achieved. AIDC shall continue to expand its international collaboration and establish better corporate image.
4. Through AIDC Volunteer Group AIDC continued to provide volunteer service and to support government agencies and the disadvantaged groups at social welfare activities. In 2018, AIDC volunteers organized 14 charity activities with 207 person-times providing volunteer service to 4,181 person-times; co-organized 13 charity activities with 502 person-times providing volunteer service to 217,328 person-times. In addition, romotion of charity activities was made through network and by volunteers to encourage donation of money and goods as well as to render assistance to the operation of the disadvantaged groups.
5. To provide the local students opportunity to be familiarized with AIDC’s effort and intention to improve local educational level and to fulfill corporate social responsibility, AIDC held 5 “Fly with your dreams” activities including speeches and visits with 153 people attended in 2018. AIDC continues putting effort in providing students of remote areas/disadvantaged groups with knowledge in aerospace industry.</td></tr>
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<tr><th rowspan="2">Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies” and Reasons</th></tr>
<tr><th>Y</th><th>N</th><th>Abstract</th></tr>
<tr><td colspan="5">6. Through the year-end employee donation activity AIDC continued to deliver warmth to the disadvantaged group on a 3-5 years term. The donation was divided and delivered to 4 social welfare organizations, namely Kaohsiung Autism Foundation-Autism Homeland, China Rainbow Village Care Association, Taiwan Lourdes Association (Taichung office), and Hualien Walk with You Social Care Association.
7. AIDC continued to promote volunteer service, encouraged employees’ participation in social welfare groups; moreover, employees initiated and formed the “Sino-AIDC Hundred Dollars Youngster Assistance Association” to provide tutorial service to the disadvantaged and high risk families, sponsor economically disadvantaged families and organize activities for the healthy growth of children.</td></tr>
<tr><td colspan="5">VII. If the corporate social responsibility report has been accredited under specific standard of an accreditation agency, elaborate the detail: No.</td></tr>
</table>

4.6 Corporate Conduct and Ethics Implementation

Item	Implementation Status			Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	
I. The making of ethical corporate management policy and action plans (I) Has the Company explicitly declared its policy, practices of ethical corporate management in its internal code and external documents, and the commitment of the Board and the management for the realization of ethical corporate management?	✓		(I) AIDC has established the "AIDC Ethical Corporate Management Best Practice Principles", the "AIDC Management Personnel Code of Conduct", and the "AIDC Guidelines for Management of Materiality and Prevention of Insider Trade" for the effective pursuit of the policy of ethical corporate management for the Directors and all corporate management personnel. The Chairman and President of AIDC have also explicitly declared and signed the ethical corporate management policy in the Chinese and English versions, and posted the policy in the intranet and official website of AIDC. (http://www.aidc.com.tw/tw/about/ethical)	No Significant Variation
(II) Has the Company designed plans for the prevention of unethical practices, and explicitly stated the procedure, guidelines, penalty for violation and the system of filing complaints with proper implementation of the policy?	✓		(II) AIDC has established the "AIDC Employee Code of Conduct" with the setup of telephone and e-mails for reporting on unethical practices. There is also a hotline number posted at the special section of the eNews column of AIDC for reporting to Ministry of Justice Agency Against Corruption.	No Significant Variation
(III) Has the Company taken preventive measures against business activities with high risks of unethical practices or as stated in Article 7-II of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-listed Companies"?	✓		(III) AIDC will dispatch designated personnel to supervise the procurement in excess of 1/10 of the amount required for announcement and conduct audit on the purchase. In addition, AIDC also conducts questionnaire survey and visits for the prevention of corruption. For business entailing high risks of unethical practice, AIDC conducts investigation on possible areas of trouble. For donation, the security function will review if it is in compliance with applicable laws.	No Significant Variation
II. Realization of business integrity (I) Has the Company assessed the track of record of its	✓		(I) AIDC highly treasures business integrity and has explicitly stated in all	No Significant Variation

Item		Implementation Status			Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
		Y	N	Abstract	
	counterparties in business integrity and explicitly stated the clauses of ethical practices in the agreements with the counterparties?			business contracts that no offering of commission, undue donations and gifts and invitation to offering will be permitted. In addition, AIDC also restricts unethical suppliers to participate in the bidding for procurement with AIDC.	
(II)	Has the Company established a designated (part-time) body for the advocacy of business integrity directly under the Board, and this body has reported to the Board on the status of enforcement regularly?	✓		(II) AIDC has established the Ethics & Security Division directly supervised by the Chairman. This body is responsible for the advocacy of business integrity and the code of conduct of the employees, and it has reported the status of enforcement to the Board on a quarterly basis and report of which was published at its official website at: http://www.aidc.com.tw/tw/about/ethical.	No Significant Variation
(III)	Does the Company has the policy for the avoidance of the conflict of interest in place and provides appropriate channels for the reporting of the conflict of interest with proper pursuit of the policy?	✓		(III) The Security Division of AIDC visits HR and Procurement functions of AIDC at regular intervals for the education of the avoidance of the conflict of interest and conduct self-review questionnaire. In Jan. 2019 AIDC employees were requested to sign the codes of ethical conduct to confirm their awareness of and compliance with integrity.	No Significant Variation
(IV)	Has the Company established a viable and effective accounting system and internal control system for the realization of ethical corporate management subject to the routine audit of the internal audit function, or by an independent certified public accountant?	✓		(IV) AIDC has established an accounting system and internal control system for the realization of ethical corporate management. Relevant departments have performed their duties in compliance with the aforementioned systems. The auditing function will conduct regular or special audits on a selective basis as needed. AIDC has also retained certified public accountants to audit and certify the system and provide sound recommendation to ensure legality and security.	No Significant Variation
(V)	Has the Company organized internal and external training in ethical corporate management?	✓		(V) The Ethic & Security Dept. has conducted the followings in 2018. External: AIDC has invited lawyers, public prosecutors, judges and experts to give lectures and training in business integrity and ethical corporate management at least once a year. Internal:	No Significant Variation

Item	Implementation Status			Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	
			1. Completed the signing of "AIDC Employee Code of Conduct" by all employees except those who took long leave. 2. Provided advocacy material of business integrity to the board of directors and monthly managing meeting; updated the status of enforcement on official website at: http://www.aidc.com.tw/tw/about/ethical on a quarterly basis and established "AIDC Supplier Code of Condut" in December. 3. To assist new employees to adapt to the working environment and comply with the ethical business conduct, the Division has held 48 lectures on ethics and security with 558 person-times. 4. Registered 68 cases of bestow gifts abide by "AIDC Employee Code of Conduct". 5. Supported 6 auditing tasks on ethic and security from foreign customer.	
III. The running of the system for reporting unethical practices (I) Has the Company established substantive system for reporting and reward with channels for easy reporting on unethical practices, and has appointed designate person to deal with the target of reporting?	✓		(I) According to the procedure for reward and punishment of AIDC, those who report on anything concerning corruption or jeopardizing the rights of AIDC the extent to which damage is caused, the reporting person will be rewarded. In addition, the person in charge of related operation can release a price as encouragement for the person under relevant guidelines for releasing prizes and bonus. External parties who reported on unethical practice of the employees will also be rewarded. AIDC has appointed designated personnel to answer to reporting on unethical practice. The personnel for accepting reports and the method of contact will be posted at the AIDC website, all plant sites, and offices.	No Significant Variation
(II) Has the Company established related standards for investigation on reported matters and the confidentiality of the	✓		(II) The investigation on report of unethical practices in AIDC is akin to the practices in the Criminal Litigation Act whereby the principle of	No Significant Variation

Item	Implementation Status			Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	
reports?			confidentiality and no disclosure is in effect. All participants in the investigations are required to keep strict confidence and protect human rights in the entire investigation.	
(III) Has the Company taken appropriate measures to protect the informant for undue treatment due to the report on unethical practices?	✓		(III) AIDC promises to protect the informants and guarantees no revenge will result due to the report on unethical practices by the informants. Such commitment is posted at the official website, all plant sites, and offices of AIDC.	No Significant Variation
IV. Bolstering disclosure (I) Has the Company disclosed the content of its Ethical Corporate Management Best Practice Principles at its official website and MOPS and the result of the pursuit?	✓		(I) AIDC has posted the content of its Ethical Corporate Management Best Practice Principles and Employee Code of Conduct at its official website and MOPS, and provide education on related rules and regulation at any time as needed.	No Significant Variation
V. If the Company has established its Ethical Corporate Management Best Practice Principles in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-listed Companies", describe the implementation of the regulation and the variation with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-listed Companies": No.				
VI. Any other vital information that helps to understand the ethical corporate management in action better: (e.g., the review and amendment to the ethical corporate management best practice principles of the Company). AIDC pronounced its policy of business integrity and anti-corruption policy in the annual suppliers' conference and explicitly declares no acceptance of offering and gifts. In addition, AIDC has also provided the telephone for reporting on unethical practices at 04-2284 2373 and e-mail at peterwei@ms.aidc.com.tw. The suppliers can report on any illegal practices with evidence. AIDC will keep the identity of the informant in strict confidence.				

4.7 If the Company has established corporate governance and related code, disclose the means of inquiry: AIDC has installed the "Corporate Governance Regulations", at the official website at http://www.aidc.com.tw/tw/investor/governance/regulation for disclosure of related rules and regulations of corporate governance, and the implementation status can be found on"Corporate Governance" zone (http://www.aidc.com.tw/tw/investor/governance).

4.8 Other Vital Information that Helps to Understand the Practice of Corporate Governance Better: AIDC has installed the "Investor" zone at the official website at http://www.aidc.com.tw/tw/investor for disclosure of vital information.

4.9 The Pursuit of the Internal Control System:

漢翔航空工業股份有限公司

內部控制制度聲明書

日期：108年3月28日

本公司民國107年度之內部控制制度，依據自行評估的結果，謹聲明如下：

一、本公司確知建立、實施和維護內部控制制度係本公司董事會及經理人之責任，本公司業已建立此一制度。其目的係在對營運之效果及效率(含獲利、績效及保障資產安全等)、報導具可靠性、及時性、透明性及符合相關規範暨相關法令規章之遵循等目標的達成，提供合理的確保。

二、內部控制制度有其先天限制，不論設計如何完善，有效之內部控制制度亦僅能對上述三項目標之達成提供合理的確保；而且，由於環境、情況之改變，內部控制制度之有效性可能隨之改變。惟本公司之內部控制制度設有自我監督之機制，缺失一經辨認，本公司即採取更正之行動。

三、本公司係依據「公開發行公司建立內部控制制度處理準則」(以下簡稱「處理準則」)規定之內部控制制度有效性之判斷項目，判斷內部控制制度之設計及執行是否有效。該「處理準則」所採用之內部控制制度判斷項目，係為依管理控制之過程，將內部控制制度劃分為五個組成要素：1.控制環境，2.風險評估，3.控制作業，4.資訊與溝通，及5.監督作業。每個組成要素又包括若干項目。前述項目請參見「處理準則」之規定。

四、本公司業已採用上述內部控制制度判斷項目，評估內部控制制度之設計及執行的有效性。

五、本公司基於前項評估結果，認為本公司於民國107年12月31日的內部控制制度(含對子公司之監督與管理)，包括瞭解營運之效果及效率目標達成之程度、報導係屬可靠、及時、透明及符合相關規範暨相關法令規章之遵循有關的內部控制制度等之設計及執行係屬有效，其能合理確保上述目標之達成。

六、本聲明書將成為本公司年報及公開說明書之主要內容，並對外公開。上述公開之內容如有虛偽、隱匿等不法情事，將涉及證券交易法第二十條、第三十二條、第一百七十一條及第一百七十四條等之法律責任。

七、本聲明書業經本公司民國108年3月28日董事會通過，出席董事10人中，有0人持反對意見，餘均同意本聲明書之內容，併此聲明。

漢翔航空工業股份有限公司

董事長：

總經理：

Aerospace Industry Development Corporation
Statement of Declaration on Internal Control

Date: March 28, 2019

Aerospace Industry Development Corporation has conducted internal audit in accordance with its Internal Control Regulation covering the period from January 1 to December 31, 2018, and hereby declares as follows:

I. The Company acknowledges and understands that the establishment, enforcement and preservation of internal control system is the responsibility of the Board and the managers, and that the Company has already established such system. The purpose is to reasonably ensure the effect and efficiency of operation (including profitability, performance and security of assets), the reliability of financial reporting and the compliance with relevant legal rules.

II. There is limitation inherent to internal control system, no matter how perfect the design. As such, effective internal control system may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls system. The internal control system of the Company features the self-monitoring mechanism. Once identified, any shortcoming will be corrected immediately.

III. The Company judges the effectiveness of the internal control system in design and enforcement in accordance with the "Criteria for the Establishment of Internal Control System of Public Offering Companies" (hereinafter referred to as "the Criteria"). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control system. There are five components of effective internal control as specified in the Criteria with which the procedure for effective internal control is composed by five elements, namely, 1. Control Environment, 2. Risk Evaluation, 3. Control Operation, 4. Information and Communication, and 5. Monitoring. Each of the elements in turn contains certain audit items, and shall be referred to the Criteria for detail.

IV. The Company has adopted the aforementioned internal control system for internal audit on the effectiveness of the design and enforcement of the internal control system.

V. Basing on the aforementioned audit findings, the Company holds that has reasonably preserved the achievement of the aforementioned goals within the aforementioned period of internal control (including the monitoring over the subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and compliance with relevant legal rules, and that the design and enforcement of internal control are effective.

VI. This statement of declaration shall form an integral part of the annual report and prospectus on the Company and will be announced. If there is any fraud, concealment and unlawful practice discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.

VII. This statement of declaration has been approved by the Board on March 28, 2019 with the presence of 10 directors in common consent.

Chairman: Hu, Kai-Hung
President: Ma, Wan-June

4.10 The Penalty on AIDC and its Internal Personnel, the Penalty of AIDC Personnel for Violation of the Internal Control System, Major Shortcomings and the Status of Corrective Action: None.

4.11 Major Resolutions of the General Meetings of Shareholders and the Board in the Previous Period to the Date this Report was Printed

4.11.1 2018 Major Resolutions of Shareholders' Meeting and Implementation Status

1. The 2017 Business report and financial report.
2. The distribution of Earnings for FY 2017
   Implementation Status: Authorized by the BOD, Chairman set July 31, 2018 as the ex-dividend record date, and a cash dividend of NT$1.13 per share, which made up the total of NT$1,064,309,824, was to be distributed by August 24, 2018.
3. The proposal for amending Acquisition and Disposal Procedures for Assets was approved.
   Implementation Status: The Company completed reporting on June 26, 2018 and disclosed it on its website.
4. The elections of 8th term of Board of Directors and Independent Directors.
   Implementation Status: The election result was announced on June 26, 2018 and further approved and recorded by the Ministry of Economic Affairs on July 23, 2018. The minutes of shareholders meeting was disclosed on the MOPS and Company's website.
5. The proposal for exemption of directors and their representatives from non-competition restrictions was approved.
   Implementation Status: The Company announced on June 26, 2018 names of the directors with permission to engage in competitive conduct and to serve concurrently in company whose business is within or similar to the scope of the business of the Company. The minutes of shareholders meeting was disclosed on MOPS and Company's website.

4.11.2 2017-2018 Major Resolutions of Board of Directors' Meetings

Date	Session	Motions
March 27, 2018	The 15th session of the 7 th term of the Board	• Donation for Hualien earthquake relief • Business Report for FY 2017 • Allocation amount of remuneration to employees and directors for FY 2017 • Financial Report for FY 2017 • Distribution of earnings for FY 2017 • Declaration of Internal Control for FY 2017 • The re-election of the 8th term of the Board • Lift the ban of non-compete on directors and their representatives elected to the new term of office • Calling for the regular session of the General Meeting in FY 2018 • Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2017 • Principles for bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2018 • AIDC early retirement scheme for FY 2019
May 8, 2018	The 16th session of the 7 th term of the Board	• Qualification review of director and independent director nominees by shareholders • Lift the ban of non-compete on director nominees for the 8th term
August 9, 2018	The 1st session of the 8th term of the Board	• 2018 Q2 Consolidated Financial Report • Appointment of the 3rd term of Remuneration Committee members • Amendment to "Division of Powers and Obligations of Board of Directors, Chairman and President"
September	The 2 nd special session of the	• Appointment of one Senior Vice-President • Change of Director of Finance Department

28, 2018	8th term of the Board	• Change of Chief Audit Officer of Internal Audit Office • Amendment to AIDC Organizational Charter
November 9, 2018	The 3rd session of the 8th term of the Board	• The replacement of Compensation Committee member • Appointment of Managing Officer for handling derivatives trading procedure • AIDC 2019 Unsecured Corporate Bond issue • Internal Audit Plan for FY 2019
December 14, 2018	The 4th session of the 8th term of the Board	• Business Plan for FY 2019 • Adjustment to remuneration of directors • Execution expenses of members of Audit/Quasi-Audit Committee • Appointment of President of AIDC USA LLC • AEF TCF construction program • Dispoal of AEF ceramic core shop natural gas pipeline attachments
January 21, 2019	The 5th session of the 8th term of the Board	• By-election of one Independent Director • Lift the ban of non-compete on directors elected to the office • Amendment of Articles of Charter • Calling for the regular session of the General Meeting in FY 2019
March 28, 2019	The 6th session of the 8th term of the Board	• Business Report for FY 2018 • Allocation amount of remuneration to employees and directors for FY 2018 • Financial Report for FY 2018 • Distribution of earnings for FY 2018 • Declaration of Internal Control for FY 2018 • Project Finance Plan • Amendment to the “AIDC Procedures for Assets Acquisition and Disposition” • Establishment of the regulation of “AIDC Standard Operating Procedure for Handling the Requirements of the Directors” • Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2018
June 26, 2018	The 1st special session of the 8th term of the Board	• The elections of 8th term of Board of Executive Director • The election of AIDC Chairman • The election of AIDC President
March 18, 2019	The 2nd special session of the 8th term of the Board	• By-election of two Executive Director • Election of AIDC Chairman • Discharge and appointment of AIDC President

Note: For details, please refer to the BOD motions and Company’s disposition of independent directors’ comments.

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

4.13 Resignation or Discharge of Chairman, President, and Heads of Accounting, Finance, Internal Audit and R&D

March 31, 2019

Title	Name	Date of Office	Date of Discharge	Cause of Resignation or Discharge
Director of Finance	Huang, Shu-Yuan	August 21, 2014	October 1, 2018	fill the vacant position of Vice President
Chief Audit Executive	Lin, Ming-Fang	July 1, 2012	October 1, 2018	position adjustment
Chairman	Liao, Jung-Hsin	March 2, 2015	March 17, 2019	Discharge
President	Lin, Nan-Juh	July 5, 2017	March 17, 2019	position adjustment

5. Information Regarding Independent Auditors

5.1 Audit Fees

Brackets of the Service Charge for the Certified Public Accountants

Accounting Firm	Name of CPA		Period	Remarks
Deloitte & Touche	Lie-Dong Wu	Done-Yuin Tseng	2018	

Unit：NT$ thousands

Bracket	Item	Audit Fee	Non-audit Fee	Total
1	Under NT$ 2,000,000			
2	NT$ 2,000,000 ~ 4,000,000			
3	NT$ 4,000,000 ~ 6,000,000	3,330	441	3,771
4	NT$ 6,000,000 ~ 8,000,000			
5	NT$ 8,000,000 ~ 10,000,000			
6	Over NT$ 10,000,000			

Unit：NT$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period	Remarks
			System Design	Company Registration	Human Resource	Others (Note)	Subtotal		
Deloitte & Touche	Lie-Dong Wu, Done-Yuin Tseng	3,330				441	441	2018	1. Certification of Project financial statements amounted to NT$147,000 2. Audit of business tax report amounted to NT$156,000 3. Certification of transfer pricing report amounted to NT$138,000

Note：For service charge beyond auditing service, itemize the detail. If the “miscellaneous” spending of service charges beyond auditing service accounted for 25% of the total service charge beyond auditing service, specify the content of the services in the space provided.

5.2 Change in the CPA Firm and the Service Charge for Auditing Spent in the Year of Change was Less than that in the Same Period of the Previous Year: None.

5.3 In the Event that the Service Charge for Auditing Falls by 15% of more than the Same Period of the Previous Year, Disclose the Amount Change, the Proportion of Change, and the Causes: None.

6. Information on Change in External Auditors: None.

7. AIDC’s Chairman, Chief Executive Officer, Chief Financial Officer, and managers in charge of its finance and accounting operations hold any positions within AIDC’s independent audit firm or its affiliates during 2016: None.

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

8.1 Transfer and pledge of shares owned by directors and managers

Unit: shares; %

Title	Name	2018		Year-to-date as at March 31,2019	
		Increased (decreased) in shares held	Increased (decreased) in shares pledged	Increased (decreased) in shares held	Increased (decreased) in shares pledged
Juristic-person Director (major shareholder)	MOEA	0	0	0	0
	Representative: Hu, Kai-Hung (Note 1)	0	0	0	0
	Representative: Ma, Wan-June (Note 1)	-	-	0	0
	Representative: Liao, Jung-Hsin (Note 2)	-	-	0	0
	Representative: Lin, Nan-Juh (Note 2)	0	0	0	0
	Representative: Chien, Feng-Yuan	0	0	0	0
	Representative: Chang, Ming-Pin	0	0	0	0
	Representative: Shieu, Fuh-Sheng	0	0	0	0
	Representative: Yu, Cheng-Tao	0	0	0	0
	Representative: Hsu, Chung-Ming	0	0	0	0
Juristic-person Director	National Defense Industrial Development Foundation	0	0	0	0
	Representative: Hsu, Yan-Pu (Note 2)	0	0	0	0
Executive and Independent Director	Chan, Chia-Chang	0	0	0	0
Independent Director	Chen, Yin-Chin	0	0	0	0
President	Ma, Wan-June (Note 3)	0	0	0	0
President	Lin, Nan-Juh (Note 3)	0	0	0	0
Vice President	Chen, Yi-Min	0	0	0	0
Vice President	Ho, Poa-Hua	0	0	0	0
Vice President	Du, Shiu-Chun	0	0	0	0
Vice President	Lo, Ching-Chi	0	0	0	0
Vice President	Huang, Shu-Yuan (Note 4)	0	0	0	0
Chief Audit Executive	Lin, Fu-Ji	0	0	0	0
Director, Finance & Accounting	Huang, Hsiu-Yen	0	0	0	0

Title	Name	2018		Year-to-date as at March 31,2019	
		Increased (decreased) in shares held	Increased (decreased) in shares pledged	Increased (decreased) in shares held	Increased (decreased) in shares pledged
R&D Officer	Wu, Tian-Sheng	0	0	0	0
Director, Strategy & Legal Affairs	Chuang, Jennifer	0	0	0	0

Note 1: Hu, Kai-Hung is the Chairman and Representative of institutional shareholder; Ma, Wan-June is the Executive Director and Representative of institutional shareholder.

Note 2: NDIDF representative change: Hsu, Yan-Pu replaced Po, Horng-Huei on Feb. 1, 2019.
MOEA representative changes: Hu, Kai-Hung replaced Liao, Jung-Hsin and Ma, Wan-June replaced Lin, Nan-Juh on Mar. 18, 2019.

Note 3: Ma, Wan-June was appointed as AIDC President and Mr. Lin, Nan-Juh was discharged as AIDC President at the 2^{nd} special session of the 8^{th} term of the Board, effective March 18, 2019.

Note 4: Ms. Huang, Hsiu-Yen is in charge of both Finance and Accounting.

Note 5: Information on change in shares held by the abovementioned persons is based on their tenure and the total shares owned by the persons, their spouses and children of minor age.

8.2 Disclosure of share transfer or collateralization where the counterparty is a related party:

None.

8.3 Pledge of shares where the counterparty is a related party: None.

9. Related Party Relationship among AIDC's 10 Largest Shareholders:

As of April 2, 2019 (note)/ Unit: shares; %

Name	Current Shareholding		Spouse & Minor Shareholding		AIDC Shareholding by Nominee Arrangement		Name and Relationship between AIDC's Shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation-ship	
MOEA	331,301,773	35.18%	N/A	N/A	-	-	-	-	
Representative: Hu, Kai-Hung	-	-	-	-	-	-	-	-	
Representative: Ma, Wan-June	-	-	-	-	-	-	-	-	
Representative: Chang, Ming-Pin	-	-	-	-	-	-	-	-	
Representative: Shieu, Fuh-Sheng	-	-	-	-	-	-	-	-	
Representative: Chien, Feng-Yuan	-	-	-	-	-	-	-	-	
Representative: Yu, Cheng-Tao	107,205	0.01%	-	-	-	-	-	-	
Representative: Hsu, Chung-Ming	75,502	0.01%					-	-	
Fubon Life Insurance Co., Ltd.	51,698,540	5.49%	N/A	N/A	-	-	-	-	
Responsible person: Tsai, Ming-Hsing	-	-	-	-	-	-	-	-	
Cathay Life Insurance Co., Ltd.	40,729,781	4.32%	N/A	N/A	-	-	-	-	

Name	Current Shareholding		Spouse & Minor Shareholding		AIDC Shareholding by Nominee Arrangement		Name and Relationship between AIDC's Shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation-ship	
Responsible person : Huang, Tiao-Kuei	-	-	-	-	-	-	-	-	
The New Labor Pension Fund	40,008,173	4.25%	N/A	N/A	-	-	N/A	N/A	
The Labor Insurance Fund	18,300,136	1.94%	N/A	N/A	-	-	N/A	N/A	
Taipei Fubon Commercial Bank Co., Ltd. Trust Account	15,449,457	1.64%	N/A	N/A	-	-	N/A	N/A	
National Defense Industrial Development Foundation	11,063,201	1.17%	N/A	N/A	-	-	N/A	N/A	
Representative: Hsu, Yan-Pu	-	-	-	-	-	-	-	-	
National Pension Insurance Fund	11,051,234	1.17%	N/A	N/A	-	-	N/A	N/A	
The Labor Pension Fund (Old Scheme)	8,437,810	0.90%	N/A	N/A	-	-	N/A	N/A	
Schroder International Selection Fund Asian Smaller Companies	8,391,120	0.89%	N/A	N/A	-	-	N/A	N/A	

Note: the record date

10.Proportion of Overall Shareholding:

As of December 31, 2018/Unit: thousand shares; %

Direct Investment	Ownership by AIDC		Ownership by Directors, Managers and Directly/Indirectly Owned Subsidiaries		Total Ownership	
	Thousand Shares	%	Thousand Shares	%	Thousand Shares	%
AIDC USA LLC	(Note 1)	100	—	—	(Note 1)	100
AeroVision Avionics Inc.	4,968	13.09	—	—	4,968	13.09
Metro Consulting Service Ltd.	300	6.00	—	—	300	6.00
UHT Unitech Co., Ltd.	1,100	3.20	—	—	1,100	3.20

Note 1：A limited liability company without issuing shares. No information on quantity of shares is applicable.

IV. Raising of Capital

1. Capital and Shares

1.1 Source of Capital

March 31, 2019 / Unit: shares; NT$

Month/ Year	Issue Price (Per Share)	Authorized Share Capital		Capital Stock		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Others
June 1996	10	1,500,000,000	15,000,000,000	905,591,351	9,055,913,507	Valuation in Cash and Assets	6,527,455,995	Note 1
June 1999	10	1,500,000,000	15,000,000,000	908,261,429	9,082,614,287	Offset by Rights to Debt	26,700,780	Note 2
January 2000	10	1,500,000,000	15,000,000,000	908,261,428	9,082,614,280	Writing Less		Note 3
August 2017	10	1,500,000,000	15,000,000,000	941,867,101	9,418,671,010	Capitalization of Retained Earnings		Note 4

Note 1: As per Approval Letter Jin (85) Shang-Zi No. 109686 issued by the Executive Yuan on June 24, 1996, the Ministry of National Defense was approved to assign assets amounted to NT$ 9,055,913,447 as equity for investment for the establishment of Aerospace Industry Development Corp. together with the investment of six other companies, including Taiwan Power Corporation, a subsidiary of the Ministry of Economic Affairs, amounted to NT$ 10, which made up the total of NT$ 9,055,913,507. Of the pool of investment, non-cash assets amounted to NT$ 6,527,455,995 were allocated, including fixed assets amounted to NT$ 6,526,751,995 and long-term investment amounted to NT$ 704,000.

Note 2: As per Approval Letter Jin (88) Shang-Zi No. 088118904, right to debt is permitted to offset the payment on the basis of the written instruction of the Executive Yuan on June 1, 1999, that supports the National Defense Industry Development Fund for the former Aerospace Industry Development Center under the Ministry of National Defense in the purchase of machinery and tools had residual value of NT$ 26,700,780, and shall be allocated as capital stock for AIDC in the budgeting procedure.

Note 3: As per Approval Letter Jin (089) Shang-Zi No. 089102830 dated January 28, 2000, capital stocks amounted to NT$ 9,082,614,287 were approved for registration of writing less as NT$9,082,614,280 in 2000, due to the NT$7 is less than the value of 1 share.

Note 4: As per Approval Letter Jin-Shou-Shang-Zi No. 10601116580 dated August 24, 2017, capitalization of retained earnings was duly approved.

