

FineTek Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
FineTek Co., Ltd.

Opinion

We have audited the accompanying financial statements of FineTek Co., Ltd. (the Company), which comprise the balance sheets as of December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017. 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.

The key audit matters in the financial statements of FineTek Co., Ltd. for the year ended December 31, 2017 are the following:

Occurrence of Sales Revenue from Major Customers

The Company is listed on the Taipei Exchange Mainboard. It is in the growth stage and the management is faced with substantial pressure to achieve financial goals. In 2017, the operating revenue of the Company was \$764,161 thousand, which represented an increase of 21% compared with the year 2016. The revenue from the top ten customers (related parties excluded) was approximately 19% of total revenue in 2017. Therefore, we deemed the occurrence of sales particularly to the top ten customers as a key audit matter. The revenue recognition accounting policy is disclosed in Note 4.k to the financial statements.

We performed the following procedures to audit the sales revenue of the top ten customers:

1. We obtained an understanding of the design of major internal controls for sales revenue and we tested the effectiveness of their implementation.
2. We obtained a list of major customers for the year 2017 and we assessed the reasonableness of the sales to them by comparing with past data and by checking the sales data against customer profile, background, transaction amount, credit line and size.
3. We selected samples of sales transactions and we checked the details against external shipping documents, customer receiving documents and sales invoices to verify that the transactions have occurred and were recorded in the correct year and completed under normal conditions and did not have unusual circumstances.
4. We also checked significant sales returns and allowances against the related sales to confirm the occurrence of the sales.

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 the supervisors and independent directors, 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 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, 2017 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 Jung Cheng Chen and Keng Hsi Chang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 23, 2018

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. Also, as stated in Note 4 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

FINETEK CO., LTD.

BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 225,424	15	\$ 231,431	16
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	56	-	1,289	-
Debt investment with no active market - current (Notes 4 and 9)	51,000	3	-	-
Notes receivable from unrelated parties (Notes 4 and 10)	23,787	2	26,388	2
Trade receivables from unrelated parties (Notes 4 and 10)	59,889	4	54,666	4
Trade receivables from related parties (Notes 4 and 28)	61,286	4	78,347	6
Other receivables (Notes 4 and 10)	1,483	-	246	-
Other receivables from related parties (Notes 4 and 28)	220	-	-	-
Inventories (Notes 4 and 11)	147,314	10	113,622	8
Other financial assets - current (Notes 15 and 29)	4,908	-	-	-
Other current assets (Note 15)	<u>3,564</u>	<u>-</u>	<u>2,503</u>	<u>-</u>
Total current assets	<u>578,931</u>	<u>38</u>	<u>508,492</u>	<u>36</u>
NON-CURRENT ASSETS				
Held-to-maturity financial assets - non-current (Notes 4 and 8)	11,907	1	12,904	1
Investments account for using equity method (Notes 4, 5 and 12)	537,411	36	503,533	35
Property, plant and equipment (Notes 4 and 13)	339,887	23	352,982	25
Intangible assets (Notes 4 and 14)	20,927	1	24,494	2
Deferred tax assets (Notes 4 and 22)	12,152	1	11,703	1
Prepayments for equipment (Note 15)	774	-	975	-
Refundable deposit (Note 15)	1,295	-	1,577	-
Net defined benefit asset - non-current (Notes 4 and 19)	<u>870</u>	<u>-</u>	<u>1,169</u>	<u>-</u>
Total non-current assets	<u>925,223</u>	<u>62</u>	<u>909,337</u>	<u>64</u>
TOTAL	<u>\$ 1,504,154</u>	<u>100</u>	<u>\$ 1,417,829</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	\$ 15,000	1	\$ 20,000	1
Notes payable to unrelated parties (Note 17)	6,777	-	9,091	1
Trade payables to unrelated parties (Note 17)	43,512	3	40,087	3
Trade payables to related parties (Note 28)	1,816	-	945	-
Other payables to unrelated parties (Notes 18 and 24)	54,777	4	49,009	3
Current tax liabilities (Notes 4 and 22)	18,625	1	12,116	1
Other current liabilities (Note 18)	<u>2,669</u>	<u>-</u>	<u>4,136</u>	<u>-</u>
Total current liabilities	<u>143,176</u>	<u>9</u>	<u>135,384</u>	<u>9</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 22)	<u>44,368</u>	<u>3</u>	<u>39,496</u>	<u>3</u>
Total liabilities	<u>187,544</u>	<u>12</u>	<u>174,880</u>	<u>12</u>
EQUITY (Note 20)				
Share capital - ordinary shares	403,892	27	384,659	27
Capital surplus	319,889	21	319,889	23
Retained earnings				
Legal reserve	161,024	11	144,280	10
Special reserve	19,659	1	12,354	1
Unappropriated earnings (Note 22)	438,017	29	401,426	28
Other equity				
Exchange differences on translating foreign operations	<u>(25,871)</u>	<u>(1)</u>	<u>(19,659)</u>	<u>(1)</u>
Total equity	<u>1,316,610</u>	<u>88</u>	<u>1,242,949</u>	<u>88</u>
TOTAL	<u>\$ 1,504,154</u>	<u>100</u>	<u>\$ 1,417,829</u>	<u>100</u>

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

FINETEK CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 28)	\$ 764,161	100	\$ 631,755	100
OPERATING COSTS (Notes 11, 21 and 28)	<u>366,827</u>	<u>48</u>	<u>292,338</u>	<u>46</u>
GROSS PROFIT	397,334	52	339,417	54
UNREALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (Notes 4 and 28)	(16,380)	(2)	(14,752)	(2)
REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (Notes 4 and 28)	<u>14,752</u>	<u>2</u>	<u>20,400</u>	<u>3</u>
REALIZED GROSS PROFIT	<u>395,706</u>	<u>52</u>	<u>345,065</u>	<u>55</u>
OPERATING EXPENSES (Notes 4, 21 and 28)				
Selling and marketing expenses	98,825	13	69,581	11
General and administrative expenses	48,443	7	50,238	8
Research and development expenses	<u>55,880</u>	<u>7</u>	<u>53,441</u>	<u>9</u>
Total operating expenses	<u>203,148</u>	<u>27</u>	<u>173,260</u>	<u>28</u>
PROFIT FROM OPERATIONS	<u>192,558</u>	<u>25</u>	<u>171,805</u>	<u>27</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4 and 21)				
Other income	10,386	1	19,473	3
Other gains and losses	(12,362)	(1)	(25,304)	(4)
Finance costs	(183)	-	(327)	-
Share of profit or loss of subsidiaries, associates and joint ventures	<u>42,991</u>	<u>6</u>	<u>18,130</u>	<u>3</u>
Total non-operating income and expenses	<u>40,832</u>	<u>6</u>	<u>11,972</u>	<u>2</u>
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	233,390	31	183,777	29
INCOME TAX EXPENSE (Notes 4 and 22)	<u>(37,870)</u>	<u>(5)</u>	<u>(16,340)</u>	<u>(2)</u>
NET PROFIT FOR THE YEAR	<u>195,520</u>	<u>26</u>	<u>167,437</u>	<u>27</u>

(Continued)

FINETEK CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan (Note 19)	\$ (300)	-	\$ (497)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 22)	<u>51</u> <u>(249)</u>	<u>-</u> <u>-</u>	<u>84</u> <u>(413)</u>	<u>-</u> <u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations (Note 20)	(7,485)	(1)	(36,598)	(6)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 20 and 22)	<u>1,273</u> <u>(6,212)</u>	<u>-</u> <u>(1)</u>	<u>6,222</u> <u>(30,376)</u>	<u>1</u> <u>(5)</u>
Other comprehensive loss for the year, net of income tax	<u>(6,461)</u>	<u>(1)</u>	<u>(30,789)</u>	<u>(5)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 189,059</u>	<u>25</u>	<u>\$ 136,648</u>	<u>22</u>
EARNINGS PER SHARE (Note 23)				
Basic	<u>\$ 4.84</u>		<u>\$ 4.15</u>	
Diluted	<u>\$ 4.83</u>		<u>\$ 4.13</u>	

