

Stock Code: 2385

Chicony Electronics CO., Ltd.

Annual Report 2017

Report to Shareholders

1. Year 2017 performance (All in NTDS\$)

1.1 Operational results

Joint efforts by our management team and employees, our 2017 Consolidated Revenue reached \$78,155,686 thousands. Our Operating Profit amounted to \$4,569,330 thousands, while the Net Profit amounted to \$4,021,529 thousands.

1.2 Financial Highlights and Profitability Analysis

a. Financial Highlights

Units: NTD thousands

Item	2017	2016	Increase (decrease)
Operating Profit	4,569,330	5,028,077	(9.12%)
Net Profit	4,021,529	3,531,068	13.89%
Average Total Assets	65,876,078	61,633,936	6.88%
Average Shareholder Equity	23,976,322	23,218,652	3.26%

b. Profitability

Item	2017	2016
Return on Average Assets (%)	6.10	5.73
Return on Average Shareholder Equity (%)	16.77	15.21
Operating Profit on End-of-Period Shareholder Equity (%)	63.41	70.61
Net Profit Margin (%)	5.15	4.58
Earnings per Share (EPS) in NTD	5.92	5.24

*The 2017 EPS is unadjusted by employee bonus and plowback funding, which would affect stock share numbers.

1.3 Research and development

In 2017, Chicony spent approximately \$2,949,604 thousands on product development, automation production equipment, and process improvement. Solid R&D ability is Chicony's crucial competitiveness to face fast-changing industry environment. To cultivate and attract more and more excellent R&D talents, Chicony has cooperated with National Taipei University of Technology by providing "Chicony R&D scholarship" and has created a "C&T laboratory" for potential R&D candidates. Aiming to innovative technology trend, Chicony will continuously develop cutting edge products including keyboards, images (camera module, sports DV, IP Cam, dashboard camera), power supply, IoT-wearable device, smart building solutions, and other smart life products. Thanks to our new coming customers, Chicony has obtained quite a few business opportunities.

2 Year 2018 Outlook

2.1 2018 Goals and Outlook

According to the global economy outlook published by OECD, the 2018 global GDP growth rate is expected to be 3.7 %. America's GDP growth rate is expected to be 2.3%, due to the job market may be stimulated by Trump Government's tax reduction policy and increase private final consumption expenditure. The Eurozone's GDP growth rate is expected to be 1.9%, due to easing monetary policy and lower politics risk. Japan's GDP is expected to be only 1.2%, due to its tight financing policy. China's GDP growth rate is expected to remain 6.6%, due to strengthen management toward real estate and environmental protection, and merge of state-owned enterprises. ASEAN's GDP growth rate is expected to be 4.9%, due to increasing consumption expenditure and investment of infrastructure construction. The price of oil may rise this year that lead oil supply and demand to balance level instead. The main economy's inflation rate is expected to be lower than 2%, due to rapid development in E-Commerce market, population ageing, and low labor productivity.

According to recent industry research, CAGR of personal computing device global shipment units in 2021 will be -1.7% and amount to 398 million units. CAGR of PC and tablet shipment units in 2021 will be -0.9% and -3%. Shipment of tablet in 2018 is expected to be 120 million units. Due to increasing demands of NB replacement in 2018, the NB shipment growth rate in 2018 is expected to be 2.7% which amount to 160 million units. However, the NB market share may be decreased by increasing demands of AI or AR products. Therefore, CAGR of global NB shipment units from 2018 to 2022 is expected to be -3.2%. On the other hand, increasing demands of cloud computing, IOT, 5G, and AI technology lead to greater demands to servers. CAGR of global server shipment units from 2018 to 2022 is expected to be 6.5%. In 2017, due to increasing smartphone demands in emerging market and smartphone replacement demands every 2 years, the total smartphone shipment units grew 1.7% to 1.5 billion units compare to 2016. We expect the yearly growth rate of smartphone may reach 3-5% in the following 4 years. The shipment of smartphone in 2021 is expected to be 1.73 billion units which may also encourage greater growth momentum of advanced camera modules.

Chicony's keyboard, images (camera module, sports DV, IP Cam, dashboard camera), and power supply products steadily grew well last year. Furthermore, value-added products such as smart home and gaming NB/PC grew strongly in

2017 and created better revenues and profits for the company. In 2018, Chicony will integrate unique technology advantages including image, WiFi, power control, and software development to create more competitive products in smart home, IP Cam, and IOT markets. Our main growth momentum this year will come from cloud computing and gaming power supply products, smart home products and smart building solution, 2-in-1 device keyboards, LED backlight keyboards, and gaming keyboards. In 2018, although the global economy is gradually recovering from downside, and high-end electronic products market may be boosted by increasing demands of developed countries, fast-changing technology industry still cause heavy pressures to electronic components manufacturers in Taiwan. Sooner or later, the economic advantages of Taiwan may be replaced by China. Chicony is facing tough challenges like other Taiwan technology companies.

However, our experienced management team members have strong confidence to raise up revenue growth rate yearly. By integrating Chicony group resources, Chicony not only continuously keeps cultivating advanced keyboard, digital image, and power supply products, but also aggressively devotes to develop other Non-PC and niche products like smart home, IP Cam, and IOT products. Considering market analysis above, estimated customer demands, and Chicony's operation experience and current production plan, Chicony would create 217.1 million units products (including PC peripherals, digital image, consumer electronics and other electronics products) this year. Besides, two subsidiaries, Chicony Power and Xavi would create 159.7 million units and 15.0 million units products (including PC peripherals, gaming console, and networking products) respectively in 2018.

2.2 Business strategies

Following the principles of "No Quality, No sales" and "Integrity" which claimed by Vice Chairman & CEO M.K. Lin, Chicony would devote to continuous operation and bring the best contribution to shareholders, employees, and society. Chicony's strategies for products, production, marketing, R&D, human resource, and financial management are as follows:

a. Products

- (1) Keep cultivating keyboard, digital image, power supply, and other high value-added and differentiated products.
- (2) Integrate unique technology advantages including image, WiFi, power control, and software development to create higher value-added products.
- (3) Escalate Non-PC products revenue proportion including cloud computing

and gaming power supply products, smart home products and smart building solution applications, and IOT-wearable devices.

b. Production

(1)Expand economics of scale in keyboard, image, and power supply products, escalate efficiency of productivity, and produce high quality products.

(2)Enhance the VMI (Vendor Managed Inventory) system with the information provided by EDI and ERP to react customer needs in time, so as to reduce storage cost and improve flexibility and efficiency of delivery and production.

(3)Enhance bargain power by integrating Chicony group procurement resources.

(4)Purchase key components directly from the original suppliers to reduce material costs.

(5)Keep finding more appropriate suppliers of key components, to create strategic vertical integration and expand economics of scale.

(6)Cultivate deeper relationship with suppliers of China to localize procurement process. Response currency market to reduce the material cost and to enlarge the CRP amount.

(7)Increase percentage of automation production and develop innovative manufacturing processes so as to escalate production efficiency.

c. Marketing

(1)Provide customer “one-stop shopping” menu by integrating Chicony group product lines so as to create the greatest profits by the most efficient marketing resources.