March 31, 2019 /Unit: shares

Type of Stock	Authorized Share Capital		
	Issued Shares	Unissued Shares	Total
Common Stock	941,867,101	558,132,899	1,500,000,000

1.2 Composition of Shareholders

Common Share

As of April 2, 2019 (Last Record Date) / Units：person; shares; %

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	1	13	101	35,458	72	35,645
Shareholding	331,301,773	111,692,441	117,612,576	319,300,134	61,960,177	941,867,101
Holding Percentage (%)	35.18%	11.86%	12.48%	33.90%	6.58%	100.00%

1.3 Distribution Profile of Share Ownership

As of April 2, 2019 (Last Record Date）

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership (Unit: Share)	Ownership (%)
1 ~ 999	5,865	736,705	0.08%
1,000 ~ 5,000	20,111	40,343,707	4.28%
5,001 ~ 10,000	3,814	26,850,405	2.85%
10,001 ~ 15,000	1,608	18,850,816	2.00%
15,001 ~ 20,000	699	12,371,618	1.31%
20,001 ~ 30,000	866	20,918,043	2.22%
30,001 ~ 50,000	853	33,392,600	3.55%
50,001 ~ 100,000	1,081	78,337,769	8.32%
100,001 ~ 200,000	629	73,842,172	7.84%
200,001 ~ 400,000	54	15,053,199	1.60%
400,001 ~ 600,000	16	7,841,185	0.83%
600,001 ~ 800,000	6	3,968,844	0.42%
800,001 ~ 1,000,000	8	7,069,072	0.75%
Over 1,000,001	35	602,290,966	63.95%
Total	35,645	941,867,101	100.00%

1.4 Major Shareholders

Names, quantity and proportion of shareholding by shareholders holding more than 5% of the shares or the top 10 shareholders by proportion of shareholding:

Common Share

As of April 2, 2019 (Last Record Date)

Shareholders	Total Shares Owned	Ownership (%)
MOEA	331,301,773	35.18%
Fubon Life Insurance Co., Ltd.	51,698,540	5.49%

1.5 Net Worth, Earnings, Dividends, and Market Price Per Common Share

Units：NT$ dollar/shares

Item		2017	2018	1/1/2018~3/31/2018
Market Price Per Share (Note 1)	Highest	41.15	37.50	34.95
	Lowest	33.00	27.80	30.35
	Average	36.02	32.03	32.68
Net Worth	Before Distribution	13.91	15.01	(Note 8)

Item			2017	2018	1/1/2018~3/31/2018
Per Share (Note 2)	After Distribution		12.78	(Note 7)	(Note 8)
Earnings Per Share	Weighted Average Shares (thousand shares)		941,867	941,867	(Note 8)
	Earnings Per Share (Note 3)		1.86	2.22	(Note 8)
Dividends Per Share	Cash Dividends		1.13	1.34 (Note 7)	—
	Stock dividend	Retained Earnings	—	—	—
		Capital Reserve	—	—	—
	Accumulated Undistributed Dividend		—	—	—
Return on Investment	Price/Earnings Ratio (Note 4)		19.37	14.43	—
	Price/Dividend Ratio (Note 5)		31.88	23.90 (Note 7)	—
	Cash Dividend Yield (Note 6)		3.14%	4.18% (Note 7)	—

Note 1: The highest and lowest market price per common share in respective years; and the annual average market price is calculated based on the annual trading value.
Note 2: Use the outstanding shares at the end of the year as the basis, fill in resolution of distribution in the Shareholders' Meeting next year.
Note 3: As the earnings per share is subject to retroactive adjustment due to stock dividend distribution, specify the value before and after the adjustment.
Note 4: Price/Earnings Ratio = Average Market Price/Diluted Earnings Per Share
Note 5: Price/Dividend Ratio = Average Market Price/Cash Dividends Per Share
Note 6: Cash Dividend Yield = Cash Dividends Per Share/ Average Market Price
Note 7: Proposal for distribution of retained earnings of FY 2017 is pening resolution of the Shareholders' Meeting.
Note 8: Up to the date of printing of this annual report financial statement of Q1 of 2018 has not been audited by the CPA, therefore it is not disclosed here. Net value per share after distribution = (equity - cash dividend) / outstanding shares.

1.6 Dividend Policy of the Company and the Implementation

1.6.1 Dividend Policy of the Company

On allocating the annual earrings, the Company shall first pay the income tax, offset the losses of previous years, set aside 10% as a legal reserve except that the legal reserve has equaled the total capital of the Company; then set aside a special reserve in accordance with relevant laws or regulations. The residual earnings will be appropriated according to the following principles per resolution in the shareholders' meeting:

A. Profits may be distributed by taking financial, business, operational, or other related factors into consideration.

B. After setting aside the legal and special reserves and adding the beginning retained earnings and other adjustments (or reversals) to the earnings net in the current period, 50%-100% of the distribution earnings shall be allocated as cash dividend and subject to the Shareholders' Meeting resolution for disbursement. Distribution of profits may be made by way of cash dividend and/or stock dividend. Since the Company is in a capital-intensive industry, distribution of profits may be made preferably by way of cash dividend or stock dividend, provided however, the ratio for stock dividend shall not exceed 50% of total distribution.

   However, if there is no earnings for distribution in the current year, or if the amount of the earnings is far less than the actual earnings for distribution of the previous year, or in consideration of financial, business, operational, or other related factors, the Company shall distribute all or part of the reserve according to the laws or regulations of the competent authorities.

1.6.2 The Proposal for Distribution of Dividend as Resolved in Current Session of the General Meeting

Since the Company went public, dividend was disbursed each year per Company's dividend policy. The Company has corporate earnings of NT$2,092,016 thousand in FY 2018. The appropriations of earnings for FY 2018 was proposed to and approved by the Company's board meeting on March 28, 2019. The appropriations and dividends per share were as follows:

(1) The appropriation of legal reserve (10%) totals NT$207,007 thousand.

(2) The appropriation of special reserve (30%) set aside totals NT$621,020 thousand. This pool of capital is reserved for the investment in fixed assets.

(3) After setting aside the aforesaid reserves and adding the beginning retained earnings and other adjustments (or reversals) to the earnings net in the current period, the amount of earnings for distribution is NT$1,274,212 thousand. It is proposed to disburse:

- Cash dividend at NT$1.34/share, a total of NT$1,262,102 thousand which is 99% of the earnings for distribution.
- The unappropriate retained earnings is NT$12,110 thousand, which is 1 % of the earnings for distribution.

Note: The appropriations of earnings of FY 2018 is subject to the resolution of the Shareholders' Meeting to be held on May 31, 2019.

1.6.3 Notes to Anticipated Significant Change in the Dividend Policy: None.

1.7 The Impact of Stock Dividend Planned to Release by Current Session of the Shareholders' Meeting on Business Performance and Earnings per Share： Not Applicable.

1.8 Remuneration to Employees and the Directors：

1.8.1 The Percentage or Scope of Remuneration to Employees and the Directors and Supervisors Provided in the Articles of Incorporation

In the event of earnings, the Company shall set aside not less than 0.58% and not more than 4.65% of EBT as remuneration to employees, while not more than 0.58% of EBT as remuneration to directors. However if the Company sustains an accumulated loss, amount of which shall be set aside to cover the loss.

1.8.2 In the event of a discrepancy between the basis for the estimation of remuneration of employees, directors and supervisors, the calculation of the quantity of shares in the distribution of dividend and the actual amount distributed, the accounting of the discrepancy will be:

For FY 2018, the remuneration to employees was NT$ 121,277 thousand and remuneration to the directors was NT$15,127 thousand. The estimation of distributions is based on related part in the Articles of Incorporation, the remuneration to employees, directors and supervisors represented 4.65% and 0.58% of net income (net of the remuneration). The share dividend was not proposed in earnings distribution category.

If there is any difference between such estimated amounts and the amounts resolved by the General Meeting of Shareholders, the difference shall be adjusted in the year of the General Meeting of Shareholders.

1.8.3 Proposal for Distribution of Earnings Passed by the Board:

(1) For remuneration to employees and directors, following amounts are approved by the board meeting held on March 28, 2019:

(A) employee cash remuneration：NT$ 121,277 thousand

(B) employee share dividend：NT$ 0

(C) remuneration to the directors：NT$15,127 thousand

The Board resolved earnings distribution proposal for FY 2018, and the total amount of remuneration to employees and directors was the same as that recognized in the financial statements.

(2) Number of shares proposed as employee remuneration and relative percentage to capitalized earnings：

No share dividend was proposed as the employee remuneration.

1.8.4 The difference between the employee bonus and remuneration to the directors (including the quantity of shares, amount and stock price) of the previous fiscal period actually disbursed, and the recognized employee bonus and remuneration to the directors, and explain the difference, if applicable, and cause of the difference and the response:

It was resolved by the Board Meeting on March 27, 2018 that for FY 2017 the amount disbursed for employee bonus was NT$102,360 thousand, remuneration to the directors was NT$12,767 thousand, and no employee share dividend was proposed. The said Board resolution was reported to the Shareholders' Meeting on June 26, 2018. There is no difference between the said amount and that recognized in the financial statements.

1.9 Repurchase of Company Shares: None.

2. Corporate Bonds (including overseas corporate bonds): None.

3. Preferred Shares: None.

4. Participation in Issuance of Overseas Depository Receipts: None.

5. Employee Stock Options: None.

6. Restricted ESO: None.

7. Merger and Acquisition: None.

8. Issuance of New Shares through Acceptance of Assignment of Shares from other Issuers: None.

9. Capital Utilization Plan and Implementation of the Plan: None.

V. Operation Outlook

1. Business Content

1.1 Scope of Business

1.1.1 The Content of Principal Business

Manufacturing and Maintenance of Airplanes and its Parts and Components

Manufacturing and Maintenance of Engine and its Parts and Components

Industrial Technology Services (energy, tracks, information and aviation service)

1.1.2 Proportion of Different Business Lines

AIDC runs 3 categories of business, namely, “Maintenance of Airplanes and Vehicles”, “Engines”, and “Industrial Technology Services” in the following proportions:

Unit：NT$ thousands

Product Category	2017		2018	
	Amount	%	Amount	%
Maintenance of Airplanes and Vehicles (Note 1)	17,749,411	64.46	15,964,570	56.65
Engines (Note 2)	9,416,818	34.20	11,818,385	41.94
Industrial Technology Services	371,185	1.34	399,143	1.41
Total	27,537,414	100.00	28,182,098	100.00

Note 1: Airplanes and Vehicles Maintenance: including military and commercial planes and vehicles maintenance.

Note 2: Engines: including military and commercial engines.

1.1.3 Running Products (Services) of the Company

AIDC runs the merchandises (services) for defense, commercial aviation and industrial technology services.

Defense industry includes the manufacturing maintenance, and performance upgrade of domestic military aircrafts, commercial maintenance of air fleets, production of military hardware by private sector, and military aircraft engines.

Commercial aviation business includes the design and OEM production of airframe structure and sub-assembly parts, and the design, processing and OEM production of international commercial aircraft engines and parts and components.

Industrial technology services aim at the aviation service and the application of the R&D, design, manufacturing, testing, system integration, and after-sales service deriving from aerospace technology capacity currently in service.

1.1.4 Development of New Products (Services) under Planning

In the area of defense industry, AIDC plans to develop the basic trainer, next-generation fighter and expand business in military aircraft and fleet maintenance and GOCO.

In the area of commercial aviation, AIDC plans to develop the parts and components of new commercial planes and engines under risk sharing plan, and expand business in large engine case and overall maintenace of engines.

In the area of industrial technology, AIDC plans to develop green energy engineering related medium to large technology service projects, and develop in the fields of engineering technologies and system integration.

1.2 Industry Outlook

1.2.1 Industry Outlook and Development

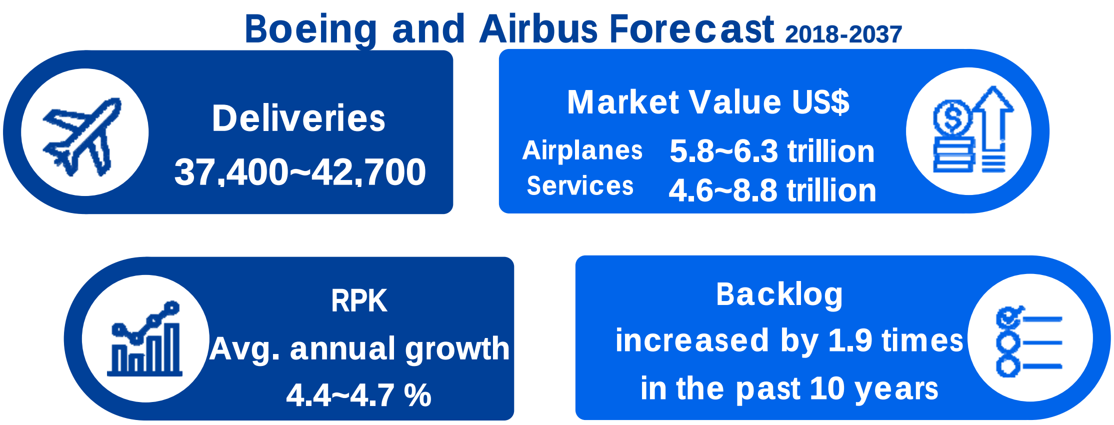
1.2.1.1 Defense Industry

While air force is our primary customer, defense business lies with the defense budget of the government. Due to the difficulty in procuring defense weapon abroad, in order to secure Taiwan's autonomous national defense, the ROC armed forces adopts comparative advantage thinking to build up Taiwan's autonomous national defense, and make firm budget plan in compliance with the force buildup schedule. According to the 2017 *National Defense Report*, the average defense budget was NT$313.8 billion in the past 10 years, equivalent to 16.85% of the total budget of the central government. The goal is to build the defensive force by developing asymmetric warfare.

1.2.1.2 Commercial Aviation

According to the market forecast released by Airbus and Boeing, for the next 20 years (2018-2037) new airplane requirement is 37,400-42,700, with market value of US$5.8-6.3 trillion and an passenger traffic average annual growth rate of 4.4%-4.7%, as measured in revenue passenger kilometers (RPK). That indicates the air traffic industry is and will remain in stable development.

The 20-year forecast of demand for new planes by Boeing and Airbus

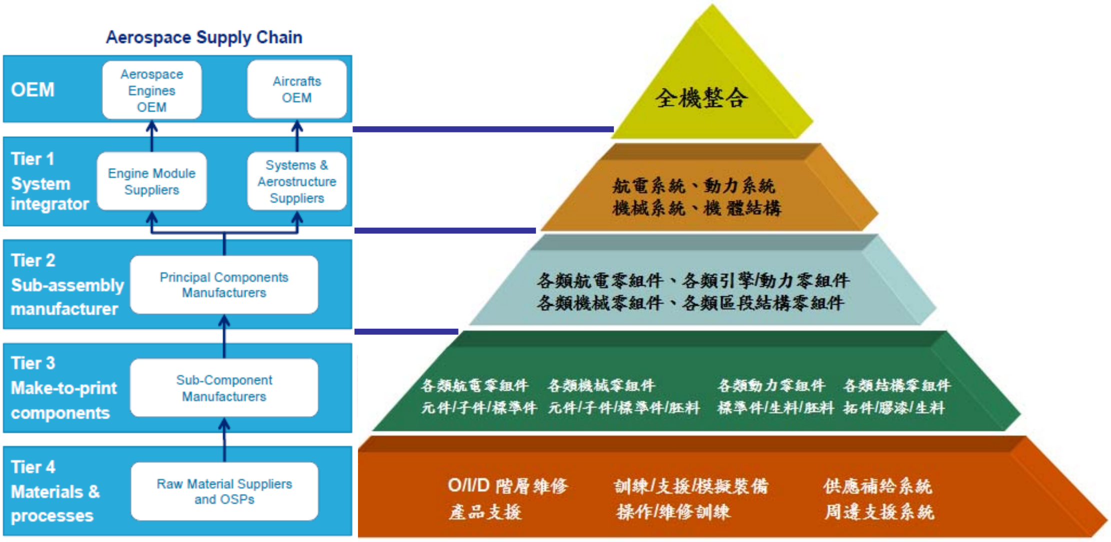


Sources: Airbus GMF (2018-2037); Boeing CMO (2018-2037)

1.2.2 The Association of the Upper-, Middle- and Lower-Stream of Industries

In general, the international aerospace and aircrafts and engines supply chains adopt international vertical division of labor, and can be classified into 4 tiers: components/materials supplier (Tier 4), parts supplier (Tier 3), subsystems supplier (Tier 2), (cabin-mounted equipment, module segment critical components) and main structure supplier (Tier 1); and the top layer is the OEM of aircraft structure integration and aero engines which is shown in the chart below.

International Vertical Division of Labor in the Aerospace Industry Value Chain



Sources: complied by AIDC

In the area of aircraft manufacturing, Boeing, Airbus, and Bombardier are the manufacturers of the whole aircraft. GE, Rolls-Royce, Snecma, Pratt & Whitney, and Honeywell and their subsidiaries are the major aero engine manufacturers who are capable of providing engine and aircraft assembly to meet the requirements of Boeing, Airbus and Bombardier

AIDC is a key member of the global aerospace industry supply chain, and is the leader in the aerospace industry of Taiwan providing aircraft structural parts and engine sub-assembly components and parts for the international aircraft market. AIDC has also established a complete network of supply for the speedy upgrading of the entire aerospace industry of Taiwan. After receiving orders from major international firms, in addition to manufacturing and assembly at its Taichung, Shalu and Gang Shan Complexes, AIDC outsources part of the parts and components business to its suppliers. The relation of the upper-, middle-, and lower-stream of the aerospace industries in Taiwan is shown in the chart below.

1.2.3 Different Development Trends of Products

In national defense, most of the jet fighters are at the brink of retirement from service. As such, the Ministry of National Defense has budgeted for long-term maintenance and performance upgrade of the jet fighters and trainers currently in service. Under the MND's policy of downsizing and streamlining the armed forces, the maintenance of military aircraft has been outsourced to the private sector. This trend will be developed further in stable paces.

In commercial aviation, lightweight, fuel efficient and environmental friendly new aircraft has become the mainstream product in the market, in the meantime, single-aisle airplanes will comprise 70 percent of units over the next 20 years to meet the high demand for point-to-point flight route, which will also drive engine related business.

In industrial technology service, AIDC supports the government policy of prevention of disasters prevails the relief after disasters and the objectives of energy saving and carbon reduction, and intensifies its operation in aviation service for atmospheric measurement in disaster prevention and energy technology service.

1.2.4 The Competition

1.2.4.1 Defense Business

The capability and expertise acquired from the development of the IDF fighter and AT-3 jet trainer give AIDC the edge in pursuing the subsequent performance upgrade and maintenance business. In addition, AIDC has already participated in and has experience in the operation of GOCO services and that give AIDC additional momentum in the competition.

1.2.4.2 Commercial Aviation Business

Major aircraft and engine manufacturers in Europe and America adopted global division of work practice and established the parts and components supply chain system. Currently, the newly emerged economies penetrated into the processing of particular part of aircraft and engines at very low price under the support of their governments. This poses a threat in the price competition. Furthermore, the constant cost reduction demands from international companies, such as Boeing's "Partnering for Success 2.0" and Airbus' "Saving Levers 2020+" strategies, are adding more challenges to the already stringent situation.

To relieve from the vicious cycle of cutthroat competition, AIDC has already oriented towards the development of system parts and components and seeked to engage in the high value-added aircraft segments and engine components. Meanwhile, AIDC has organized the Taiwan Aerospace Industry A-Team 4.0 Alliance with the objectives of "cross-sector alliance, work division of same sector, lean production , and competitiveness enhancement", and has integrated diverse sectors including; raw materials, machinery, manufaturing and logistics to form the aerospace industry supply chain. It is hoped that by bringing together suppliers who share similar value and concepts, and via work division by speciality and strength to promote the cooperation between members and eventually upgrade the competitivness of Taiwan aerospace indusry as a whole.

1.2.4.3 Industrial Technology Service Business

AIDC mainly uses its aerospace technology on hand to provide the service. In supporting the government in the development of strategic industries and the demand for large-scale system engineering in the private sector, AIDC develops relevant products and services and has already gained an edge in the competition.

1.3 Overview of Technology and R&D:

1.3.1 The R&D expenses in the last 2 years are shown in the table below. In the future, more funding will be injected into R&D for fine-tuning the core competence:

Unit：NT$ thousands

Item	2017	2018	Q1 of 2019
R&D Expenditures	407,178	545,217	Note 2
Net Revenue	27,537,414	28,182,098	Note 2
% of Revenue	1.48 %	1.94 %	Note 2

Note 1: A 2-4% of annual net revenue will be allocated as R&D expenditures in the future.

Note 2: The financial information for Q1 FY 2019 has not been audited by the CPA up to the printing of the annual report, therefore it is not disclosed.

3.3.2 The technologies or products developed in FY 2018 are shown in the table below:

Item	Technology or Product	Result
1	HALE UAV flight test program	1. Complete the first test flight of UAV experimental body, achieved a major engineering and technology integration verification, to lay the foundation for the follow-up development. 2. Complete the items of flight test contract with NSPO.

2	Ceramic Area Intelligent Monitor System	1. Use the slurry monitoring system to control slurry characters, and the warning system feeds back information to operators and engineers when error comes up. This way, we can significantly reduce the fails and improve the quality. 2. Use the environment monitoring system to prevent the environment temperature and humidity getting out of the specification. If operators cannot deal with the environment problems right away, that may lead to fail of entire shell molds. With the use of warning system to inform the operators and engineers, we can prevent the shell molds failure. 3. With the use of warning system to inform any emergency problems, we can preclude the risk of production line shut down.
3	Profile Measurement System for Curved Sheet Parts	The study, "Profile measurement system for curved sheet parts", is the measurement of the sheet metal parts for the aircraft engine afterburner. At present, it is often inspected by templates for quick and rough comparison or by CMM with time-consuming high-precision measurement. After the development of the study, the speed and accuracy of measurement can be greatly improved. The process can be improved by the analysis of the profile condition of parts to raise the product yield, reduce the inspection time, save production cost, and reduce risks of customer returns and penalty.
4	On-line Machining Quality Monitoring and Automatic Virtual Metrology (AVM) System Development – An Application in Engine Case Machining	1. Completion of AVM human machine interface (HMI) development. 2. Completion of visual recognition and inspection functions and HMI for tool wear prognostics system. 3. Completion of automatic model building and management modules in the AVM system.
5	Casing Assembly Optical Inspection System	Introduction of automatic optical inspection technology, using machine vision image identification to replace human eye detection, development of "automatic monitoring system for split assembly parts" based on multi-axis electronic control platform, to achieve automated testing, reduce human negligence, and strengthen quality management. Current testable items: Whether the sheath is installed, the out ring is expanded properly, the hole is broken off the iron residue, screw is installed, nut arc direction is correct, whether there is more than the joint surface, accessories assembly direction is fit. To ensure achieving the results of stable installation quality and no failure.

6	Development of Fast Flow Production System	1. Achieved development of sheet metal shop robotic routing and drilling system and successfully completed 82 parts of B737 project, Airbus M2 project and AJT project. 2. Achieved development of sheet metal shop robotic grinding system and completed 1 C-Series project skin part. 3. Achieved development of composite material robotic routing and drilling system and completed 52 parts including B737 project and FTE project with the system. 4. Achieved development of composite material robotic grinding system and completed 1 C-Series project skin part. 5. Finished development of KUKA auto program path compensation software and applied to robot program.
7	New Process Development and Production Engineering Improvement	1. Developed with National Tsing Hua University CATIA V5 interface and knowledgeware and applied to tool design. 2. AIDC has developed three CATIA custom models in 2018: (1)BOM Editor; (2)Main BOM models; and (3)Sub BOM models. 3. Established hydroforming mould design database for sheet metal hydroforming part of 1.2mm (0.05 inch). 4. Cooperated with National Cheng Kung University and utilized STAMPACK software to analyze sheet metal hydroforming springing back and established (1) material model for experiment and analysis, and (2) 3-dimension simulation model. 5. Finished 25 hydroforming mould development for sheet metal T condition material hydroforming.
8	Development of Extrusion Aluminum Bending Forming	1. Airbus M2 Project: Ten of T profile parts used bending forming process to replace stretching forming process. The benefit of bending forming process is that operator can produce many parts with one raw material which prevents waste of material. 2. AJT Project: Nine of T profile parts used bending forming process to replace stretching forming process. 3. Development of economizing raw material: For M2 project, ten of T profile parts utilized raw material effective to produce multiple parts 4. Established data card to record forming process: Kept data card on all extrusion aluminum bending parts in order to pass on the experience.
9	Flat Panel Display	High brightness multi-function display development by using LED backlight technology.

1.3.3 R&D Direction in the Future

1.3.3.1 Development of New Products: Based on military business demands invest in the development of military aircraft related products and passenger airplane seats.

1.3.3.2 Development and Upgrading of Critical Technology: Upgrade the design of aircraft structural parts (composites or non-composites), manufacturing, and assembly technology. Upgrade the capacity in the development of engine parts and components and production technology. Development of the capacity in maintenance, repair and overhaul of aircraft. Upgrade and refinement of the core testing capacity of flight control system.

1.3.3.3 Refinement of Production Process: Develop and improve the process for production, assembly and automation, establish intelligent production and manufacturing to enhance business management efficiency.

1.4 Business Development Plans in the Long and Short Run

1.4.1 Defense Business

1.4.1.1 Short Run: Provide quality- and schedule-compliant service to carry out the new advanced jet trainer development program and F-16A/B upgrade program.

1.4.1.2 Long Run: Pursue the business of the primary trainers and next generation fighters, develop the business for the commercial maintenance of military aircraft, I-level maintenance and depot-level maintenance work of the Air Force 1st and 3rd Logistics Commands.

1.4.2 Commercial Aviation Business

1.4.2.1 Short Run: Make an all-out effort to pursue existing order increment and manufacturing proportion expansion, implement lean management and intelligent manufacturing to increase project revenue, and pursue business vigorously in manufacturing popular jet model by fortifying strategic partnership with international companies such as Boeing, Airbus and Rolls-Royce.

1.4.2.2 Long Run: Integrate competitive edge of Taiwan suppliers, provide assistance to upgrade the supply chain performance, attain balanced growth in metal and composites businesses, and enhance competitiveness of regional aerospace industry.

1.4.3 Industrial Technology Service Business

1.4.3.1 Short Run: further development of green engineering business and flight service of atmospheric testing and measurement for the prevention of disasters.

1.4.3.2 Long Run: extend the application of aviation technology to support the development of national strategic industries and the demand of the large-scale engineering and industrial upgrading of the private sector, and assist the development of related industries and services.

2. Market and Industry Outlook

2.1 Market Analysis

2.1.1 The Regions and Targets of Sales (Supply) of Premium Products (Services):

Product Category	Area	Customers
Defense	Domestic	Ministry of National Defense, Ministry of Interior, National Chung-Sahn Institute of Science and Technology.
Commercial aviation	Foreign	Manufacturing of aircraft body: Aerospace manufacturing giant firms in Europe, America, and Japan, such as Boeing, Airbus, Bombardier, Bell Helicopter, Sikorsky, Leonardo, Spirit, and Mitsubishi. Engines: Engine manufacturing giant firms in Europe and America, such as GE, Rolls-Royce, Safran, Pratt & Whitney, and Honeywell.
Industrial Technology Service	Domestic	National Aerospace Center, Taiwan Railway Corporation, Taipei Rapid Transit Corporation, Tung's Taichung MetroHarbor Hospital, Central Weather Bureau.
	Foreign	Bangkok rapid transit system in Thailand, The MTR Corporation Limited in Hong Kong.

2.1.2 Market Share

2.1.2.1 Defense Business

AIDC has the capacity in full-range logistics support service of AT-3 and IDF and the advantage of the maintenance of the aforementioned aircrafts and engines, performance upgrade, and fleet maintenance. In addition, the advocacy of the Ministry of National Defense for outsourcing private contractors for the maintenance of different types of military aircraft and the government-owned and contract-operated military industry plants makes AIDC an indispensable supplier.

2.1.2.2 Commercial Aviation Business

AIDC has emerged as a strategic partner of major aerospace industrial firms of the world and is the leader of aerospace industry of Taiwan. AIDC has already been accredited for different parts and components in the aerospace industry and has good experience in international cooperation and mainly secure the contracts of renowned international giant firms. The international market is so big that the market share is conditioned by the sales of products of the giant firms. As such, there is no information on the market share of the parts and components in the aerospace industry available for reference.

2.1.2.3 Industrial Technology Service

AIDC provides industrial technology service on the foundation of aerospace technology, and expands and applies the technology to tracks, automobile electronics, energy technology, and aviation service. However, the income from this business only occupies a small portion of the revenue. As such, the shares in respective markets have not been estimated.

2.1.3 The Supply and Demand in the Market and Growth in the Future

2.1.3.1 Defense Business

In view of the existing service and future combat requirements for jet fighters of the ROC Air Force, in order to maintain combat power and improve aircraft availability, requirements for replacement and upgrade are growing. As such, AIDC has the opportunity for growth in the supply of weapon systems for the armed forces, the maintenance of different types of military aircraft, and the government-owned, contractor-operated business.

2.1.3.2 Commercial aviation Business

The global aerospace industry has strong business opportunities for the next 20 years, though affected by factors such as, unstable world political and economic situation, low oil prices and aircraft replacement. Due to the fact that most of the new airplanes orders are placed in advance, the backlog of 5000 to 6000 airplanes are expected to sustain the growth in steady level.

2.1.3.3 Industrial Technology Service Business

For environmental protection, the government makes positive effort in the advocacy of green energy technology and circular economy. As such, green engineering has the opportunity for further growth. The economic booming in the Southeast Asia drives more public installations and transportation facilities. There is the opportunity for the growth of the mechatronics business.

2.1.4 Competitive Edge

2.1.4.1 Defense Business

AIDC has the capacity in integrated design, manufacturing and logistics support in maintenance of the whole aircraft, and can help to extend the life span, upgrade the performance, commercial maintenance of military aircrafts, and the GOCO business.

2.1.4.2 Commercial aviation Business

The years of joint venture with international giant firms enabled AIDC to establish world-class engineering design capacity in body structure, advanced composite materials, and avionics for commercial aircraft, and support the needs in the development of various business areas with flexible design of production process.

AIDC has been accredited the ISO 9001 and AS9100 systems and the quality accreditation system of Boeing, Airbus, Bombardier, Sikorsky and Bell, and has developed positive partnership with the aforementioned aerospace giant firms.

In the area of aircraft engine, the manufacturing technology capacity of engine case of AIDC has been recognized by the international aircraft engines giant firms, and AIDC has been accredited the quality accreditation system of the area of aircraft engine as well. Currently, AIDC mainly manufactures engine cases, and is engaged in essential partnership with the top 5 engine manufacturers including GE, Honeywell, Pratt & Whitney, Rolls-Royce of the UK, and Snecma.

2.1.4.3 Industrial Technology Service Business

AIDC has large-scale aviation system development experience, possesses mature technology and capability in engineering integration, testing and manufacturing.

2.1.5 Factors Favorable and Unfavorable for Development and the Response

2.1.5.1 Favorable Factors

A. Taiwan government has designated five innovative industries as the driving force of the next generation. Defense industry being one of the five is expected to lead the investment of the industry.

B. Among the strong demand from the emerging markets, Asia-Pacific region contributes the most, with a 40% of the total global demand. AIDC has been dedicated in the aerospace industry and successfully entered the global aerospace supply chain, along with Taiwan's position as a regional hub of Asia-Pacific, which is conducive to the business growth.

2.1.5.2 Unfavorable Factors and Response

A. The cost reduction demands from international companies have grown into a huge pressure. Whether it is Boeing's or Airbus's supplier strategy, they all tend to bind new business opportunity with cost reduction negotiation.

Response

AIDC will upgrade and refine the core competence of research and development, design and manufacturing process, and adopt lean production to enhance technology added value, reduce cost, and improve competitiveness.

In addition, AIDC will keep abreast of the dynamics and development trend of the industry, integrate the edge of Taiwan Aerospace Industry A-Team 4.0 alliance, provide assistance to upgrade supply chain level, establish a long-term and stable cooperation relationship with collaborative partners, enhance competitiveness of regional aerospace industry, pursue higher position in the global aviation supply chain, and reduce the risk of cutthroat price competition from global suppliers.

B. Technology advanced countries adopted highly automated and intelligent machinery to enhance production efficiency; on the other hand, the newly emerging countries established low-cost aerospace clusters with government support. Both have unfavorable impacts on business development of AIDC.

Response

AIDC has implemented Industry 4.0 to develop iAIDC intelligent manufacturing platform, and via robots, internet of things, big data and CPS technologies to consolidate digital manufacturing and intelligent management, upgrade production efficiency and enhanced competitive power.