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

(Concluded)

FINETEK CO., LTD.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	Share Capital	Capital Surplus	Retained Earnings			Other Equity Exchange Differences on Translating Foreign Operations	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings		
BALANCE AT JANUARY 1, 2016	\$ 377,117	\$ 319,889	\$ 131,084	\$ 12,354	\$ 360,733	\$ 10,717	\$ 1,211,894
Appropriation of 2015 earnings (Note 20)							
Legal reserve	-	-	13,196	-	(13,196)	-	-
Cash dividends distributed by the Company	-	-	-	-	(105,593)	-	(105,593)
Share dividends distributed by the Company	7,542	-	-	-	(7,542)	-	-
Net profit for the year ended December 31, 2016	-	-	-	-	167,437	-	167,437
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	(413)	(30,376)	(30,789)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	167,024	(30,376)	136,648
BALANCE AT DECEMBER 31, 2016	384,659	319,889	144,280	12,354	401,426	(19,659)	1,242,949
Appropriation of 2016 earnings (Note 20)							
Legal reserve	-	-	16,744	-	(16,744)	-	-
Special reserve	-	-	-	7,305	(7,305)	-	-
Cash dividends distributed by the Company	-	-	-	-	(115,398)	-	(115,398)
Share dividends distributed by the Company	19,233	-	-	-	(19,233)	-	-
Net profit for the year ended December 31, 2017	-	-	-	-	195,520	-	195,520
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	(249)	(6,212)	(6,461)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	195,271	(6,212)	189,059
BALANCE AT DECEMBER 31, 2017	<u>\$ 403,892</u>	<u>\$ 319,889</u>	<u>\$ 161,024</u>	<u>\$ 19,659</u>	<u>\$ 438,017</u>	<u>\$ (25,871)</u>	<u>\$ 1,316,610</u>

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

FINETEK CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 233,390	\$ 183,777
Adjustments for:		
(Reversed) impairment loss recognized on trade receivables	(2,498)	2,885
Depreciation expenses	23,619	20,624
Amortization expenses	10,584	5,760
Finance costs	183	327
Share of profit of subsidiaries, associates and joint ventures	(42,991)	(18,130)
Interest income	(3,599)	(15,022)
Dividend income	(45)	(26)
Write-downs of inventories	-	224
Unrealized loss on transactions with subsidiaries, associates and joint ventures	16,380	14,752
Realized gain on transactions with subsidiaries, associates and joint ventures	(14,752)	(20,400)
(Gain) loss on disposal of property, plant and equipment	(172)	206
Loss on disposal of intangible assets	-	824
Net loss (gain) on fair value change of financial assets designated as at fair value through profit or loss	3	(351)
Prepayments for equipment transferred to expenses	-	250
Net loss on foreign currency exchange	4,758	13,165
Changes in operating assets and liabilities		
Notes receivable	2,601	(9,404)
Trade receivables	(2,785)	(9,340)
Trade receivables from related parties	17,061	(50,686)
Other receivables	6	433
Inventories	(33,692)	(2,404)
Other current assets	(1,086)	(783)
Other non-current assets	(114)	(22)
Notes payable	(2,314)	2,158
Trade payables	3,425	16,436
Trade payables to related parties	871	(201)
Other payables	4,947	(2,198)
Other current liabilities	(1,467)	1,312
Cash generated from operations	212,313	134,166
Dividends received	45	26
Interest received	3,586	15,982
Interest paid	(183)	(327)
Income tax paid	(25,614)	(28,776)
Net cash generated from operating activities	190,147	121,071

(Continued)

FINETEK CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of debt investments with no active market	\$ (51,000)	\$ -
Purchase of other financial assets	(4,908)	-
Increase in prepayments for equipment	(774)	-
Proceeds from disposal of property, plant and equipment	1,428	4
Increase in other receivable from related parties	(220)	-
Payments for property, plant and equipment	(10,424)	(71,412)
Payments for intangible assets	(6,552)	(3,409)
Decrease in refundable deposits	282	1,759
Net cash outflow on acquisition of subsidiaries	<u>-</u>	<u>(125,000)</u>
Net cash used in investing activities	<u>(72,168)</u>	<u>(198,058)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	15,000	-
Repayments of long-term borrowings	(20,000)	-
Dividends paid to owners of the Company	<u>(115,398)</u>	<u>(105,593)</u>
Net cash used in financing activities	<u>(120,398)</u>	<u>(105,593)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(3,588)</u>	<u>(12,785)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,007)	(195,365)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>231,431</u>	<u>426,796</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 225,424</u>	<u>\$ 231,431</u>

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

(Concluded)

FINETEK CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

1. GENERAL INFORMATION

FineTek Co., Ltd. (the “Company”) was incorporated in the Republic of China (“ROC”) on January 30, 2003. The Company mainly designs, manufactures and sells transmitters, point switches and electronic terminals.

The Company’s shares have been listed on the Taipei Exchange (“TPEX”) Mainboard since November 2014.

The financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on March 23, 2018.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS 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 by the Financial Supervisory Commission (“FSC”)

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

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Company, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company, are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Company has significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the Company’s respective total transaction amount or balance, such transactions should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation conditions after a business combination and the expected benefits at the acquisition date.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 28 for the related disclosures.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs” endorsed by the FSC for application starting from 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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 amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Company’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;

- b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Company analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

Debt investments classified as held-to-maturity-financial assets/debt investment with no active market will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. A loss allowance is required for financial assets measured at amortized cost, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Company has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables. In relation to debt instrument investments, the Company will assess whether there has been a significant increase in credit risk to determine to recognize full-lifetime expected credit losses. In general, the Company anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The Company elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets and liabilities of retrospective application of IFRS 9 as of January 1, 2018 is set out below:

Financial Assets	Measurement Category		Carrying Amount		Note
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 225,424	\$ 225,424	a)
Domestic quoted shares	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	56	56	a)
Debt investments with no active market - current	Loans and receivables	Amortized cost	51,000	51,000	a)
Investment in bonds	Held-to-maturity financial assets	Amortized cost	11,907	11,907	b)
Notes, Trade, and other receivables (including related parties), refundable deposit, and other financial assets - current	Loans and receivables	Amortized cost	152,868	152,868	a)

- a) Cash and cash equivalents, debt investments with no active market - current, notes, trade, and other receivables (including related parties), refundable deposits and other financial assets - current classified as loans and receivables under IAS 39 are now classified as financial assets at amortized cost under IFRS 9.
- b) Investments in bonds classified as held-to-maturity financial assets under IAS 39 are now classified as financial assets at amortized cost 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 will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations.

When applying IFRS 15, the Company recognizes revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Company satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Company regularly sells it or renders service separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

The Company will apply the amendments to IFRS 15 retrospectively; no material impact on the financial statements is expected.

3) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The company will apply IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the interpretation.

Except for the above impact, 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 no material impact on the Company’s financial position and financial performance.

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

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)
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 16 “Leases”	January 1, 2019 (Note 3)
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 4)
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: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the statements of comprehensive income, the Company should present the depreciation expense charged on right-of-use assets separately from

the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

2) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment shall be applied prospectively.

3) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Company shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

Except for the above impact, 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

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 financial statements shall prevail. However, the financial statements do not include the English translation of the additional footnote disclosures that are not required under IFRSs but are required by the FSC for oversight purposes.

a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

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

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

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

When preparing these parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries, associates and joint ventures. 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 as the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using equity method, the share of profit or loss of subsidiaries, associates and joint ventures, the shares of other comprehensive income of subsidiaries, associates and joint ventures, and related equity items, as appropriate, in these 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 12 months after the reporting period; and
- 3) Cash and cash equivalents, unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 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 Company's financial statements, transactions in currencies other than the Company'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 period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences arising from the settlement or translation of monetary items are recognized in profit or loss in the period.

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 from the retranslation of non-monetary items are included in profit or loss for the period 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 cases, 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 translated using the exchange rate at the date of the transaction.

For the purpose of presenting these financial statements, the functional currency of the Company is translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

Inventories, which consist of raw materials, finished goods, work-in-process and merchandise 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 Company similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the 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.

A 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 its share of the equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of an investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investments for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the investee companies. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of any 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 had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

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 stated at cost, less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are carried 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 their intended use.

Depreciation is recognized using the straight-line method. Each property, plant and equipment component with a cost that is significant in relation to the total cost of the item must be depreciated separately. 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 estimates accounted for prospectively.

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 estimates 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) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is 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, for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated 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 units ("CGU") to which the asset belongs. Corporate assets are allocated to the individual CGU on a reasonable and consistent basis of allocation.

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.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU 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 CGU 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 CGU in prior years. The 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 issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) 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 fair value through profit or loss 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

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments and loans and receivables.

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when such financial assets are either held for trading or designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 27.

ii. Held-to-maturity investments

Foreign corporate bonds, which are above specific credit ratings and for which the Company has positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

iii. Loans and receivables

Loans and receivables (including receivables, cash and cash equivalents and debt investments with no active market - current) 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.

Cash equivalents include time deposits that have original maturities within three months from the date of acquisition and that are highly liquid, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

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

Financial assets carried at amortized cost, such as receivables, are assessed for impairment collectively even if they had been assessed as not impaired individually. Objective evidence of impairment for an increase in portfolio of receivables overdue monthly payment term, 30-120 days could include the Company's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

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

For financial assets measured at amortized cost, if 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 that the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For all other financial assets, objective evidence of impairment could include the significant financial difficulty of the issuer or counterparty; a breach of contract, such as a default or delinquency in interest or principal payments; it becoming probable that the borrower will undergo bankruptcy or financial re-organization; or the disappearance of an active market for the financial asset because of financial difficulties.

The carrying amount of a financial asset is reduced by its impairment loss directly for all financial assets, except trade receivables, for which the carrying amount is reduced through the use of an allowance account. When trade receivables and other receivables are considered uncollectable, 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 uncollectable trade receivables, which 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 of the risks and rewards of ownership of the asset to another party.

On the full derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gains or losses that had been recognized in other comprehensive income is recognized in profit or loss.

2) Financial liabilities

a) Subsequent measurement

All the 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. Revenue recognition

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) 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.

The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve the transfer of risks and rewards of the materials' ownership.

2) Rendering of services

Service income is recognized when services are provided.

3) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and 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.

l. Leasing

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

The Company as lessee

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

m. 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 period in which the Company recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

n. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

Defined benefit costs (including service costs, net interest and remeasurement) under the defined contribution retirement benefit plan are determined using the projected unit credit method. Service costs, including current service costs, and net interest on the net defined benefit liability (asset) are recognized as employee benefits expenses in the period in which 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 it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

The 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 plan or reductions in future contributions to the plan.

o. 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 the retention of 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 to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be used.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences 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 use 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. Any previously unrecognized deferred tax assets are 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 assets to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period in which the liabilities are settled or the assets are realized, based on tax rates and 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 of 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 taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, the current and deferred taxes 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, estimates 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 to be 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.

Impairment of Investments in Subsidiaries

The Company's management evaluated the impairment based on the future cash flows, including managing the estimation of sales growth rate and profit rate. Using WACC, which contains the risk free rate, management uses the volatility and risk premium assumptions to decide the discount rate and perform the impairment assessment. If cash flows (the recoverable amount) are less than management's expectation, it may cause a significant impairment loss.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	\$ 827	\$ 442
Checking accounts	75	1,567
Demand deposits	106,667	164,702
Cash equivalents (investments with original maturities of less than 3 months)		
Time deposits	<u>117,855</u>	<u>64,720</u>
	<u>\$ 225,424</u>	<u>\$ 231,431</u>

The market rates for cash in the bank at the end of the reporting period were as follows:

	December 31	
	2017	2016
Bank balance	0.01%-1.90%	0.01%-6.15%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
<u>Financial assets - current</u>		
Financial assets held for trading		
Non-derivative financial assets		
Domestic quoted shares	<u>\$ 56</u>	<u>\$ 1,289</u>

8. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2017	2016
<u>Non-current</u>		
Foreign investments		
Deutsche Bank	\$ 5,963	\$ 6,463
Société Générale	<u>5,944</u>	<u>6,441</u>
	<u>\$ 11,907</u>	<u>\$ 12,904</u>

a. The Company's investments in bonds issued by Deutsche Bank were as follows:

	December 31	
	2017	2016
Total book value	<u>\$ 5,963</u>	<u>\$ 6,463</u>
Total par value (in thousand U.S. dollars)	<u>\$ 200</u>	<u>\$ 200</u>
Coupon rates	4.50%	4.50%
Effective interest rates	4.47%	4.47%
Holding period	2015.10.21- 2025.04.01	2015.10.21- 2025.04.01

b. The Company's investments in bonds issued by Société Générale were as follows:

	December 31	
	2017	2016
Total book value	<u>\$ 5,944</u>	<u>\$ 6,441</u>
Total par value (in thousand U.S. dollars)	<u>\$ 200</u>	<u>\$ 200</u>
Coupon rates	4.25%	4.25%
Effective interest rates	4.27%	4.27%
Holding period	2015.10.21- 2025.04.01	2015.10.21- 2025.04.14

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2017	2016
<u>Current</u>		
Time deposit with original maturities of more than 3 months	<u>\$ 51,000</u>	<u>\$ -</u>

As of December 31, 2017, the market interest rates of the time deposits with original maturities of more than 3 months were 0.65%.

10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2017	2016
<u>Notes receivable</u>		
Notes receivable - operating	\$ 23,787	\$ 26,388
<u>Trade receivables</u>		
Trade receivables	\$ 64,621	\$ 62,009
Less: Allowance for impairment loss	(4,732)	(7,343)
	<u>\$ 59,889</u>	<u>\$ 54,666</u>
<u>Other receivables</u>		
Interest receivables	\$ 253	\$ 240
Receivable from disposal of investments	1,230	-
Others	-	6
	<u>\$ 1,483</u>	<u>\$ 246</u>
<u>Overdue receivables</u>		
Overdue receivables	\$ 1,252	\$ 1,139
Less: Allowance for impairment loss	(1,252)	(1,139)
	<u>\$ -</u>	<u>\$ -</u>

a. Notes receivable

The Company's client base was vast and unrelated to one another, so the concentration of credit risk was limited. As of December 31, 2017 and 2016, the Company did not hold any collateral for the balance of its notes receivable.

b. Trade receivables

The average credit period on sales of goods was 30 to 120 days. In determining the collectability of a trade receivable, 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. The Company recognized an allowance for impairment loss of 100% against all trade receivables over 60 days because historical experience shows that receivables outstanding beyond 60 days are not recoverable. For receivables outstanding between 1 to 60 days, the Company estimated the irrecoverable amount based on the past defaults of a counterparty and an analysis of the current financial position of the counterparty. As of both December 31, 2017 and 2016, the aging of receivables that were past due but not impaired were both \$0.

The aging of receivables (include overdue receivables) was as follows:

	December 31	
	2017	2016
Not overdue	\$ 44,949	\$ 34,536
Overdue 1-30 days	10,648	18,871
Overdue 31-60 days	4,644	1,509
Overdue beyond 60 days	<u>5,632</u>	<u>8,232</u>
	<u>\$ 65,873</u>	<u>\$ 63,148</u>

The above aging schedule was based on the number of past due days from the end of credit term.