(2)Keep strive for new customers and expand market shares of keyboard, DV, NB and smartphone build-in camera module, and power supply products.

(3)Expand new products including smart home, IP Cam, IOT-wearable devices, and drones.

(4)Create CFT(Customer Focus Team) so as to integrate Chicony group marketing resources and deeply cultivate crucial customers.

d. Research and Development

(1)Collaborate with crucial international hardware/software customers and suppliers so as to control key technologies and create valuable new products together.

(2)Create technology advantages by I.P. Know-How so as to set entry barriers.

(3)Keep developing VA/VE (value analysis/value engineering) and improve product design to increase productivity efficiency and reduce production cost.

(4)Provide “Chicony R&D scholarship” to encourage more excellent R&D talents for developing greater R&D ability and efficiency.

(5)New Product Business Division keeps developing new product

opportunities so as to create more blue-ocean market for Chicony.

- (6) Establish Intellectual Property Center to obtain and protect patents belongs to Chicony group as well as manage cross-licensing of patents.

e. Human Resources

- (1) Keep providing profession and management training courses to cultivate employees' professional technique and self-development.
- (2) Help employees develop stable self-career plan with position rotation and job deputy, and, there through, the work capacity and position experience can be continuously applied and inherited for eternal operation purpose.
- (3) Promote corporate social responsibility activities and allocate certain ratio of the company's profits to help disadvantaged minorities. Cooperate with known colleges to cultivate young talents for potential manpower cultivation.
- (4) Keep pace with HR development and policy trend globally and react in time to maintain mutual benefits for both employer and employee.
- (5) Concern our employees thoroughly to keep excellent manpower with the profound retaining system

f. Finance

- (1) Supervise budget control and carefully manage accounts receivable, inventory, and cash turnover.
- (2) Strictly manage the tax-preserving materials and ensure the conduct of tax-preserving materials follow the legal regulation in other countries to make sure the company can benefit from the custom tax.
- (3) Keep improve debt ratio, stock and finance affairs, and corporate governance.
- (4) Adequately hedge against fluctuations in exchange rates and raw material costs.
- (5) Conduct appropriate tax planning for entire Chicony group by thorough study of relevant tax law and regulation in related countries.
- (6) Minimize the interest cost and plan the middle and long term fund facility according to the trend of interest rate.
- (7) Keep seeking companies with growth potential or complementary strengths as for investment object or future strategic alliance.

2.3 Important production and marketing policies

a. Focus on the top 10 global brands of manufacturers in personal computers, notebooks, image products, and smartphone. By increasing our business shares among these growing companies, we are able to expand our global market shares and strengthen our position.

b. Integrate our competitive advantages of multiple product lines, cross-selling, and collaborate material procurement resources.

- c. Establish in-time warehouses logistic system to shorten product delivery time and gain advantages compare to our competitors.
- d. Review and adjust production process to the optimum status. Adopt automatic production to increase productivity efficiency.
- e. Establish VMI (Vendor Managed Inventory) system to enhance material delivery efficiency and reduce stocks of inventory.
- f. Enhance current ERP system and provide management index information. Establish Business Policy Making room with timely information for decision making.

Chairman: Kent Hsu

Vice Chairman & CEO: MK Lin

Chief Accounting Officer: Molly Lin

**CHICONY ELECTRONICS CO., LTD. AND
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS**

DECEMBER 31, 2017 AND 2016

For the convenience of readers and for information purpose only, the 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. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of CHICONY ELECTRONICS CO., LTD.

Opinion

We have audited the accompanying consolidated balance sheets of Chicony Electronics Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the *reports of other independent accountants (please refer to the “Other matter” section of our report)*, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Independent accountant’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and reports of other independent accountants, 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

Appropriateness of cut-off of warehouse operating revenue

Description

For accounting policy of revenue recognition and the content of revenue, please refer to Notes 4(29) and 6(23).

The Group has two types of sales delivery forms: Factory direct shipment and Warehouse sales. Warehouse sales revenue is recognized when the goods are dispatched from the warehouses (transfer of significant risk and rewards of ownership) and is based on the reports and other relevant information provided by the warehouse custodians.

The Group's warehouses are located in multiple countries, and the revenue recognition process involves several manual operations. Thus, we determine the warehouse sales income cut-off as one of the key areas of focus for this fiscal year's audit.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. We evaluated the internal controls for regular reconciliation between the Group and custodians.
2. The sales receipt transactions for a certain period of time before and after the cut-off date have been checked for the cut-off test and includes the inspection of supporting documents of the custodian and reviewing the accounting records of changes in inventories and cost of goods sold.
3. We confirmed the inventory quantities with hub custodian or performed physical inventory count observation and agreed the results to accounting records. Clarified the difference between physical counts or confirmation and accounting records, and tested significant reconciliation items to confirm that the significant difference has been adjusted and recorded.

Valuation of inventory

Description

Please refer to Notes 4(12), 5(2) and 6(7) for the description of accounting policy, critical accounting estimates, uncertainty of assumption and details of accounts.

The Group's main inventories are keyboard, power supplies, camera modules and other electronic products. The prices of such inventories are affected by market demand and the rapid technological changes. Therefore, there was higher risk of market decline. As the assessment of net realisable value of inventories was subject to management judgement, we consider the valuation of inventory as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Assessed whether the Group's accounting policies comply with the relevant standards and the Group's industry practice and the reasonability of management's evaluation process, including the determination of net realisable value of inventories, the sales expenses and the judgement of obsolete inventories. Checked the provision policies were consistently adopted in the reporting periods.
2. Obtained net realisable value statement of inventories to confirm that the calculation logic was adopted consistently, and test the data sources of selected samples which includes inventory price or purchase price to verify the net realisable value used by the management was comply with its policies, and recalculated the accuracy of allowance for inventory valuation losses.

Other matter - Audit of other independent accountants

We did not audit the financial statements of certain consolidated subsidiaries and investments accounted for under the equity method that are included in the consolidated financial statements. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information disclosed in Note 13 was based solely on the reports of other independent accountants. Total assets (including investments accounted for under the equity method) of NT\$ 1,334,746 thousand and NT\$ 1,361,720 thousand, constituted 1.98% and 2.12% of consolidated total assets as of December 31, 2017 and 2016, respectively. Total sales revenue of NT\$ 2,786,115 thousand

and NT\$ 2,739,798 thousand, constituted 3.56% and 3.56% of consolidated total sales revenue for the years ended December 31, 2017 and 2016, respectively.

Other matter - Parent company only financial reports

We have audited and expressed an unmodified opinion on the parent company only financial statements of Chicony Electronics Co., Ltd. as at and for the years ended December 31, 2017 and 2016.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance, including Supervisors, are responsible for overseeing the Group’s financial reporting process.