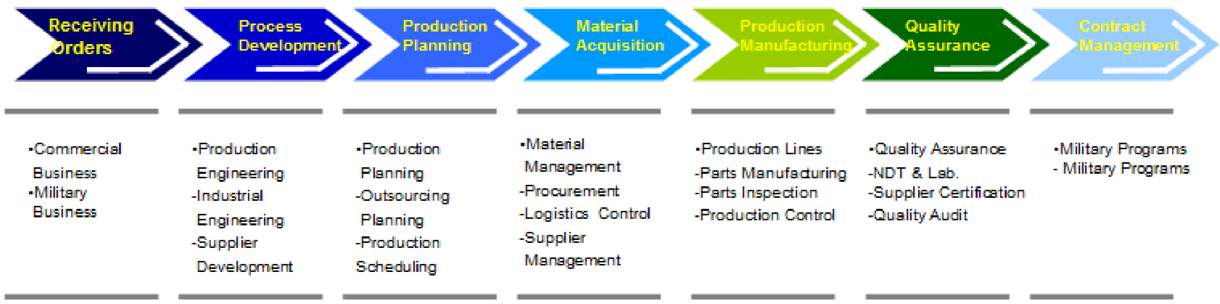
2.2 The Primary Purpose of Main Products and the Production Process

2.2.1 Primary Purpose

Product Category	Purpose
Maintenance of Airplanes and Vehicles	Defense, combat training, commercial aircraft, commercial helicopters, aircraft aviation control/navigation/monitoring, maintain normal operation/function of aircrafts/engines/avionics within the life span.
Engines	Engine for aircrafts, industrial use engines.
Industrial	Large-scale engineering system is applicable to national infrastructure, aerospace

Product Category	Purpose
Technology Services	technology is applicable to the research and manufacturing of high value-added industry and common household products/technology services to upgrade the industrial level of Taiwan.

2.2.2 Production Process



2.3 The Supply of Key Materials

AIDC is an aerospace manufacturer and relies on qualified suppliers designated by the customers in the supply of direct materials given its specific nature. The materials include the materials for the manufacturing of aircraft body structure, engines and chemical substances (including composite materials). For securing better terms and conditions of supply, AIDC usually entered into long-term contracts with the suppliers in line with the needs of the customers. The supply of key materials is shown in the table below:

Name of key material	Supplier	Status of supply
Metals	AMS BRALCO TMX TW Metals FUTURE	The key suppliers of aluminum, steel, titanium plate, sheet, tube, rod, and molded forms of metals in market.
Non-metals	HEXCEL TORAY LUBAIR PPG EURO	The key suppliers of composite materials, rubber, paints, and cell devices in market.
Standard metal parts	RBC ARCONIC WESCO KLX PEERLESS	The key suppliers of standard metal parts, electronic parts.
Finished items and non-standardized parts	S.F.C. PCC M.I.I. L.M.O.C.	As per the request of the customers.

2.4 The Names of the Customers Each Accounted for More than 10% of the Purchase (Sales) and the Amount and Proportion of Purchase (Sales) in any of the Last 2 Years, and the Reasons for the Changes. Use Code Names for Customer Name and Counterparty Required by the Agreements to Keep Confidential and these Parties are not Related Parties to AIDC.

2.4.1 The List of Customers Each Accounted for More than 10% of the Net Purchase in the Last 2 Years:

AIDC did not have any particular supplier that accounted for more than 10% of the net purchase in 2017, therefore the chart below only listed the information of 2018.

Item	2017				2018				1/1/2019~3/31/2019			
	Customer	Amount	% of 2017 Total Net Revenue	Relation to AIDC	Customer	Amount	% of 2018 Total Net Revenue	Relation to AIDC	Customer	Amount	% of Q1 of 2019 Net Revenue	Relation to AIDC
1	-	-	-	-	A	1,220,695	11.42	None	A	Note 2	Note 2	Note 2
	Others	-	-	-	Others	10,220,506	88.58		Others	Note 2	Note 2	Note 2
	Net Revenue	-	-	-	Net Revenue	11,651,201	100.00		Net Revenue	Note 2	Note 2	Note 2

Note 1: AIDC is in good relationship with the aforementioned major supplier and there has been no significant change.

Note 2: Financial information for Q1 of FY 2019 has not been audited by the CPA up to the date of printing of this annual report, therefore it is not disclosed.

2.4.2 The List of Customers Each Accounted for More than 10% of the Net Sales in the Last 2 Years:

Unit：NT$ thousands; %

Item	2017				2018				1/1/2019~3/31/2019			
	Customer	Amount	% of 2017 Total Net Revenue	Relation to AIDC	Customer	Amount	% of 2018 Total Net Revenue	Relation to AIDC	Customer	Amount	% of Q1 of 2019 Net Revenue	Relation to AIDC
1	A	14,390,052	52.26	None	A	12,000,069	42.58	None	A	Note 3	Note 3	Note3
2	B	3,803,466	13.81	None	B	5,428,577	19.26	None	B	Note 3	Note 3	Note3
	Others	9,343,896	33.93		Others	10,753,452	38.16		Others	Note 3	Note 3	Note3
	Net Revenue	27,537,414	100.00		Net Revenue	28,182,098	100.00		Net Revenue	Note 3	Note 3	Note3

Note 1: AIDC is in good relationship with the aforementioned 2 major customers and there has been no significant change in the last 2 years.

Note 2: The aforementioned financial information for FY 2017 and FY 2018 is based on the audited figures under IFRSs.

Note 3: Financial information for Q1 of FY 2019 has not been audited by the CPA up to the date of printing of this annual report, therefore it is not disclosed.

2.5 Production Volume and Value in the Last 2 Years:

Unit：NT$ thousands

Year / Val. & Vol. / Product	2017			2018		
	Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value
Maintenance of Airplanes and Vehicles	—	—	14,111,330	—	—	14,116,344
Engines	—	—	8,114,205	—	—	9,739,209
Industrial Technology Services	—	—	284,110	—	—	367,675
Total	—	—	22,509,645	—	—	24,223,228

Note 1: The items for delivery included self-made parts, spare parts, support equipment, documents, software, and technology service. The nature of the business is made-to-order and there are no standard items therefore the estimation of production capacity and volume is not available.

Note 2: The items of engines for delivery including spare parts, service, and OEM order for commercial engines of foreign countries.

Note 3: The financial information of FY 2017 and 2018 are based on the audited figures under IFRSs.

2.6 The Sales Value and Volume in the Last 2 Years:

Unit：NT$ thousands

Year / Val. & Vol. / Product	2017				2018			
	Domestic		Foreign		Domestic		Foreign	
	Qty	Amount	Qty	Amount	Qty	Amount	Qty	Amount
Maintenance of Airplanes and Vehicles	—	12,577,561	—	5,171,850	—	8,726,509	—	7,238,061
Engines	—	2,456,929	—	6,959,889	—	2,885,574	—	8,932,811
Industrial Technology Services	—	299,353	—	71,832	—	352,148	—	46,995
Total	—	15,333,843	—	12,203,571	—	11,964,231	—	16,217,867

Note 1: The items for delivery included self-made parts, spare parts, support equipment, documents, software, and technology service. The nature of the business is made-to-order and there are no standard items therefore the estimation of production capacity and volume is not available.

Note 2: The items of engines for delivery including spare parts, service, and OEM order for commercial engines of foreign countries.

Note 3: The financial information of FY 2017 and FY2018 are based on the audited figures under IFRSs.

3. Employee Profiles in the Last 2 Years to the Date this Report was Printed

Year		2017	2018	1/1/2019~ 3/31/2019
	Level I Executives and higher	25	27	22
	Others	4953	4988	5038
	Total	4978	5015	5060
Average Age (years)		45.6	45.6	45.6
Average Years of Service (years)		12.5	13.1	13.1
Education	Ph.D.	0.52%	0.52%	0.55%
	Master’s	17.12%	17.75%	18.12%
	Bachelor’s	34.21%	36.67%	37.71%
	Other Higher Education	24.11%	22.83%	22.09%
	High School	23.64%	21.89%	21.21%
	Junior High and below	0.40%	0.34%	0.32%

Note: Chairman, President and 7 directors are not included.

4. Information on Expenditures for Environmental Protection

In the last 2 years up to the fourth quarter of 2018, the loss incurred from pollution to the environment and the total amount of penalty, with disclosure of the plan to tackle with the pollution problem and the possible expenditures:

4.1 There has been no loss or penalty incurred from pollution to the environment in the last 2 years.

4.2 In 2012, the groundwater under Taichung Complex site was found contaminated. AIDC then installed the monitoring well inside and outside the Complex to monitor the quality of groundwater, commissioned a professional firm to conduct a detailed investigation within the area of pollution, and prepared an effective plan to remediate the pollution issue for the Authority’s approval. The Environmental Protection Bureau of Taichung approved the “Taichung Complex Site No. 1 Groundwater Pollution Cleanup Plan” on June 26, 2013. This plan will cost NT$ 260.84 million and the remediation project is expected to be completed in October 2018. The current progress is as follows:

4.2.1 The Environmental Protection Bureau of Taichung has approved the “AIDC Taichung Complex Site No. 1 Groundwater Pollution Cleanup Plan” and self-certificated plan for recordation on March 13, 2018.

4.2.2 The Environmental Protection Bureau of Taichung has approved the "Completion of Improvement Report of AIDC Taichung Complex Site No. 1 Groundwater Pollution Cleanup Plan " and self-certificated plan for recordation on December 5, 2018.

4.2.3 AIDC submitted a request to Environmental Protection Bureau of Taichung on December 7, 2018 for approval of implementing the improvement verification procedure, and received the official approval for implementation on December 17, 2018.

5. Labor-Management Relation

5.1 Specify the Welfare Policy, Continuing Education, Training, and Retirement Systems and the Status of Implementation, Labor-management Coordination and the Measures for the Protection of the Rights and Privileges of the Employees

5.1.1 Welfare Policy of the Company

5.1.1.1 Welfare Policy: Provide all employees with labor insurance, national health insurance and accident insurance with NT$4 million insured. General physical examination for all employees and special physical examination for employees engaged in special duties. Prices and awards are also offered.

5.1.1.2 Employee Welfare Committee: AIDC has established the Employee Welfare Committee in accordance with the Employee Welfare Fund Statue for coordination of all fringe benefits for the employees, supervise and advocate all group activities with subsidy. In addition, an annual budget has been prepared for the planning of welfare to subsidize employees in matrimony, funeral, sickness, maternity and paternity. Gifts were also granted on birthdays and festivities. Recreational activities, parent-children events, and group activities were organized for the employees as well.

5.1.1.3 Psychological health care has also been an essential policy of AIDC:

The Company has established the Employee Assistance System (EAS) operating through Employee Assistance Center. The EAS integrates the resources of labor safety, human resources, psychological counseling, employee welfare and community to form a network of care. It provides timely aid to the employees by funding assistance for hospitalization, concern for the decease of employees and families, medical expenses and major disasters. It also helps to launch the Employee Assistance Programs (EAPs), including: office observers program, individual and family consultation assistance, project for balancing work and living, psychological health assessment, assistance for employees in sickness and injury and group support, care for new employees, care for the employees at retirement, mindfulness-based stress reduction and weight loss project.

The Company has launched office observers program which provide the training and and promote the EAS actively to strengthen employees and family care with the Care Workers Volunteer Team and the Unit Care System. It also actively promotes staff to assist in the systemic care mechanism, with a personalized and group-based staff assistance program to provide staff and is a body and mind health care information and resources, strengthen employee and family care and support services, improve employees' physical and mental health and reduce unsafe behavior, avoid human error, reduce the risk and cost of health hazards, improve mental health and workplace safety.

The Company applies its human resources to fulfilling corporate social responsibility, efforts of which include; holding social care activities through its volunteer group, supporting social welfare and care for remote area education, government and charity groups activities, providing volunteer service opportunity to retired employees to enrich their value of life, promoting good deed and helping the weak; encouraging employees to make donations; and providing direct/indirect assistance to the operation of the disadvantaged group. In view of its outstanding services, the Company was honored with "2018 national award for outstanding enterprise volunteer group"by the Ministry of Health and

Welfare.

5.1.1.4 The Regulation and Operation of the Committee Against Sexual Harassment: AIDC has instituted the guideline for filing complaints and punishment of sexual harassment at workplace, and has established a Sexual Harassment Complaints Committee in 2002 for the prevention of sexual harassment with positive effort.

5.1.1.5 Compliant Response Committee: AIDC has instituted the regulation governing complaints from the employees. This committee seeks to protect the legitimate rights of the employees and respond to the complaints thereof. This function helps to improve labor-management relation.

5.1.1.6 Creation of a Friendly and LOHAS Workplace:

AIDC highly treasures the value and spirit of human right and equality of both sexes, and makes proactive effort in materializing such rights through its internal code for nurturing an environment of sexual equality. In addition, AIDC also employs social misfortunes and pursue safety and health management at workplace, bolster consensus and identification as a team, motivate the employees and enhance work efficiency for the creation of a workplace preferred by all employees. Our great effort has received recognition by Taichung City government and was awarded the “Happy Workplace Three-Star Award” in 2018.

5.1.1.7 Building up a Parent-Friendly Environment: AIDC encourages marriage and childbearing and is dedicated to providing employees a parent-friendly environment. AIDC offers a variety of parent-focused support -- pregnancy and postpartum care, lactation rooms, parental leave, maternity benefits, and monthly childcare subsidy for a maximum of 2 years. Furthermore, regardless of the gender and work, both male and female employees are eligible to unpaid parental leave.

5.1.2 Employee Training and Continuing Education

To observe the spirit of “Talent Quality-Management System, TTQS” introducted by Workforce Development Agency, Ministry of Labor, AIDC developed its training quality system and established Education & Training Committee and Education & Training Promotion Team to administer internal talent cultivation and employee training.

5.1.2.1 Employee Training: AIDC provides training for the employees through orientation of new employees and on-the-job training. The focus of orientation training is the merge with AIDC culture and understanding of concept, quality and cost, teamwork and the job skills required for all duties at entry level. From day one, new employees have to undergo a 3-6 months training program of general duties and professional duties in line with the probation. The training aims at developing the potential of the new employees to adapt to the new work environment and perform the assigned duties with competence. Current employees will receive internal and external training in line with requirments such as corporate strategic objectives, legal rules, organizational development, business contracts, and employee career development; and that includes business management, lecturer training, lean management, material management, cost management, project management, contract negotiation, business marketing, and other critical management skills, together with engineering development, production and manufacturing, production process, machinery processing, process specification, quality inspection, aircraft maintenance, avionics repair and maintenance, information management,flight engineering, occupational safety and health and related professional training. These skills would be essential to ensure all officers and employees of related business are competent for the duties. The Company continues to promote aerospace industry professional competency plan and has developed the competency models for various professions of the industry. Through competency appraisal to plan for training and application and that will help to upgrade the quality of the work force and competitiveness of the Company. In 2018, AIDC provided 5,415 training courses (excluding online learning courses) with 122,481 person-times participated and that amounted to a total of 363,270 training hours.

5.1.2.2 On-the-job Training: AIDC selects employees of good standing and with high potential to receive domestic and overseas full-time education or part-time education every year, and is engaged in cooperative education program with a number of universities. AIDC also subsidizes and encourages employees to engage in continuing education, participation in the test of foreign language proficiency, and get licensing of relevant technical skills. AIDC spares no effort to encourage employees to engage in lifetime learning, self-development and upgrade of professional standing at all times. In 2018, 77 employees took part in the full-time or part-time education programs and the continuing education subsidized by AIDC; and 48 employees received subsidies for foreign language proficiency and 6 employees for professional certification tests.

5.1.3 Employee Retirement Plan and Implementation

5.1.3.1 Retirement under the Old System

A. According to the "AIDC Employee Retirement, Pension, and Layoff Guideline", the pension for retirement of AIDC employees could be claimed from the account at the Bank of Taiwan.

B. The "Employee Pension Reserve Monitoring Committee" was established pursuant to Article 56 of the Labor Standards Act. The "Employee Pension Reserve Monitoring Committee" was convened on January 25, April 26, July 30 and October 22, 2018 respectively to review and monitor the contribution to pension fund and the balance of pension reserve for the employees.

C. AIDC appoints an actuarial professional to conduct actuarial calculation on the pension fund, and allocates pension expenses for deposit according to the actuarial calculation report on January 4, 2018, at the special pension account at the Bank of Taiwan in compliance with legal requirements (allocation of 2~15%).

5.1.3.2 Retirement under the New System

All employees under the new system are subject to the rules of the "Labor Pension Act" thereby contributing 6% of their monthly salary to their individual special pension accounts at the Labor Insurance Bureau.

5.1.4 Labor-management Agreement and the Pursuit of Policy for the Protection of Labor Rights

5.1.4.1 Labor-management meetings: AIDC management held 6 meetings with Taichung and Gang Shan Labor Unions to discuss and exchange views on topics such as, long-term employment, promotion, flexible working hours, and extension of accrued vacation to ensure the rights of employees are duly protected.

5.1.4.2 AIDC firmly embraces the principle of labor-management harmony and the advocacy of labor-management cooperation thereby spares no effort to cultivate channels for communications with the employees for protecting their rights. In addition, AIDC also holds labor-management meetings pursuant to Article 83 of the Labor Standards Act and the "Regulations Governing Labor-Management Meetings". Corporate labor-management meetings were held in January, April, July and October 2018, and March, June, October and December in Gang Shan.

5.1.4.3 To maintain good labor-management relations, the management hosted dinners with directors and supervisors of Taichung Labor Union, and Gang Shan Labor Union in January and December 2018 respectively.

5.1.4.4 As the collective agreements between the Company and Taichung and Gang Shan labor unions expired on August 20, 2017, 12 negotiations of the new agreements were launched, and the new agreements were signed on May 22, 2018.

5.2 Loss Caused by Labor-management Disputes in the Last 2 years to the Date this Report was Printed

AIDC always treasures labor-management harmony and there has been no significant loss caused by labor-management disputes deriving in the last 2 years to the date this report was printed. It is expected that no significant loss may incur in foreseeable years from labor-management disputes.

6. Major Agreements

Contracting Party	Principal Content
Airbus	Commercial aircraft components and parts manufacturing program
Bell	Helicopter components and parts manufacturing program
Boeing	Commercial aircraft components and parts manufacturing program
Bombardier	Commercial aircraft components and parts manufacturing program
FHI	Commercial aircraft components and parts manufacturing program
GE	Engine parts manufacturing program
GKN	Commercial aircraft components and parts manufacturing program
Honeywell	Engine parts manufacturing program
KHI	Commercial aircraft components and parts manufacturing program
Latecoere	Commercial aircraft components and parts manufacturing program
Leonardo	Commercial aircraft components and parts manufacturing program
MITAC	Commercial aircraft components and parts manufacturing program
PFW	Commercial aircraft components and parts manufacturing program
Pratt & Whitney	Engine parts manufacturing program
Rohr, Inc	Commercial aircraft components and parts manufacturing program
Rolls-Royce	Engine parts manufacturing program
Sikorsky	Helicopter components and parts manufacturing program
Spirit	Commercial aircraft components and parts manufacturing program
Ministry of National Defense R.O.C.	GOCO program for 11th Maintenance & Supply Group IDF Modification and Maintenance Programs
NCSICT	Advanced Jet Trainer Program

VI. Financial Position

1. Concise Financial Statement Covering the Last 5 Years

1.1 Concise Balance Sheet and Comprehensive Income Statement- IFRSs

1.1.1 Consolidated Concise Balance Sheet:

Unit：NT$ thousands

Title \ Fiscal Year		Financial Information Covering the Last 5 Years					
		2014	2015	2016	2017	2018	2019 Q1
Current Assets		–	–	20,455,490	23,111,931	29,014,820	Note 4
Real Properties, Plants, and Equipment		–	–	8,244,072	8,718,654	8,352,719	Note 4
Intangible Assets		–	–	734,805	1,000,404	867,785	Note 4
Other Assets (Note 5)		–	–	1,590,633	921,892	1,584,230	Note 4
Total Assets		–	–	31,025,000	33,752,881	39,819,554	Note 4
Current Liabilities	Cum-dividend	–	–	16,499,889	15,508,917	21,805,607	Note 4
	Ex-dividend	–	–	17,408,151	16,573,227	Note 3	Note 4
Non-current Liabilities		–	–	2,164,672	5,140,922	3,880,330	Note 4
Total Liabilities	Cum-dividend	–	–	18,664,561	20,649,839	25,685,937	Note 4
	Ex-dividend	–	–	19,572,823	21,714,149	Note 3	Note 4
Shareholders' Equity Attributable to the Parent Company		–	–	12,360,439	13,103,042	14,133,617	Note 4
Capital Stock		–	–	9,082,615	9,418,671	9,418,671	Note 4
Capital Surplus		–	–	–	–	–	Note 4
Retained Earnings	Cum-dividend	–	–	3,257,799	3,716,543	4,706,032	Note 4
	Ex-dividend	–	–	2,013,481	2,652,233	Note 3	Note 4
Other Equity		–	–	20,025	(32,172)	8,914	Note 4
Treasury Stock		–	–	–	–	–	Note 4
Uncontrolled Equity		–	–	–	–	–	Note 4
Total Equity	Cum-dividend		–	12,360,439	13,103,042	14,133,617	Note 4
	Ex-dividend		–	11,452,177	12,038,732	Note 3	Note 4

Note 1: The basis for FY 2016 to FY 2018 is audited figures under IFRSs.

Note 2: AIDC is not required to prepare consolidated financial statements for FY 2014 and FY 2015, FY 2016 is the first-time consolidated financial statements.

Note 3: Up to the date of the printing of this annual report, proposal for distribution of earnings for FY 2018 has not been resolved by the shareholders' meeting.

Note 4: Up to the date of the printing of this annual report, the first quarter of FY 2019 has not been audited by the CPA.

Note 5: Other assets include fair value through other comprehensive income noncurrent financial assets, noncurrent financial assets at cost, investment accounted for under the equity method, deferred income tax assets, prepayments for equipment, other noncurrent financial assets and other noncurrent assets.

1.1.2 Concise Individual Company Balance Sheet:

Title \ Fiscal Year	Financial Information Covering the Last 5 Years				
	2014	2015	2016	2017	2018
Current Assets	18,942,251	21,185,744	20,440,224	23,098,583	28,977,692
Real Properties, Plants, and Equipment	4,853,536	5,713,002	8,242,666	8,717,619	8,351,958
Intangible Assets	339,894	412,054	734,805	1,000,404	867,785
Other Assets (Note 5)	1,190,419	1,393,382	1,606,922	900,628	1,602,010

Title \ Fiscal Year		Financial Information Covering the Last 5 Years				
		2014	2015	2016	2017	2018
Total Assets		25,326,100	28,704,182	31,024,617	33,717,234	39,799,445
Current Liabilities	Cum-dividend	12,932,282	13,765,578	16,499,622	15,473,314	21,785,498
	Ex-dividend	13,767,883	15,000,814	17,407,884	16,537,624	Note 4
Non-current Liabilities		2,100,316	3,412,009	2,164,556	5,140,878	3,880,330
Total Liabilities	Cum-dividend	15,032,598	17,177,587	18,664,178	20,614,192	25,665,828
	Ex-dividend	15,868,199	18,412,823	19,572,440	21,678,502	Note 4
Shareholders' Equity Attributable to the Parent Company		10,293,502	11,526,595	12,360,439	13,103,042	14,133,617
Capital Stock		9,082,615	9,082,615	9,082,615	9,418,671	9,418,671
Capital Surplus		—	—	—	—	—
Retained Earnings	Cum-dividend	1,199,633	2,413,365	3,257,799	3,716,543	4,706,032
	Ex-dividend	364,032	1,178,129	2,013,481	2,652,233	Note 4
Other Equity		11,254	30,615	20,025	(32,172)	8,914
Treasury Stock		—	—	—	—	—
Uncontrolled Equity		—	—	—	—	—
Total Equity	Cum-dividend	10,293,502	11,526,595	12,360,439	13,103,042	14,133,617
	Ex-dividend	9,457,901	10,291,359	11,452,177	12,038,732	Note 4

Note 1: The figures for FY 2014 to FY 2018 are audited under IFRSs.

Note 2: Aforementioned figures for FY 2014-2015 are based on AIDC financial statement, figures for FY 2016-2018 are based on AIDC and subsidiary financial statement.

Note 3: Proposal for distribution of earnings for FY 2017 has been resolved by the shareholders' meeting on June 26, 2018.

Note 4: Up to the date of the printing of this annual report, proposal for distribution of earnings for FY 2018 has not been resolved by the shareholders' meeting.

Note 5: Other assets include fair value through other comprehensive income noncurrent financial assets, noncurrent financial assets at cost, investment accounted for under the equity method, deferred income tax assets, prepayments for equipment, other noncurrent financial assets and other noncurrent assets.

1.1.3 Consolidated Concise Comprehensive Income Statement:

Unit：NT$ thousands

Title \ Fiscal Year	Financial Information Covering the Last 5 Years					
	2014	2015	2016	2017	2018	2019Q1
Revenue	—	—	27,325,514	27,537,414	28,182,098	Note 3
Gross Profit	—	—	4,115,496	3,900,142	3,639,590	Note 3
Operating Income	—	—	2,725,933	2,769,768	2,346,158	Note 3
Non-operating Income and Expenses	—	—	(131,710)	(490,979)	305,860	Note 3
Earnings before Taxation	—	—	2,594,223	2,278,789	2,652,018	Note 3
Earnings for Continued Operations	—	—	2,082,655	1,747,981	2,092,016	Note 3
Earnings for Discontinued Operations	—	—	—	—	—	Note 3
Earnings in Current Period	—	—	2,082,655	1,747,981	2,092,016	Note 3
Other Incomes in Current Period (after taxation)	—	—	(13,575)	(97,116)	(91,468)	Note 3

Title \ Fiscal Year	Financial Information Covering the Last 5 Years					
	2014	2015	2016	2017	2018	2019Q1
Total Incomes in Current Period	—	—	2,069,080	1,650,865	2,000,548	Note 3
Earnings Attributable to Parent Shareholders	—	—	2,082,655	1,747,981	2,092,016	Note 3
Earnings Attributable to Uncontrolled Equity	—	—	—	—	—	Note 3
Total Comprehensive Incomes Attributable to Parent Shareholders	—	—	2,069,080	1,650,865	2,000,548	Note 3
Total Comprehensive Incomes Attributable to Uncontrolled Equity	—	—	—	—	—	Note 3
Earnings per Share (NTD) (Note 4)	—	—	2.21	1.86	2.22	Note 3

Note 1: The information for FY 2016 to FY 2018 are the audited figures under IFRSs.

Note 2: AIDC is not required to prepare consolidated financial statements for FY 2014 and FY 2015. FY 2016 is the first-time consolidated financial statements.

Note 3: Up to the date of printing of this annual report, information of Q1 of FY 2019 has not been audited by the CPA, therefore it is not disclosed.

Note 4: Per IAS 33, earnings per share is subject to retroactive adjustment based on the proportion of capital increase out of earnings for all periods presented.

1.1.4 Concise Individual Company Comprehensive Income Statement:

Unit：NT$ thousands

Title \ Fiscal Year	Financial Information Covering the Last 5 Years				
	2014	2015	2016	2017	2018
Revenue	24,924,039	26,878,156	27,325,514	27,537,414	28,156,144
Gross Profit	2,765,133	3,251,707	4,115,496	3,887,062	3,596,641
Operating Income	1,454,433	2,153,717	2,725,542	2,769,621	2,340,133
Non-operating Income and Expenses	384,173	328,567	(131,475)	(568,342)	267,966
Earnings before Taxation	1,838,606	2,482,284	2,594,067	2,201,279	2,608,099
Earnings for Continued Operations	1,871,503	2,029,169	2,082,655	1,747,981	2,092,016
Earnings for Discontinued Operations	—	—	—	—	—
Earnings in Current Period	1,871,503	2,029,169	2,082,655	1,747,981	2,092,016
Other Incomes in Current Period (after taxation)	22,900	39,525	(13,575)	(97,116)	(91,468)
Total Incomes in Current Period	1,894,403	2,068,694	2,069,080	1,650,865	2,000,548
Earnings Attributable to Parent Shareholders	1,871,503	2,029,169	2,082,655	1,747,981	2,092,016
Earnings Attributable to Uncontrolled Equity	—	—	—	—	—
Total Comprehensive Incomes Attributable to Parent Shareholders	1,894,403	2,068,694	2,069,080	1,650,865	2,000,548
Total Comprehensive Incomes Attributable to Uncontrolled Equity	—	—	—	—	—
Earnings per Share (NTD) (Note3)	1.99	2.15	2.21	1.86	2.22

Note 1: The figures for FY 2014-2018 are audited under IFRSs.

Note 2: Aforementioned figures for FY 2014-2015 are based on AIDC financial statement, figures for FY 2016-2018 are based on AIDC and subsidiary financial statement.

Note 3: Per IAS 33, earnings per share is subject to retroactive adjustment based on the proportion of capital increase out of earnings for all periods presented.

1.1.5 Notes to the Variation of the Audited Financial Figures and the Financial Figures Approved by NAO

1.1.5.1 AIDC is still a state-owned enterprise which requires its accounting and financial statements to be prepared in accordance with the Criteria for the Compilation of Financial Statements by Securities Issuers, Commercial Accounting Act, Regulation on Business Entity Accounting Handling, and the ROC GAAP. Where the Executive Yuan, Ministry of Economic Affairs, and the National Audit Office may promulgate different regulations governing the accounting of state-owned enterprises, comply accordingly. Account settlement of each fiscal year shall be subject to the review of the Executive Yuan and the National Audit Office of the Control Yuan. The aforementioned review includes the review of AIDC on the execution of the budget passed by the Legislative Yuan. The accounts of AIDC shall be confirmed only after the review. As of 2012, the journal books of AIDC have been subjected to the review of the Executive Yuan and National Audit Office of the Control Yuan, which was based on the ROC GAAP before the application of IFRSs. Related adjustment has been made and the accounts were updated accordingly.

1.1.5.2 AIDC compiled its financial statement under IFRSs since 2013 in compliance with the "Introduction of IFRSs to State-Owned Enterprises Implementation Scheme" established by the Executive Yuan. The financial report of FY2013 was the very first financial report prepared in accordance with the IFRSs, and has been reviewed by the Executive Yuan and the National Audit Office of the Control Yuan. Related adjustments and accounts update have been made as per their instructions. The financial statements covering FY 2013 were prepared in accordance with the IFRSs and reviewed by NAO. The financial statements covering FY 2014 were prepared in accordance with IFRSs and audited accordingly.

1.1.5.3 AIDC was a state-owned enterprise under the Ministry of Economic Affairs and became a private owned corporate on August 21, 2014. The financial statements prepared before privatization were based on the figures audited by NAO and Executive Yuan. After privatization, the financial figures audited by independent accountants and the figures approved by NAO are congruent.