The movements of the allowance for doubtful trade receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	\$ 581	\$ 5,016	\$ 5,597
Add: Impairment losses recognized on receivables	<u>558</u>	<u>2,327</u>	<u>2,885</u>
Balance at December 31, 2016	1,139	7,343	8,482
Add: Impairment losses recognized on receivables	113	-	113
Less: Amounts reversed during the year as uncollectible	<u>-</u>	<u>(2,611)</u>	<u>(2,611)</u>
Balance at December 31, 2017	<u>\$ 1,252</u>	<u>\$ 4,732</u>	<u>\$ 5,984</u>

The Company recognized an impairment loss on trade receivables amounting to \$1,252 thousand and \$1,139 thousand as of December 31, 2017 and 2016, respectively. These amounts mainly related to customers that were in the process of liquidation (or having severe financial difficulties). The Company did not hold any collateral over these balances.

c. Other receivables

Other receivables consist of interest receivables and receivable from disposal of investments and so on. Based on historical experience, past transactions with counterparties, and reviews of the financial situations of counterparties, the Company determined that there would be no overdue payments. Thus, there is no bad debt existing.

11. INVENTORIES

	December 31	
	2017	2016
Merchandise inventory	\$ 1	\$ 2
Finished goods	73,433	56,755
Work in progress	14,534	14,287
Raw materials	<u>59,346</u>	<u>42,578</u>
	<u>\$ 147,314</u>	<u>\$ 113,622</u>

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was \$366,827 thousand and \$292,338 thousand, respectively. The cost of goods sold included inventory write-downs of \$0 and \$224 thousand, respectively.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in Subsidiaries

	December 31	
	2017	2016
Powerline Corp. (Samoa) (Notes 1 and 2)	\$ 394,120	\$ 148,607
Golden Land International Corp. (Samoa)	37,050	17,303
Gain Access Investments Ltd. (Notes 1, 2 and 3)	<u>106,241</u>	<u>337,623</u>
	<u>\$ 537,411</u>	<u>\$ 503,533</u>

At the end of the reporting period, the percentage of ownership of and voting rights in the subsidiaries held by the Company were as follows:

	Proportion of Ownership and Voting Rights	
	December 31, 2017	December 31, 2016
Powerline Corp. (Samoa) (Notes 1 and 2)	100%	100%
Golden Land International Corp. (Samoa)	100%	100%
Gain Access Investments Ltd. (Notes 1, 2 and 3)	100%	100%

Note 1: On October 31, 2016, Gain Access Investments Ltd. acquired 67% equity interest in Faco International Co., Ltd. by issuance of new shares for cash valued at US\$3,750 thousand (NT\$125,000 thousand). Faco International Co., Ltd. was previously 100% owned by Powerline Corp. (Samoa). As a result, the shareholding of Powerline Corp. (Samoa) in Faco International Co., Ltd. decreased to 33%. Gain Access Investments Ltd. and Powerline Corp. (Samoa) accounted for their investments by equity method.

Note 2: On February 28, 2017, due to organizational adjustment, the Company recognized the changes in capital surplus of \$223,323 and \$(223,323) thousand from investees; refer to Note 12 to the consolidated financial statements for related information.

Note 3: On October 31, 2016, the Company's board of directors decided to invest in and acquire Gain Access Investments Ltd. for US\$3,750 thousand (NT\$125,000 thousand) and the shareholding percentage was 100%.

The investments in subsidiaries accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2017 and 2016 were based on the subsidiaries' financial statements audited by the auditors for the same years.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery and Equipment	Transportation	Office Equipment	Molding Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>									
Balance at January 1, 2016	\$ 79,181	\$ 161,316	\$ 36,461	\$ 11,088	\$ 10,193	\$ 12,055	\$ 32,766	\$ 39,080	\$ 382,140
Additions	62,858	1,343	3,000	-	552	3,400	418	-	71,571
Disposals	-	-	(14)	(62)	(41)	-	(1,699)	-	(1,816)
Reclassified (Note 1)	-	38,826	3,645	-	-	906	-	(38,826)	4,551
Balance at December 31, 2016	<u>\$ 142,039</u>	<u>\$ 201,485</u>	<u>\$ 43,092</u>	<u>\$ 11,026</u>	<u>\$ 10,704</u>	<u>\$ 16,361</u>	<u>\$ 31,485</u>	<u>\$ 254</u>	<u>\$ 456,446</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2016	\$ -	\$ 29,584	\$ 11,462	\$ 6,955	\$ 6,555	\$ 8,548	\$ 21,342	\$ -	\$ 84,446
Disposals	-	-	(14)	(50)	(41)	-	(1,501)	-	(1,606)
Depreciation expenses	-	6,261	5,609	1,036	1,608	2,570	3,540	-	20,624
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 35,845</u>	<u>\$ 17,057</u>	<u>\$ 7,941</u>	<u>\$ 8,122</u>	<u>\$ 11,118</u>	<u>\$ 23,381</u>	<u>\$ -</u>	<u>\$ 103,464</u>
Carrying amounts at December 31, 2016	<u>\$ 142,039</u>	<u>\$ 165,640</u>	<u>\$ 26,035</u>	<u>\$ 3,085</u>	<u>\$ 2,582</u>	<u>\$ 5,243</u>	<u>\$ 8,104</u>	<u>\$ 254</u>	<u>\$ 352,982</u>
<u>Cost</u>									
Balance at January 1, 2017	\$ 142,039	\$ 201,485	\$ 43,092	\$ 11,026	\$ 10,704	\$ 16,361	\$ 31,485	\$ 254	\$ 456,446
Additions	-	267	5,486	1,098	1,372	2,235	787	-	11,245
Disposals	-	-	-	(441)	(5,162)	(1,847)	(1,904)	-	(9,354)
Reclassified (Note 2)	-	254	535	-	-	-	-	(254)	535
Balance at December 31, 2017	<u>\$ 142,039</u>	<u>\$ 202,006</u>	<u>\$ 49,113</u>	<u>\$ 11,683</u>	<u>\$ 6,914</u>	<u>\$ 16,749</u>	<u>\$ 30,368</u>	<u>\$ -</u>	<u>\$ 458,872</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2017	\$ -	\$ 35,845	\$ 17,057	\$ 7,941	\$ 8,122	\$ 11,118	\$ 23,381	\$ -	\$ 103,464
Disposals	-	-	-	(436)	(5,162)	(596)	(1,904)	-	(8,098)
Depreciation expenses	-	6,380	7,252	1,200	1,891	3,708	3,188	-	23,619
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 42,225</u>	<u>\$ 24,309</u>	<u>\$ 8,705</u>	<u>\$ 4,851</u>	<u>\$ 14,230</u>	<u>\$ 24,665</u>	<u>\$ -</u>	<u>\$ 118,985</u>
Carrying amounts at December 31, 2017	<u>\$ 142,039</u>	<u>\$ 159,781</u>	<u>\$ 24,804</u>	<u>\$ 2,978</u>	<u>\$ 2,063</u>	<u>\$ 2,519</u>	<u>\$ 5,703</u>	<u>\$ -</u>	<u>\$ 339,887</u>

Note 1: Transferred for prepayments for equipment.

Note 2: Transferred from prepayments for equipment and prepayments are \$510 thousand and \$25 thousand, respectively.

For the years ended December 31, 2017 and 2016, no impairment assessment was performed as there was no indication of impairment.