Independent accountant’s responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Lin, Chun-Yao

Weng, Shih-Jung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 9, 2018

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Assets	Notes	December 31, 2017	December 31, 2016
Current assets			
1100	Cash and cash equivalents	\$ 2,679,941	\$ 3,076,607
1110	Financial assets at fair value		
	through profit or loss - current	412,311	237,458
1125	Available-for-sale financial assets		
	- current	6,734,294	4,321,515
1150	Notes receivable, net	842,816	667,235
1170	Accounts receivable, net	18,060,476	18,890,909
1180	Accounts receivable - related		
	parties	325,997	473,676
1200	Other receivables	503,149	446,761
130X	Inventories, net	12,458,261	10,294,196
1410	Prepayments	1,401,826	1,248,502
1470	Other current assets	51,723	165,633
11XX	Current Assets	<u>43,470,794</u>	<u>39,822,492</u>
Non-current assets			
1523	Available-for-sale financial assets		
	- non-current	883,509	1,388,312
1543	Financial assets carried at cost -		
	non-current	2,266,656	1,836,330
1550	Investments accounted for under		
	equity method	45,719	837,950
1600	Property, plant and equipment,		
	net	13,554,882	13,495,266
1760	Investment property, net	5,517,981	5,547,494
1780	Intangible assets, net	249,404	255,143
1840	Deferred income tax assets	162,296	147,971
1900	Other non-current assets	1,303,139	966,818
15XX	Non-current assets	<u>23,983,586</u>	<u>24,475,284</u>
1XXX	Total assets	<u>\$ 67,454,380</u>	<u>\$ 64,297,776</u>

(Continued)

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Liabilities and Equity	Notes	December 31, 2017	December 31, 2016
Current liabilities			
2100	Short-term borrowings	\$ 4,246,383	\$ 2,101,177
2120	Financial liabilities at fair value through profit or loss - current	488,548	93,327
2150	Notes payable	2,187	6,819
2170	Accounts payable	20,737,567	20,182,530
2180	Accounts payable - related parties	482,419	605,394
2200	Other payables	9,125,867	8,481,776
2230	Current income tax liabilities	1,564,325	1,329,482
2300	Other current liabilities	226,178	264,263
21XX	Current Liabilities	<u>36,873,474</u>	<u>33,064,768</u>
Non-current liabilities			
2540	Long-term borrowings	1,831,281	2,352,377
2570	Deferred income tax liabilities	230,809	121,917
2600	Other non-current liabilities	243,421	233,781
25XX	Non-current liabilities	<u>2,305,511</u>	<u>2,708,075</u>
2XXX	Total Liabilities	<u>39,178,985</u>	<u>35,772,843</u>
Equity attributable to owners of parent			
Share capital			
3110	Share capital - common stock	7,206,051	7,120,820
Capital surplus			
3200	Capital surplus	5,136,660	4,629,152
Retained earnings			
3310	Legal reserve	4,215,046	3,861,939
3320	Special reserve	433,524	951,488
3350	Unappropriated retained earnings	9,144,208	8,049,113
Other equity interest			
3400	Other equity interest	(1,824,687)	63,660
3500	Treasury stocks	(517,165)	(517,165)
31XX	Equity attributable to owners of the parent	<u>23,793,637</u>	<u>24,159,007</u>
36XX	Non-controlling interest	<u>4,481,758</u>	<u>4,365,926</u>
3XXX	Total equity	<u>28,275,395</u>	<u>28,524,933</u>
Significant contingent liabilities and unrecognised contract commitments			
Significant events after the balance sheet date			
3X2X	Total liabilities and equity	<u>\$ 67,454,380</u>	<u>\$ 64,297,776</u>

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

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

Items	Notes	Year ended December 31		
		2017	2016	
4000	Sales revenue	6(23) and 7	\$ 78,155,686	\$ 77,018,060
5000	Operating costs	6(7)(26)(27) and 7	(64,701,349)	(63,500,611)
5900	Net operating margin		13,454,337	13,517,449
	Operating expenses	6(26)(27)		
6100	Selling expenses		(3,544,903)	(3,679,579)
6200	General and administrative expenses		(2,390,500)	(2,498,969)
6300	Research and development expenses		(2,949,604)	(2,310,824)
6000	Total operating expenses		(8,885,007)	(8,489,372)
6900	Operating profit		4,569,330	5,028,077
	Non-operating income and expenses			
7010	Other income	6(24)	780,659	591,925
7020	Other gains and losses	6(25)	969,738	(49,844)
7050	Finance costs	6(28)	(104,700)	(77,983)
7060	Share of loss of associates and joint ventures accounted for under equity method	6(8)	(125,008)	(132,814)
7000	Total non-operating income and expenses		1,520,689	331,284
7900	Profit before income tax		6,090,019	5,359,361
7950	Income tax expense	6(29)	(1,217,803)	(1,050,290)
8200	Profit for the year		\$ 4,872,216	\$ 4,309,071

(Continued)

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

Items	Notes	Year ended December 31	
		2017	2016
Other comprehensive income			
Components of other comprehensive income that will not be reclassified to profit or loss			
8311	Actuarial loss on defined benefit plan	6(17)	(\$ 23,363) (\$ 26,861)
8312	Other comprehensive income, before tax, gains (losses) on revaluation	6(9)	- 1,473,052
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		- (152)
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		- (84,773)
8310	Components of other comprehensive income that will not be reclassified to profit or loss		(23,363) 1,361,266
Components of other comprehensive income that will be reclassified to profit or loss			
8361	Financial statements translation differences of foreign operations		(1,110,924) (1,466,409)
8362	Unrealized (loss) gain on valuation of available-for-sale financial assets		(1,264,999) 1,113,482
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss		(3,984) (28,833)
8360	Components of other comprehensive income that will be reclassified to profit or loss		(2,379,907) (381,760)
8300	Total other comprehensive (loss) income for the year		(\$ 2,403,270) \$ 979,506
8500	Total comprehensive income for the year		\$ 2,468,946 \$ 5,288,577
Profit attributable to:			
8610	Owners of the parent		\$ 4,021,529 \$ 3,531,068
8620	Non-controlling interest		\$ 850,687 \$ 778,003
Comprehensive income attributable to:			
8710	Owners of the parent		\$ 2,113,156 \$ 4,526,727
8720	Non-controlling interest		\$ 355,790 \$ 761,850
Earnings per share 6(30)			
9750	Total basic earnings per share		\$ 5.92 \$ 5.21
9850	Total diluted earnings per share		\$ 5.84 \$ 5.15