1.2 Materiality that may Affect the Consistency of the Aforementioned Condensed Financial Statements in Comparison, such as Change in Accounting Policy, Corporate Merger, or Discontinuation of Specific Operation Segments, and the Effect on the Financial Statement of Relevant Period: None.

2. Names of External Auditors and Their Opinions in the Last 5 Years

2.1 External Auditors and Their Audit Opinions in the Last 5 Years

Year	Accounting Firm	Name of CPA	Audit Opinion
2014	Deloitte & Touche	Done-Yuin Tseng, Ted Cheng	Modified Unqualified Opinions
2015	Deloitte & Touche	Done-Yuin Tseng, Ted Cheng	Unqualified Opinions
2016	Deloitte & Touche	Done-Yuin Tseng, Ted Cheng	Unqualified Opinions

Year	Accounting Firm	Name of CPA	Audit Opinion
2017	Deloitte & Touche	Lie-Dong Wu, Done-Yuin Tseng	Unqualified Opinions
2018	Deloitte & Touche	Lie-Dong Wu, Done-Yuin Tseng	Unqualified Opinions

2.2 If there is a Replacement of the External Auditors in the Last 5 Years, Explanation of the Replacement by the Company, the Former and the Current External Auditors

The replacement of external auditors in 2017 was the result of the internal rotation of duties of the CPA firm.

2.3 If a domestic company has been going public for 7 consecutive years, or a foreign company has been public for 7 consecutive years but the financial statements were audited by the same certified public accountant, explain why there is no replacement of the certified public accountant, the independence of the certified public accountant currently in service, and substantive measures taken by the Company to bolster the independent position of the certified public accountant.: None.

3. Financial Analysis in the Last 5 Years

3.1 Comprehensive Analysis of the Consolidated Financial Data of the Last 5 Years –IFRSs:

Title \ Fiscal Year		Financial Analysis Covering the Last 5 Years					2019Q1
		2014	2015	2016	2017	2018	
Financial Structure (%)	Liabilities to Assets Ratio	—	—	60.15	61.17	64.50	Note 3
	Long-term Capital to Property, Plant, and Equipment Ratio	—	—	159.00	195.88	203.18	Note 3
Ability to Pay Debt (%)	Current Ratio	—	—	123.97	149.02	133.06	Note 3
	Quick Ratio	—	—	61.94	69.48	75.27	Note 3
	Debt Service Coverage Ratio	—	—	21.37	20.17	20.89	Note 3
Utility	A/C Turnover Rate (times)	—	—	3.85	3.22	2.25	Note 3
	Average Daily Cash Receipt	—	—	94.80	113.35	162.22	Note 3
	Inventory Turnover Rate (times)	—	—	2.26	2.54	2.74	Note 3
	A/P Turnover Ratio (times)	—	—	16.22	15.69	12.63	Note 3
	Average Days of Sales	—	—	161.50	143.70	133.21	Note 3
	Property, Plant and Equipment Turnover Rate (times)	—	—	3.91	3.24	3.30	Note 3
	Total Assets Turnover Rate (times)	—	—	0.91	0.85	0.76	Note 3
Profitability	Return on Assets	—	—	7.32	5.70	5.97	Note 3

Title	Fiscal Year	Financial Analysis Covering the Last 5 Years					2019Q1
		2014	2015	2016	2017	2018	
	(%)						
	Return on Equity (%)	—	—	17.43	13.72	15.36	Note 3
	EBT to Paid-in Capital Ratio (%)	—	—	28.56	24.19	28.15	Note 3
	Net Profit Rate (%)	—	—	7.62	6.34	7.42	Note 3
	EPS (NTD)(Note 4)	—	—	2.21	1.86	2.22	Note 3
Cash Flow	Cash Flow Ratio (%)	—	—	27.47	6.64	—	Note 3
	Cash Flow Suitability Ratio (%)	—	—	119.13	85.39	59.77	Note 3
	Cash Reinvestment Ratio (%)	—	—	13.02	0.41	—	Note 3
Leverage	Operation Leverage	—	—	1.52	1.45	1.56	Note 3
	Financial Leverage	—	—	1.04	1.04	1.06	Note 3

Reasons for Changes in the Items of Financial Analysis in the Last 2 Years (if the change falls below 20%, no analysis is necessary):

1. Decrease in receivables turnover rate and increase in average days of cash receipt of FY 2018 are due to the increase in revenue of FY2018 and customer order mainly occured in December which cause the increase in accounts receivable.
2. Cash flow ratio and cash reinvestment ratio: mainly because of the increase in revenue of FY 2018, customer order placement mostly in December, and the prepayments for execution of defense business which lead to net cash flow from operating activities in current period.
3. Cash flow suitability ratio of FY 2018 drops because of decrease in net cash flow from operating activities and increase in capital expenditure and cash dividend in the last 5 years.

Note 1: The figures for FY 2016-2018 are the audited figures under IFRSs.

Note 2: AIDC is not required to prepare consolidated financial statements for FY 2014- 2015. FY 2016 is the first-time consolidated financial statements.

Note 3: Up to the publication of this annual report, Q1 2019 financial statements have not been audited by the CPA, therefore it is not disclosed.

Note 4: Per IAS 33, earnings per share is subject to retroactive adjustment based on the proportion of capital increase out of earnings for all periods presented.

Note 5:The equation for calculation in this sheet:

1. Financial structure
   (1) Liabilities to assets ratio = total liabilities / total assets
   (2) Long-term capital to property, plant and equipment ratio = (total equity + non-current liabilities) /net property, plant, and equipment
2. Ability to pay debt
   (1) Current ratio = current assets/ current liabilities
   (2) Quick ratio = (current assets – inventory – prepaid expenses)/ current liabilities
   (3) Debt service coverage ratio = EBIT/ interest expenses in current period
3. Utility
   (1) Receivables (including accounts receivable and note receivable deriving from business operation) turnover rate = net sales/ average receivables (including accounts receivable and notes receivable deriving from business operation) in relevant periods.
   (2) Average days of cash receipt = 365/account receivable turnover rate
   (3) Inventory turnover rate = cost of sales/ average inventory
   (4) Payables (including accounts payable and notes payable deriving from business operation) turnover rate = cost of sales/ balance of average payables (including accounts payabls and notes payable deriving from business operation) in relevant periods.
   (5) Average days of sales = 365 / inventory turnover rate
   (6) Property, plant and equipment turnover rate = net sales / average net property, plant, and equipment
   (7) Total assets turnover = net sales / average total assets
4. Profitability
   (1) Return on assets = [Earnings (loss) net + interest expense x (1-tax rate)]/average total assets
   (2) Return on equity = Earnings (loss) net / average total equity
   (3) Net profit rate = Earnings (loss) net / net sales
   (4)Earnings per share = (incomes attributable to parent shareholders' equity – preferred share dividend) /weighted average quantity of outstanding shares (Note 6)
5. Cash flow
   (1)Cash flow ratio = net cash flow from operation / current liabilities

(2) Net cash flow suitability ratio = net cash flow from operation in the last 5 years / (capital expenditure + increase of inventory + cash dividend) in the last 5 years

(3) Cash reinvestment ratio = (net cash flow from operation – cash dividend) / (gross property, plant and equipment + long-term investment + other non-current assets + working capital) (Note 7)

6. Leverage

(1) Operation leverage = (net sales – operating variable cost and expense) / operating income (Note 8)

(2) Financial leverage = operating income / (operating income – interest expenses)

Note 6: On applying the equation for calcuation of the earnings per share, following factors shall be noted:

1. The calculation is based on the weighted average quantity of common shares, not the number of the outstanding issued shares at year end.
2. In the case of capital increased by cash or trade of treasury stock, time of the circulation shall be considered in calculating weighted average shares.
3. In the case of capital increase by earnings recapitalization, on calculating earnings per share for the previous fiscal year and 1/2 fiscal year, the calculation shall be retrospected and adjusted per the ratio of capital increase, not the period of issuance.
4. If the stock is non-convertible cumulative preferred stock, the dividend of the current year (whether distribute or not) shall be deducted from net profit or added to net loss. If the preferred stock is non-cumulative, in the case of net earnings, dividend of the preferred stock shall be deducted from net earnings; no adjustment is required in the case of loss.

Note 7: On cash flow analysis, following factors shall be noted:

1. Net cash flow provided by operating activity refers to the net cash inflow provided by operating activity in the Statement of Cash Flows.
2. Capital expense refers to the cash flow of capital investment each year.
3. Inventory increase shall only be recorded when the amount at the end of the period is greater than that of the beginning of the period; if less, the number 0 shal be recorded.
4. Cash dividend includes cash dividend of common share and preferred share.
5. Gross value of property, plant and equipment refers to the total value of property, plant and equipment before deducting accumulated depreciation.

Note 8: Items of operating cost and operating expense shall be broken into fixed and variable categories. In the event that estimation or subjective judgement is involved, rationality and consistency shall be observed.

3.2 Comprehensive Analysis of the AIDC Individual Company Financial Data of the Last 5 Years —IFRSs:

Title	Fiscal Year	Financial Information Covering the Last 5 Years				
		2014	2015	2016	2017	2018
Financial Structure (%)	Liabilities to Assets Ratio	59.35	59.84	60.15	61.13	64.48
	Long-term Capital to Property, Plant and Equipment Ratio	226.34	235.38	159.03	195.90	203.20
Ability to Pay Debt (%)	Current Ratio	146.47	153.90	123.88	149.28	133.01
	Quick Ratio	68.45	62.27	61.85	69.55	75.17
	Debt Service Coverage Ratio	29.61	19.60	21.37	19.52	20.57
Utility	A/C Turnover Rate (times)	4.81	4.28	3.85	3.22	2.25
	Average Daily Cash Receipt	75.88	85.28	94.80	113.35	162.22
	Inventory Turnover Rate (times)	2.47	2.33	2.26	2.54	2.74
	A/P Turnover Ratio (times)	13.60	16.46	16.22	15.70	12.64
	Average Days of Sales	147.77	156.65	161.50	143.70	133.21
	Property, Plant and Equipment Turnover Rate (times)	5.00	5.08	3.91	3.24	3.29
	Total Assets Turnover Rate (times)	1.06	0.99	0.91	0.85	0.76
Profitability	Return on Assets (%)	8.20	7.92	7.32	5.70	5.98
	Return on Equity (%)	20.02	18.59	17.43	13.72	15.36
	Pre-tax Income to Paid-in Capital Ratio (%)	20.24	27.33	28.56	23.37	27.69
	Net Profit Rate (%)	7.50	7.54	7.62	6.34	7.43
	EPS (NTD)	1.99	2.15	2.21	1.86	2.22
Cash Flow	Cash Flow Ratio (%)	—	17.47	27.47	6.92	—
	Cash Flow Suitability Ratio (%)	132.31	140.02	118.98	85.61	60.01
	Cash Reinvestment Ratio (%)	—	6.38	13.02	0.55	—
Leverage	Operation Leverage	2.27	1.68	1.52	1.45	1.56
	Financial Leverage	1.04	1.06	1.04	1.04	1.06

Reasons for Changes in the Items of Financial Analysis in the Last 2 Years (if the change falls below 20%, no analysis is necessary):

1. Decrease in receivables turnover rate and increase in average days of cash receipt of FY 2018 are due to the increase in revenue of FY2018 and customer order were concentrated in December which cause the increase in accounts receivable.
2. Cash flow ratio and cash reinvestment ratio: mainly because of the increase in revenue of FY 2018, customer order placement mostly in December, and the prepayments for execution of defense business which lead to net cash flow from operating activities in current period.
3. Cash flow suitability ratio of FY 2018 drops because of decrease in net cash flow from operating activities and increase in capital expenditure and cash dividend in the last 5 years.

Note 1: The figures from FY 2014-2018 are audited under IFRSs.

Note 2: Aforementioned figures for FY 2014-2015 are based on AIDC financial statement, figures for 2016-2018 are based on AIDC and subsidiary financial statement.

Note 3: Per IAS 33, earnings per share is subject to retroactive adjustment based on the proportion of capital increase out of earnings for all periods presented.

Note 4:The equation for calculation in this sheet:

1. Financial structure
   (1) Liabilities to assets ratio = total liabilities / total assets
   (2) Long-term capital to property, plant and equipment ratio = (Total equity + non-current liabilities)/ net property, plant and equipment
2. Ability to pay debt
   (1) Current ratio = current assets/ current liabilities
   (2) Quick ratio = (current assets – inventory – prepaid expenses)/ current liabilities
   (3) Debt service coverage ratio = EBIT/ interest expenses in current period
3. Utility
   (1) Receivables (including accounts receivable and notes receivable deriving from business operation) turnover rate = net sales / average receivables (including accounts receivable and notes receivable deriving from business operation) in relevant periods.
   (2) Average days of cash receipt = 365/account receivable turnover rate
   (3) Inventory turnover rate = cost of sales / average inventory
   (4) Payables (including accounts payable and notes payable deriving from business operation) turnover = cost of sales / balance of average payables (including accounts payable and notes payable deriving from business operation) in relevant periods.
   (5) Average days of sales = 365 / inventory turnover rate
   (6) Property, plant and equipment turnover rate = revenue/ average net property, plant and equipment
   (7) Total assets turnover = revenue/ average total assets
4. Profitability
   (1) Return on assets = [Earnings (loss) net + interest expense x (1-tax rate)]/average total assets
   (2) Return on equity = Earnings (loss) net / average total equity
   (3) Net profit rate = Earnings (loss) net / net sales
   (4) Earnings per share = (incomes attributable to parent shareholders' equity – preferred share dividend) / weighted average quantity of outstanding shares (note 5)
5. Cash flow
   (1) Cash flow ratio = net cash flow from operation / current liabilities
   (2) Net cash flow suitability ratio = net cash flow from operation in the last 5 years / (capital expenditure + increase of inventory + cash dividend) in the last 5 years
   (3) Cash reinvestment ratio = (net cash flow from operation – cash dividend) / (gross property, plant and equipment + long-term investment + other non-current assets + working capital) (note 6)
6. Leverage
   (1) Operation leverage = (net sales – change in cost of operation and expense) / operating income (note 6)
   (2) Financial leverage = operating income / (operating income – interest expenses)

Note 5: On applying the equation for calcuation of the earnings per share, following factors shall be noted:

1. The calculation is based on the weighted average quantity of common shares, not the number of the outstanding issued shares at year end.
2. In the case of capital increased by cash or trade of treasury stock, time of the circulation shall be considered in calculating weighted average shares.
3. In the case of capital increase by earnings recapitalization, on calculating earnings per share for the previous fiscal year and 1/2 fiscal year, the calculation shall be retrospected and adjusted per the ratio of capital increase, not the period of issuance.
4. If the stock is non-convertible cumulative preferred stock, the dividend of the current year (whether distribute or not) shall be deducted from net profit or added to net loss. If the preferred stock is non-cumulative, in the case of net earnings, dividend of the preferred stock shall be deducted from net earnings; no adjustment is required in the case of loss.

Note 6: On cash flow analysis, following factors shall be noted:

1. Net cash flow provided by operating activity refers to the net cash inflow provided by operating activity in the Statement of Cash Flows.
2. Capital expense refers to the cash flow of capital investment each year.
3. Inventory increase shall only be recorded when the amount at the end of the period is greater than that of the beginning of the period; if less, the number 0 shal be recorded.
4. Cash dividend includes cash dividend of common share and preferred share.
5. Gross value of property, plant and equipment refers to the total value of property, plant and equipment before deducting accumulated depreciation.

Note 7: Items of operating cost and operating expense shall be broken into fixed and variable categories. In the event that estimation or subjective judgement is involved, rationality and consistency shall be observed.

Note 8: In the case of the Company with shares having non par value or a par value other than NT$10, for the paid-in capital ratio in the calculation mentioned above shall be substituted with incomes attributable to parent shareholders' equity ratio of the balance sheet.

4. Quasi-Audit Committee Review Report on the Financial Statements of Previous Year

Independent Director Review Report

The Board of Directors has prepared the Company's 2018 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of Deloitte & Touche Tohmatsu was retained to audit AIDC's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and profit allocation proposal have been reviewed and determined to be correct and accurate by the independent directors of Aerospace Industrial Development Corporation. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law, We hereby submit this report.

To: Aerospace Industrial Development Corporation
2019 Annual Shareholders' Meeting

Independent Director of Aerospace
Industrial Development Corporation

Date: March 28, 2019

Independent Director Review Report

The Board of Directors has prepared the Company's 2018 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of Deloitte & Touche Tohmatsu was retained to audit AIDC's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and profit allocation proposal have been reviewed and determined to be correct and accurate by the independent directors of Aerospace Industrial Development Corporation. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law, We hereby submit this report.

To: Aerospace Industrial Development Corporation
2019 Annual Shareholders' Meeting

Independent Director of Aerospace
Industrial Development Corporation

Date: March 28, 2019

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Aerospace Industrial Development Corporation

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Impairment loss of inventory

The Group assesses impairment of raw materials based on individual identification. The assessment of impairment loss of the raw materials involves the use of the management's critical judgment and, hence, the assessment is considered as a key audit matter. The Group assesses the impairment loss of the raw materials based on current market conditions and future consumption in accordance with IAS 2. Refer to Notes 5 and 10 to the financial statements for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the impairment assessment include the following:

1. We tested the inventory aging report for completeness and accuracy.

2. We inquired and assessed the reasons for inventories aged over one year but have not provided allowance for impairment.

3. We test checked the net realizable value of inventory, and we evaluated the reasonableness of the allowance for impairment loss.

4. We observed the physical count of inventory at year end and we test-checked actual quantity counted on tags. We also noted those which appeared to be obsolete or slow-moving items and traced them to the Company's impairment assessment worksheet.

Warranties

The Group provides warranties for military product maintenance, and the percentage of certain provisions involve management's critical judgment; hence, we consider provision for warranties as a key audit matter. Refer to Notes 5 and 19 for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the provisions for warranties include the following:

1. We obtained the documents based on the management's decision on the provision rate and we evaluated the reasonableness of the rates compared with rates in the past periods.

2. We recalculated the amount of provision.

3. We evaluated the reasonableness of the provision against the actual usage of warranties.

Other Matter

We have also audited the parent company only financial statements of Aerospace Industrial Development Corporation as of and for the years ended December 31, 2018 and 2017 on which we have issued an unqualified opinion.

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

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

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

Those charged with governance, including members of the audit committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the 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 Group's internal control.

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

6. Obtain sufficient and appropriate audit evidence regarding the financial information of 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 the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' 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.

The engagement partners on the audit resulting in this independent auditors' report are Lie-Dong Wu and Done-Yuin Tseng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 28, 2019

Notice to Readers

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

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	December 31			
	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Notes 4 and 6)	$ 962,896	2	$ 1,065,791	3
Notes receivable (Notes 4 and 9)	2,684	-	23,509	-
Trade receivables from unrelated parties (Notes 4 and 9)	15,036,728	38	9,278,949	28
Trade receivables from related parties (Notes 4 and 29)	310,857	1	308,373	1
Other receivables (Notes 4 and 9)	100,306	-	99,055	-
Inventories (Notes 4, 5 and 10)	6,798,041	17	6,770,848	20
Other financial assets - current (Notes 4, 15 and 30)	1,932,100	5	3,811,126	11
Other current assets (Notes 16 and 29)	3,871,208	10	1,754,280	5
Total current assets	29,014,820	73	23,111,931	68
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 7)	103,467	-	-	-
Financial assets measured at cost - non-current (Notes 4 and 8)	-	-	79,200	-
Investment accounted for using equity method (Notes 4 and 12)	602,985	2	428,906	2
Property, plant and equipment (Notes 4, 13 and 30)	8,352,719	21	8,718,654	26
Intangible assets (Notes 4 and 14)	867,785	2	1,000,404	3
Deferred tax assets (Notes 4 and 24)	286,129	1	305,324	1
Prepayments for equipment	376,417	1	81,682	-
Other financial assets - non-current (Notes 4, 15 and 30)	10,807	-	10,807	-
Other non-current assets (Notes 4, 9 and 16)	204,425	-	15,973	-
Total non-current assets	10,804,734	27	10,640,950	32
TOTAL	$ 39,819,554	100	$ 33,752,881	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 17 and 30)	$ 7,730,000	20	$ 6,515,000	19
Short-term bills payable (Note 17)	2,499,575	6	2,499,329	7
Contract liabilities (Note 4)	83,898	-	148,945	1
Trade payables to unrelated parties	1,993,498	5	1,394,004	4
Trade payables to related parties (Note 29)	294,289	1	201,665	1
Other payables (Notes 18 and 29)	3,518,693	9	3,747,714	11
Current tax liabilities (Notes 4 and 24)	198,140	1	260,674	1
Current portion of long-term borrowings (Notes 17 and 30)	5,289,606	13	342,606	1
Net defined benefit liabilities - current (Notes 4 and 20)	82,447	-	33,422	-
Other current liabilities	115,461	-	365,558	1
Total current liabilities	21,805,607	55	15,508,917	46
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 17 and 30)	2,838,029	7	3,975,635	12
Provisions - non-current (Notes 4, 5 and 19)	771,067	2	939,150	3
Deferred tax liabilities (Notes 4 and 24)	65,179	-	21,677	-
Long-term deferred income	315	-	351	-
Guarantee deposits	205,740	1	204,109	-
Total non-current liabilities	3,880,330	10	5,140,922	15
Total liabilities	25,685,937	65	20,649,839	61
EQUITY				
Ordinary shares	9,418,671	23	9,418,671	28
Retained earnings				
Legal reserve	702,338	2	531,146	2
Special reserve	1,933,627	5	1,473,474	4
Unappropriated earnings	2,070,067	5	1,711,923	5
Other equity	8,914	-	(32,172)	-
Total equity	14,133,617	35	13,103,042	39
TOTAL	$ 39,819,554	100	$ 33,752,881	100

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
SALES (Notes 4, 22 and 29)	$ 28,182,098	100	$ 27,537,414	100
COST OF GOODS SOLD (Notes 10, 23 and 29)	24,542,508	87	23,637,272	86
GROSS PROFIT	3,639,590	13	3,900,142	14
OPERATING EXPENSES (Notes 23 and 29)				
Selling and marketing expenses	130,943	1	124,996	-
General and administrative expenses	618,777	2	598,200	2
Research and development expenses	545,217	2	407,178	2
Expected credit gain (Notes 4 and 9)	(1,505)	-	-	-
Total operating expenses	1,293,432	5	1,130,374	4
PROFIT FROM OPERATIONS	2,346,158	8	2,769,768	10
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 23)	188,679	1	193,040	1
Other gains and losses (Notes 4 and 23)	15,374	-	(805,416)	(3)
Share of profit of associate (Note 4)	235,111	1	240,264	1
Finance costs (Note 4)	(133,304)	(1)	(118,867)	(1)
Total non-operating income and expenses	305,860	1	(490,979)	(2)
PROFIT BEFORE INCOME TAX	2,652,018	9	2,278,789	8
INCOME TAX EXPENSE (Notes 4 and 24)	560,002	2	530,808	2
NET PROFIT FOR THE YEAR	2,092,016	7	1,747,981	6
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(38,217)	-	(44,919)	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(70,070)	-	-	-

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	$ 16,819	-	$ (52,197)	-
Other comprehensive loss for the year, net of income tax	(91,468)	-	(97,116)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 2,000,548	7	$ 1,650,865	6
EARNINGS PER SHARE (Note 25)				
Basic	$ 2.22		$ 1.86	
Diluted	$ 2.21		$ 1.85	

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company						
		Retained Earnings (Note 21)			Other Equity (Note 4)		
	Ordinary Shares (Note 21)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized gain (loss) on Investments in Equity Instruments Designated as at Fair Value Through Other Comprehensive Income	Total Equity
BALANCE AT JANUARY 1, 2017	$ 9,082,615	$ 322,880	$ 848,678	$ 2,086,241	$ 20,025	$ -	$ 12,360,439
Appropriation of 2016 earnings							
Legal reserve	-	208,266	-	(208,266)	-	-	-
Special reserve	-	-	624,796	(624,796)	-	-	-
Cash dividends distributed by the Company	-	-	-	(908,262)	-	-	(908,262)
Share dividends distributed by the Company	336,056	-	-	(336,056)	-	-	-
Profit for the year ended December 31, 2017	-	-	-	1,747,981	-	-	1,747,981
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	(44,919)	(52,197)	-	(97,116)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	1,703,062	(52,197)	-	1,650,865
BALANCE AT DECEMBER 31, 2017	9,418,671	531,146	1,473,474	1,711,923	(32,172)	-	13,103,042
Effect of retrospective application and retrospective restatement	-	-	-	-	-	94,337	94,337
BALANCE AT JANUARY 1, 2018 AS RESTATED	9,418,671	531,146	1,473,474	1,711,923	(32,172)	94,337	13,197,379
Appropriation of 2017 earnings							
Legal reserve	-	171,192	-	(171,192)	-	-	-
Special reserve	-	-	460,153	(460,153)	-	-	-
Cash dividends distributed by the Company	-	-	-	(1,064,310)	-	-	(1,064,310)
Profit for the year ended December 31, 2018	-	-	-	2,092,016	-	-	2,092,016
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	(38,217)	16,819	(70,070)	(91,468)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	2,053,799	16,819	(70,070)	2,000,548
BALANCE AT DECEMBER 31, 2018	$ 9,418,671	$ 702,338	$ 1,933,627	$ 2,070,067	$ (15,353)	$ 24,267	$ 14,133,617

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 2,652,018	$ 2,278,789
Adjustments for:		
Depreciation expenses	900,289	822,009
Amortization expenses	424,181	452,388
Reversal of excepted credit loss on trade receivables	(1,505)	-
Reversal of impairment loss on trade receivables	-	(4,027)
Finance costs	133,304	118,867
Interest income	(58,757)	(67,964)
Dividend income	(90)	(78)
Share of profit of associate	(235,111)	(240,264)
Loss (gain) on disposal of property, plant and equipment	(812)	1,352
Impairment loss recognized on non-financial assets	20,044	88,153
Unrealized net loss on foreign currency exchange	1,691	242,930
Recognized (reversal) of provisions	4,023	(24,962)
Other income from liabilities	(11,080)	(5,951)
Amortized other non-current assets	20,096	-
Net changes in operating assets and liabilities		
Notes receivable	20,825	(18,782)
Trade receivables	(5,755,398)	(2,153,203)
Other receivables	(12,955)	92,559
Inventories	(217,343)	664,193
Other current assets	(2,267,703)	(1,140,100)
Contract liabilities	(65,047)	(59,371)
Trade payables	692,898	182,150
Other payables	(183,561)	142,156
Other current liabilities	(243,379)	332,088
Deferred income	(36)	351
Cash generated from (used in) operations	(4,183,408)	1,703,283
Interest received	70,462	55,385
Interest paid	(123,673)	(120,343)
Income tax paid	(549,031)	(608,346)
Net cash generated from (used in) operating activities	(4,785,650)	1,029,979
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(567,743)	(1,462,412)
Proceeds from disposal of property, plant and equipment	9,114	2,599
Increase in refundable deposits	(21,744)	(16,160)
Decrease in refundable deposits	15,814	19,508
Payments for intangible assets	(270,032)	(656,011)
Decrease (increase) in other financial assets	1,876,535	(1,993,822)
Increase in other non-current assets	(201,573)	-

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2018	**2017**
Increase in prepayments for equipment	$ (197,490)	$ (253,985)
Dividend received	77,726	544,148
Net cash generated from (used in) investing activities	720,607	(3,816,135)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	45,960,000	52,302,000
Repayments of short-term borrowings	(44,745,000)	(52,987,000)
Proceeds from short-term bills payable	32,096,560	8,692,399
Repayments of short-term bills payable	(32,096,314)	(8,191,952)
Proceeds from long-term borrowings	22,457,000	3,570,000
Repayments of long-term borrowings	(18,647,606)	(1,167,606)
Proceeds of guarantee deposits received	229,450	252,141
Refund of guarantee deposits	(227,819)	(260,295)
Dividends paid to owners of the Company	(1,064,310)	(908,262)
Net cash generated from financing activities	3,961,961	1,301,425
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	187	(9,576)
NET DECREASE IN CASH	(102,895)	(1,494,307)
CASH AT THE BEGINNING OF THE YEAR	1,065,791	2,560,098
CASH AT THE END OF THE YEAR	$ 962,896	$ 1,065,791

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

1. ORGANIZATION AND OPERATIONS

Aerospace Industrial Development Corporation (the "Company") was a state-owned enterprise formed by the Ministry of Economic Affairs on July 1, 1996 from Aero Industry Development Center, Chung-Shan Institute of Science and six other state-owned enterprises. The Company and its subsidiaries (collectively referred to as the "Group") mainly engage in business categories as follows: design, manufacture, assembly, testing and maintenance of aircraft, engines, avionics and related components; consulting services and technology transfers of aerospace technology, logistical support and engineering technology management of large-scale projects; engineering and development of software and sales of aerospace products.

In July 2001, the initial public offering of the Company was approved by the Securities and Futures Commission (now called Securities and Futures Bureau of the Financial Supervisory Commission (FSC) of the Republic of China (ROC)). On September 13, 2013, in accordance with Rule No. 1020055531, the Company started its privatization process. On August 25, 2014, the Company was listed on the Taiwan Stock Exchange.

The consolidated financial statements are presented in the Company's functional currency, New Taiwan dollars.

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on March 28, 2019.

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

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

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

   1) IFRS 9 "Financial Instruments" and related amendment

      IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

Financial Assets	Measurement Category IAS 39	Measurement Category IFRS 9	Carrying Amount IAS 39	Carrying Amount IFRS 9	Remark
Cash	Loans and receivables	Amortized cost	$1,065,791	$1,065,791	
Share securities	Measured at cost	The financial assets are measured at fair value through other comprehensive income (FVTOCI)	79,200	173,537	(a)
Notes receivable, trade receivables, other receivables and overdue receivables	Loans and receivables	Amortized cost	9,710,019	9,710,019	(b)
Refundable deposits and other financial assets	Loans and receivables	Amortized cost	3,837,773	3,837,773	(b)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi- cations	Remea- surements	IFRS 9 Carrying Amount as of January 1, 2018	Other Equity Effect on January 1, 2018
FVTOCI - Equity instruments	$ -	$ 79,200	$ 94,337	$ 173,537	$ 94,337
Add: Financial assets measured at cost (IAS 39)	79,200	(79,200)	-	-	-
	$ 79,200	$ -	$ 94,337	$ 173,537	$ 94,337

a) Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $94,337 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

b) Notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits that were previously classified as loans and receivables under IAS 39 were are classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivable was recognized or deferred revenue was reduced when revenue was recognized for the contract under IAS 18.

The Group elected only to retrospectively apply IFRS 15 to contracts that were not complete on as of January 1, 2018.