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

Buildings	
Main buildings	35 years
Accessory equipment	5-10 years
Machinery and equipment	2-10 years
Transportation	4-5 years
Office equipment	2-5 years
Molding equipment	2-4 years
Other equipment	2-10 years

14. OTHER INTANGIBLE ASSETS

	Computer Software	Licenses and Franchises	Total
<u>Cost</u>			
Balance at January 1, 2016	\$ 43,693	\$ 750	\$ 44,443
Additions	3,409	-	3,409
Disposals	(4,155)	-	(4,155)
Balance at December 31, 2016	<u>\$ 42,947</u>	<u>\$ 750</u>	<u>\$ 43,697</u>

(Continued)

	Computer Software	Licenses and Franchises	Total
<u>Accumulated amortization</u>			
Balance at January 1, 2016	\$ 16,740	\$ 34	\$ 16,774
Amortization expenses	5,734	26	5,760
Disposals	<u>(3,331)</u>	<u>-</u>	<u>(3,331)</u>
Balance at December 31, 2016	<u>\$ 19,143</u>	<u>\$ 60</u>	<u>\$ 19,203</u>
Carrying amounts at December 31, 2016	<u>\$ 23,804</u>	<u>\$ 690</u>	<u>\$ 24,494</u>
<u>Cost</u>			
Balance at January 1, 2017	\$ 42,947	\$ 750	\$ 43,697
Additions	6,552	-	6,552
Disposals	(16,956)	-	(16,956)
Reclassified (Note)	<u>465</u>	<u>-</u>	<u>465</u>
Balance at December 31, 2017	<u>\$ 33,008</u>	<u>\$ 750</u>	<u>\$ 33,758</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2017	\$ 19,143	\$ 60	\$ 19,203
Amortization expenses	10,558	26	10,584
Disposals	<u>(16,956)</u>	<u>-</u>	<u>(16,956)</u>
Balance at December 31, 2017	<u>\$ 12,745</u>	<u>\$ 86</u>	<u>\$ 12,831</u>
Carrying amounts at December 31, 2017	<u>\$ 20,263</u>	<u>\$ 664</u>	<u>\$ 20,927</u> (Concluded)

Note: Transferred from prepayments for equipment.

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

Computer software	1-10 years
Licenses and franchises	29 years

15. OTHER ASSETS

	December 31	
	2017	2016
<u>Current</u>		
Prepayments	\$ 3,564	\$ 1,897
Others	<u>-</u>	<u>606</u>
	<u>\$ 3,564</u>	<u>\$ 2,503</u>
Other financial assets - current (Note 29)	<u>\$ 4,908</u>	<u>\$ -</u> (Continued)

	December 31	
	2017	2016
<u>Non-current</u>		
Prepayments for equipment	\$ 774	\$ 975
Refundable deposits	\$ 1,295	\$ 1,577
		(Concluded)

16. BORROWINGS

Short-term Borrowings

	December 31	
	2017	2016
<u>Unsecured borrowings</u>		
Line of credit borrowings (Note)	\$ 15,000	\$ 20,000

Note: The interest rate on line of credit borrowings was 1.25% and 1.32% per annum as of December 31, 2017 and 2016, respectively.

17. NOTES PAYABLE AND TRADE PAYABLE

	December 31	
	2017	2016
<u>Notes payable</u>		
Operating	\$ 6,777	\$ 9,091
<u>Trade payables</u>		
Operating	\$ 43,512	\$ 40,087

18. OTHER LIABILITIES

	December 31	
	2017	2016
<u>Current</u>		
Other payables		
Payable for salaries and bonuses	\$ 24,752	\$ 23,387
Payable for employee compensation	9,165	8,097
Payable for remuneration of directors and supervisors	4,240	4,240
Payable for insurance	3,661	3,304
Payable for annual leave	326	115
Payable for purchases of equipment	1,138	317
		(Continued)

	December 31	
	2017	2016
Payable for professional service fees	\$ 1,745	\$ 1,561
Others	<u>9,750</u>	<u>7,988</u>
	<u>\$ 54,777</u>	<u>\$ 49,009</u>
Other liabilities		
Advance sales receipts	\$ 2,531	\$ 4,008
Others	<u>138</u>	<u>128</u>
	<u>\$ 2,669</u>	<u>\$ 4,136</u>

(Concluded)

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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 plan

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. 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 pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Company has no right to influence the investment policy and strategy.

The amounts included in the parent company only financial statement in respect of the company’s defined benefit plans were as follows:

	December 31	
	2017	2016
Present value of defined benefit obligation	\$ 4,490	\$ 4,271
Fair value of plan assets	<u>(5,360)</u>	<u>(5,440)</u>
Net defined benefit assets	<u>\$ (870)</u>	<u>\$ (1,169)</u>

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2016	\$ 3,757	\$ (5,401)	(1,644)
Service costs			
Current service costs	5	-	5
Net interest expense (income)	60	(87)	(27)
Recognized in profit or loss	65	(87)	(22)
Remeasurement			
Return on plan assets	-	48	48
Actuarial loss - changes in demographic assumption	59	-	59
Actuarial loss - experience adjustments	390	-	390
Recognized in other comprehensive income	449	48	497
Balance at December 31, 2016	4,271	(5,440)	(1,169)
Service costs			
Current service costs	16	-	16
Net interest expense (income)	64	(81)	(17)
Recognized in profit or loss	80	(81)	(1)
Remeasurement			
Return on plan assets	-	29	29
Actuarial loss - changes in demographic assumption	152	-	152
Actuarial loss - experience adjustments	119	-	119
Recognized in other comprehensive income	271	29	300
Benefit paid	(132)	132	-
Balance at December 31, 2017	\$ 4,490	\$ (5,360)	\$ (870)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plan is as follows:

	For the Year Ended December 31	
	2017	2016
Operating costs	\$ -	\$ -
General and administrative expenses	(1)	(22)
	<u>\$ (1)</u>	<u>\$ (22)</u>

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 both domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau 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 and corporate bond interest rates 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 significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2017	2016
Discount rates	1.35%	1.50%
Expected rates of salary increase	2.75%	2.75%

If possible reasonable changes 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	
	2017	2016
Discount rate(s)		
0.25% increase	\$ (152)	\$ (144)
0.25% decrease	\$ 159	\$ 150
Expected rate(s) of salary increase		
1% increase	\$ 663	\$ 628
1% decrease	\$ (569)	\$ (541)

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 changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2017	2016
The expected contributions to the plan for the next year	\$ -	\$ -
The average duration of the defined benefit obligation	15 years	14 years

20. EQUITY

a. Share capital

	December 31	
	2017	2016
Number of shares authorized (in thousands)	42,000	42,000
Shares authorized	\$ 420,000	\$ 420,000
Number of shares issued and fully paid (in thousands)	40,389	38,466
Shares issued	\$ 403,892	\$ 384,659

In the shareholders' meeting on June 20, 2016, the Company's shareholders approved the transfer of retained earnings of \$7,542 thousand to issue new shares with a par value of NT\$10 and paid-in capital \$384,659 thousand. The above transaction was approved by the FSC on July 21, 2016, and the subscription base date was determined on August 30, 2016 by the Company's board of directors.

In the shareholders' meeting on June 2, 2017, the Company's shareholders approved the transfer of retained earnings of \$19,233 thousand to issue new shares with a par value of NT\$10 and paid-in capital \$403,892 thousand. The above transaction was approved by the FSC on July 18, 2017, and the subscription base date was determined on September 4, 2017 by the Company's board of directors.

b. Capital surplus

	December 31	
	2017	2016
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note)		
Premium from issuance of ordinary shares	\$ 316,818	\$ 316,818
The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	34	34
<u>May be used to offset a deficit only</u>		
Arising from invalid employee shares options	<u>3,037</u>	<u>3,037</u>
	<u>\$ 319,889</u>	<u>\$ 319,889</u>

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

c. Retained earnings and dividend policy

- 1) In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 20, 2016 and, in that meeting, resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, refer to Employee benefits expense in Note 21, f.