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

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Equity attributable to owners of the parent											Total equity	
	Notes	Share capital - common stock	Total capital surplus, additional paid-in capital	Retained Earnings			Other equity interest				Total		Non- controlling interest
				Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available- for-sale financial assets	Asset revaluation increment	Treasury stocks			
Year ended December 31, 2016													
Balance at January 1, 2016		\$ 7,038,101	\$ 4,090,426	\$ 3,477,140	\$ 433,524	\$ 8,591,961	\$ 1,404,049	(\$ 2,355,538)	\$ -	(\$ 311,277)	\$ 22,368,386	\$ 3,836,131	\$ 26,204,517
Effect of retrospective application and restatement		-	-	-	-	(86,493)	(3,596)	-	-	-	(90,089)	-	(90,089)
Balance at 1 January, 2016 after adjustments		7,038,101	4,090,426	3,477,140	433,524	8,505,468	1,400,453	(2,355,538)	-	(311,277)	22,278,297	3,836,131	26,114,428
Appropriation of 2015 earnings	6(21)	-	-	384,799	-	(384,799)	-	-	-	-	-	-	-
Appropriation of legal reserve		-	-	-	517,964	(517,964)	-	-	-	-	-	-	-
Special reserve appropriated		-	-	-	-	(35,191)	-	-	-	-	-	-	-
Distribution of stock dividends		35,191	-	-	-	(3,026,383)	-	-	-	-	(3,026,383)	-	(3,026,383)
Cash dividends		-	-	-	-	-	-	-	-	-	-	-	-
Employees' stock dividends		47,528	327,472	-	-	-	-	-	-	-	375,000	-	375,000
Profit for 2016		-	-	-	-	3,531,068	-	-	-	-	3,531,068	778,003	4,309,071
Other comprehensive income (loss) for 2016	6(9)(22)	-	-	-	-	(23,086)	(1,345,442)	975,908	1,388,279	-	995,659	(16,153)	979,506
Purchase of treasury share		-	-	-	-	-	-	-	-	(205,888)	(205,888)	-	(205,888)
Cash dividends paid to the subsidiaries		-	158,276	-	-	-	-	-	-	-	158,276	-	158,276
Difference between proceeds from addition and disposal of subsidiary and book value		-	11,848	-	-	-	-	-	-	-	11,848	(11,848)	-
Adjustments to share of changes in equity of associates and joint ventures		-	40,284	-	-	-	-	-	-	-	40,284	190,669	230,953
Changes in equity of associates and joint ventures accounted for using equity method		-	846	-	-	-	-	-	-	-	846	-	846
Cash dividends distributed by subsidiaries		-	-	-	-	-	-	-	-	-	-	(438,376)	(438,376)
Non-controlling interest adjustment		-	-	-	-	-	-	-	-	-	-	27,500	27,500
Balance at December 31, 2016		<u>\$ 7,120,820</u>	<u>\$ 4,629,152</u>	<u>\$ 3,861,939</u>	<u>\$ 951,488</u>	<u>\$ 8,049,113</u>	<u>\$ 55,011</u>	<u>(\$ 1,379,630)</u>	<u>\$ 1,388,279</u>	<u>(\$ 517,165)</u>	<u>\$ 24,159,007</u>	<u>\$ 4,365,926</u>	<u>\$ 28,524,933</u>

(Continued)

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Notes	Equity attributable to owners of the parent												
	Share capital - common stock	Total capital surplus, additional paid-in capital	Retained Earnings			Other equity interest					Total	Non- controlling interest	Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available- for-sale financial assets	Asset revaluation increment	Treasury stocks				
Year ended December 31, 2017													
	\$ 7,120,820	\$ 4,629,152	\$ 3,861,939	\$ 951,488	\$ 8,049,113	\$ 55,011	(\$ 1,379,630)	\$ 1,388,279	(\$ 517,165)	\$ 24,159,007	\$ 4,365,926	\$ 28,524,933	
Balance at January 1, 2017													
Appropriation of 2016 earnings 6(21)													
Appropriation of legal reserve	-	-	353,107	-	(353,107)	-	-	-	-	-	-	-	
Reversal of special reserve	-	-	-	(517,964)	517,964	-	-	-	-	-	-	-	
Distribution of stock dividends	35,712	-	-	-	(35,712)	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(3,035,553)	-	-	-	-	(3,035,553)	-	(3,035,553)	
Employees' stock dividends	49,519	310,481	-	-	-	-	-	-	-	360,000	-	360,000	
Profit for 2017	-	-	-	-	4,021,529	-	-	-	-	4,021,529	850,687	4,872,216	
Other comprehensive loss for 2017 6(22)	-	-	-	-	(20,026)	(1,064,485)	(823,862)	-	-	(1,908,373)	(494,897)	(2,403,270)	
Cash dividends paid to the subsidiaries	-	157,218	-	-	-	-	-	-	-	157,218	-	157,218	
Difference between proceeds from addition and disposal of subsidiary and book value	-	7	-	-	-	-	-	-	-	7	(7)	-	
Adjustments to share of changes in equity of associates and joint ventures	-	111,028	-	-	-	-	-	-	-	111,028	335,297	446,325	
Changes in equity of associates and joint ventures accounted for using equity method	-	(71,229)	-	-	-	-	-	-	-	(71,229)	-	(71,229)	
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(570,579)	(570,579)	
Other (overdue dividends)	-	3	-	-	-	-	-	-	-	3	-	3	
Non-controlling interest adjustment	-	-	-	-	-	-	-	-	-	-	(4,669)	(4,669)	
Balance at December 31, 2017	<u>\$ 7,206,051</u>	<u>\$ 5,136,660</u>	<u>\$ 4,215,046</u>	<u>\$ 433,524</u>	<u>\$ 9,144,208</u>	<u>(\$ 1,009,474)</u>	<u>(\$ 2,203,492)</u>	<u>\$ 1,388,279</u>	<u>(\$ 517,165)</u>	<u>\$ 23,793,637</u>	<u>\$ 4,481,758</u>	<u>\$ 28,275,395</u>	

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

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Notes	Years ended December 31,	
		2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 6,090,019	\$ 5,359,361
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(9)(26)	1,969,888	2,002,577
Intangible assets amortization	6(11)(26)	71,006	76,757
Other non-current assets recognized as expenses	6(26)	56,895	92,252
Long-term prepaid rent expense	6(12)(26)	8,281	8,757
(Reversal of) provision for allowance for uncollectible accounts		(7,620)	9,580
Interest expense	6(28)	104,700	77,983
Share-based payments	6(18)	51,951	106,379
Interest income	6(24)	(38,665)	(34,953)
Dividend income	6(24)	(186,211)	(196,714)
Net loss on financial assets and liabilities at fair value through profit or loss	6(2)(25)	949,378	304,315
Share of loss of associates accounted for using equity method	6(8)	125,008	132,814
Gain on disposal of investments accounted for using equity method	6(8)	(776,362)	-
Gain on disposal of property, plant and equipment	6(25)	(30,484)	(19,829)
Loss on disposal of intangible assets		-	1,387
Gain on disposal of investments	6(25)	(654,696)	(1,087,648)
Impairment loss of financial assets	6(25)	-	1,403,575
Impairment loss of non-financial assets	6(11)(25)	96	-
Gain on fair value adjustment of investment property	6(10)(25)	(51,789)	-
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets and liabilities at fair value through profit or loss - current		(729,010)	(118,416)
Notes receivable		(175,581)	(400,779)
Accounts receivable		838,053	(826,528)
Accounts receivable - related parties		147,679	(144,237)
Other receivables		(39,103)	(60,346)
Inventories		(2,164,065)	(880,615)
Prepayments		(153,324)	(275,821)
Other current assets		(25,441)	(25,561)
Changes in operating liabilities			
Notes payable		(4,632)	(9,479)
Accounts payable		555,037	1,594,335
Accounts payable - related parties		(122,975)	105,144
Other payables		1,350,540	1,279,772
Other current liabilities		(38,085)	(9,453)
Other non-current liabilities		(13,723)	1,247
Cash inflow generated from operations		7,106,765	8,465,856
Interest received		39,314	34,456
Dividend received		186,211	197,808
Interest paid		(104,720)	(78,611)
Income tax paid		(888,393)	(815,469)
Net cash flows from operating activities		<u>6,339,177</u>	<u>7,804,040</u>