Impact on assets and liabilities for current year

	As Originally Stated	Adjustments Arising from Initial Application	Restated
January 1, 2018			
Contract liabilities - current	$ -	$ 148,945	$ 148,945
Unearned receipts	148,945	(148,945)	-
Total effect on liabilities	$ 148,945	$ -	$ 148,945

	December 31, 2018
Increase in contract liabilities - current	$ 83,898
Decrease in unearned receipts	(83,898)
Total effect in liabilities	$ -

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over over Income Tax Treatments"	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

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

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts, including property interest qualified as investment properties, are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

The Group expects to apply the following practical expedients:

1) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

Anticipated impact on assets and liabilities

	Carrying Amount as of December 31, 2018	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Right-of-use assets	$ -	$ 2,407,415	$ 2,407,415
Total effect on assets	$ -	$ 2,407,415	$ 2,407,415
Lease liabilities - current	$ -	$ 127,869	$ 127,869
Lease liabilities - non-current	-	2,279,546	2,279,546
Total effect on liabilities	$ -	$ 2,407,415	$ 2,407,415

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group assessed that the application of other standards and interpretations will not have a significant impact on the Group's financial position and financial performance.

c. New IFRSs in issue by International Accounting Standards Board (IASB) but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, and net defined benefit liabilities (assets) which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve months after the reporting period; and

3) Cash unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within twelve months after the reporting period, and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. subsidiaries).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See Note 11 and Table 6 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries, in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars. Income and expense items are translated at the average exchange rates for the year. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

f. Inventories

Inventories consist of raw materials and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Raw materials and supplies are recorded at moving weighted-average cost and work-in-process items are recorded at standard cost but adjusted to weighted-average cost on the balance sheet date.

g. Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group’s share of equity of associates.

The entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount of the investment is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When the Group transacts with its associate, profits and losses resulting from the transactions with the associate are recognized by the Group in its consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

h. Property, plant and equipment

Property, plant and equipment are measured at cost, less recognized accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are measured at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation of property, plant and equipment (including assets held under finance leases) is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b) The intention to complete the intangible asset and use or sell it;

c) The ability to use or sell the intangible asset;

d) How the intangible asset will generate probable future economic benefits;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

j. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement category

<u>2018</u>

Financial assets are classified into the following categories: financial assets at amortized cost and equity instruments at FVTOCI.

i. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) 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.

Subsequent to initial recognition, financial assets at amortized cost, including cash, trade receivables, overdue receivables, notes receivable, other receivables, other financial assets and refundable deposits are measured at amortized cost, which equals to gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and

ii) Financial asset that has subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

ii. Investments in equity instruments at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments;, instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

<u>2017</u>

<u>Loans and receivables</u>

Loans and receivables (including cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial asset and refundable deposits) are measured at amortized cost using the effective interest method, at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

b) Impairment of financial assets

<u>2018</u>

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables and overdue receivables).

The Group always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables and overdue receivables. For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investment have been affected.

For financial assets carried measured at amortized cost, such as trade receivables and overdue receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For a financial asset carried measured at amortized cost, the amount of the impairment loss recognized is the difference between the such an asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset' s original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment (at the date on which the impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

For financial assets that are measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables and overdue receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and overdue receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Before 2017, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

l. Provisions

Provision is measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provision for the expected cost of warranty obligations is recognized at the date of sale of the relevant products, at the Group's best estimate of the expenditure required to settle the obligation.

m. Revenue recognition

<u>2018</u>

The Group identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

For the considerations that have been received from customers, the obligation to transfer goods or services to customers is recognized as a contract liability.

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of aerospace goods.

2) Revenue from rendering of services

Revenue from rendering of services comes from aircraft maintenance, logistics management and industrial technology services.

<u>2017</u>

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1) Revenue from the sale of goods

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

a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Revenue from rendering of services

Service income is recognized when services are provided.

Revenue from a contract to provide services is recognized with reference to the stage of completion of the contract.

3) Dividend and interest income

Dividend income from investments is recognized when the a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Group and that the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable effective interest rate.

n. Leasing

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

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

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

o. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and recognized in profit or loss on a systematic and rational basis over the useful lives of the related assets.

q. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets 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.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimations, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and the historical experience from selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

b. Estimate of provision

Provision is measured using estimated cash flows needed to settle present obligation. If future cash flows will exceed the estimated amount, then the amount of provision may require material adjustment.

6. CASH

	December 31	
	2018	2017
Cash on hand and petty cash	$ 503	$ 141
Checking accounts and demand deposits	962,393	1,065,650
	$ 962,896	$ 1,065,791
Rates of bank balance (%)	0.078-1.1	0.0018-1.00

7. FINANCIAL ASSETS AT FVTOCI - 2018

	December 31, 2018
Emerging marked shares	
UHT Unitech Co Ltd. (UHT Ltd.)	$ 70,400
Unlisted common shares	
Aerovision Avionics Inc. (AAI)	30,918
Metro Consulting Service Ltd. (Metro Ltd.)	2,149
	33,067
	$ 103,467

These investments in equity instruments are held for medium to long-term strategic purposes and expect to earn profits from long-term investment. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as financial assets measured at cost under IAS 39. Refer to Notes 3 and 8 for information relating to their reclassification and comparative information for 2017.

8. FINANCIAL ASSETS MEASURED AT COST – NON–CURRENT - 2017

	December 31, 2017
Unlisted common shares	
AAI Inc.	$ 43,200
UHT Ltd.	33,000
Metro Ltd.	3,000
	$ 79,200

Management believed that the fair value of the above unlisted equity investments held by the Group cannot be reliably measured due to the very significant range of reasonable fair value estimates; therefore they were measured at cost less impairment at the end of reporting period.

9. NOTES RECEIVABLES, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2018	**2017**
Notes receivable	$ 2,684	$ 23,509
Trade receivables from unrelated parties		
At amortized cost		
Gross carrying amount	$ 15,041,936	$ 9,281,803
Less: Allowance for impairment loss	(5,208)	(2,854)
	$ 15,036,728	$ 9,278,949
Other receivables		
Tax return receivables	$ 84,824	$ 66,998
Others	15,482	32,057
	$ 100,306	$ 99,055

Trade receivables - 2018

The average credit period of sales of goods was 60 to 90 days. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by referenced to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

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

The following table details the loss allowance of note receivable, trade receivables and overdue recievables receivables (accounted at other non-current assets).

December 31, 2018

	Not Past Due	Less than 90 Days	91 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	$ 14,801,378	$ 240,577	$ 2,665	$ 2,281	$ 4,687	$ 15,051,588
Loss allowance (Lifetime ECL)	-	(5,075)	(133)	(1,105)	(4,687)	(11,000)
Amortized cost	$ 14,801,378	$ 235,502	$ 2,532	$ 1,176	$ -	$ 15,040,588

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

	For the Year Ended December 31, 2018	
	Trade receivables	**Overdue receivables**
Balance at January 1, 2018 per IAS 39	$ 2,854	$ 9,651
Adjustment on initial application of IFRS 9	-	-
Balance at January 1, 2018 per IFRS 9	2,854	9,651
Impairment loss recognized (reversed)	2,354	(3,859)
Balance at December 31, 2018	$ 5,208	$ 5,792

Trade receivables - 2017

The average credit period of sales on goods is 60 to 90 days. In determining the recoverability of trade receivables, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss was estimated by reference to the aging schedule, past default experience of the counterparties and an analysis of their current financial position.

The aging of receivables was as follows:

	December 31, 2017
0-90 days	$ 9,277,165
91-180 days	4,638
	$ 9,281,803

The above aging schedule was based on the past due date.

The ages of individually impaired trade receivables and overdue receivables (other non-current assets) were as follows:

	December 31, 2017
0-90 days	$ 131,124
91-180 days	4,638
181-365 days	476
Over 365 days	9,308
	$ 145,546

The above ages before deducting the allowance for impairment loss was presented based on the past due date.

Past due but not impaired receivables are receivables that were past due at the end of the reporting period but not provided with allowance for impairment. The Group did not have past due but not impaired receivables.

The movements of the allowance for impairment loss were as follows:

	For the Year Ended December 31, 2017	
	Trade Receivables	Overdue Receivables
Collectively Assessed for Impairment		
Balance at January 1	$ 1,813	$ 14,719
Impairment loss recognized (reversed)	1,041	(5,068)
Balance at December 31	$ 2,854	$ 9,651

10. INVENTORIES

	December 31	
	2018	2017
Raw materials	$ 3,629,155	$ 3,100,690
Work in progress	3,168,886	3,670,158
	$ 6,798,041	$ 6,770,848

The cost of inventories recognized as cost of goods sold was as follows:

	For the Year Ended December 31	
	2018	2017
Indemnity income	$ (45,219)	$ (40,267)
Income from sales of scraps	(47,728)	(31,507)
Loss on disposal of inventories	37,144	39,108
Recognized of inventory write-downs	18,044	85,137

11. SUBSIDIARIES

Subsidiary included in consolidated financial statements:

		% of Ownership December 31	
Investor	Investee	2018	2017
The Company	AIDC USA LLC (AIDC USA)	100	100

For the main businesses of AIDC USA, refer to Table 6.

The subsidiary included in consolidated financial statements is immaterial subsidiary, the financial statements have been audited.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2018	2017
Investment in associate		
International Turbine Engine Company LLC (ITEC)	$ 602,985	$ 428,906

As of December 31, 2018 and 2017, the ownership and voting right of ITEC held by the Group were both 22.05%.

On March 27, 2017, the Company's board of directors resolved to restructure its investments and, in April 2017, the Company transferred its ownership of ITEC to AIDC USA.

Refer to "Table 6: Information on Investees" for the nature of activities, principal place of business and country of incorporation of the associates.

The investments accounted for using the equity method and the share of profit or loss of the associate were based on the associates' financial statements which have been audited for the same years.

13. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2018					
	Balance, Beginning of Year	Additions	Deductions	Reclassification	Effects of Foreign Currency Exchange Differences	Balance, End of Year
Cost						
Land improvements	$ 121,314	$ -	$ (575)	$ -	$ -	$ 120,739
Buildings	5,885,214	28,891	-	2,112	-	5,916,217
Machinery and equipment	12,472,099	428,145	(179,008)	48,252	2	12,769,490
Transportation equipment	735,258	897	(3,282)	-	39	732,912
Other equipment	768,605	23,814	(6,147)	1,346	6	787,624
Property in construction	1,245	30,907	-	(2,092)	-	30,060
	19,983,735	$ 512,654	$ (189,012)	$ 49,618	$ 47	20,357,042
Accumulated depreciation						
Land improvements	114,522	$ 1,555	$ (563)	$ -	$ -	115,514
Buildings	2,649,893	177,749	-	-	-	2,827,642
Machinery and equipment	7,403,717	665,236	(170,735)	-	1	7,898,219
Transportation equipment	683,362	13,716	(3,282)	-	16	693,812
Other equipment	291,872	61,677	(6,130)	-	2	347,421
	11,143,366	$ 919,933	$ (180,710)	$ -	$ 19	11,882,608
Impairment						
Buildings	26,258	$ -	$ -	$ -	$ -	26,258
Machinery and equipment	95,457	-	-	-	-	95,457
	121,715	$ -	$ -	$ -	$ -	121,715
	$ 8,718,654					$ 8,352,719

	For the Year Ended December 31, 2017					
	Balance, Beginning of Year	Additions	Deductions	Reclassification	Effects of Foreign Currency Exchange Differences	Balance, End of Year
Cost						
Land improvements	$ 123,706	$ -	$ (2,392)	$ -	$ -	$ 121,314
Buildings	5,131,565	33,787	(2,238)	722,100	-	5,885,214
Machinery and equipment	11,849,710	626,640	(393,985)	389,736	(2)	12,472,099
Transportation equipment	721,700	13,281	(4,446)	4,826	(103)	735,258
Leased assets	42,394	-	-	(42,394)	-	-
Other equipment	394,339	32,317	(1,515)	343,480	(16)	768,605
Property in construction	782,719	107,173	-	(888,647)	-	1,245
	19,046,133	$ 813,198	$ (404,576)	$ 529,101	$ (121)	19,983,735
Accumulated depreciation						
Land improvements	115,261	$ 1,653	$ (2,392)	$ -	$ -	114,522
Buildings	2,478,513	173,618	(2,238)	-	-	2,649,893
Machinery and equipment	7,133,807	617,554	(390,037)	42,394	(1)	7,403,717
Transportation equipment	671,667	16,154	(4,443)	-	(16)	683,362
Leased assets	41,806	588	-	(42,394)	-	-
Other equipment	239,292	54,096	(1,515)	-	(1)	291,872
	10,680,346	$ 863,663	$ (400,625)	$ -	$ (18)	11,143,366
Impairment						
Buildings	26,258	$ -	$ -	$ -	$ -	26,258
Machinery and equipment	95,457	-	-	-	-	95,457
	121,715	$ -	$ -	$ -	$ -	121,715
	$ 8,244,072					$ 8,718,654

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

Land improvements	2-50 years
Buildings	
Main buildings	20-45 years
Others	3-60 years
Machinery and equipment	2-40 years
Transportation equipment	2-15 years
Leased assets	6 years
Other equipment	2-15 years

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 30.

14. INTANGIBLE ASSETS

	December 31	
	2018	2017
Other intangible assets		
Computer software	$ 113,492	$ 142,800
Deferred technical cooperation expenses	30,262	8,257
Patent	899	667
Trademark	175	250
	144,828	151,974
Developing intangible assets		
Projects non-recurring costs	722,957	848,430
	$ 867,785	$ 1,000,404

	Other Intangible Assets	Developing Intangible Assets
Cost		
Balance at January 1, 2018	$ 944,254	$ 5,857,993
Additions from internal developments	-	232,554
Additions	65,354	-
Disposals	(6,913)	-
Reclassification	4,297	-
Balance at December 31, 2018	$ 1,006,992	$ 6,090,547
Accumulated amortization and impairment		
Balance at January 1, 2018	$ 792,280	$ 5,009,563
Amortization expense	76,797	356,027
Disposals	(6,913)	-
Impairment loss recognized in profit and loss	-	2,000
Balance at December 31, 2018	$ 862,164	$ 5,367,590
Carrying amounts at December 31, 2018	$ 144,828	$ 722,957
Cost		
Balance at January 1, 2017	$ 876,296	$ 5,250,996
Additions	82,352	-
Additions from internal developments	-	651,481
Disposals	(14,394)	(44,484)
Balance at December 31, 2017	$ 944,254	$ 5,857,993

(Continued)

	Other Intangible Assets	Developing Intangible Assets
Accumulated amortization and impairment		
Balance at January 1, 2017	$ 743,456	$ 4,649,031
Amortization expense	63,218	402,000
Disposals	(14,394)	(44,484)
Impairment loss recognized in profit and loss	-	3,016
Balance at December 31, 2017	$ 792,280	$ 5,009,563
Carrying amounts at December 31, 2017	$ 151,974	$ 848,430

(Concluded)

Projects non-recurring costs include the costs related to product design, tooling design and fabrication, production planning, specimen and prototype trial fabrication. Deferred technical cooperation expenses include the participation fees or royalties for participation in international cooperation and development of new business. The amounts were allocated by the proportion of actual sales volume divided by expected sales volume.

The above items of intangible assets are amortized on a straight-line basis over the estimated useful life of the asset:

Trademark	10-15 years
Patent	10-20 years
Computer software	2-3 years

15. OTHER FINANCIAL ASSETS

Other financial assets are the time deposits with original maturities over three months from the date of acquisition; for pledged assets information, refer to Note 30. The market rates of the time deposits in the years of 2018 and 2017 were 0.28%-3% and 0.35%-2.05%, respectively.

16. OTHER ASSETS

	December 31	
	2018	2017
Current		
Prepayment	$ 3,801,375	$ 1,721,218
Others	69,833	33,062
	$ 3,871,208	$ 1,754,280

	December 31	
	2018	2017
Non-current		
Overdue receivables (Note 9)	$ 6,968	$ 9,784
Less: Allowance for impairment loss	(5,792)	(9,651)
	1,176	133
Refundable deposits	21,772	15,840
Other	181,477	-
	$ 204,425	$ 15,973

17. BORROWINGS

a. Short-term borrowings

	December 31	
	2018	2017
Unsecured borrowings	$ 7,730,000	$ 5,515,000
Secured borrowings (Note 30)	-	1,000,000
	$ 7,730,000	$ 6,515,000
Rates of interest per annum (%)	0.86-1.5	0.78-0.88

b. Short-term bills payable

	December 31	
	2018	2017
Commercial paper	$ 2,500,000	$ 2,500,000
Less: Unamortized discount on bills payable	(425)	(671)
	$ 2,499,575	$ 2,499,329
Rate of interest per annum (%)	0.53-0.77	0.5-0.71

c. Long-term borrowings

	December 31	
	2018	2017
Credit borrowings	$ 6,327,635	$ 2,518,241
Secured borrowings (Note 30)	1,800,000	1,800,000
	8,127,635	4,318,241
Less: Current portion	(5,289,606)	(342,606)
Long-term borrowings	$ 2,838,029	$ 3,975,635
Rates of interest per annum (%)	0.78-1.13	0.78-1.22

18. OTHER PAYABLES

	December 31	
	2018	2017
Payable for salaries and bonuses	$ 1,453,985	$ 1,290,348
Payable for outsourcing	748,847	883,854
Payable for purchase of equipment	229,855	284,970
Payable for service fee	138,807	94,239
Payable for employee's compensation and remuneration of directors	136,404	115,127
Payable for annual leave	105,964	107,002
Payable for remedy	6,870	55,219
Others	697,961	916,955
	$ 3,518,693	$ 3,747,714

19. PROVISIONS - NON-CURRENT

	December 31	
	2018	2017
Warranties	$ 656,794	$ 795,067
Others	114,273	144,083
	$ 771,067	$ 939,150

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of other events affecting product quality.

Others refer to the obligation of the Group to improve its Taichung Complex groundwater pollution remediation site as ordered by the Environmental Protection Administration. The Group has the obligation to improve this site and recognized the discounted value of the best estimate of the remediation expenses as provisions.

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

AIDC USA has not established a retirement plan in accordance with local ordinances.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes to a pension fund administered by the pension fund monitoring committee; the amounts of contributions were equal to 16.31% and 15.85% of total monthly salaries and wages for the years ended December 31, 2018 and

2017, respectively. Pension contributions are deposited in the Bank of Taiwan in the committee's name and are managed by the Bureau of Labor Funds, Ministry of Labor ("the "Bureau"). Before the end of each year, The Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, The Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Company has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of The Company's defined benefit plans were as follows:

	December 31	
	2018	**2017**
Present value of defined benefit obligation	$ 1,889,063	$ 1,425,694
Fair value of plan assets	(1,806,616)	(1,392,272)
Net defined benefit liabilities	$ 82,447	$ 33,422

Movements in net defined benefit asset were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities (Asset)**
Balance at January 1, 2017	$ 988,764	$ (1,009,462)	$ (20,698)
Service cost			
Current service cost	400,054	-	400,054
Net interest expense (income)	11,344	(13,868)	(2,524)
Recognized in profit or loss	411,398	(13,868)	397,530
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	3,609	3,609
Actuarial loss - changes in financial assumptions	33,511	-	33,511
Actuarial loss - experience adjustments	17,000	-	17,000
Recognized in other comprehensive income (loss)	50,511	3,609	54,120
Contributions from the employer	-	(397,530)	(397,530)
Benefits paid	(24,979)	24,979	-
Balance at December 31, 2017	1,425,694	(1,392,272)	33,422
Service cost			
Current service cost	411,360	-	411,360
Net interest expense (income)	12,043	(13,501)	(1,458)
Recognized in profit or loss	423,403	(13,501)	409,902

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Asset)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	$ -	$ (36,999)	$ (36,999)
Actuarial gain - changes in financial assumptions	(8,854)	-	(8,854)
Actuarial loss - experience adjustments	94,878	-	94,878
Recognized in other comprehensive income (loss)	86,024	(36,999)	49,025
Contributions from the employer	-	(409,902)	(409,902)
Benefits paid	(46,058)	46,058	-
Balance at December 31, 2018	$ 1,889,063	$ (1,806,616)	$ 82,447

(Concluded)

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Pension Fund or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rate(s)	0.90%	0.85%
Expected rate(s) of salary increase	1.50%	1.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2018	2017
Discount rate(s)		
0.25% increase	$ (35,718)	$ (29,621)
0.25% decrease	$ 36,687	$ 30,480
Expected rate(s) of salary increase		
0.25% increase	$ 36,376	$ 30,206
0.25% decrease	$ (35,596)	$ (29,506)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2018	2017
The expected contributions to the plan for the next year	$ 422,766	$ 409,902
The average duration of the defined benefit obligation	7.55 years	7.1 years

21. EQUITY

a. Ordinary shares

	December 31	
	2018	2017
Number of shares authorized (in thousands)	1,500,000	1,500,000
Shares authorized	$ 15,000,000	$ 15,000,000
Number of shares issued and fully paid (in thousands)	941,867	941,867
Shares issued	$ 9,418,671	$ 9,418,671

On June 14, 2017, the Company's shareholders held a meeting and resolved to appropriate retained earnings to capital and issue 33,605 thousand ordinary shares with par value of NT$10. The FSC approved the capital increase on June 28, 2017 and the board of directors set July 29, 2017 as the subscription base date. As a result, the Company increased its issued and fully paid shares to $9,418,671.

b. Retained earnings and dividend policy

The Company's Articles of Incorporation provide that the annual net income after paying income tax should be used first to make up for prior years' losses, set aside 10% as a legal reserve and appropriate or reverse special reserve. The residual earnings will be allocated by the resolution in the shareholders' meeting. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to Note 23 (d).

Profits of the Company may be distributed by way of cash dividend or stockshare dividend. Since the Company is in a capital-intensive industry with steady growth in its current business, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stockshare dividend provided; however, the ratio of stockshare dividend shall not exceed 50% of total distribution.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's capital surplus. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's capital surplus, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse special reserve.

The appropriations of earnings for 2017 and 2016 having been approved in the shareholders' meetings on June 26, 2018, and June 14, 2017, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	2017	**2016**	**2017**	**2016**
Legal reserve	$ 171,192	$ 208,266		
Special reserve	460,153	624,796		
Cash dividends	1,064,310	908,262	$ 1.13	$ 1.00
Share dividends	-	336,056	-	0.37

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on March 28, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 207,007	
Special reserve	588,848	
Cash dividends	1,262,102	$ 1.34

The appropriations of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held in May 2019.

22. REVENUES

	For the Year Ended December 31	
	2018	**2017**
Aircraft/vehicle maintenance	$ 15,964,570	$ 17,749,411
Aero/industrial engine	11,818,385	9,416,818
Industrial technology services	399,143	371,185
	$ 28,182,098	$ 27,537,414

23. NET PROFIT

a. Other income

	For the Year Ended December 31 2018	2017
Interest income	$ 58,757	$ 67,964
Remedy income	11,237	30,881
Other income from condoned liabilities	11,080	5,951
Others	107,605	88,244
	$ 188,679	$ 193,040

b. Other gains and losses

	For the Year Ended December 31 2018	2017
Net foreign exchange gains (losses)	$ 213,750	$ (587,447)
Impairment loss	(2,000)	(3,016)
Gain (loss) on disposal of property, plant and equipment	812	(1,352)
Others	(197,188)	(213,601)
	$ 15,374	$ (805,416)

c. Employee benefits, depreciation and amortization

	Operating Cost	Operating Expense	Non-operating Expense	Transfer to Developing Intangible Assets	Capital cost	Total
For the Year Ended December 31, 2018						
Employee benefits expense						
Salaries expense	$ 4,834,015	$ 593,173	$ 12,699	$ 60,698	$ 112	$ 5,500,697
Retirement benefit						
Defined contribution plans	70,009	9,111	150	1,104	2	80,376
Defined benefit plans	357,030	46,465	767	5,629	11	409,902
Labor and health insurance	299,810	32,435	60,596	4,013	8	396,862
Other employee benefits	54,572	6,012	10,909	55	-	71,548
Depreciation expense	828,360	51,767	20,162	19,618	26	919,933
Amortization expense	414,061	10,081	39	8,642	1	432,824
For the Year Ended December 31, 2017						
Employee benefits expense						
Salaries expense	4,230,437	511,619	11,377	88,682	44	4,842,159
Retirement benefit						
Defined contribution plans	55,534	7,569	130	1,442	1	64,676
Defined benefit plans	341,334	46,524	803	8,864	5	397,530
Labor and health insurance	277,746	30,375	56,095	6,072	3	370,291
Other employee benefits	50,570	5,315	10,103	108	-	66,096
Depreciation expense	754,642	47,399	19,968	41,640	14	863,663
Amortization expense	442,280	10,057	51	12,829	1	465,218

d. Employees' compensation and remuneration of directors

The Company stipulate distribution of employees' compensation at the rates no less than 0.58% and remuneration to directors at the rates no higher than 4.65%, respectively, of net profit before income tax.

The employees' compensation and remuneration of directors for 2018 and 2017 having been resolved by the board of directors on March 28, 2019 and March 27, 2018, were as follows:

	For the Year Ended December 31			
	2018		2017	
	The Proportion of Estimate	Amount of Money	The Proportion of Estimate	Amount of Money
Employees' compensation	4.65%	$ 121,277	4.65%	$ 102,360
Remuneration of directors	0.58%	15,127	0.58%	12,767

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

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

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

e. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2018	2017
Foreign exchange gains	$ 521,564	$ 191,708
Foreign exchange losses	(307,814)	(779,155)
Net gains (losses)	$ 213,750	$ (587,447)

24. TAXES

a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	$ 446,980	$ 591,242
Income tax on unappropriated earnings	43,539	62,709
Adjustments for prior years	(4,022)	2,084
	486,497	656,035
Deferred tax		
In respect of the current year	122,565	(125,227)
Adjustments to deferred tax attributable to change in tax rates and laws	(49,060)	-
	73,505	(125,227)
Income tax expense recognized in profit or loss	$ 560,002	$ 530,808

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Income tax expense calculated at the statutory rate	$ 565,539	$ 444,074
Nondeductible expenses in determining taxable income	123	10
Tax-exempt income	(18)	(13)
Income tax on unappropriated earnings	43,539	62,709
Temporary differences	3,901	21,944
Adjustments to deferred tax attributable to change in tax rates and laws	(49,060)	-
Adjustments for prior years' tax	(4,022)	2,084
Income tax expense recognized in profit or loss	$ 560,002	$ 530,808

In 2017, the applicable corporate income tax rate used by the Company in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by a subsidiary in USA the United States is 39.5%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income (loss)

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Deferred tax		
Remeasurement of defined benefit plan	$ (10,808)	$ (9,201)
Translation of foreign operations	-	(4,101)
	$ (10,808)	$ (13,302)

c. Deferred tax assets and liabilities

	For the Year Ended December 31, 2018			
	Opening Balance	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Closing Balance**
Deferred tax assets				
Temporary differences				
Provisions	$ 159,655	$ (5,440)	$ -	$ 154,215
Intangible assets	58,254	10,681	-	68,935
Payable for annual leave	18,190	3,002	-	21,192
Property plant and equipment	20,692	3,651	-	24,343
Unrealized loss on foreign currency exchange	42,851	(42,680)	-	171
Defined benefit plan	5,682	-	10,808	16,490
Others	-	783	-	783
	$ 305,324	$ (30,003)	$ 10,808	$ 286,129

	For the Year Ended December 31, 2018			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax liabilities				
Temporary differences				
Investment accounted for using equity method	$ 21,633	$ 43,546	$ -	$ 65,179
Others	44	(44)	-	-
	$ 21,677	$ 43,502	$ -	$ 65,179

	For the Year Ended December 31, 2017			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Provision	$ 177,396	$ (17,741)	$ -	$ 159,655
Intangible assets	61,180	(2,926)	-	58,254
Payable for annual leave	46,508	(28,318)	-	18,190
Property plant and equipment	20,692	-	-	20,692
Unrealized loss on foreign currency exchange	-	42,851	-	42,851
Defined benefit plan	-	-	5,682	5,682
	$ 305,776	$ (6,134)	$ 5,682	$ 305,324
Deferred tax liabilities				
Temporary differences				
Investment accounted for using equity method	$ 128,492	$ (106,859)	$ -	$ 21,633
Unrealized gain on foreign currency exchange	24,430	(24,430)	-	-
Translating foreign operations	4,101	-	(4,101)	-
Defined benefit plan	3,519	-	(3,519)	-
Others	116	(72)	-	44
	$ 160,658	$ (131,361)	$ (7,620)	$ 21,677

d. Deductible temporary differences for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2018	2017
Deductible temporary differences		
Inventories	$ 2,160,722	$ 2,142,678

e. Income tax assessments

Income tax returns of the Company through 2016 have been examined and cleared by the tax authorities.

25. EARNINGS PER SHARE

Unit: NT$ Per share

	For the Year Ended December 31	
	2018	**2017**
Basic earnings per share	$ 2.22	$ 1.86
Diluted earnings per share	$ 2.21	$ 1.85

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

	For the Year Ended December 31	
	2018	**2017**
Profit for the year attributable to owners of the Company		
Earnings used in the computation of basic earnings per share (Earnings used in the computation of diluted earnings per share)	$ 2,092,016	$ 1,747,981
Weighted average number of ordinary shares outstanding (in thousand shares)		
Weighted average number of ordinary shares in computation of basic earnings per share	941,867	941,867
Effect of potentially dilutive ordinary shares		
Employees' compensation issue to employees	4,689	3,549
Weighted average number of ordinary shares used in the computation of diluted earnings per share	946,556	945,416

If the Company's compensation or bonuses payable to employees can be settled in cash or shares, then the Company should assume the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares, if dilutive, should be included in the weighted average number of shares outstanding used in the computation of diluted earnings per share. Such dilutive effect of the potential shares should be included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

26. OPERATING LEASE ARRANGEMENTS

The future minimum lease payments for non-cancellable operating lease commitments are as follows:

	December 31	
	2018	2017
Not later than 1 year	$ 164,996	$ 164,957
Later than 1 year and not later than 5 years	-	164,630
	$ 164,996	$ 329,587

27. CAPITAL MANAGEMENT

The Group must maintain adequate capital necessary for profitable operations and business expansion, equipment upgrade and participation in international new aircraft developing. Therefore, the Group manages its capital to ensure that the Group will have enough financial resources to respond accordingly to its working capital requirements at least for the next 12 months, capital expenditures, participation in international new aircraft developing and repayments of liabilities.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents and other financial assets) and equity (comprising ordinary shares, retained earnings and other equity).

28. FINANCIAL INSTRUMENTS

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

The management considers the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values or their fair values cannot be reliably measured.

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

1) Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	$ 70,400	$ -	$ -	$ 70,400
Unlisted shares	-	-	33,067	33,067
	$ 70,400	$ -	$ 33,067	$ 103,467

There were no transfers between Levels 1 and 2 in for the years ended December 31, 2018 and 2017, respectively.