In accordance with the amendments to the Company Act, the distribution of dividends may be made by way of cash dividends or share dividends, where the ratio of the cash dividends shall not be less than 10% of the total shareholders' dividends.

- 2) Items referred to under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" shall be appropriated to or reversed from a special reserve by the Company.

- 3) A legal reserve should be 10% appropriated from earnings until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset any deficits. If the Company has no deficit and the legal reserve exceeds 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.
- 4) Except for non-ROC resident shareholders, all shareholders are allowed tax credits equal to their proportionate share of the income tax paid by the Company.
- 5) The appropriations from the 2016 and 2015 earnings, which was approved in the annual shareholders' meetings on June 2, 2017 and June 20, 2016, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	2016	2015	2016	2015
Legal reserve	\$ 16,744	\$ 13,196	\$ -	\$ -
Special reserve	7,305	-	-	-
Cash dividends	115,398	105,593	3.0	2.8
Share dividends	19,233	7,542	0.5	0.2

The appropriation of the 2017 earnings, which included dividends per share, were proposed by the Company's board of directors on March 23, 2018 as follows:

	Appropriations of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 19,552	\$ -
Special reserve	6,212	-
Cash dividends	161,557	4.0

The appropriation of the 2017 earnings is subject to approval in the shareholders' meeting to be held in June 2018.

d. Special reserves

Under the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should make appropriations to or reversals from a special reserve.

	2017	2016
Balance at January 1 (Note)	\$ 12,354	\$ 12,354
Appropriation in respect of:		
Reversal of debit to other equity items	<u>7,305</u>	<u>-</u>
Balance at December 31	<u>\$ 19,659</u>	<u>\$ 12,354</u>

Note: Optional exemptions on first-time adoption of IFRSs, adjusted in retained earnings.

e. Other equity items

Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1(Note)	\$ (19,659)	\$ 10,717
Exchange differences on translating foreign operations	(7,485)	(36,598)
Income tax related to exchange differences arising on translating to the presentation currency	<u>1,273</u>	<u>6,222</u>
Balance at December 31	<u>\$ (25,871)</u>	<u>\$ (19,659)</u>

21. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2017	2016
Interest income	\$ 3,599	\$ 15,022
Dividends	45	26
Government grants income	6,151	3,376
Others	<u>591</u>	<u>1,049</u>
	<u>\$ 10,386</u>	<u>\$ 19,473</u>

b. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Gain (loss) on disposal of property, plant and equipment	\$ 172	\$ (206)
Loss on disposal of intangible assets	-	(824)
Net foreign exchange losses	(16,357)	(28,110)
Net gain (loss) arising on financial assets designated as at FVTPL	(3)	351
Receipts of payments under custody	3,956	3,569
Others	<u>(130)</u>	<u>(84)</u>
	<u>\$ (12,362)</u>	<u>\$ (25,304)</u>

c. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest on loans	<u>\$ (183)</u>	<u>\$ (327)</u>

d. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	\$ 23,619	\$ 20,624
Intangible assets	<u>10,584</u>	<u>5,760</u>
	<u>\$ 34,203</u>	<u>\$ 26,384</u>
An analysis of depreciation by function		
Operating costs	\$ 18,355	\$ 15,568
Operating expenses	<u>5,264</u>	<u>5,056</u>
	<u>\$ 23,619</u>	<u>\$ 20,624</u>
An analysis of amortization by function		
Operating costs	\$ 1,463	\$ 667
Selling and marketing expenses	4,741	1,686
General and administrative expenses	2,724	1,777
Research and development expenses	<u>1,656</u>	<u>1,630</u>
	<u>\$ 10,584</u>	<u>\$ 5,760</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Salary expenses	\$ 169,700	\$ 136,887
Post-employment benefits (Note 19)		
Defined contribution plan	7,983	7,662
Defined benefit plan	(1)	(22)
Other employee benefits		
Labor and health insurance expense	16,006	14,690
Other employee benefits	<u>12,734</u>	<u>10,567</u>
Total employee benefits expense	<u>\$ 206,422</u>	<u>\$ 169,784</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 88,622	\$ 70,387
Operating expenses	<u>117,800</u>	<u>99,397</u>
	<u>\$ 206,422</u>	<u>\$ 169,784</u>

	2017			2016		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Salary	\$ 71,622	\$ 98,078	\$ 169,700	\$ 56,251	\$ 80,636	\$ 136,887
Labor and health insurance	7,232	8,774	16,006	6,042	8,648	14,690
Pensions	3,377	4,605	7,982	3,151	4,489	7,640
Other employee benefits	<u>6,391</u>	<u>6,343</u>	<u>12,734</u>	<u>4,943</u>	<u>5,624</u>	<u>10,567</u>
Total employee benefits expense	<u>\$ 88,622</u>	<u>\$ 117,800</u>	<u>\$ 206,422</u>	<u>\$ 70,387</u>	<u>\$ 99,397</u>	<u>\$ 169,784</u>

As of December 31, 2017 and 2016, the Company had 314 and 298 employees, respectively.

f. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 3% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016, which have been approved by the Company's board of directors on March 23, 2018 and March 13, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	2016
Employees' compensation	3.71%	4.13%
Remuneration of directors and supervisors	1.72%	2.16%

Amount

	For the Year Ended December 31			
	2016		2015	
	Cash Dividends	Share Dividends	Cash Dividends	Share Dividends
Employees' compensation	\$ 9,165	\$ -	\$ 8,097	\$ -
Remuneration of directors and supervisors	4,240	-	4,240	-

If there is a change in the amounts after the annual financial statements are authorized for issue, the differences will be recorded as a change during the next accounting period.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the year ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

g. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2017	2016
Foreign exchange gains	\$ 9,644	\$ 12,492
Foreign exchange losses	<u>(26,001)</u>	<u>(40,602)</u>
Net foreign exchange losses	<u>\$ (16,357)</u>	<u>\$ (28,110)</u>

22. INCOME TAXES RELATING TO OPERATIONS

- a. Major components of tax expense recognized in profit:

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	\$ 31,684	\$ 27,125
Income tax on unappropriated earnings	834	542
Adjustments for prior years	<u>(395)</u>	<u>26</u>
	<u>32,123</u>	<u>27,693</u>
Deferred tax		
In respect of the current year	<u>5,747</u>	<u>(11,353)</u>
Income tax expense recognized in profit or loss	<u>\$ 37,870</u>	<u>\$ 16,340</u>

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

	For the Year Ended December 31	
	2017	2016
Profit before tax from continuing operations	<u>\$ 233,390</u>	<u>\$ 183,777</u>
Income tax expense calculated at the statutory rate	\$ 39,676	\$ 31,242
Nondeductible expenses or losses	31	896
Tax-exempt income	25	-
Income tax on unappropriated earnings	834	542
Unrecognized deductible temporary differences	(2,301)	(16,366)
Adjustments for prior years' tax	<u>(395)</u>	<u>26</u>
Income tax expense recognized in profit or loss	<u>\$ 37,870</u>	<u>\$ 16,340</u>

The statutory tax rate used above was the corporate tax rate of 17% payable by the Company in the ROC.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by \$2,144 thousand and \$7,830 thousand, respectively, in 2018.

As the status of the 2018 appropriation of earnings is uncertain, the potential income tax consequences of the 2017 unappropriated earnings are not reliably determinable.