(Continued)

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Notes	Years ended December 31,	
		2017	2016
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Proceeds from government grants		\$ -	\$ 19,760
Decrease in other current assets		139,351	1,746
Acquisition of available-for-sale financial assets		(3,737,027)	(3,294,633)
Proceeds from disposal of available-for-sale financial assets		2,751,917	3,927,233
Acquisition of financial assets carried at cost		(624,605)	(955,981)
Proceeds from disposal of assets carried at cost		69,211	35,263
Acquisition of investments accounted for using equity method		(279,814)	-
Proceeds from disposal of investments accounted for using equity method		120,454	-
Acquisition of property, plant and equipment	6(31)	(2,364,589)	(2,433,718)
Proceeds from disposal of property, plant and equipment		193,375	152,096
Acquisition of investment property	6(10)	(588)	-
Acquisition of intangible assets	6(11)	(70,529)	(62,860)
Increase in other non-current assets		(653,086)	(154,404)
(Increase) decrease in refundable deposits		(15,675)	186,107
Net cash flows used in investing activities		(4,471,605)	(2,579,391)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase (decrease) in short-term borrowings		2,145,206	(372,039)
Increase in long-term borrowings		401,853	260,000
Decrease in long-term borrowings		(874,381)	(320,000)
Treasury stock transferred to employees		141,171	-
Change in non-controlling interests		(4,669)	27,500
Cash dividend distributed by subsidiaries		(570,579)	(438,376)
Payment of cash dividends		(2,878,335)	(2,868,107)
Payments to acquire treasury shares		-	(205,888)
Overdue stock dividends		3	-
Net cash flows used in financing activities		(1,639,731)	(3,916,910)
Effect of exchange rate changes		(624,507)	(580,731)
Net (decrease) increase in cash and cash equivalents		(396,666)	727,008
Cash and cash equivalents at beginning of year	6(1)	3,076,607	2,349,599
Cash and cash equivalents at end of year	6(1)	<u>\$ 2,679,941</u>	<u>\$ 3,076,607</u>

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

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANISATION

Chicony Electronics Co., Ltd. (the “Company”) was incorporated in 1983 as a company limited by shares under the provisions of the Company Law of the Republic of China. The Company has been a listed company since 1999. The Company and its subsidiaries (collectively referred herein as the “Group”) are engaged in the manufacturing and sales of keyboards and other computer peripheral components.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on March 9, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’	January 1, 2016
Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint operations’	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Amendments to IAS 1, ‘Disclosure initiative’	January 1, 2016
Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortisation’	January 1, 2016
Amendments to IAS 16 and IAS 41, ‘Agriculture: bearer plants’	January 1, 2016
Amendments to IAS 19, ‘Defined benefit plans: employee contributions’	July 1, 2014
Amendments to IAS 27, ‘Equity method in separate financial statements’	January 1, 2016
Amendments to IAS 36, ‘Recoverable amount disclosures for non-financial assets’	January 1, 2014
Amendments to IAS 39, ‘Novation of derivatives and continuation of hedge accounting’	January 1, 2014
IFRIC 21, ‘Levies’	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016

The above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	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
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised 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
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment.

IFRS 9, 'Financial instruments'

A. Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

B. The impairment losses of debt instruments are assessed using an ‘expected credit loss’ approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the new standards as of January 1, 2018 are summarised below:

<u>Affected items</u>	<u>2017 version IFRSs amount</u>	<u>Effect of adoption of new standards</u>	<u>2018 version IFRSs amount</u>
<u>January 1, 2018</u>			
Financial assets at fair value through profit or loss - current	\$ 412,311	\$ 3,352,971	\$ 3,765,282
Available-for-sale financial assets - current	6,734,294	(6,734,294)	-
Financial assets at fair value through other comprehensive income - current	-	3,381,323	3,381,323
Financial assets at fair value through profit or loss - non-current	-	2,178,876	2,178,876
Available-for-sale financial assets - non-current	883,509	(883,509)	-
Financial assets at fair value through other comprehensive income - non-current	-	917,411	917,411
Financial assets at cost	<u>2,266,656</u>	<u>(2,266,656)</u>	<u>-</u>
Total affected assets	<u>\$ 10,296,770</u>	<u>(\$ 53,878)</u>	<u>\$ 10,242,892</u>
Retained earnings	13,792,778	860,203	14,652,981
Other equity interest	(1,824,687)	(905,391)	(2,730,078)
Non-controlling interest	<u>4,481,758</u>	<u>(8,690)</u>	<u>4,473,068</u>
Total affected equity	<u>16,449,849</u>	<u>(53,878)</u>	<u>16,395,971</u>
Total affected liabilities and equity	<u>\$ 16,449,849</u>	<u>(\$ 53,878)</u>	<u>\$ 16,395,971</u>

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
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 International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
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
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

- A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:
- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
 - (b) Available-for-sale financial assets measured at fair value.
 - (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

- A. Basis for preparation of consolidated financial statements:
- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
 - (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
 - (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
 - (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.
 - (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary

are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2017	December 31, 2016	
Chicony Electronics Co., Ltd. (CEC)	Chicony Overseas Inc. (COI)	Sales of computer peripherals and management of overseas acquisitions and investments	100%	100%	
"	Unikey Electronics Co., Ltd. (UNIKEY)	Manufacturing and sales of computer and computers peripherals	100%	100%	
"	Hipro Overseas(BVI) Inc. (HOI)	Sales of switching power supplies and other electronic parts and management of overseas acquisitions and investments	100%	100%	
"	Hipro Electronics Ltd. (HEC)	Sales of switching power supplies and other electronic parts	100%	100%	
"	XAVi Technology Corp. (XAVi)	Researching, manufacturing and sales of DSL bridges and routers	42.69%	43.05%	Note B
"	Chicony Electronics (Thailand) Co., Ltd. (CET)	Manufacturing and sales of computer peripherals	100%	100%	
"	Chicony Global Inc. (CGI)	Sales of computer peripherals	100%	100%	
"	Chicony Power Technology Co., Ltd. (CP)	Manufacturing and sales of the plastic goods	47.85%	48.94%	Note B
"	Had Eri Iou Industrial Inc. Ltd. (HEI)	Manufacturing and sales of plastic goods	50.25%	50.25%	Note I