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

For the year ended December 31, 2018

Financial Assets	**Financial Assets at FVTOCI**
	Equity Instruments
Balance at January 1, 2018	$ 33,848
Recognized in other comprehensive loss	(781)
Balance at December 31, 2018	$ 33,067

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

The marketable securities of unlisted shares held by the Group is estimated using the evaluation method when there is no market price reference. The fair value of unlisted shares was evaluated using the asset-based approach.

c. Categories of financial instruments

	December 31	
	2018	**2017**
Financial assets		
Loans and receivables	$ -	$ 14,613,583
Financial assets at amortized cost	18,379,326	-
Financial assets measured at cost	-	79,200
Investments in equity instruments at FVTOCI - non-current	103,467	-
Financial liabilities		
Financial liabilities at amortized cost	22,745,084	17,677,483

Loans and receivables measured at amortized cost which comprise cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits.

Financial assets at amortized cost comprise cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits.

Financial liabilities at amortized cost comprise short-term borrowings, short-term bills payable, trade payables, other payables (excluded payable for salaries and bonuses, payable for annual leave and payable for employee's compensation and remuneration of directors), other financial liabilities (accounted at other current liabilities), long-term borrowings (included not later than one year) and guarantee deposits.

d. Financial risk management objectives

The Group's major financial risk management objectives are to manage the market risk (including currency risk, and interest rate risk), credit risk and liquidity risk of operating activities. The Group minimizes the unfavorable effects of these risks by identification and assessment of the risks and by applying aversion methods to the uncertainties.

The Group’s financial targets including its investment plan for fixed assets are laid out in its “Five-Year Business Plan”. The financial plan includes risk management policies and the division of responsibilities.

The Group’s major financial instruments include cash, trade receivable, short-term borrowings, trade payables and long-term borrowings. The financial department coordinates access to domestic financial markets.

The Group’s compliance with the operating procedure and responsibilities are reviewed by the internal auditors. The evaluation results are also used for future reference by the authorities.

1) Market risk

The Group’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There had been no change to the Group’s exposure to market risks or the manner in which these risks were managed and measured.

Foreign currency risk

The Group minimizes its currency exposure by natural hedging. Foreign currency operation performance is reported to the key management personnel every quarter and the expected foreign currency and operation direction are set for the next quarter.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 32.

Sensitivity analysis

The Group was mainly exposed to the U.S.US dollar. the The Group’s sensitivity to a 0.5% stronger or weaker New Taiwan dollar against the relevant foreign currencies means profit before income tax would be increased/decreased by $48,356 thousand and $41,262 thousand for the years ended December 31, 2018 and 2017. The sensitivity rate of 0.5% represents the management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, with the foreign currency rates at the end of the reporting period adjusted for a 0.5% change.

Interest rate risk

The Group’s interest risk is evaluated in terms of short-term borrowings; short-term bills payable and long-term borrowings. Borrowing and repayment require budget planning in advance to control the interest risk. Interest rates of short-term loans from different financial organizations are compared and lowest one will be selected.

Sensitivity analysis

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group’s pre-tax profit for the years ended December 31, 2018 and 2017 would decrease/increase by $33,394 thousand and $27,083 thousand, respectively, which was mainly attributable to the Group’s exposure to interest rates on its variable-rate bank borrowings. A 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The possible financial loss would equal to the carrying amount of the recognized financial assets as stated in the balance sheets. However, the Group is executing forward exchange only with the correspondent financial institutions, and they are creditworthy with no credit risks.

The Group's dealing counterparties are national defence organizations and international aerospace corporations, and they are creditworthy with extreme low risk of bankruptcy. The Group's key management checks the accounts receivable every month, and instructs the project team to collect the past due amounts.

The Group's concentration of credit risk by geographical location was mainly in the U.S.United States, which accounted for 40% and 37% of the total trade receivable as of December 31, 2018 and 2017, respectively.

3) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the Group had available unutilized bank loan facilities as set out in (b) below.

a) Liquidity and interest risk rate tables for non-derivative financial liabilities

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

	December 31, 2018	
	Less Than 1 Year	**More than 1 Year**
Non-derivative financial liabilities		
Non-interest bearing liabilities	$ 4,182,134	$ 205,740
Variable interest rate liabilities	10,519,606	2,838,029
Fixed interest rate liabilities	4,999,575	-
	$ 19,701,315	$ 3,043,769

	December 31, 2017	
	Less Than 1 Year	More than 1 Year
Non-derivative financial liabilities		
Non-interest bearing liabilities	$ 4,140,804	$ 204,109
Variable interest rate liabilities	5,142,606	3,975,635
Fixed interest rate liabilities	4,214,329	-
	$ 13,497,739	$ 4,179,744

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

b) Financing facilities (reviewed annually)

	December 31	
	2018	2017
Unsecured bank overdraft facility:		
Amount unused	$ 4,975,573	$ 12,493,750
Secured bank loan facilities:		
Amount unused	$ 1,000,000	$ 1,000,000

29. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiary, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and related parties are disclosed below.

a. Related Party Categories / Names

Related Party Name	Relationship with the Consolidated Company
ITEC	Associate
Ministry of Economic Affairs	Corporate director

b. Sales of goods

	For the Year Ended December 31	
Related Parties Name	2018	2017
ITEC	$ 1,254,290	$ 1,213,353

The Group’s sales prices are based on the contracts. The collection terms are as follows:

Item	Collection terms
Engine	90 days after the invoice date
Backup parts	Offset account receivables with account payable

There is no unrelated party with similar product item to compare the engine sales price. The backup parts are only directly sold to the ROC Air Force, and the sales price is according to the purchase contract with related party plus the processing fee agreed by both parties, and collection term is 1-2 months.

c. Purchase of goods

Related Parties Name	For the Year Ended December 31	
	2018	2017
ITEC	$ 924,826	$ 1,025,748

The Group's buying prices from related party are based on contract. The payment term in principle is 1-2 months or paying after offset of accounts receivable. There are no unrelated parties with similar product items that can serve as basis of comparison of prices and terms.

d. Manufacturing expenses

Related Parties Name	For the Year Ended December 31	
	2018	2017
ITEC	$ 487,619	$ 510,420
Ministry of Economic Affairs	-	50,419
	$ 487,619	$ 560,839

e. Operation expenses

Related Parties Name	For the Year Ended December 31	
	2018	2017
Ministry of Economic Affairs	$ -	$ 29,005

f. The Group leases land from the Ministry of Economic Affairs, rent expense is calculated at 5% of the annually announced land values, payment is once a year. Since 2018, the ownership of the land has been changed to the National Property Administration, Ministry of Finance. Rent expense for the year ended December 31, 2017 was $105,562 thousand.

g. Receivable from related parties

Related Parties Name	December 31	
	2018	2017
ITEC	$ 310,857	$ 308,373

The outstanding trade receivables from related parties are unsecured. No impairment loss and excepted credit loss was recognized on trade receivables from related parties.

h. Other current assets

Related Parties Name	December 31	
	2018	2017
ITEC	$ 796,598	$ 222,401

i. Payable to related parties

Related Parties Name	December 31 2018	December 31 2017
ITEC	$ 294,289	$ 201,665

The outstanding trade payables to related parties are unsecured.

j. Other payables

Related Parties Name	December 31 2018	December 31 2017
ITEC	$ 90,391	$ 25,737

k. Compensation of key management personnel

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Short-term benefits	$ 36,098	$ 33,753
Post-employment benefits	1,279	3,922
	$ 37,377	$ 37,675

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following other financial assets and property, plant and equipment were provided as collateral for bank borrowings and obligation:

	December 31 2018	December 31 2017
Property, plant and equipment	$ 2,121,409	$ 2,189,921
Other financial assets - Current	1,860,093	2,986,905
Other financial assets - Non - current	10,807	10,807
	$ 3,992,309	$ 5,187,633

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2018 and 2017 were as follows:

a. As of December 31, 2018 and 2017, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately $114,076 thousand and $156,402 thousand, respectively.

b. As of December 31, 2018 and 2017, unpaid contract for purchases of raw materials and machinery and equipment amounted to approximately $36,761,294 thousand and $29,803,225 thousand, respectively.

32. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

	December 31					
	2018			2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Assets						
Monetary items						
USD	$ 323,600	30.715	$ 9,939,374	$ 293,148	29.76	$ 8,724,084
Non-monetary items						
USD	19,632	30.715	602,985	14,412	29.76	428,906
Liabilities						
Monetary items						
USD	8,732	30.715	268,203	15,850	29.76	471,696

The significant unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2018		2017	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Loss	Exchange Rate	Net Foreign Exchange Loss
USD	30.715	$ (1,035)	29.76	$(251,851)

33. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (None)

2) Endorsements/guarantees provided. (None)

3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 1)

4) Marketable securities acquired and disposed at costs or prices at least $300 million or 20% of the paid-in capital. (None)

5) Acquisition of individual real estate at costs of at least $300 million or 20% of the paid-in capital. (Table 2)

6) Disposal of individual real estate at prices of at least $300 million or 20% of the paid-in capital. (None)

7) Total purchases from or sales to related parties amounting to at least $100 million or 20% of the paid-in capital. (Table 3)

8) Receivables from related parties amounting to at least $100 million or 20% of the paid-in capital. (Table 4)

9) Trading in derivative instruments. (None)

10) Intercompany relationships and significant intercompany transactions. (Table 5)

11) Information on investees. (Table 6)

b. Information on investments in mainland China. (None)

34. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the type of services delivered or provided.
The Group has only one operating segment which is the main business, i.e. design, manufacture, assembly, testing and maintenance of aircraft.

a. Geographical information

	For the Year Ended December 31	
	2018	**2017**
Asia	$ 12,792,812	$ 15,124,728
America	12,488,381	9,925,806
Europe	2,900,905	2,486,880
	$ 28,182,098	$ 27,537,414

b. Information on major customers

Single customers that contributed 10% or more to the Group's revenue were as follows:

	For the Year Ended December 31			
	2018		**2017**	
	Amount	**%**	**Amount**	**%**
Customer A	$ 5,060,199	18	$ 3,441,161	12
Customer B	3,554,997	13	3,523,233	13
Customer C	3,514,216	12	1,105,663	4

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars or Shares)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018			
				Shares	Carrying Value	Percentage of Ownership	Fair Value
The Company	Share capital						
	UHT Ltd.	-	Financial assets at FVTOCI - non-current	1,100	$ 70,400	3.2%	$ 70,400
	AAI	The Company is a corporate director	Financial assets at FVTOCI - non-current	4,968	30,918	13.09%	30,918
	Metro Ltd.	The Company is a corporate director	Financial assets at FVTOCI - non-current	300	2,149	6%	2,149

Note: Information about subsidiary and associate is provided in Table 6.

TABLE 2

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COST FOR AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Company	Building	2018.12.14	$ 608,311	Note	Note	-	N/A	N/A	N/A	N/A	Price comparison and negotiation	Production	None

Note: The expected date to bid is in April 2019.

TABLE 3

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Purchaser or Seller	Related Party	Nature of Relationship with the Purchaser or Seller	Transaction Details				Abnormal Transaction		Notes and Accounts Receivable (Payable)		Note
			Purchase or Sale	Amount	% to Total	Collection Terms	Unit Price	Collection Terms	Ending Balance	% to Total	
The Company	ITEC	Associate	Sale	$ (1,228,336)	(4)	Note	Note	Note	$ 306,833	2	
			Purchase	924,826	8	Note	Note	Note	(294,289)	(13)	

Note: Information is provided in Note 29.

TABLE 4

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
The Company	ITEC	Associate	$ 306,833	3.99	$ -	-	$ 306,833	$ -

TABLE 5

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

No.	Investee Company	Counterparty	Relationship	Transactions Details			
				Financial Statement Accounts	Amount	Payment Terms	% to Total Sales or Assets
0	The Company	AIDC USA	Parent company to subsidiary	Purchase of goods	$ 706	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Manufacturing expenses	16,915	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Operation expenses	18,650	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Other payables	3,057	T/T 30 - 60 days	-

Note: Significant intercompany accounts and transactions have been eliminated.

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars or Shares, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018			Net Income of the Investee	Share of Profits	Note
				December 31, 2018	December 31, 2017	Shares	%	Carrying Amount			
The Company	AIDC USA	State of Delaware USA	Provide program management and relevant services for purchasing and selling raw materials, parts and components of aircraft, engines and subsystems.	$ 288,661	$ 288,661	-	100	$ 621,696	$ 197,169	$ 197,169	Subsidiary
AIDC USA	ITEC	State of Delaware USA	Development production and remodel of aircraft	728	728	-	22.05	602,985	1,066,263	235,111	Associate

6. Audited Individual Financial Statements in the Previous Year:

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Aerospace Industrial Development Corporation

Opinion

We have audited the accompanying financial statements of Aerospace Industrial Development Corporation (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with 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 Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Impairment loss of inventory

The Company assesses impairment of raw materials based on individual identification. The assessment of impairment loss of the raw materials involves the use of the management's critical judgment, and, hence, the assessment is considered as a key audit matter. The Company assesses the impairment loss of the raw materials based on current market conditions and future consumption in accordance with IAS 2. Refer to Notes 5 and 10 to the financial statements for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the impairment assessment include the following:

1. We tested the inventory aging report for completeness and accuracy.

2. We inquired and assessed the reasons for inventories aged over one year but have not provided allowance for impairment.

3. We test checked the net realizable value of inventory, and we evaluated the reasonableness of the allowance for impairment loss.

4. We observed the physical count of inventory at year end and we test checked actual quantity counted on tags. We also noted those which appeared to be as obsolete or slow-moving items and traced them to the Company’s impairment assessment worksheet.

Warranties

The Company provides warranties for military product maintenance, and the percentage of certain provisions involve management's critical judgment: hence, we consider provision for warranties as a key audit matter. Refer to Notes 5 and 18 for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the provisions for warranties include the following:

1. We obtained the documents based on the management’s decision on the provision rate and we evaluated the reasonableness of the rates compared with rates in the past periods.

2. We recalculated the amount of provision.

3. We evaluated the reasonableness of the provision against the actual usage of warranties.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including members of the audit committee, are responsible for overseeing the Company’s financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the 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 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 Company's internal control.

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 the financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' 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.

The engagement partners on the audit resulting in this independent auditors' report are Lie-Dong Wu and Done-Yuin Tseng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 28, 2019

Notice to Readers

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

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	December 31			
	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Notes 4 and 6)	$ 935,112	2	$ 1,053,021	3
Notes receivable (Notes 4 and 9)	2,684	-	23,509	-
Trade receivables from unrelated parties (Notes 4 and 9)	15,036,728	38	9,278,949	28
Trade receivables from related parties (Notes 4 and 28)	306,833	1	308,373	1
Other receivables (Notes 4 and 9)	95,341	-	99,055	-
Inventories (Notes 4, 5 and 10)	6,798,041	17	6,770,848	20
Other financial assets - current (Notes 4, 14 and 29)	1,932,100	5	3,810,829	12
Other current assets (Notes 4, 15 and 28)	3,870,853	10	1,753,999	5
Total current assets	28,977,692	73	23,098,583	69
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 7)	103,467	-	-	-
Financial assets measured at cost - non-current (Notes 4 and 8)	-	-	79,200	-
Investment accounted for using equity method (Notes 4 and 11)	621,696	2	407,708	1
Property, plant and equipment (Notes 4, 12 and 29)	8,351,958	21	8,717,619	26
Intangible assets (Notes 4 and 13)	867,785	2	1,000,404	3
Deferred tax assets (Notes 4 and 23)	285,346	1	305,324	1
Prepayments for equipment	376,417	1	81,682	-
Other financial assets - non-current (Notes 4, 14 and 29)	10,807	-	10,807	-
Other non-current assets (Notes 4, 9 and 15)	204,277	-	15,907	-
Total non-current assets	10,821,753	27	10,618,651	31
TOTAL	$ 39,799,445	100	$ 33,717,234	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 16 and 29)	$ 7,730,000	19	$ 6,515,000	19
Short-term bills payable (Note 16)	2,499,575	6	2,499,329	7
Contract liabilities (Note 4)	83,898	-	148,945	1
Trade payables to unrelated parties	1,993,498	5	1,394,004	4
Trade payables to related parties (Note 28)	294,289	1	201,665	1
Other payables (Notes 17 and 28)	3,512,496	9	3,746,589	11
Current tax liabilities (Notes 4 and 23)	184,252	1	226,705	1
Current portion of long-term borrowings (Notes 16 and 29)	5,289,606	13	342,606	1
Net defined benefit liabilities - current (Notes 4 and 19)	82,447	-	33,422	-
Other current liabilities	115,437	-	365,049	1
Total current liabilities	21,785,498	54	15,473,314	46
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 16 and 29)	2,838,029	7	3,975,635	12
Provisions - non-current (Notes 4, 5 and 18)	771,067	2	939,150	3
Deferred tax liabilities (Notes 4 and 23)	65,179	-	21,633	-
Long-term deferred income (Note 4)	315	-	351	-
Guarantee deposits	205,740	1	204,109	-
Total non-current liabilities	3,880,330	10	5,140,878	15
Total liabilities	25,665,828	64	20,614,192	61
EQUITY				
Ordinary shares	9,418,671	24	9,418,671	28
Retained earnings				
Legal reserve	702,338	2	531,146	2
Special reserve	1,933,627	5	1,473,474	4
Unappropriated earnings	2,070,067	5	1,711,923	5
Other equity	8,914	-	(32,172)	-
Total equity	14,133,617	36	13,103,042	39
TOTAL	$ 39,799,445	100	$ 33,717,234	100

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
SALES (Notes 4, 21 and 28)	$ 28,156,144	100	$ 27,537,414	100
COST OF GOODS SOLD (Notes 10, 22 and 28)	24,559,503	87	23,650,352	86
GROSS PROFIT	3,596,641	13	3,887,062	14
OPERATING EXPENSES (Notes 22 and 28)				
Selling and marketing expenses	134,797	1	127,206	-
General and administrative expenses	577,999	2	583,057	2
Research and development expenses	545,217	2	407,178	2
Expected credit gain (Notes 4 and 9)	(1,505)	-	-	-
Total operating expenses	1,256,508	5	1,117,441	4
PROFIT FROM OPERATIONS	2,340,133	8	2,769,621	10
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4, 10 and 22)	188,665	1	193,037	1
Other gains and losses (Notes 4 and 22)	15,436	-	(805,407)	(3)
Share of profit of subsidiary and associate (Note 4)	197,169	1	162,895	1
Finance costs (Note 4)	(133,304)	(1)	(118,867)	(1)
Total non-operating income and expenses	267,966	1	(568,342)	(2)
PROFIT BEFORE INCOME TAX	2,608,099	9	2,201,279	8
INCOME TAX EXPENSE (Notes 4 and 23)	516,083	2	453,298	2
NET PROFIT FOR THE YEAR	2,092,016	7	1,747,981	6
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(38,217)	-	(44,919)	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(70,070)	-	-	-

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	$ 16,819	-	$ (52,197)	-
Other comprehensive loss for the year, net of income tax	(91,468)	-	(97,116)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 2,000,548	7	$ 1,650,865	6
EARNINGS PER SHARE (Note 24)				
Basic	$ 2.22		$ 1.86	
Diluted	$ 2.21		$ 1.85	

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

		Retained Earnings (Note 20)			Other Equity (Note 4)		
	Ordinary Shares (Note 20)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized gain (loss) on Investments in Equity Instruments Designated as at Fair Value Through Other Comprehensive Income	Total Equity
BALANCE AT JANUARY 1, 2017	$ 9,082,615	$ 322,880	$ 848,678	$ 2,086,241	$ 20,025	$ -	$ 12,360,439
Appropriation of 2016 earnings							
Legal reserve	-	208,266	-	(208,266)	-	-	-
Special reserve	-	-	624,796	(624,796)	-	-	-
Cash dividends distributed by the Company	-	-	-	(908,262)	-	-	(908,262)
Share dividends distributed by the Company	336,056	-	-	(336,056)	-	-	-
Profit for the year ended December 31, 2017	-	-	-	1,747,981	-	-	1,747,981
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	(44,919)	(52,197)	-	(97,116)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	1,703,062	(52,197)	-	1,650,865
BALANCE AT DECEMBER 31, 2017	9,418,671	531,146	1,473,474	1,711,923	(32,172)	-	13,103,042
Effect of retrospective application and retrospective restatement	-	-	-	-	-	94,337	94,337
BALANCE AT JANUARY 1, 2018 AS RESTATED	9,418,671	531,146	1,473,474	1,711,923	(32,172)	94,337	13,197,379
Appropriation of 2017 earnings							
Legal reserve	-	171,192	-	(171,192)	-	-	-
Special reserve	-	-	460,153	(460,153)	-	-	-
Cash dividends distributed by the Company	-	-	-	(1,064,310)	-	-	(1,064,310)
Profit for the year ended December 31, 2018	-	-	-	2,092,016	-	-	2,092,016
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	(38,217)	16,819	(70,070)	(91,468)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	2,053,799	16,819	(70,070)	2,000,548
BALANCE AT DECEMBER 31, 2018	$ 9,418,671	$ 702,338	$ 1,933,627	$ 2,070,067	$ (15,353)	$ 24,267	$ 14,133,617

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 2,608,099	$ 2,201,279
Adjustments for:		
Depreciation expenses	899,987	821,706
Amortization expenses	424,181	452,388
Reversal of excepted credit loss on trade receivables	(1,505)	-
Reversal of impairment loss on trade receivables	-	(4,027)
Finance costs	133,304	118,867
Interest income	(58,743)	(67,961)
Dividend income	(90)	(78)
Share of profit of subsidiary and associate	(197,169)	(162,895)
Loss (gain) on disposal of property, plant and equipment	(812)	1,352
Impairment loss recognized on non-financial assets	20,044	88,153
Unrealized net loss on foreign currency exchange	1,693	242,929
Recognized (reversal) of provisions	4,023	(24,962)
Other income from liabilities	(11,080)	(5,951)
Amortized other non-current assets	20,096	-
Net changes in operating assets and liabilities		
Notes receivable	20,825	(18,782)
Trade receivables	(5,751,374)	(2,153,203)
Other receivables	(7,990)	92,559
Inventories	(217,343)	664,193
Other current assets	(2,267,629)	(1,139,994)
Contract liabilities	(65,047)	(59,371)
Trade payables	692,898	182,150
Other payables	(188,633)	140,940
Other current liabilities	(242,894)	331,899
Deferred income	(36)	351
Cash generated from (used in) operations	(4,185,195)	1,701,542
Interest received	70,448	55,382
Interest paid	(123,673)	(120,343)
Income tax paid	(484,204)	(564,694)
Net cash generated from (used in) operating activities	(4,722,624)	1,071,887
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(567,743)	(1,462,377)
Proceeds from disposal of property, plant and equipment	9,114	2,599
Increase in refundable deposits	(21,665)	(16,160)
Decrease in refundable deposits	15,815	19,502
Payments for intangible assets	(270,032)	(656,011)
Decrease (increase) in other financial assets	1,876,238	(1,993,525)

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2018	2017
Increase in other non-current assets	$ (201,573)	$ -
Increase in prepayments for equipment	(197,490)	(253,985)
Dividend received	90	494,659
Net cash generated from (used in) investing activities	642,754	(3,865,298)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	45,960,000	$ 52,302,000
Repayments of short-term borrowings	(44,745,000)	(52,987,000)
Proceeds from short-term bills payable	32,096,560	8,692,399
Repayments of short-term bills payable	(32,096,314)	(8,191,952)
Proceeds from long-term borrowings	22,457,000	3,570,000
Repayments of long-term borrowings	(18,647,606)	(1,167,606)
Proceeds of guarantee deposits received	229,450	252,141
Refund of guarantee deposits	(227,819)	(260,295)
Dividends paid to owners of the Company	(1,064,310)	(908,262)
Net cash generated from financing activities	3,961,961	1,301,425
NET DECREASE IN CASH	(117,909)	(1,491,986)
CASH AT THE BEGINNING OF THE YEAR	1,053,021	2,545,007
CASH AT THE END OF THE YEAR	$ 935,112	$ 1,053,021

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Aerospace Industrial Development Corporation (the “Company”) was a state-owned enterprise formed by the Ministry of Economic Affairs on July 1, 1996 from Aero Industry Development Center, Chung-Shan Institute of Science and six other state-owned enterprises. The Company's main business categories are as follows: design, manufacture, assembly, testing and maintenance of aircraft, engines, avionics and related components; consulting services and technology transfers of aerospace technology, logistical support and engineering technology management of large-scale projects; engineering and development of software and sales of aerospace products.

In July 2001, the initial public offering of the Company was approved by the Securities and Futures Commission (now called Securities and Futures Bureau of the Financial Supervisory Commission (FSC) of the Republic of China (ROC)). On September 13, 2013, in accordance with Rule No. 1020055531, the Company started its privatization process. On August 25, 2014, the Company was listed on the Taiwan Stock Exchange.

The financial statements are presented in the Company’s functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on March 28, 2019.

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

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

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

   1) IFRS 9 “Financial Instruments” and related amendment

      IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as of January 1, 2018.

Financial Assets	Measurement Category IAS 39	Measurement Category IFRS 9	Carrying Amount IAS 39	Carrying Amount IFRS 9	Remark
Cash	Loans and receivables	Amortized cost	$1,053,021	$1,053,021	
Share securities	Measured at cost	The financial assets are measured at fair value through other comprehensive income (FVTOCI)	79,200	173,537	(a)
Notes receivable, trade receivables, other receivables and overdue receivables	Loans and receivables	Amortized cost	9,710,019	9,710,019	(b)
Refundable deposits and other financial assets	Loans and receivables	Amortized cost	3,837,410	3,837,410	(b)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remea-surements	IFRS 9 Carrying Amount as of January 1, 2018	Other Equity Effect on January 1, 2018
FVTOCI - Equity instruments	$ -	$ 79,200	$ 94,337	$ 173,537	$ 94,337
Add: Financial assets measured at cost (IAS 39)	79,200	(79,200)	-	-	-
	$ 79,200	$ -	$ 94,337	$ 173,537	$ 94,337

a) Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $94,337 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

b) Notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits that were previously classified as loans and receivables under IAS 39 are classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivable was recognized or deferred revenue was reduced when revenue was recognized for the contract under IAS 18.

The Company elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018.

Impact on assets and liabilities for current year

	As Originally Stated	Adjustments Arising from Initial Application	Restated
January 1, 2018			
Contract liabilities - current	$ -	$ 148,945	$ 148,945
Unearned receipts	148,945	(148,945)	-
Total effect on liabilities	$ 148,945	$ -	$ 148,945

	December 31, 2018
Increase in contract liabilities - current	$ 83,898
Decrease in unearned receipts	(83,898)
Total effect in liabilities	$ -

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

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

The Company as lessee

Upon initial application of IFRS 16, the Company will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts, including property interest qualified as investment properties, are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the statements of cash flows.

The Company anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

The Company expects to apply the following practical expedients:

1) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Company will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

Anticipated impact on assets and liabilities

	Carrying Amount as of December 31, 2018	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Right-of-use assets	$ -	$ 2,406,306	$ 2,406,306
Total effect on assets	$ -	$ 2,406,306	$ 2,406,306
Lease liabilities - current	$ -	$ 127,494	$ 127,494
Lease liabilities - non-current	-	2,278,812	2,278,812
Total effect on liabilities	$ -	$ 2,406,306	$ 2,406,306

Except for the above impact, as of the date the financial statements were authorized for issue, the Company assessed that the application of other standards and interpretations will not have a significant impact on the Company's financial position and financial performance.

c. New IFRSs in issue by International Accounting Standards Board (IASB) but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

When preparing these financial statements, the Company used the equity method to account for its investments in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries and associates, the share of other comprehensive income of subsidiaries and associates and the related equity items, as appropriate, in these parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve months after the reporting period; and

3) Cash unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within twelve months after the reporting period, and

3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (i.e. New Taiwan dollars) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the year in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

e. Inventories

Inventories consist of raw materials and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Raw materials and supplies are recorded at moving weighted-average cost and work-in-process items are recorded at standard cost but adjusted to weighted-average cost on the balance sheet date.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries. Subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Property, plant and equipment

Property, plant and equipment are measured at cost, less recognized accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are measured at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation of property, plant and equipment (including assets held under finance leases) is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

h. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b) The intention to complete the intangible asset and use or sell it;

c) The ability to use or sell the intangible asset;

d) How the intangible asset will generate probable future economic benefits;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

i. Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

j. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement category

<u>2018</u>

Financial assets are classified into the following categories: financial assets at amortized cost and equity instruments at FVTOCI.

i. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) 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.

Subsequent to initial recognition, financial assets at amortized cost, including cash, trade receivables, overdue receivables, notes receivable, other receivables, other financial asset and refundable deposits are measured at amortized cost, which equals to gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and

ii) Financial asset that has subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

ii. Investments in equity instruments at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

<u>2017</u>

<u>Loans and receivables</u>

Loans and receivables (including cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial asset and refundable deposits) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

b) Impairment of financial assets

<u>2018</u>

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables and overdue receivables).

The Company always recognizes lifetime Expected Credit Loss (ECL) for trade receivables and overdue receivables. For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investment have been affected.

For financial assets measured at amortized cost, such as trade receivables and overdue receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For a financial asset measured at amortized cost, the amount of the impairment loss recognized is the difference between such an asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment (at the date the on which impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

For financial assets measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables and overdue receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and overdue receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Before 2017, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

k. Provisions

Provision is measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provision for the expected cost of warranty obligations is recognized at the date of sale of the relevant products, at the Company’s best estimate of the expenditure required to settle the obligation.

l. Revenue recognition

<u>2018</u>

The Company identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

For the considerations that have been received from customers, the obligation to transfer goods or services to customers is recognized as a contract liability.

1) Revenue from sale of goods

Revenue from sale of goods comes from sales of aerospace goods.

2) Revenue from rendering of services

Revenue from rendering of services comes from aircraft maintenance, logistics management and industrial technology services.

<u>2017</u>

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1) Revenue from the sale of goods

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

a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Company; and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Revenue from rendering of services

Service income is recognized when services are provided.

Revenue from a contract to provide services is recognized with reference to the stage of completion of the contract.

3) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Company and that the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate applicable.

m. Leasing

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

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case, they are capitalized.

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

n. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

o. Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and recognized in profit or loss on a systematic and rational basis over the useful lives of the related assets.

p. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, management is required to make judgments, estimations, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and the historical experience from selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

b. Estimated of provision

Provision is measured using estimated cash flows needed to settle present obligation. If future cash flows will exceed the estimated amount, then the amount of provision may require material adjustment.

6. CASH

	December 31	
	2018	2017
Cash on hand and petty cash	$ 503	$ 141
Checking accounts and demand deposits	934,609	1,052,880
	$ 935,112	$ 1,053,021
Rates of bank balance (%)	0.08-1.1	0.01-1.0

7. FINANCIAL ASSETS AT FVTOCI - 2018

	December 31, 2018
Emerging marked shares	
UHT Unitech Co Ltd. (UHT Ltd.)	$ 70,400
Unlisted common shares	
Aerovision Avionics Inc. (AAI)	30,918
Metro Consulting Service Ltd. (Metro Ltd.)	2,149
	33,067
	$ 103,467

These investments in equity instruments are held for medium to long-term strategic purposes and expect to earn profits from long-term investment. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as financial assets measured at cost under IAS 39. Refer to Notes 3 and 8 for information relating to their reclassification and comparative information for 2017.