- b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
<u>Deferred tax</u>		
In respect of the current year:		
Translation of foreign operations	\$ (1,273)	\$ (6,222)
Remeasurement on defined benefit plan	<u>(51)</u>	<u>(84)</u>
Total income tax recognized in other comprehensive income	<u>\$ (1,324)</u>	<u>\$ (6,306)</u>

c. Current tax liabilities

	December 31	
	2017	2016
Current tax liabilities		
Income tax payable	<u>\$ 18,625</u>	<u>\$ 12,116</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2017

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
Temporary differences				
Exchange differences on translating foreign operations	\$ 1,496	\$ -	\$ 1,273	\$ 2,769
Defined benefit plan	380	-	51	431
Unrealized gains on transactions with associates	2,508	277	-	2,785
Payable for annual leave	20	35	-	55
Allowance for impaired receivables	1,157	(396)	-	761
Unrealized losses on write-down of inventories	6,112	(1,151)	-	4,961
Others	<u>30</u>	<u>360</u>	<u>-</u>	<u>390</u>
	<u>\$ 11,703</u>	<u>\$ (875)</u>	<u>\$ 1,324</u>	<u>\$ 12,152</u>

Deferred Tax Liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
Temporary differences				
Share of profit or loss of subsidiaries, associates and joint ventures accounted for using equity method	\$ 39,180	\$ 5,116	\$ -	\$ 44,296
Foreign exchange gains	<u>316</u>	<u>(244)</u>	<u>-</u>	<u>72</u>
	<u>\$ 39,496</u>	<u>\$ 4,872</u>	<u>\$ -</u>	<u>\$ 44,368</u>

For the year ended December 31, 2016

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
Temporary differences				
Exchange differences on translating foreign operations	\$ -	\$ -	\$ 1,496	\$ 1,496
Defined benefit plan	296	-	84	380
Unrealized gains on transactions with associates	3,468	(960)	-	2,508
Payable for annual leave	29	(9)	-	20
Allowance for impaired receivables	784	373	-	1,157
Unrealized losses on write-down of inventories	6,074	38	-	6,112
Foreign exchange losses	1,921	(1,921)	-	-
Others	<u>90</u>	<u>(60)</u>	<u>-</u>	<u>30</u>
	<u>\$ 12,662</u>	<u>\$ (2,539)</u>	<u>\$ 1,580</u>	<u>\$ 11,703</u>

Deferred Tax Liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
Temporary differences				
Exchange differences on translating foreign operations	\$ 4,726	\$ -	(\$4,726)	\$ -
Share of profit or loss of subsidiaries, associates and joint ventures accounted for using equity method	52,889	(13,709)	-	39,180
Foreign exchange gains	-	316	-	316
Others	<u>499</u>	<u>(499)</u>	<u>-</u>	<u>-</u>
	<u>\$ 58,114</u>	<u>\$ (13,892)</u>	<u>\$ (4,726)</u>	<u>\$ 39,496</u>

- e. Aggregate temporary differences associated with investments with unrecognized deferred tax liabilities

As of December 31, 2017 and 2016, the taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognized were \$111,669 thousand and \$98,772 thousand, respectively.

- f. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Generated on and after January 1, 1998	\$ <u>-</u> Note	\$ <u>401,426</u>
Shareholder-imputed credit accounts	\$ <u>-</u> Note	\$ <u>67,823</u>

	For the Year Ended December 31	
	2017	2016
Creditable ratio for distribution of earnings	Note	19.82%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, no creditable ratio for distribution of earning in 2017 is expected.

g. Income tax assessments

The tax returns through 2015 have been assessed by the tax authorities.

23. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2017	2016
Basic earnings per share	<u>\$ 4.84</u>	<u>\$ 4.15</u>
Diluted earnings per share	<u>\$ 4.83</u>	<u>\$ 4.13</u>

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on September 4, 2017. The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2016 were as follows:

Unit: NT\$ Per Share

	Before Retrospective Adjustment	After Retrospective Adjustment
Basic earnings per share	<u>\$ 4.35</u>	<u>\$ 4.15</u>
Diluted earnings per share	<u>\$ 4.34</u>	<u>\$ 4.13</u>

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

Net profit for the year:

	For the Year Ended December 31	
	2017	2016
Profit for the year attributable to owners of the Company	<u>\$ 195,520</u>	<u>\$ 167,437</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in computation of basic earnings per share	40,389	40,389
Effect of potentially dilutive ordinary shares:		
Employees' compensation or bonuses issue to employees	<u>116</u>	<u>114</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>40,505</u>	<u>40,503</u>

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

24. NON-CASH TRANSACTIONS

For the years ended December 31, 2017 and 2016, the Company entered into the following non-cash investing activities which were not reflected in the statement of cash flows:

As of December 31, 2017 and 2016, the unsettled payments for the acquisition of property, plant and equipment were \$1,138 thousand and \$317 thousand, respectively, which were recorded as other payables in the financial statements.

The Company's receivables from disposal of financial assets at the fair value through profit or loss-current on December 31, 2017 and 2016 were \$1,230 thousand and \$0, classified as other receivables.

25. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

Operating leases relate to leases of land and buildings with lease terms between 1 and 3 years. The Company does not have a bargain purchase option to acquire the leased land and buildings at the expiration of the lease periods.

The future minimum lease payables for non-cancellable operating lease commitments were as follows:

	December 31	
	2017	2016
Up to 1 year	\$ 1,185	\$ 93
Later than 1 year and not later than 5 years	<u>902</u>	<u>-</u>
	<u>\$ 2,087</u>	<u>\$ 93</u>

The lease payments recognized in profit or loss for the current period were as follows:

	December 31	
	2017	2016
Minimum lease payments	<u>\$ 1,989</u>	<u>\$ 948</u>

26. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company (comprising issued capital, capital surplus, retained earnings, and other equity).

The Company is not subject to any externally imposed capital requirements.

Key management personnel of the Company review the capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company may adjust the amount of new debt issued or existing debt redeemed.

27. FINANCIAL INSTRUMENTS

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

- 1) The significant differences between the carrying amounts and fair values of financial assets and financial liabilities were as follows:

	December 31			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>				
Held-to-maturity financial assets	\$ 11,907	\$ 11,994	\$ 12,904	\$ 12,248

- 2) The fair value measurement hierarchy is as follows:

December 31, 2017

	Fair Value			
	Level 1	Level 2	Level 3	Total
Held-to-maturity financial assets	<u>\$ -</u>	<u>\$ 11,994</u>	<u>\$ -</u>	<u>\$ 11,994</u>

December 31, 2016

	Fair Value			
	Level 1	Level 2	Level 3	Total
Held-to-maturity financial assets	\$ <u>-</u>	\$ <u>12,248</u>	\$ <u>-</u>	\$ <u>12,248</u>

The fair values of the financial assets and financial liabilities included in the Level 2 category above have been determined in accordance with income approaches based on a discounted cash flow analysis, with the most significant unobservable inputs being the discount rate that reflects the credit risk of counterparties.

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

Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic quoted shares	\$ <u>56</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>56</u>

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic quoted shares	\$ <u>1,289</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,289</u>

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

- c. Categories of financial instruments

	December 31	
	2017	2016
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ 56	\$ 1,289
Held-to-maturity investments	11,907	12,904
Loans and receivables (Note 1)	429,292	392,655
<u>Financial liabilities</u>		
Amortized cost (Note 2)	79,738	79,989

Note 1: The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investment with no active market, notes receivable, trade and other receivables (excluding tax receivable), other financial assets-current and refundable deposits.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term loans, notes payable, and trade and other payables (except for salaries and bonuses payable, employee compensation payable, remuneration of directors and supervisors, payable for annual leave and payable for insurance.)

d. Financial risk management objectives and policies

The Company's major financial instruments include trade receivables, trade payables and borrowings. The Company's financial department provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Company's financial department reports quarterly to the board of directors, an independent body that monitors risks and policies implemented to mitigate risk exposures.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below), interest rates (see (b) below), and other prices (see (c) below).

There had been no changes to the Company's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. 72% and 70% of the Company's sales were denominated in currencies other than the functional currency of the Company for both years ended December 31, 2017 and 2016, whilst almost 15% of costs were denominated in foreign currencies.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities exposing the Company to foreign currency risk at the end of the reporting period are set out in Note 30.