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2017	December 31, 2016	
COI	Chicony America Inc. (CAI)	Sales of computer peripherals	100%	100%	
"	Chicony Electronics(Dong Guan) Co., Ltd. (CEM2)	Manufacturing and sales of computers and computer peripherals	100%	100%	
"	Mao-Feng International Inc.(Mao-Feng)	Sales of computer peripherals and management of overseas acquisitions and investments	100%	100%	Note H
"	Chicony Electronics(Suzhou) Co., Ltd. (CEM3)	Manufacturing and sales of computers and computer peripherals	100%	100%	Note G
"	Global Faith Inc. (GFI)	Sales of computer peripherals and management of overseas acquisitions and investments	60%	60%	
"	Real Young Electronics Co., Ltd. (Real Young)	Design and sales of computer peripherals and management of overseas acquisitions and investments	100%	100%	
"	Mao-Ray Electronics (DongGuan) Co., Ltd. (Mao-Ray)	Manufacturing of electronic parts, keyboards and plastic products	100%	100%	
"	Suzhou Mao-Qun Electronics Co., Ltd. (Mao-Qun)	Manufacturing of electronic parts, keyboards and plastic products	60%	60%	
"	Chicony Electronics CEZ s.r.o. (CEZ)	Sales of computer peripherals	100%	100%	
"	Suzhou Qun-Yang Electronics Co., Ltd. (Qun-Yang)	Manufacturing and sales of electronic parts, keyboard and plastic products	60%	60%	

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2017	December 31, 2016	
COI	Chicony Electronics Japan Co., Ltd. (CEJ)	Sales of computer peripherals	100%	100%	
"	Kuang Mao International Inc. (Kuang Mao)	Sales of computer peripherals and management of overseas acquisitions and investments	100%	100%	
"	Chicony America Group Inc. (CAGI)	Internet solution for E-Commerce solution	100%	100%	
"	Chicony Electronics (Chong-Qing) Co., Ltd. (CEM5)	Manufacturing and sales of computer peripherals	100%	100%	
"	Hikari Investment GK (Hikari)	Investment holdings	99%	99%	
HEC	Quansun Investment Corp. Ltd. (Quansun)	Investment holdings	100%	100%	
"	Qun-Jing Power Co., Ltd. (Qun-Jing)	Sales of computer peripherals and consumer equipment	100%	100%	
CP	Chicony Power Holdings Inc. (CPH)	Investment holdings	100%	100%	
"	Chicony Power International Inc. (CPI)	Manufacturing and sales of switching power supplies and other electronic parts	100%	100%	
"	Chicony Power USA Inc. (CPUS)	Manufacturing and sales of switching power supplies and other electronic parts	100%	100%	

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2017	December 31, 2016	
CP	Chicony Power Technology HongKong Limited (CPHK)	Research and development centre	100%	100%	
"	WitsLight Technology Co., Ltd (WTS)	Design, research and development, manufacturing and sale of LED lighting modules	78.125%	78.125%	
WTS	WitsLight Technology Co., Ltd (WT)	Design, research and development of LED lighting modules and international trade	100%	100%	
"	WitsLight Technology (Kunshan) Co., Ltd (WTK)	Manufacturing and sales of LED lighting modules	100%	100%	
"	Zhuzhou Torch Auto Lamp CO., Ltd (Zhuzhou Torch)	Production and sales of automotive and motorcycle components, electric machine and device, lamps and plastic products	100%	100%	
"	Carlight Technology Co., Ltd. (CT)	Design, researching and developing and sales of automotive and motorcycle lamps and other components	100%	100%	
CPHK	Chicony Power Technology (DongGuan) Co., Ltd. (CPDG) (Formerly Hipro Electronics (Dong Guan) Co., Ltd.)(HDG)	Manufacturing and sales of switching power supplies and other electronic parts	100%	100%	Note C

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2017	December 31, 2016	
CPHK	Chicony Power Technology (Suzhou) Co., Ltd. (CPSZ)	Production and sales of electronic equipment (high-performance power supply, power module and voltage transformer) and LED lighting equipment	100%	100%	
"	Quang Sheng Electronics (Nanchang) Co., Ltd. (GSE)	Production and sales of electronic equipment (magnetic element, circuit board and keyboard) and voltage transformer	100%	100%	
"	Chicony Power Technology (Chong-Qing) Co., Ltd. (CPCQ)	Production and sales of electronic equipment (high-performance power supply, power module and voltage transformer) and LED lighting equipment	100%	100%	
"	Chicony Energy Saving Technology (Shanghai) Co., Ltd. (CPSH)	Sales of LED lighting equipments	100%	100%	
"	Trading (Dong Guan) Co., Ltd. (CPDGT)	Importing and exporting of switching power supplies, LED lighting equipment, and other electronics	100%	100%	
XAVi	Directmax International Ltd. (Directmax)	Management of overseas acquisitions and investments	100%	100%	
"	XAVi Overseas Ltd. (XAVi Overseas)	Management of overseas acquisitions and investments	100%	100%	

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2017	December 31, 2016	
XAVi	Systemax Development Ltd. (Systemax)	Sales of DSL bridges and routers	100%	100%	
"	XAVi Technologies (Suzhou) Co., Ltd.	Manufacturing and sales of DSL bridges and routers	100%	100%	
HEI	GUIDWAY GLOBAL LIMITED (GUIDWAY)	Investment	-	100%	Note F
"	HAD ERI IOU INTERNATIONAL Co., LIMITED (Haderiiou HK)	Investment	-	100%	Note E
"	HOLYU INTERNATIONAL Co., Ltd.	Sales of plastic toys, plastic hardware molds, plastic cases, components for computer hardware and business investment	-	80.70%	Note A, D

Note A: As of December 31, 2016, held 57.27% of the voting shares with COI as a whole.

Note B: Although the Company holds less than 50% of the voting shares directly or indirectly, it meets the criteria of having control power that is reported in the consolidated financial statements.

Note C: Hipro Electronics (Dong Guan) Co., Ltd. (HDG) has been renamed as Chicony Power Technology (Dong Guan) Co., Ltd. (CPDG) on July 20, 2016 as resolved by the Board of Directors.

Note D: On December 20, 2016, the Board of Directors resolved to liquidate Holyu International Co., Ltd, and the company was deregistered in February of 2017. The capital returned to Had Eri Iou Industrial Inc. Ltd. in proportion to its ownership after liquidation was \$9,390 (USD 310 thousand).

Note E: On April 10, 2017, the Board of Directors of Had Eri Iou International Co., Limited resolved to pay out \$66,803 (USD 2,201 thousand) in cash dividends and return capital

of \$39 (USD 1 thousand). On May 12, 2017, the Board of Directors resolved to liquidate the company, and the company was deregistered in November 2017.

Note F: On April 10 and July 28, 2017, the Board of Directors of Guidway Global Limited resolved to pay out \$119,625 (USD 3,934 thousand) of cash dividends and return capital of \$1,514 (USD 50 thousand). On July 28, 2017, the Board of Directors resolved to liquidate the company, and the company was deregistered in September 2017.

Note G: On June 23, 2017, the Board of Director of CEM3 resolved to appropriate cash dividend to Mao-Feng, the amount was RMB 20,000 thousand.

Note H: On July 18, 2017, the Board of Director of Mao-Feng resolved to appropriate cash dividend to COI, the amount was USD 2,380 thousand.