8. FINANCIAL ASSETS MEASURED AT COST – NON–CURRENT - 2017

	December 31, 2017
Unlisted common shares	
AAI Inc.	$ 43,200
UHT Ltd.	33,000
Metro Ltd.	3,000
	$ 79,200

Management believed that the fair value of the above unlisted equity investments held by the Company cannot be reliably measured due to the very significant range of reasonable fair value estimates; therefore they were measured at cost less impairment at the end of reporting period.

9. NOTES RECEIVABLE、TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2018	2017
Notes receivable	$ 2,684	$ 23,509
Trade receivables from unrelated parties		
At amortized cost		
Gross carrying amount	$ 15,041,936	$ 9,281,803
Less: Allowance for impairment loss	(5,208)	(2,854)
	$ 15,036,728	$ 9,278,949
Other receivables		
Tax return receivables	$ 84,824	$ 66,998
Others	10,517	32,057
	$ 95,341	$ 99,055

Trade receivables - 2018

The average credit period of sales of goods was 60 to 90 days. The Company adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Company uses other publicly available financial information or its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Company's different customer base

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

The following table details the loss allowance of note receivable, trade receivables and overdue receivables (accounted at other non-current assets).

December 31, 2018

	Not Past Due	Less than 90 Days	91 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	$ 14,801,378	$ 240,577	$ 2,665	$ 2,281	$ 4,687	$ 15,051,588
Loss allowance (Lifetime ECL)	-	(5,075)	(133)	(1,105)	(4,687)	(11,000)
Amortized cost	$ 14,801,378	$ 235,502	$ 2,532	$ 1,176	$ -	$ 15,040,588

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

	For the Year Ended December 31, 2018	
	Trade receivables	Overdue receivables
Balance at January 1, 2018 per IAS 39	$ 2,854	$ 9,651
Adjustment on initial application of IFRS 9	-	-
Balance at January 1, 2018 per IFRS 9	2,854	9,651
Impairment loss recognized (reversed)	2,354	(3,859)
Balance at December 31, 2018	$ 5,208	$ 5,792

Trade receivables - 2017

The average credit period of sales on goods is 60 to 90 days. In determining the recoverability of trade receivables, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss was estimated by reference to the aging schedule, past default experience of the counterparties and an analysis of their current financial position.

The aging of receivables was as follows:

	December 31, 2017
0-90 days	$ 9,277,165
91-180 days	4,638
	$ 9,281,803

The above aging schedule was based on the past due date.

The ages of individually impaired trade receivables and overdue receivables (other non-current assets) were as follows:

	December 31, 2017
0-90 days	$ 131,124
91-180 days	4,638
181-365 days	476
Over 365 days	9,308
	$ 145,546

The above ages before deducting the allowance for impairment loss was presented based on the past due date.

Past due but not impaired receivables are receivables that were past due at the end of the reporting period but not provided with allowance for impairment. The Company did not have past due but not impaired receivables.

The movements of the allowance for impairment loss were as follows:

	For the Year Ended December 31, 2017	
	Trade Receivables	**Overdue Receivables**
Collectively Assessed for Impairment		
Balance at January 1	$ 1,813	$ 14,719
Impairment loss recognized (reversed)	1,041	(5,068)
Balance at December 31	$ 2,854	$ 9,651

10. INVENTORIES

	December 31	
	2018	**2017**
Raw materials	$ 3,629,155	$ 3,100,690
Work in progress	3,168,886	3,670,158
	$ 6,798,041	$ 6,770,848

The cost of inventories recognized as cost of goods sold was as follows:

	For the Year Ended December 31	
	2018	**2017**
Indemnity income	$ (45,219)	$ (40,267)
Income from sales of scraps	(47,728)	(31,507)
Loss on disposal of inventories	37,144	39,108
Recognized of inventory write-downs	18,044	85,137

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2018		2017	
	Amount	**Ownership (%)**	**Amount**	**Ownership (%)**
Investment in subsidiary				
AIDC USA LLC (AIDC USA)	$ 621,696	100	$ 407,708	100

On March 27, 2017, the Company's board of directors resolved to restructure its investments and, in April 2017, the Company transferred its ownership of International Turbine Engine Company LLC (ITEC) to AIDC USA.

Refer to "Table 5: Information on Investees" for the nature of activities, principal place of business and country of incorporation of the associates.

The investment accounted for using equity method and the share of profit or loss of the subsidiary were based on the financial statements audited by auditors for the same years.

12. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2018				
	Balance, Beginning of Year	**Additions**	**Deductions**	**Reclassification**	**Balance, End of Year**
Cost					
Land improvements	$ 121,314	$ -	$ (575)	$ -	$ 120,739
Buildings	5,885,214	28,891	-	2,112	5,916,217
Machinery and equipment	12,472,047	428,145	(179,008)	48,252	12,769,436
Transportation equipment	734,031	897	(3,282)	-	731,646
Other equipment	768,409	23,814	(6,147)	1,346	787,422
Property in construction	1,245	30,907	-	(2,092)	30,060
	19,982,260	$ 512,654	$ (189,012)	$ 49,618	20,355,520
Accumulated depreciation					
Land improvements	114,522	$ 1,555	$ (563)	$ -	115,514
Buildings	2,649,893	177,749	-	-	2,827,642
Machinery and equipment	7,403,704	665,223	(170,735)	-	7,898,192
Transportation equipment	682,994	13,468	(3,282)	-	693,180
Other equipment	291,813	61,636	(6,130)	-	347,319
	11,142,926	$ 919,631	$ (180,710)	$ -	11,881,847
Impairment					
Buildings	26,258	$ -	$ -	$ -	26,258
Machinery and equipment	95,457	-	-	-	95,457
	121,715	$ -	$ -	$ -	121,715
	$ 8,717,619				$ 8,351,958

	For the Year Ended December 31, 2017				
	Balance, Beginning of Year	**Additions**	**Deductions**	**Reclassification**	**Balance, End of Year**
Cost					
Land improvements	$ 123,706	$ -	$ (2,392)	$ -	$ 121,314
Buildings	5,131,565	33,787	(2,238)	722,100	5,885,214
Machinery and equipment	11,849,691	626,605	(393,985)	389,736	12,472,047
Transportation equipment	720,370	13,281	(4,446)	4,826	734,031
Leased assets	42,394	-	-	(42,394)	-
Other equipment	394,127	32,317	(1,515)	343,480	768,409
Property in construction	782,719	107,173	-	(888,647)	1,245
	19,044,572	$ 813,163	$ (404,576)	$ 529,101	19,982,260
Accumulated depreciation					
Land improvements	115,261	$ 1,653	$ (2,392)	$ -	114,522
Buildings	2,478,513	173,618	(2,238)	-	2,649,893
Machinery and equipment	7,133,805	617,542	(390,037)	42,394	7,403,704
Transportation equipment	671,534	15,903	(4,443)	-	682,994
Leased assets	41,806	588	-	(42,394)	-
Other equipment	239,272	54,056	(1,515)	-	291,813
	10,680,191	$ 863,360	$ (400,625)	$ -	11,142,926
Impairment					
Buildings	26,258	$ -	$ -	$ -	26,258
Machinery and equipment	95,457	-	-	-	95,457
	121,715	$ -	$ -	$ -	121,715
	$ 8,242,666				$ 8,717,619

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

Land improvements	2-50 years
Buildings	
Main buildings	20-45 years
Others	3-60 years
Machinery and equipment	2-40 years
Transportation equipment	2-15 years
Leased assets	6 years
Other equipment	2-15 years

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 29.

13. INTANGIBLE ASSETS

	December 31	
	2018	2017
Other intangible assets		
Computer software	$ 113,492	$ 142,800
Deferred technical cooperation expenses	30,262	8,257
Patent	899	667
Trademark	175	250
	144,828	151,974
Developing intangible assets		
Projects non-recurring costs	722,957	848,430
	$ 867,785	$ 1,000,404

	Other Intangible Assets	Developing Intangible Assets
Cost		
Balance at January 1, 2018	$ 944,254	$ 5,857,993
Additions from internal developments	-	232,554
Additions	65,354	-
Disposals	(6,913)	-
Reclassification	4,297	-
Balance at December 31, 2018	$ 1,006,992	$ 6,090,547
Accumulated amortization and impairment		
Balance at January 1, 2018	$ 792,280	$ 5,009,563
Amortization expense	76,797	356,027
Disposals	(6,913)	-
Impairment loss recognized in profit and loss	-	2,000
Balance at December 31, 2018	$ 862,164	$ 5,367,590
Carrying amounts at December 31, 2018	$ 144,828	$ 722,957
Cost		
Balance at January 1, 2017	$ 876,296	$ 5,250,996
Additions	82,352	-
Additions from internal developments	-	651,481
Disposals	(14,394)	(44,484)
Balance at December 31, 2017	$ 944,254	$ 5,857,993

(Continued)

	Other Intangible Assets	Developing Intangible Assets
Accumulated amortization and impairment		
Balance at January 1, 2017	$ 743,456	$ 4,649,031
Amortization expense	63,218	402,000
Disposals	(14,394)	(44,484)
Impairment loss recognized in profit and loss	-	3,016
Balance at December 31, 2017	$ 792,280	$ 5,009,563
Carrying amounts at December 31, 2017	$ 151,974	$ 848,430

(Concluded)

Projects non-recurring costs include the costs related to product design, tooling design and fabrication, production planning, specimen and prototype trial fabrication. Deferred technical cooperation expenses include the participation fees or royalties for participation in international cooperation and development of new business. The amounts were allocated by the proportion of actual sales volume divided by expected sales volume.

The above items of intangible assets are amortized on a straight-line basis over the estimated useful life of the asset:

Trademark	10-15 years
Patent	10-20 years
Computer software	2-3 years

14. OTHER FINANCIAL ASSETS

Other financial assets are the time deposits with original maturities over three months from the date of acquisition; for pledged assets information, refer to Note 29. The market rates of the time deposits in the years of 2018 and 2017 were 0.28%-3% and 0.35%-2.05%, respectively.

15. OTHER ASSETS

	December 31	
	2018	2017
Current		
Prepayment	$ 3,801,020	$ 1,720,937
Others	69,833	33,062
	$ 3,870,853	$ 1,753,999

	December 31	
	2018	2017
Non-current		
Overdue receivables (Note 9)	$ 6,968	$ 9,784
Less: Allowance for impairment loss	(5,792)	(9,651)
	1,176	133
Refundable deposits	21,624	15,774
Others	181,477	-
	$ 204,277	$ 15,907

16. BORROWINGS

a. Short-term borrowings

	December 31	
	2018	2017
Unsecured borrowings	$ 7,730,000	$ 5,515,000
Secured borrowings (Note 29)	-	1,000,000
	$ 7,730,000	$ 6,515,000
Rates of interest per annum (%)	0.86-1.5	0.78-0.88

b. Short-term bills payable

	December 31	
	2018	2017
Commercial paper	$ 2,500,000	$ 2,500,000
Less: Unamortized discount on bills payable	(425)	(671)
	$ 2,499,575	$ 2,499,329
Rate of interest per annum (%)	0.53-0.77	0.5-0.71

c. Long-term borrowings

	December 31	
	2018	2017
Credit borrowings	$ 6,327,635	$ 2,518,241
Secured borrowings (Note 29)	1,800,000	1,800,000
	8,127,635	4,318,241
Less: Current portion	(5,289,606)	(342,606)
Long-term borrowings	$ 2,838,029	$ 3,975,635
Rates of interest per annum (%)	0.78-1.13	0.78-1.22

17. OTHER PAYABLES

	December 31	
	2018	2017
Payable for salaries and bonuses	$ 1,445,655	$ 1,286,262
Payable for outsourcing	751,905	887,799
Payable for purchase of equipment	229,855	284,970
Payable for service fee	138,807	93,867
Payable for employee's compensation and remuneration of directors	136,404	115,127
Payable for annual leave	105,964	107,002
Payable for remedy	6,870	55,219
Others	697,036	916,343
	$ 3,512,496	$ 3,746,589

18. PROVISIONS - NON-CURRENT

	December 31	
	2018	2017
Warranties	$ 656,794	$ 795,067
Others	114,273	144,083
	$ 771,067	$ 939,150

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of other events affecting product quality.

Others refer to the obligation of the Company to improve its Taichung Complex groundwater pollution remediation site as ordered by the Environmental Protection Administration. The Company has the obligation to improve this site and recognized the discounted value of the best estimate of the remediation expenses as provisions.

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes to a pension fund administered by the pension fund monitoring committee; the amounts of contributions were equal to 16.31% and 15.85% of total monthly salaries and wages for the years ended December 31, 2018 and 2017, respectively. Pension contributions are deposited in the Bank of Taiwan in the committee's name and are managed by the Bureau of Labor Funds, Ministry of Labor. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2018	**2017**
Present value of defined benefit obligation	$ 1,889,063	$ 1,425,694
Fair value of plan assets	(1,806,616)	(1,392,272)
Net defined benefit liabilities	$ 82,447	$ 33,422

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities**
Balance at January 1, 2017	$ 988,764	$ (1,009,462)	$ (20,698)
Service cost			
Current service cost	400,054	-	400,054
Net interest expense (income)	11,344	(13,868)	(2,524)
Recognized in profit or loss	411,398	(13,868)	397,530
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	3,609	3,609
Actuarial loss - changes in financial assumptions	33,511	-	33,511
Actuarial loss - experience adjustments	17,000	-	17,000
Recognized in other comprehensive income (loss)	50,511	3,609	54,120
Contributions from the employer	-	(397,530)	(397,530)
Benefits paid	(24,979)	24,979	-
Balance at December 31, 2017	1,425,694	(1,392,272)	33,422
Service cost			
Current service cost	411,360	-	411,360
Net interest expense (income)	12,043	(13,501)	(1,458)
Recognized in profit or loss	423,403	(13,501)	409,902
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(36,999)	(36,999)
Actuarial gain - changes in financial assumptions	(8,854)	-	(8,854)
Actuarial loss - experience adjustments	94,878	-	94,878
Recognized in other comprehensive income (loss)	86,024	(36,999)	49,025

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Contributions from the employer	$ -	$ (409,902)	$ (409,902)
Benefits paid	(46,058)	46,058	-
Balance at December 31, 2018	$ 1,889,063	$ (1,806,616)	$ 82,447

(Concluded)

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Pension Fund or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rate(s)	0.90%	0.85%
Expected rate(s) of salary increase	1.50%	1.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2018	2017
Discount rate(s)		
0.25% increase	$ (35,718)	$ (29,621)
0.25% decrease	$ 36,687	$ 30,480
Expected rate(s) of salary increase		
0.25% increase	$ 36,376	$ 30,206
0.25% decrease	$ (35,596)	$ (29,506)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2018	2017
The expected contributions to the plan for the next year	$ 422,766	$ 409,902
The average duration of the defined benefit obligation	7.55 years	7.1 years

20. EQUITY

a. Ordinary shares

	December 31	
	2018	2017
Number of shares authorized (in thousands)	1,500,000	1,500,000
Shares authorized	$ 15,000,000	$ 15,000,000
Number of shares issued and fully paid (in thousands)	941,867	941,867
Shares issued	$ 9,418,671	$ 9,418,671

On June 14, 2017, the Company's shareholders held a meeting and resolved to appropriate retained earnings to capital and issue 33,605 thousand ordinary shares with par value of NT$10. The FSC approved the capital increase on June 28, 2017 and the board of directors set July 29, 2017 as the subscription base date. As a result, the Company increased its issued and fully paid shares to NT $9,418,671.

b. Retained earnings and dividend policy

The Company's Articles of Incorporation provide that the annual net income after paying income tax should be used first to make up for prior years' losses, set aside 10% as a legal reserve and appropriate or reverse special reserve. The residual earnings will be allocated by the resolution in the shareholders' meeting. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to Note 22 (d).

Profits of the Company may be distributed by way of cash dividend or share dividend. Since the Company is in a capital-intensive industry with steady growth in its current business, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of share dividend provided; however, the ratio of share dividend shall not exceed 50% of total distribution.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's capital surplus. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's capital surplus, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse special reserve.

The appropriations of earnings for 2017 and 2016 having been approved in the shareholders' meetings on June 26, 2018, and June 14, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2017	**2016**	**2017**	**2016**
Legal reserve	$ 171,192	$ 208,266		
Special reserve	460,153	624,796		
Cash dividends	1,064,310	908,262	$ 1.13	$ 1.00
Share dividends	-	336,056	-	0.37

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on March 28, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 207,007	
Special reserve	588,848	
Cash dividends	1,262,102	$ 1.34

The appropriations of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held in May 2019.

21. REVENUES

	For the Year Ended December 31	
	2018	**2017**
Aircraft/vehicle maintenance	$ 15,964,570	$ 17,749,411
Aero/industrial engine	11,818,385	9,416,818
Industrial technology services	373,189	371,185
	$ 28,156,144	$ 27,537,414

22. NET PROFIT

a. Other income

	For the Year Ended December 31	
	2018	**2017**
Interest income	$ 58,743	$ 67,961
Remedy income	11,237	30,881
Other income from condoned liabilities	11,080	5,951
Others	107,605	88,244
	$ 188,665	$ 193,037

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Net foreign exchange gains (losses)	$ 213,750	$ (587,447)
Impairment loss	(2,000)	(3,016)
Gain (loss) on disposal of property, plant and equipment	812	(1,352)
Others	(197,126)	(213,592)
	$ 15,436	$ (805,407)

c. Employee benefits, depreciation and amortization

	Operating Cost	Operating Expense	Non-operating Expense	Transfer to Developing Intangible Assets	Capital cost	Total
For the Year Ended December 31, 2018						
Employee benefits expense						
Salaries expense	$ 4,834,015	$ 529,282	$ 12,699	$ 60,698	$ 112	$ 5,436,806
Retirement benefit						
Defined contribution plans	70,009	9,111	150	1,104	2	80,376
Defined benefit plans	357,030	46,465	767	5,629	11	409,902
Remuneration of directors	-	17,375	-	-	-	17,375
Labor and health insurance	299,810	29,952	60,596	4,013	8	394,379
Other employee benefits	54,572	5,428	10,909	55	-	70,964
Depreciation expense	828,360	51,465	20,162	19,618	26	919,631
Amortization expense	414,061	10,081	39	8,642	1	432,824
For the Year Ended December 31, 2017						
Employee benefits expense						
Salaries expense	4,230,437	471,022	11,377	88,682	44	4,801,562
Retirement benefit						
Defined contribution plans	55,534	7,569	130	1,442	1	64,676
Defined benefit plans	341,334	46,524	803	8,864	5	397,530
Remuneration of directors	-	15,311	-	-	-	15,311
Labor and health insurance	277,746	28,864	56,095	6,072	3	368,780
Other employee benefits	50,570	5,236	10,103	108	-	66,017
Depreciation expense	754,642	47,096	19,968	41,640	14	863,360
Amortization expense	442,280	10,057	51	12,829	1	465,218

As of December 31, 2018 and 2017, the Company had 5,023 and 4,987 employees, respectively, and there were 6 and 7 non-employee directors. The head count basis was the same as the basis of employee benefits expense.

d. Employees' compensation and remuneration of directors

The Company's stipulate distribution of employees' compensation at the rates no less than 0.58% and remuneration to directors at the rates no higher than 4.65%, respectively, of net profit before income tax.

The employees' compensation and remuneration of directors for 2018 and 2017 resolved by the board of directors on March 28, 2019 and March 27, 2018, were as follows:

	For the Year Ended December 31			
	2018		2017	
	The Proportion of Estimate	Amount of Money	The Proportion of Estimate	Amount of Money
Employees' compensation	4.65%	$ 121,277	4.65%	$ 102,360
Remuneration of directors	0.58%	15,127	0.58%	12,767

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the year ended December 31, 2017.

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

e. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2018	2017
Foreign exchange gains	$ 521,564	$ 191,708
Foreign exchange losses	(307,814)	(779,155)
Net gains (losses)	$ 213,750	$ (587,447)

23. TAXES

a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	$ 402,234	$ 513,660
Income tax on unappropriated earnings	43,539	62,709
Adjustments for prior years	(4,022)	2,084
	441,751	578,453
Deferred tax		
In respect of the current year	123,392	(125,155)
Adjustments to deferred tax attributable to change in tax rates and laws	(49,060)	-
	74,332	(125,155)
Income tax expense recognized in profit or loss	$ 516,083	$ 453,298

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2018	2017
Income tax expense calculated at the statutory rate	$ 521,620	$ 374,035
Nondeductible expenses in determining taxable income	123	10
Tax-exempt income	(18)	(13)
Income tax on unappropriated earnings	43,539	62,709
Temporary differences	3,901	14,473
Adjustments to deferred tax attributable to change in tax rates and laws	(49,060)	-
Adjustments for prior years' tax	(4,022)	2,084
Income tax expense recognized in profit or loss	$ 516,083	$ 453,298

In 2017, the applicable corporate income tax rate used by the Company in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income (loss)

	For the Year Ended December 31	
	2018	2017
Deferred tax		
Remeasurement of defined benefit plan	$ (10,808)	$ (9,201)
Translation of foreign operations	-	(4,101)
	$ (10,808)	$ (13,302)

c. Deferred tax assets and liabilities

	For the Year Ended December 31, 2018			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Provisions	$ 159,655	$ (5,440)	$ -	$ 154,215
Intangible assets	58,254	10,681	-	68,935
Payable for annual leave	18,190	3,002	-	21,192
Property plant and equipment	20,692	3,651	-	24,343
Unrealized loss on foreign currency exchange	42,851	(42,680)	-	171
Defined benefit plan	5,682	-	10,808	16,490
	$ 305,324	$ (30,786)	$ 10,808	$ 285,346

	For the Year Ended December 31, 2018			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax liabilities				
Temporary differences				
Investment accounted for using equity method	$ 21,633	$ 43,546	$ -	$ 65,179

	For the Year Ended December 31, 2017			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Provision	$ 177,396	$ (17,741)	$ -	$ 159,655
Intangible assets	61,180	(2,926)	-	58,254
Payable for annual leave	46,508	(28,318)	-	18,190
Property plant and equipment	20,692	-	-	20,692
Unrealized loss on foreign currency exchange	-	42,851	-	42,851
Defined benefit plan	-	-	5,682	5,682
	$ 305,776	$ (6,134)	$ 5,682	$ 305,324
Deferred tax liabilities				
Temporary differences				
Investment accounted for using equity method	$ 128,492	$(106,859)	$ -	$ 21,633
Unrealized gain on foreign currency exchange	24,430	(24,430)	-	-
Translating foreign operations	4,101	-	(4,101)	-
Defined benefit plan	3,519	-	(3,519)	-
	$ 160,542	$(131,289)	$ (7,620)	$ 21,633

d. Deductible temporary differences for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2018	2017
Deductible temporary differences		
Inventories	$ 2,160,722	$ 2,142,678

e. Income tax assessments

Income tax returns of the Company through 2016 have been examined and cleared by the tax authorities.

24. EARNINGS PER SHARE

Unit: NT$ Per share

	For the Year Ended December 31	
	2018	**2017**
Basic earnings per share	$ 2.22	$ 1.86
Diluted earnings per share	$ 2.21	$ 1.85

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

	For the Year Ended December 31	
	2018	**2017**
Net Profit for the Year		
Earnings used in the computation of basic earnings per share (Earnings used in the computation of diluted earnings per share)	$ 2,092,016	$ 1,747,981
Weighted average number of ordinary shares outstanding (in thousand shares)		
Weighted average number of ordinary shares in computation of basic earnings per share	941,867	941,867
Effect of potentially dilutive ordinary shares		
Employees' compensation issue to employees	4,689	3,549
Weighted average number of ordinary shares used in the computation of diluted earnings per share	946,556	945,416

If the Company's compensation or bonuses payable to employees can be settled in cash or shares, then the Company should assume the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares, if dilutive, should be included in the weighted average number of shares outstanding used in the computation of diluted earnings per share. Such dilutive effect of the potential shares should be included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

25. OPERATING LEASE ARRANGEMENTS

The future minimum lease payments for non-cancellable operating lease commitments are as follows:

	December 31	
	2018	2017
Not later than 1 year	$ 164,186	$ 164,228
Later than 1 year and not later than 5 years	-	164,228
	$ 164,186	$ 328,456

26. CAPITAL MANAGEMENT

The Company must maintain adequate capital necessary for profitable operations and business expansion, equipment upgrade and participation in international new aircraft developing. Therefore, the Company manages its capital to ensure that the Company will have enough financial resources to respond accordingly to its working capital requirements at least for the next 12 months, capital expenditures, participation in international new aircraft developing and repayments of liabilities.

The capital structure of the Company consists of net debt (borrowings offset by cash and other financial assets) and equity (comprising ordinary shares, retained earnings and other equity).

27. FINANCIAL INSTRUMENTS

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

The management considers the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values or their fair values cannot be reliably measured.

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

1) Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	$ 70,400	$ -	$ -	$ 70,400
Unlisted shares	-	-	33,067	33,067
	$ 70,400	$ -	$ 33,067	$ 103,467

There were no transfers between Levels 1 and 2 for the years ended December 31, 2018 and 2017, respectively.

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

For the year ended December 31, 2018

Financial Assets	Financial Assets at FVTOCI Equity Instruments
Balance at January 1, 2018	$ 33,848
Recognized in other comprehensive loss	(781)
Balance at December 31, 2018	$ 33,067

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

The Company holds the marketable securities of unlisted shares held by the Company is estimated by using the evaluation method, when there is no market price for reference. The fair value of which the unlisted shares was evaluated by using assets- asset-based approach of the investees.

c. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Loans and receivables	$ -	$ 14,600,450
Financial assets at amortized cost	18,342,405	-
Financial assets measured at cost	-	79,200
Investments in equity instruments at FVTOCI - non-current	103,467	-
Financial liabilities		
Financial liabilities at amortized cost	22,747,217	17,680,444

Loans and receivables measured at amortized cost which comprise cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits.

Financial assets at amortized cost comprise cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits.

Financial liabilities at amortized cost comprise short-term borrowings, short-term bills payable, trade payables, other payables (excluded payable for salaries and bonuses, payable for annual leave and payable for employee's compensation and remuneration of directors), other financial liabilities (accounted at other current liabilities), long-term borrowings (included not later than one year) and guarantee deposits.

d. Financial risk management objectives

The Company's major financial risk management objectives are to manage the market risk (including currency risk and interest rate risk), credit risk and liquidity risk of operating activities. The Company minimizes the unfavorable effects of these risks by identification and assessment of the risks and by applying aversion methods to the uncertainties.

The Company’s financial targets including its investment plan for fixed assets are laid out in its “Five-Year Business Plan”. The financial plan includes risk management policies and the division of responsibilities.

The Company’s major financial instruments include cash, trade receivable, short-term borrowings, trade payables and long-term borrowings. The financial department coordinates access to domestic financial markets.

1) Market risk

The Company’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There had been no change to the Company’s exposure to market risks or the manner in which these risks were managed and measured.

Foreign currency risk

The Company minimizes its currency exposure by natural hedging. Foreign currency operation performance is reported to the key management personnel every quarter and the expected foreign currency and operation direction are set for the next quarter.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 31.

Sensitivity analysis

The Company was mainly exposed to the US dollar. The Company’s sensitivity to a 0.5% stronger or weaker New Taiwan dollar against the relevant foreign currencies means profit before income tax would be increase/decrease by $48,356 thousand and $41,262 thousand for the years ended December 31, 2018 and 2017. The sensitivity rate of 0.5% represents the management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, with the foreign currency rates at the end of the reporting period adjusted for a 0.5% change.

Interest rate risk

The Company’s interest risk is evaluated in terms of short-term borrowings; short-term bills payable and long-term borrowings. Borrowing and repayment require budget planning in advance to control the interest risk. Interest rates of short-term loans from different financial organizations are compared and lowest one will be selected.

Sensitivity analysis

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company’s pre-tax profit for the years ended December 31, 2018 and 2017 would decrease/increase by $33,394 thousand and $27,083 thousand, respectively, which was mainly attributable to the Company’s exposure to interest rates on its variable-rate bank borrowings. 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The possible financial loss would equal to the carrying amount of the recognized financial assets as stated in the balance sheets. However, the Company is executing forward exchange only with the correspondent financial institutions, and they are creditworthy with no credit risks.

The Company's dealing counterparties are national defence organizations and international aerospace corporations, and they are creditworthy with extreme low risk of bankruptcy. The Company's key management checks the accounts receivable every month, and instructs the project team to collect the past due amounts.

The Company's concentration of credit risk by geographical location was mainly in the United States, which accounted for 40% and 37% of the total trade receivable as of December 31, 2018 and 2017, respectively.