Sensitivity analysis

The Company was mainly exposed to the movement of foreign exchange rates in USD and RMB.

The following table details the Company's sensitivity to a 5% increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 5%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated when the New Taiwan dollar weakens 5% against the relevant currency. For a 5% strengthening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity, and the balances below would be negative.

	USD Impact		RMB Impact	
	For the Year Ended December 31	For the Year Ended December 31	For the Year Ended December 31	For the Year Ended December 31
	2017	2016	2017	2016
Profit or loss	\$ <u>5,211</u>	\$ <u>6,817</u>	\$ <u>2,856</u>	\$ <u>6,063</u>

The profit (loss) above was mainly attributable to the exposure outstanding on USD and RMB bank deposits, receivables and payables, which were not hedged at the end of the reporting period.

The Company's sensitivity to the USD decreased during the current period mainly because of a decrease in USD bank deposits and receivables. The Company's sensitivity to RMB decreased during the current period mainly because of a decrease in RMB bank deposits and receivables.

b) Interest rate risk

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

	December 31	
	2017	2016
Fair value interest rate risk		
Financial assets	\$ 185,670	\$ 77,624
Cash flow interest rate risk		
Financial assets	106,667	164,702
Financial liabilities	15,000	20,000

Sensitivity analysis

The sensitivity analysis below was determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming that the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% 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.

If interest rates had been 1% basis point higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2017 and 2016 would increase/decrease by \$917 thousand and \$1,447 thousand, respectively, which would have been mainly attributable to the Company's exposure to interest rates on its variable-rate bank deposits.

The Company's sensitivity to interest rates decreased during the current year mainly due to the decrease in variable-rate bank deposits.

c) Other price risk

The Company was exposed to equity price risk through its investments in listed equity securities.

Sensitivity analysis

The Company's sensitivity to equity price before tax decreased during the current year mainly due to the decrease in financial assets at fair value through profit or loss. If equity prices rise/fall 1% and all other variables were held constant, then the Group's net profit before tax would increase/decrease by \$1 thousand and \$13 thousand for the years ended December 31, 2017 and 2016, respectively. The reasons which would cause equity price exposure for the Company would be its listed security investments.

The Group's sensitivity to other price risk decreased during the current year mainly due to the decrease in FVTPL.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk, which would cause a financial loss to the Company due to a failure of counterparties to discharge an obligation, pertains to financial assets recognized in the balance sheets.

The Company adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and 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. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Ongoing credit evaluation is performed on the financial condition of trade receivables and in order to minimize credit risk, the Company has set payment terms for receipts in advance when necessary.

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

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents 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, 2017 and 2016, the Company had available unutilized bank loan facilities set out in (b) below.

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

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table was 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 table includes 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.

To the extent that interest flows are at floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2017

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Floating rate instruments	\$ 15,000	\$ -	\$ -	\$ -	\$ -
Non-interest bearing	<u>12,633</u>	<u>52,105</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 27,633</u>	<u>\$ 52,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2016

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Floating rate instruments	\$ 20,000	\$ -	\$ -	\$ -	\$ -
Non-interest bearing	<u>37,728</u>	<u>9,091</u>	<u>13,170</u>	<u>-</u>	<u>-</u>
	<u>\$ 57,728</u>	<u>\$ 9,091</u>	<u>\$ 13,170</u>	<u>\$ -</u>	<u>\$ -</u>

b) Loan commitments

	December 31	
	2017	2016
Unsecured loan commitment		
Amount used	\$ 15,000	\$ 20,000
Amount unused	<u>185,000</u>	<u>130,000</u>
	<u>\$ 200,000</u>	<u>\$ 150,000</u>

28. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Related party category/name

Related Party Category/Name	Relationship with the Company
Fine Automation Co., Ltd.	Subsidiary
Aplus Finetek Sensor Inc.	Subsidiary
Finetek Pte., Ltd.	Subsidiary
Finetek GmbH	Subsidiary
Mutec Instruments GmbH	Subsidiary
Yilan Wu Sha Culture Foundation	Substantive related party (the Chairman of the entity is a member of the key management of the Company)

b. Sales of goods

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2017	2016
Sales	Subsidiaries		
	Fine Automation Co., Ltd.	\$ 239,073	\$ 203,696
	Aplus Finetek Sensor Inc.	92,621	37,320
	Others	<u>22,947</u>	<u>20,323</u>
		<u>\$ 354,641</u>	<u>\$ 261,339</u>

The Company sells products to related parties and provides different market prices based on the varying regions. The average payment terms for such transactions with related parties and unrelated parties are 90 days and 30-120 days after every month end for both years ended December 31, 2017 and 2016, respectively.

On December 31, 2017 and 2016, the unrealized gains on transactions with subsidiaries were \$16,380 thousand and \$14,752 thousand, respectively.

c. Purchases of goods

Related Party Category	For the Year Ended December 31	
	2017	2016
Subsidiaries	<u>\$ 13,514</u>	<u>\$ 10,978</u>

The Company's purchase prices from the related parties are based on cost-plus pricing basis. Purchase payment terms are the same as those for unrelated parties.

d. Receivables from related parties (excluding loans to related parties)

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2017	2016
Trade receivables	Subsidiaries		
	Fine Automation Co., Ltd.	\$ 42,291	\$ 56,921
	Aplus Finetek Sensor Inc.	13,343	16,373
	Others	<u>5,652</u>	<u>5,053</u>
		<u>\$ 61,286</u>	<u>\$ 78,347</u>
Other receivables	Subsidiaries	<u>\$ 220</u>	<u>\$ -</u>

The outstanding trade receivables from related parties were unsecured. For the years ended December 31, 2017 and 2016, no impairment loss was recognized on trade receivables from related parties.

e. Trade payables from related parties

Line Item	Related Party Category	December 31	
		2017	2016
Trade payables	Subsidiaries	<u>\$ 1,816</u>	<u>\$ 945</u>

The outstanding trade payables from related parties are unsecured.

f. Other transactions with related parties

On the December 31, 2017 and 2016, the donations to Yilan Wu Sha Culture Foundation were \$1,500 thousand and \$5,000 thousand.

g. Compensation of key management personnel

In 2017 and 2016, the types and amounts of the remuneration of directors and other members of key management personnel were as follows:

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 14,045	\$ 14,049
Post-employment benefit	<u>315</u>	<u>312</u>
	<u>\$ 14,360</u>	<u>\$ 14,361</u>

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

29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	December 31	
	2017	2016
Pledged bank deposit (classified as other financial asset - current)	<u>\$ 4,908</u>	<u>\$ -</u>

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 3,511	29.760 (USD:NTD)	<u>\$ 104,497</u>
RMB	12,763	4.565 (RMB:NTD)	<u>\$ 58,130</u>
Non-monetary items			
Equity-method investments	18,058	29.760 (USD:NTD)	<u>\$ 537,411</u>
<u>Financial liabilities</u>			
Monetary items			
USD	9	29.760 (USD:NTD)	<u>\$ 275</u>
RMB	223	4.565 (RMB:NTD)	<u>\$ 1,020</u>

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 4,235	32.250 (USD:NTD)	<u>\$ 136,575</u>
RMB	26,465	4.617 (RMB:NTD)	<u>\$ 122,188</u>
Non-monetary items			
Equity-method investments	15,613	32.250 (USD:NTD)	<u>\$ 503,533</u>
<u>Financial liabilities</u>			
Monetary items			
USD	7	32.250 (USD:NTD)	<u>\$ 234</u>
RMB	200	4.617 (RMB:NTD)	<u>\$ 921</u>

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange losses were \$16,357 thousand and \$28,110 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Company.