Note I: On January 15, 2018, the shareholders resolved to liquidate HEI, and the company was deregistered on January 24, 2018.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

As of December 31, 2017 and 2016, the non-controlling interest amounted to \$4,481,758 and \$4,365,926, respectively. The information of non-controlling interest and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interest			
		December 31, 2017		December 31, 2016	
		Amount	Ownership (%)	Amount	Ownership (%)
Chicony Power Technology Co., Ltd.	Taiwan	\$ 3,911,459	52.15%	\$3,627,962	51.06%

Summarised financial information of the subsidiaries:

Balance sheets

	Chicony Power Technology Co., Ltd.	
	December 31, 2017	December 31, 2016
Current assets	\$ 16,560,484	\$ 15,883,208
Non-current assets	3,846,608	3,580,227
Current liabilities	(12,679,961)	(12,135,838)
Non-current liabilities	(180,650)	(175,769)
Total net assets	<u>\$ 7,546,481</u>	<u>\$ 7,151,828</u>

Statements of comprehensive income

	Chicony Power Technology Co., Ltd.	
	Years ended December 31,	
	2017	31, 2016
Revenue	\$ 27,874,928	\$ 27,419,463
Profit before income tax	1,934,691	1,711,012
Income tax expense	(372,453)	(373,981)
Profit for the year	1,562,238	1,337,031
Other comprehensive income, net of tax	(567,359)	(94,351)
Total comprehensive income for the period	\$ 994,879	\$ 1,242,680
Comprehensive loss attributable to non-controlling interest	(\$ 456)	(\$ 8,001)
Dividends paid to non-controlling interest	\$ 533,135	\$ 430,786

Statements of cash flows

	Chicony Power Technology Co., Ltd.	
	Years ended December 31,	
	2017	2016
Net cash provided by operating activities	\$ 2,466,208	\$ 2,435,216
Net cash used in investing activities	(1,558,254)	(79,673)
Net cash used in financing activities	(883,347)	(2,083,037)
Effect of exchange rates on cash and cash equivalents	22,464	(73,669)
Increase in cash and cash equivalents	47,071	198,837
Cash and cash equivalents, beginning of period	911,718	712,881
Cash and cash equivalents, end of period	\$ 958,789	\$ 911,718

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are measured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within other gains and losses.

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - (i) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - (ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - (iii) All resulting exchange differences are recognized in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is an associate or joint arrangements, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even when the Group still retains partial interest in the former foreign associate or joint arrangements after losing significant influence over the former foreign associate, or losing joint control of the former joint arrangements, such transactions should be accounted for as disposal of all interest in these foreign operations.
- (c) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group still retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.
- (d) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realized within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- (a) Liabilities that are expected to be settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets and liabilities at fair value through profit or loss

- A. Financial assets and liabilities at fair value through profit or loss are financial assets and liabilities held for trading or financial assets and liabilities designated as at fair value through profit or loss on initial recognition. Financial assets and liabilities are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets and liabilities held for trading unless they are designated as hedges.
- B. On a regular way purchase or sale basis, financial assets and liabilities at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. Financial assets and liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets and liabilities are subsequently measured and stated at fair value, and any changes in the fair value of these

financial assets and liabilities are recognized in profit or loss.

(8) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently measured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(9) Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as effect of discounting is immaterial.

(10) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
 - (e) The disappearance of an active market for that financial asset because of financial difficulties;
 - (f) Observable data indicating that there is a measurable decrease in the estimated future cash

flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

- (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

- (a) Financial assets measured at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

- (b) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognized in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset through the use of an impairment allowance account.

- (c) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period,

the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

The Group derecognizes a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(12) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Lease receivables/ operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(14) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its

interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

- C. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss.
- G. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- H. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss. If it retains significant influence over this associate, the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives for the buildings and structures are 20~55 years, the machinery and testing equipment are 1~10 years, the molding equipment are 1~5 years and the other equipment are 1~20 years.

(16) Investment property

An investment property is stated initially at its cost and measured subsequently using the fair value model. A gain or loss arising from a change in the fair value of investment property is recognised in profit or loss.

(17) Operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(18) Intangible assets

A. Trademarks and licenses

Separately acquired trademarks and licenses are stated at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date.

Trademarks and licenses have a finite useful life and are amortized on a straight-line basis over their estimated useful lives of 1~10 years.

B. Computer software

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 1~10 years.

C. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

D. Other intangible assets are mainly technical skill and amortised on a straight-line basis over its estimated useful life of 4~14 years.

(19) Impairment of non-financial assets

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use shall be evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.

C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(20) Borrowings

A. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

B. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the

fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(21) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as effect of discounting is immaterial.

(22) Derecognition of financial liabilities

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

(23) Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognized in profit or loss.

(24) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the

balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

- ii. Remeasurement arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognized immediately in profit or loss.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes expense as it can no longer withdraw an offer of termination benefits or it recognizes relating restructuring costs, whichever is earlier.

Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(25) Employee share-based payment

A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

B. Restricted stocks:

(a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period.

- (b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognizes the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.
- (c) For restricted stocks where employees do not need to pay to acquire those stocks, if employees resign during the vesting period, the Company will redeem at no consideration and retire those stocks.

(26) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures, employees' training costs and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(27) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(28) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(29) Revenue recognition

The Group manufactures and sells computers and computers peripherals products. Revenue is measured at the fair value of the consideration received or receivable taking into account of value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the

customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(30) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are presented by deducting the grants from the asset's carrying amount and are amortized to profit or loss over the estimated useful lives of the related assets as reduced depreciation expense.

(31) Business combinations

A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.

B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date.

(32) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

(33) Changes in accounting policies

Starting from the fourth quarter of 2016, the Group changed its accounting policy for investment property to be measured subsequently using the fair value model. By applying the new accounting

policy, the Group would be able to provide more relevant information about its investment property. The Group adopted this accounting policy retrospectively, and the effect of adoption on prior periods is shown in the tables below.

	December 31, 2017	December 31, 2016
Increase in investment property	\$ -	\$ 1,374,494
Increase in deferred tax assets	\$ -	\$ 23,116
Increase in deferred tax liabilities	\$ -	\$ 84,773
Increase in other equity	\$ -	\$ 1,381,547
Decrease in retained earnings	\$ -	(\$ 68,710)
	Years ended December 31,	
	2017	2016
Decrease in depreciation charges (shown as "other gains and losses")	\$ -	\$ 17,783
Increase in net income	\$ -	\$ 17,783
Increase in basic earning per share (in dollars)	\$ -	\$ 0.03
Increase in diluted earnings per share (in dollars)	\$ -	\$ 0.03

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

A. Financial asset — equity investment impairment

The Group follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the decline of the fair value of an individual equity investment below cost was considered significant or prolonged, the Group would suffer a loss in its financial statements, being the transfer of the accumulated fair value adjustments recognized in other comprehensive income on

the impaired available-for-sale financial assets to profit or loss or being the recognition of the impairment loss on the impaired financial assets measured at cost in profit or loss.

B. Evaluation of investment property

The Group follows the guidance of IAS 40 ‘Investment property’ to determine the assets to be measured at fair value. The Group’s investment properties are mainly land and buildings. Their fair value is determined by an external appraiser and the fair value may be adjusted by the judgement of the external appraiser.