3) Liquidity risk

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

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the Company had available unutilized bank loan facilities as set out in (b) below.

a) Liquidity and interest risk rate tables for non-derivative financial liabilities

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

	December 31, 2018	
	Less Than 1 Year	**More than 1 Year**
Non-derivative financial liabilities		
Non-interest bearing liabilities	$ 4,184,267	$ 205,740
Variable interest rate liabilities	10,519,606	2,838,029
Fixed interest rate liabilities	4,999,575	-
	$ 19,703,448	$ 3,043,769

	December 31, 2017	
	Less Than 1 Year	More than 1 Year
Non-derivative financial liabilities		
Non-interest bearing liabilities	$ 4,143,765	$ 204,109
Variable interest rate liabilities	5,142,606	3,975,635
Fixed interest rate liabilities	4,214,329	-
	$ 13,500,700	$ 4,179,744

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

b) Financing facilities (reviewed annually)

	December 31	
	2018	2017
Unsecured bank overdraft facility:		
Amount unused	$ 4,975,573	$ 12,493,750
Secured bank loan facilities:		
Amount unused	$ 1,000,000	$ 1,000,000

28. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Company and related parties are disclosed below.

a. Related Party Categories / Names

Related Party Name	Relationship with the Company
AIDC USA	Subsidiary
ITEC	Associate
Ministry of Economic Affairs	Corporate director

b. Sales of goods

	For the Year Ended December 31	
Related Parties Name	2018	2017
ITEC	$ 1,228,336	$ 1,213,353

The Company's sales prices are based on the contracts. The collection terms are as follows:

Item	Collection terms
Engine	90 days after the invoice date
Backup parts	Offset account receivables with account payable

There is no unrelated party with similar product item to compare the engine sales price. The backup parts are only directly sold to the ROC Air Force, and the sales price is according to the purchase contract with related party plus the processing fee agreed by both parties, and collection term is 1-2 months.

c. Purchase of goods

Related Parties Name	For the Year Ended December 31 2018	2017
ITEC	$ 924,826	$ 1,025,748
AIDC USA	706	-
	$ 925,532	$ 1,025,748

The Company's buying prices from related party are based on contract. The payment term in principle is 1-2 months or paying after offset of accounts receivable. There are no unrelated parties with similar product items that can serve as basis of comparison of prices and terms.

d. Manufacturing expenses

Related Parties Name	For the Year Ended December 31 2018	2017
ITEC	$ 487,619	$ 510,420
AIDC USA	16,915	13,080
Ministry of Economic Affairs	-	50,419
	$ 504,534	$ 573,919

e. Operation expenses

Related Parties Name	For the Year Ended December 31 2018	2017
AIDC USA	$ 18,651	$ 18,438
Ministry of Economic Affairs	-	29,005
	$ 18,651	$ 47,443

f. The Company leases land from the Ministry of Economic Affairs, rent expense is calculated at 5% of the annually announced land values, payment is once a year. Since 2018, the ownership of the land has been changed to the National Property Administration, Ministry of Finance. Rent expense for the year ended December 31, 2017 was $105,562 thousand.

g. Receivable from related parties

Related Parties Name	December 31 2018	2017
ITEC	$ 306,833	$ 308,373

The outstanding trade receivables from related parties are unsecured. No impairment loss and excepted credit loss was recognized on trade receivables from related parties.

h. Other current assets

Related Parties Name	December 31 2018	December 31 2017
ITEC	$ 796,598	$ 222,401

i. Payable to related parties

Related Parties Name	December 31 2018	December 31 2017
ITEC	$ 294,289	$ 201,665

The outstanding trade payables to related parties are unsecured.

j. Other payables

Related Parties Name	December 31 2018	December 31 2017
ITEC	$ 90,391	$ 25,737
AIDC USA	3,057	3,944
	$ 93,448	$ 29,681

k. Compensation of key management personnel

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Short-term benefits	$ 30,219	$ 28,207
Post-employment benefits	1,279	3,922
	$ 31,498	$ 32,129

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following other financial assets and property, plant and equipment were provided as collateral for bank borrowings and obligation:

	December 31 2018	December 31 2017
Property, plant and equipment	$ 2,121,409	$ 2,189,921
Other financial assets - Current	1,860,093	2,986,607
Other financial assets – Non-current	10,807	10,807
	$ 3,992,309	$ 5,187,335

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

a. As of December 31, 2018 and 2017, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately $114,076 thousand and $156,402 thousand, respectively.

b. As of December 31, 2018 and 2017, unpaid contract for purchases of raw materials and machinery and equipment amounted to approximately $36,761,294 thousand and $29,803,225 thousand, respectively.

31. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

	December 31					
	2018			2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Assets						
Monetary items						
USD	$ 323,600	30.715	$9,939,374	$ 293,148	29.76	$8,724,084
Non-monetary items						
USD	20,241	30.715	621,696	13,700	29.76	407,708
Liabilities						
Monetary items						
USD	8,732	30.715	268,203	15,850	29.76	471,696

The significant unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2018		2017	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Loss	Exchange Rate	Net Foreign Exchange Loss
USD	30.715	$ (1,035)	29.76	$(251,851)

32. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (None)

2) Endorsements/guarantees provided. (None)

3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 1)

4) Marketable securities acquired and disposed at costs or prices at least $300 million or 20% of the paid-in capital. (None)

5) Acquisition of individual real estate at costs of at least $300 million or 20% of the paid-in capital. (Table 2)

6) Disposal of individual real estate at prices of at least $300 million or 20% of the paid-in capital. (None)

7) Total purchases from or sales to related parties amounting to at least $100 million or 20% of the paid-in capital. (Table 3)

8) Receivables from related parties amounting to at least $100 million or 20% of the paid-in capital. (Table 4)

9) Trading in derivative instruments. (None)

10) Information on investees. (Table 5)

b. Information on investments in mainland China. (None)

TABLE 1

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars or Shares)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018			
				Shares	Carrying Value	Percentage of Ownership	Fair Value
The Company	Share capital						
	UHT Ltd.	-	Financial assets at FVTOCI - non-current	1,100	$ 70,400	3.2%	$ 70,400
	AAI	The Company is a corporate director	Financial assets at FVTOCI - non-current	4,968	30,918	13.09%	30,918
	Metro Ltd.	The Company is a corporate director	Financial assets at FVTOCI - non-current	300	2,149	6%	2,149

Note: Information about subsidiary and associate is provided in Table 5.

TABLE 2

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COST FOR AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Company	Building	2018.12.14	$ 608,311	Note	Note	-	N/A	N/A	N/A	N/A	Price comparison and negotiation	Production	None

Note: The expected date to bid is in April 2019.

TABLE 3

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Purchaser or Seller	Related Party	Nature of Relationship with the Purchaser or Seller	Transaction Details				Abnormal Transaction		Notes and Accounts Receivable (Payable)		Note
			Purchase or Sale	Amount	% to Total	Collection Terms	Unit Price	Collection Terms	Ending Balance	% to Total	
The Company	ITEC	Associate	Sale	$ (1,228,336)	(4)	Note	Note	Note	$ 306,833	2	
			Purchase	924,826	8	Note	Note	Note	(294,289)	(13)	

Note: Information is provided in Note 28.

TABLE 4

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
The Company	ITEC	Associate	$ 306,833	3.99	$ -	-	$ 306,833	$ -

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars or Shares, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018			Net Income of the Investee	Share of Profits	Note
				December 31, 2018	December 31, 2017	Shares	%	Carrying Amount			
The Company	AIDC USA	State of Delaware USA	Provide program management and relevant services for purchasing and selling raw materials, parts and components of aircraft, engines and subsystems.	$ 288,661	$ 288,661	-	100	$ 621,696	$ 197,169	$ 197,169	Subsidiary
AIDC USA	ITEC	State of Delaware USA	Development production and remodel of aircraft	728	728	-	22.05	602,985	1,066,263	235,111	Associate

7. Insolvency and the Effect on the Financial Position of the Company: There is no insolvency to the Company and its affiliated enterprises in previous year to the date this report was printed, and there is no effect on the financial position of the Company.

VII. Financial Position and Review of Financial Performance and Risk

1. Review and Analysis of Financial Position:

1.1 Review and Analysis of Consolidated Financial Position:

Unit：NT$ thousands

Fiscal Year / Title	2017	2018	Difference	
			Amount	%
Current Assets	23,111,931	29,014,820	5,902,889	25.54
Real Properties, Plant and Equipment	8,718,654	8,352,719	(365,935)	(4.20)
Intangible Assets	1,000,404	867,785	(132,619)	(13.26)
Other Assets (Note 2)	921,892	1,584,230	662,338	71.85
Total Assets	33,752,881	39,819,554	6,066,673	17.97
Current Liabilities	15,508,917	21,805,607	6,296,690	40.60
Noncurrent Liability	5,140,922	3,880,330	(1,260,592)	(24.52)
Total Liabilities	20,649,839	25,685,937	5,036,098	24.39
Capital Stock	9,418,671	9,418,671	0	0.00
Retained Earnings	3,716,543	4,706,032	989,489	26.62
Other Equity	(32,172)	8,914	41,086	127.71
Total Equity	13,103,042	14,133,617	1,030,575	7.87

Significant changes in the components of assets, liabilities and shareholders' equity (change in 10% of more and the amount changed approximated NTD 10 million) in the last 2 years, the main causes and the effect, and the plan for responding to the changes are specified below:

1.Increase of current assets: mainly because of the increase in revenue of FY2018, customer order mainly occured in December, and the prepayments for execution of defense business.

2. Increase of other assets: major items in this account include measurement equity instrument through fair value for unearned valuation, equity methods for AIDC USA LLC investment to ITEC, and prepayments for equipment and tooling of defense projects.

3.Increase of current liabilities and total liabilities: mainly because of increase in long-term borrowings for business and investment purposes.

4.Decrease of noncurrent liability: because of current portion of long term borrowings being reclassified into current liabilities.

5.Increase of retained earnings: mainly because of the growth of operation performance that resulted in the increase in earnings net in current period.

6.Increase of other equity: the major item in this account is to use fair value for unearned valuation for investment to UHT Unitech.

Note 1: The comparison is made by the audited figures in accordance with IFRSs in FY 2017-2018.

Note 2: Other assets include fair value through other comprehensive income noncurrent financial assets, noncurrent financial assets at cost, investment accounted for under the equity method, deferred income tax assets, prepayments for equipment, other noncurrent financial assets and other noncurrent assets.

1.2 Review and Analysis of Individual Company Financial Position:

Unit：NT$ thousands

Fiscal Year / Title	2017	2018	Difference	
			Amount	%
Current Assets	23,098,583	28,977,692	5,879,109	25.45
Real Properties, Plant and Equipment	8,717,619	8,351,958	(365,661)	(4.19)
Intangible Assets	1,000,404	867,785	(132,619)	(13.26)

Fiscal Year / Title	2017	2018	Difference	
			Amount	%
Other Assets (Note 2)	900,628	1,602,010	701,382	77.88
Total Assets	33,717,234	39,799,445	6,082,211	18.04
Current Liabilities	15,473,314	21,785,498	6,312,184	40.79
Noncurrent Liability	5,140,878	3,880,330	(1,260,548)	(24.52)
Total Liabilities	20,614,192	25,665,828	5,051,636	24.51
Capital Stock	9,418,671	9,418,671	0	0.00
Retained Earnings	3,716,543	4,706,032	989,489	26.62
Other Equity	(32,172)	8,914	41,086	127.71
Total Equity	13,103,042	14,133,617	1,030,575	7.87

Significant changes in the components of assets, liabilities and shareholders' equity (change in 10% of more and the amount changed approximated NTD 10 million) in the last 2 years, the main causes and the effect, and the plan for responding to the changes are specified below:

1. Increase of current assets: mainly because of the increase in revenue of FY2018, customer order mainly occured in December, and the prepayments for execution of defense business.
2. Increase of other assets: major items in this account include measurement equity instrument through fair value for unearned valuation, equity methods for AIDC USA LLC investment to ITEC, and prepayments for equipment and tooling of defense projects.
3. Increase of current liabilities and total liabilities: mainly because of increase in long-term borrowings for business and investment purposes.
4. Decrease of noncurrent liability: because of current portion of long term borrowings being reclassified into current liabilities.
5. Increase of retained earnings: mainly because of the growth of operation performance that resulted in the increase in earnings net in current period.
6. Increase of other equity: the major item in this account is to use fair value for unearned valuation for investment to UHT Unitech.

Note1 : The comparison was made by the audited figures in accordance with IFRSs in FY 2017 and FY 2018.

Note 2: Other assets include fair value through other comprehensive income noncurrent financial assets, noncurrent financial assets at cost, investment accounted for under the equity method, deferred income tax assets, prepayments for equipment, other noncurrent financial assets and other noncurrent assets.

2. Review and Analysis of Financial Performance

2.1 Comparison of Consolidated Financial Performance Analysis in the Last 2 Years:

Unit：NT$ thousands

Fiscal Year / Title	2017	2018	Difference Amount	Difference %
Net Operating Income	27,537,414	28,182,098	644,684	2.34
Operating Cost	23,637,272	24,542,508	905,236	3.83
Operating Gross Profit	3,900,142	3,639,590	(260,552)	(6.68)
Operating Expense	1,130,374	1,293,432	163,058	14.43
Operating Net Profit	2,769,768	2,346,158	(423,610)	(15.29)
Non-operating revenues and expenditures	(490,979)	305,860	796,839	162.30
EBT	2,278,789	2,652,018	373,229	16.38
Income Tax Expense	530,808	560,002	29,194	5.50
Earnings Net in Current Period	1,747,981	2,092,016	344,035	19.68

Title \ Fiscal Year	2017	2018	Difference Amount	Difference %
Other Comprehensive Income (after taxation)	(97,116)	(91,468)	5,648	5.82
Total Comprehensive Income in Current Period	1,650,865	2,000,548	349,683	21.18
The major causes of significant changes in revenue, operating income and EBT (change of more than 10% and the absolute value of change amounted to NT$10 million): 1. Increase of non-operating revenues and expenditure: mainly because of the fluctuations of exchange rate against USD which resulted in increase of net exchange gain for FY 2018. 2. Increase of EBT and earnings net in current period: mainly because of the increasing engine business contributed to the growth of operation performance. 3. Increase of total comprehensive income in current period: mainly because of increase in earnings net and other comprehensive income in current period than the previous year.				

Note : The comparison was made by the audited figures in accordance with IFRSs in FY 2017 and FY 2018.

2.2 Comparison of Individual Company Financial Performance Analysis in the Last 2 Years:

Unit：NT$ thousands

Title \ Fiscal Year	2017	2018	Difference Amount	Difference %
Net Operating Income	27,537,414	28,156,144	618,730	2.25
Operating Cost	23,650,352	24,559,503	909,151	3.84
Operating Gross Profit	3,887,062	3,596,641	(290,421)	(7.47)
Operating Expense	1,117,441	1,256,508	139,067	12.45
Operating Net Profit	2,769,621	2,340,133	(429,488)	(15.51)
Non-operating revenues and expenditures	(568,342)	267,966	836,308	147.15
EBT	2,201,279	2,608,099	406,820	18.48
Income Tax Expense	453,298	516,083	62,785	13.85
Earnings Net in Current Period	1,747,981	2,092,016	344,035	19.68
Other Comprehensive Income (after taxation)	(97,116)	(91,468)	5,648	5.82
Total Comprehensive Income in Current Period	1,650,865	2,000,548	349,683	21.18
The major causes of significant changes in revenue, operating income and EBT in the last two years (change of more than 10% and the absolute value of change amounted to NT$10 million): 1. Increase of non-operating revenues and expenditure: mainly because of the fluctuations of exchange rate against USD which resulted in increase of net exchange gain for FY 2018. 2. Increase of EBT and earnings net in current period: mainly because of the increasing engine business contributed to the growth of operation performance. 3. Increase of total comprehensive income in current period: mainly because of increase in earnings net and other comprehensive income in current period than the previous year.				

Note : The comparison is made by the audited figures in accordance with IFRSs in FY 2017 and FY 2018.

2.3 The Effect of the Reference for the Projection of Sale Volume on the Operation and Financial Position of the Company, and the Measures in Response:

AIDC projects its sale volume on the basis of market demand and development trend, the operation outlook of its customers, and the customer orders on hand and the production capacity. The products of AIDC were recognized by the customers and customer order quantity is stable. There is also the opportunity of new business. It is expected that the sale volume will grow in the future.

2.4 Possible Effect on the Financial Position and Operation of the Company: No significant influence.

2.5 Plan in Response: Not applicable.

3. Cash Flow and Liquidity Analysis

3.1 Liquidity Analysis of Consolidated Financial Data Over the Last 2 Years:

Year / Title	2017	2018	Proportion of Change (%)
Cash flow ratio (%)	6.64%	—	—
Cash flow suitability ratio (%)	85.39%	59.77%	(25.62)%
Cash reinvestment ratio (%)	0.41%	—	—
Notes to the Analysis of the Proportion of Change: 1. Cash Flow Ratio and Cash Reinvestment Ratio: mainly because of the increase in revenue of FY 2018, customer order placement mostly in December, and the prepayments for execution of defense business which lead to net cash flow from operating activities in current period. 2. Cash Flow Suitability Ratio decreased: because of decrease in net cash flow from operating activities and increase in capital expenditure and cash dividend in the last 5 years.			

Note : The basis of comparison for FY 2017 and FY 2018 are the audited figures under IFRSs.

3.2 Liquidity Analysis of Individual Company Over the Last 2 Years:

Year / Title	2017	2018	Proportion of Change (%)
Cash flow ratio (%)	6.92%	—	—
Cash flow suitability ratio (%)	85.61%	60.01%	(25.60)%
Cash reinvestment ratio (%)	0.55%	—	—
Notes to the Analysis of the Proportion of Change: 1. Cash Flow Ratio and Cash Reinvestment Ratio: mainly because of the increase in revenue of FY 2018, customer order placement mostly in December, and the prepayments for execution of defense business which lead to net cash flow from operating activities in current period. 2. Cash Flow Suitability Ratio decreased: because of decrease in net cash flow from operating activities and increase in capital expenditure and cash dividend in the last 5 years.			

Note : The basis of comparison for FY 2017 and FY 2018 are the audited figures under IFRSs.

3.3 Liquidity Analysis of the Year Ahead: Not applicable.

4. Major Capital Expenditures in Previous Year and the Effect on the Financial Position and Operation: None.

5. Direct Investment in Previous Year and the Effect of Operation on the Income Status of the Company

5.1 The Outlook of Direct Investment:

AIDC direct investment policy follows the Company's business plan, seeks complementary resources, strengthen the core competence, to consolidate and extend the existing core business, and expand business opportunities to achieve the Company's vision.

AIDC has invested 4 companies in 2018 with 2 company's operation performance result in income loss, and the outlook is illustrated as the following table. The Company will continue to integrate its business with direct investment to improve the investment performance.

December 31, 2018/Unit：NT$ thousands

Industry Type	Name of Investee	Income/Loss	Main Cause of Profit or Loss	Improvement Plan
Aerospace Manufacturing	AIDC USA LLC	197,169	The main cause of profit is the proactive expansion of service business and non-operating income of investment	—
Avionics	AeroVision Avionics Inc.	(6,133)	The main causes of loss are the revenue of train and bus entertainment system fell short of expectation.	Exert program management effectiveness to pursue in-flight entertainment system and related business
Track Consulting	Metro Consulting Service Ltd.	2,601	The main cause of profit is the proactive expansion of service business and the effective control of operating expenses.	—
Other	UHT Unitech Co., Ltd.	(95,039)	The main causes of loss is the operation hasn't reach economy of scale and the profit fell short of overall operation expense.	Reduce operation cost and pursue carbon fiber equipment export licensing

Source: The audited FY 2018 financial statements of the above companies.

6. Risks under Assessment in Previous Year to the Date this Report was Printed

6.1 The Effect of Interest Rate and Exchange Rate Fluctuation and Inflation on the Income Level of the Company and the Responding Measures

6.1.1 The Effect of Interest Rate Fluctuation on the Income Level of the Company and the Response in the Future

Interest income in FY 2018 amounted to NT$58,757 thousand or accounted for 0.21% of the consolidated earnings. Interest expense in the same year amounted to NT$133,304 thousand or accounted for 0.47% of the consolidated earnings. These figures indicated that interest expense has marginal effect on the income level of the Company. The Company also makes timely adjustment of the use of capital in line with the change in interest rate to mitigate the influence of interest rate fluctuation on income level.

6.1.2 The Effect of Exchange Rate Fluctuation on the Income Level of the Company and the Response in the Future

Net exchange increase in FY 2018 amounted to NT$213,750 thousand or accounted for 0.76% of the consolidated revenue. The Company has its export sales and purchases of the Company mostly denominated in USD and therefore takes the following measures to tackle with exchange rate fluctuation:

6.1.2.1 Gather timely information on the exchange rate and is engaged in frequent consultation with relevant financial institutions on mapping out the hedge strategy in exchange rate in order to keep abreast of the trend of exchange rate.

6.1.2.2 Manage the liabilities and assets denominated in foreign currencies through offsetting account payables and receivables with flexibility to minimize the effect of exchange rate fluctuation.

6.1.2.3 In compliance with the requirement of the competent authority, the Company has instituted the "Procedure for Derivative Trade" so as to use proper financial tool for hedging off the risk deriving from exchange rate fluctuation and minimize the impact of exchange rate fluctuation on the Company.

6.1.3 The Effect of Inflation on the Income Level of the Company and the Response in the Future

(1) According to the Directorate-General of Budget, Accounting and Statistics, the CPI (Consumer Price Index) of 2018 increased 1.35%, while Core CPI(*) increased 1.22%, the effect of inflation was low.

*Core CPI refers to the index eliminating short term or occasional factors (such as typhoon, war), in Taiwan it refers to the CPI indices excluding vegetables and energy (gas, electricity and oil prices)

(2) AIDC shall continue to control cost through inventory management, procurement policy and process development and innovation; and shall continue to monitor inflation for adjustment. As such, the effect of inflation on its operation and profit position is not significant.

6.2 The Policy of the Company in Undertaking High Risk and High Leverage Investment, Lending to a Third Party, Guarantee and Endorsement, and Derivative Trade, the Main Causes of Profit or Loss, and the Response in the Future

6.2.1 The Company is conceived with the corporate philosophy of stable growth in its operation and only takes forwards contract for hedging. As such, the Company does not undertake any high risk or high leverage investment and financial operation.

6.2.2 The Board resolved in a session dated July 30, 2007 that the Company shall not engage in any lending to third party or undertaking of guarantee and endorsement.

6.2.3 In compliance with the requirement of the competent authority, the Company has instituted the "Procedure for Derivative Trade" as the guideline for derivative trade. From FY 2018 to March FY 2019, the Company has not conducted any derivative trade.

6.3 R&D Plan in the Future and Projected R&D Expenses

The Company has made ceaseless effort over the years to upgrade the human resources in research and development and committed a great amount of funding to satisfy the needs of business development and customer orders. In the future, the Company will continue to invest 2%~4% of the revenue per year in research and development for attaining the goal of the operation as planned.

6.4 Changes in the Legal and Policy Environment at Home and Aboard and its Influence on the Operation and Financial Position of the Company, and the Response

The Company runs its operation in compliance with applicable legal rules at home and abroad, and pays close attention to any change in the policy and legal environment. The Company responds to any change in the policy and legal environment by making appropriate adjustment in related business and financial operation. In the previous year to the date this report was printed, the Company has not been affected by any change in the policy and legal environment at home and abroad.

6.5 The Effect of Technological and Industrial Changes on the Operation and Financial Position of the Company and the Response

For environmental protection, demands for light weight, fuel efficiency, and low carbon emission continue to lead the design and development of new aircrafts and engines, and the application of composite materials also plays a key part in this trend. To bolster its position as tier 1 supplier of Airbus, in addition to TACC, AIDC further invested in the construction of TACC #19 dedicated to the production of composite parts and components for the popular single aisle A320 series aircraft. To satisfy the strong demand of GE and Rolls-Royce for green engines, Engine Case Manufacturing Center (ECMC) was thus built and certified for production, and has gradually generating revenue.

AIDC, being the first approved manufacturer in Asia to manufacture the high-precision hot section module for GE LEAP engine, has currently building Turbine Center Frames (TCF) which mainly supply the hot section module for GE LEAP engine. With the robust demand of LEAP engine and its orders exceeding 75% market share of single-passenger passengers, it is expected to see the increasing shipment once the deliveries is made and thus leads the momentum of the engine market.

In recent years, the 3D printing technology is gradually matured with wide application in aerospace field which brings impact on the existing supply chain, thus AIDC has established Innovation and R&D Center to work on the cutting-edge technology and list 3D printing technology as one of the major research project. In short run, AIDC will cooperate with domestic research instiutionsto to lay a good foundation and consult foreign experts and leading firms for the 3D printing know-how, and enter the production phase in the future.

Further to the above, more requirements for partner selection by international aerospace companies are seen. In addition to the basic ones such as quality, cost and delivery, Boeing and Airbus expect suppliers to work towards automated and intelligent production to enhance flexibility and competitiveness. Based on this, AIDC adopted Industry 4.0 concept to develop the iAIDC intelligent manufacturing platform which incorporates intelligent machinery, intelligent manufacturing and intelligent management. This effort not only won recognition from international customers such as GE, but also established AIDC as the leader in the field of intelligent and high value-added aerospace technology development in Taiwan, which greatly facilitates the enhancement of competitive power and contribute to the financial position and operation of the Company.

6.6 The Effect of the Change in Corporate Image on Corporate Crisis Management and the Response

AIDC is strictly attached to its corporate philosophy of "Accountability, Integrity, Innovation, Dedication, and Customer Orientation" and its corporate culture and seeks to upgrade its technology in the production and manufacturing of aircrafts and quality management at all times. It also seeks to enhance its relation with the customers and create value for the customers, and spares no effort in upgrading its quality and efficiency through internal management and external inspection. AIDC has positive corporate image and has no significant change in such image that may result in corporate crisis.

6.7 Expected Return On and Possible Risk from Mergers and Acquisitions, and the Response

In the previous year to the date this report is printed, AIDC has no plan for acquiring any other companies. If there is such a plan in the future, AIDC will take caution in the assessment and will fully consider the synergy after the merger, and comply with applicable legal rules and the internal code of the Company to protect the interest of the Company and shareholders' equity.

6.8 Expected Return On and Possible Risk from Capacity Expansion, and the Response

AIDC has already secured business from international giant firms in engine case and components and parts in composite materials, and military aircraft maintenance. After its consultation with the international giant firms, AIDC has constructed and ensured new plants for housing the engine case manufacturing center, composite materials manufacturing center, and the depot for the maintenance of military aircraft, also the Board of Directors approved the new plant project for Turbine Center Frames on December 14, 2018. The expected result, possible risk, and response are elaborated below:

6.8.1 Expected Result: capacity expansion can help to accommodate a large volume of engine case and composite materials production and the maintenance of military aircrafts. This helps to satisfy the needs of customer orders and also enhance the economic efficiency.

6.8.2 Possible Risk and Response: the Company has completed its assessment on Turbine Center Frames (TCF) including the schedule of plant construction, business volume, cost of production, and the sources of capital, and has mapped out the goals for managing relevant risks and a backup plan.

6.8.3 The construction work and procurement of the equipment of Turbine Center Frames (TCF) capacity expansion projects are progressing as scheduled, and is expected to satisfy customer orders.

launched the plan for

6.9 The Risk Deriving from Concentration of Purchase or Sales and the Response

6.9.1 Assessment of the Risk Deriving from Concentration of Purchase and the Response:

The procurement of AIDC is mainly based on the procurement operation procedure of AIDC. Purchase will be made by tender offer by nature of the content of purchase, and could be classified as public tender, selective tender, restricted tender and joint supply contracts. The top 10 suppliers of AIDC in the last 3 years accounted for 50.15%、 37.60% and 42.56% of purchase, respectively. The number one supplier in these years accounted for 8.28%、8.71% and 11.42% of the purchase of respective years. There is no particular supply that purchases amounted to 20% or more. AIDC has developed strong bonding with key suppliers in the long run and the supply from these suppliers in the last 3 years was good. There is no shortage of supply, severing of supply or delay that affected production. There is no over concentration of purchase either.

6.9.2 Assessment of Risk Deriving from Concentration of Sales and the Response

Conceived with the mission of "consolidate national self-reliant defense, lead industrial upgrade, enhance aerospace industry development and promote economic prosperity", AIDC concentrated its sales to the Ministry of Defense in the past. Under the increasing attention of the international aerospace firms in aerospace technologies, AIDC sought to develop new overseas customers in aircrafts and engines. As such, the business line has been changed from military supply to a proper balance between military supply and commercial use. The biggest customer is still the Ministry of National Defense whose share of business accounted for 90% at the initial stage of the operation, and fell gradually over the years to less than 50%. As such, there is no risk of concentration of sales.

6.10 The Massive Transfer or Swap of Shares by the Directors, Supervisors, or Dominant Shareholders Holding more than 10% of the Stakes and the Influence, Risk on the Company and the Response

In the recent years to the date this report is printed, AIDC has provided shares for employees to subscribe on a favorable term and preemptive basis pursuant to the regulations of the Statute of Privatization of Government-Owned Enterprises. The dominant shareholder, the Ministry of Economic Affairs disposed 10.55 % of its shares in 2015-2017. However, there is limitation of shares for subscription in the aforementioned means and there is no shareholder holding more than 10% of the stakes. The Ministry of Economic Affairs remains the dominant shareholder and such changes in shareholding structure did not cause any influence on the operation of the Company. There is also no massive transfer or swap of shares by the Directors,-or shareholders holding more than 10% of the stakes.

6.11 The Influence On and the Risk Deriving from the Change in the Management and the Response

The Ministry of Economic Affairs is still the dominant shareholders by holding specific proportion of the shares after privatization of AIDC. As such, the change in equity structure did not cause any unfavorable influence on the management.

6.12 Lawsuits or Non-contentious Matters

6.12.1 Are there suits, non-contentious matters or administrative action, ruled or still pending, in the last 2 years to the date this report was printed, and the result may cause significant influence on the shareholders' equity or stock price? Disclose the facts, the targeted amount involved, the starting date of the actions, the parties concerned in the actions, and the status of the actions:

AIDC has no pending lawsuits and in most cases AIDC was the claimant for damage. Some of targeted amount involved in the cases are not high, and there will be no significant loss even if the ruling is unfavorable to AIDC. As such, there is no significant influence on the shareholders' equity or stock price of the Company.

6.12.2 Directors, Supervisors, President, the Deputy Agent of the Company, and Shareholders Holding More than 10% of the Stakes and their Subsidiaries, who were Involved in Law Suits, Non-contentious Matters, or Administrative Actions, Ruled or Pending, in the Last 2 Years to the Date this Report was Printed, and the Result may Cause Significant Influence on the Shareholders' Equity or Stock Price: None.

6.13 Other Major Risks and Response: None.

7. Other Important Notice: None.

VIII. Special Notes

1. Affiliates Information:

1.1 Organizational Chart of the Affiliates

Aerosapace Industrial Development Corporation

100%

AIDC USA LLC

1.2 Information of the Affiliates

Name	Incorporation Date	Address	Capital	Main Business Items
AIDC USA LLC	March 2, 2016	2999 N. 44 St. STE 514 Phoenix, AZ85018	US$9,470,000	Program management and relevant services for purchasing and selling of raw materials, parts and components of aircraft, engines and subsystems

1.3 Companies presumed to have a relationship of control and subordination that have the shareholders in common: None.

1.4 The industries covered by the business operated by the affiliates overall: AIDC USA LLC is the sole affliliate AIDC currently has, and its main business items are specified in item 1.2 above.

1.5 Details of Directors, Supervisors and Managerial Officer of Affiliates

Dec. 31, 2018; Unit: shares

Name of Affiliate	Title	Name or Representative	Shareholding	
			Number of Share	Shareholding ratio
AIDC USA LLC	Chairman President	Liao, Jung-Hsin Lai, Wen-Yi	Capital contribution by AIDC US$9,470,000 (Note)	100%

Note: A limited liability company without issuing shares; no information on quantity of shares is applicable.

1.6 Operations of the Affiliates

Dec. 31, 2018; Unit: US$ thousands

Name	Capital	Total Assets	Total Liabilities	Book Value	Revenue	Operating Income	Net Income
AIDC USA LLC	9,470	20,995	754	20,241	2,064	200	6,502

1.7 Consolidation of Financial Statements of Affiliates

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

2. Private Placement Securities in 2018 and as of the Date of this Annual Report: None.

3. Status of AIDC Common Shares and ADRs Acquired, Disposed of, and Held by Subsidiaries: None.

4. Other Necessary Supplement: None.

5. Any Events in 2018 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 3 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

Aerospace Industrial Development Corporation

Chairman Kai-Hung Hu

Accountability・Innovation・Dedication・Customer Orientation

Aerospace Industrial Development Corporation