(2) Critical accounting estimates and assumptions

A. Impairment assessment of investments accounted for using equity method

The Group assesses the impairment of an investment accounted for using equity method as soon as there is any indication that it might have been impaired and its carrying amount cannot be recoverable. The Group assesses the recoverable amounts of an investment accounted for under the equity method based on the present value of the Group’s share of expected future cash flows of the investee, and analyzes the reasonableness of related assumptions.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date using judgements and estimates.

Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2017, the balance of inventories was \$12,458,261.

C. Evaluation of investment property

The Group’s investment properties are measured at fair value. The fair value is evaluated using the income approach by an external appraiser. It involves critical assumptions including occupancy rate, rent growth rate, discount rate, etc.. Those assumptions may be affected by the economic conditions, market needs, etc. that may change.

As of December 31, 2017, the balance of investment property was \$5,517,981.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand and revolving funds	\$ 38,966	\$ 32,256
Checking accounts and demand deposits	2,013,715	2,545,486
Time deposits	627,260	498,865
	<u>\$ 2,679,941</u>	<u>\$ 3,076,607</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. Details of cash and cash equivalents pledged as collateral are provided in Note 8.

(2) Financial assets at fair value through profit or loss

Current Items	December 31, 2017	December 31, 2016
Financial assets held for trading		
Non-hedging derivatives		
Forward foreign exchange contracts	\$ 411,117	\$ 200,715
Exchange rate swaps	1,194	36,743
	<u>\$ 412,311</u>	<u>\$ 237,458</u>
Financial liabilities held for trading		
Non-hedging derivatives		
Forward foreign exchange contracts	\$ 486,793	\$ 93,327
Exchange rate swaps	1,755	-
	<u>\$ 488,548</u>	<u>\$ 93,327</u>

A. The Group recognised net loss of (\$949,378) and (\$304,315) on financial assets held for trading for the years ended December 31, 2017 and 2016, respectively.

B. The non-hedging derivative instruments transaction and contract information are as follows:

Derivative instruments	December 31, 2017	
	Contract amount (Notional Principal) (In thousands)	Due Date
Forward foreign exchange contracts		
—SELL NTD/BUY USD	USD 385,000	2018.1.4~2018.10.16
—SELL RMB/BUY USD	USD 50,025	2018.1.31~2018.7.31
—SELL USD/BUY RMB	USD 315,180	2018.1.3~2018.12.4
Exchange rate swaps		
—SELL NTD/BUY USD	USD 34,700	2018.1.3~2018.12.27
Derivative instruments	December 31, 2016	
	Contract amount (Notional Principal) (In thousands)	Due Date
Forward foreign exchange contracts		
—SELL USD/BUY NTD	USD 106,000	2017.2.2~2017.6.27
—SELL NTD/BUY USD	USD 533,000	2017.1.26~2018.1.4
—SELL RMB/BUY USD	USD 15,000	2017.5.4~2017.12.4
—SELL USD/BUY RMB	USD 55,000	2017.12.4~2018.7.31
Exchange rate swaps		
—SELL NTD/BUY USD	USD 73,000	2017.1.3~2017.3.3

(a) Forward foreign exchange contracts

The Group entered into forward foreign exchange contracts to buy (sell) various forward foreign currencies and these contracts are not accounted for under hedge accounting.

(b) Exchange rate swaps

The Group entered into exchange rate swap contracts with financial institutions to hedge exchange rate risk of import and export proceeds. However, these exchange rate swap contracts are not accounted for under hedge accounting.

C. Due to the financial meltdown in 2008, listed stocks amounting to \$1,180,881 that were initially classified as 'financial assets at fair value through profit or loss' were reclassified to 'available-for-sale financial assets' on July 24, 2008 in accordance with paragraph 50(c) of IAS 39. The relevant information is set forth below:

(a) The balance of the above mentioned reclassified assets as of December 31, 2017 and 2016 are as follows:

	December 31, 2017 Book value/fair value	December 31, 2016 Book value/fair value
Listed stocks	\$ 182,318	\$ 174,774

(b) The relevant information in fair value change of the reclassified financial assets is as follows:

	Years ended December 31,	
	2017	2016
	Income recognised in comprehensive income	Loss recognised in comprehensive income
Listed stocks	\$ 7,544	(\$ 23,575)

The accumulated total changes in fair value of the above that were recognised in other comprehensive income before January 1, 2016 amounted to \$131,612.

(c) If the above financial assets were not classified to 'available-for-sale financial assets' on July 24, 2008, the Group would have recognised net gain (loss) as follows:

	Years ended December 31,	
	2017	2016
Listed stocks	\$ 7,544	(\$ 23,575)

D. The Group has no financial assets at fair value through profit or loss pledged to others.

(3) Available-for-sale financial assets

Items	December 31, 2017	December 31, 2016
Current items:		
Listed stocks	\$ 9,441,226	\$ 6,112,238
Emerging stocks	114,029	20,809
Convertible bonds	313,691	269,614
Beneficiary certificates	76,344	127,867
Subtotal	9,945,290	6,530,528
Valuation adjustment	(3,076,098)	(2,035,713)
Accumulated impairment	(134,898)	(173,300)
Total	<u>\$ 6,734,294</u>	<u>\$ 4,321,515</u>
Non-current items:		
Listed stocks	\$ 1,281,850	\$ 1,469,350
Beneficiary certificates	472,340	565,029
Subtotal	1,754,190	2,034,379
Valuation adjustment	359,594	584,208
Accumulated impairment	(1,230,275)	(1,230,275)
Total	<u>\$ 883,509</u>	<u>\$ 1,388,312</u>

- A. The above listed stocks of available-for-sale financial assets – non-current were private placements that could not be sold during the private lock-up period in accordance with the R.O.C. Securities Exchange Law. These private placements are remeasured and stated at value adjusted by the same item's fair value in active markets considering the effect of restriction. The publicly listed company filed for a retroactive handling of public issuance procedures for its privately placed equity securities in April 2017. Therefore the rights and obligations associated with these private placement equity securities are virtually the same as that of the publicly traded shares. As a result, \$187,500 of these equity securities are reclassified from available-for-sale financial assets-noncurrent to available-for-sale financial assets-current.
- B. Some of the Group's emerging stock has quoted market price in an active market, it was reclassified from financial assets measured at cost to available-for-sale financial assets emerging stock.
- C. The Group lost significant influence in the investment, Newmax Technology Co., Ltd.. It was reclassified from investments accounted for using equity method to available-for-sale financial assets – current listed stock.
- D. The Group recognized (\$608,973) and \$795,792 in other comprehensive income (loss) for fair value change and reclassified (\$656,026) and (\$1,085,885) from equity to profit or loss for the years ended December 31, 2017 and 2016, respectively.
- E. The Group assessed the impaired objective evidence of some of the above mentioned shares. On December 31, 2017 and 2016, the Group therefore recognised impairment loss of \$1,365,173 and \$1,403,575, respectively.

- F. The counterparties of debt instrument investments the Group invests in have good credit quality.
- G. The Group recognized no interest income for the convertible bonds for the years ended December 31, 2017 and 2016.
- H. As of December 31, 2017 and 2016, no available-for-sale financial assets owned by the Group were pledged to others.

(4) Financial assets measured at cost

Items	December 31, 2017	December 31, 2016
Non-current items:		
Unlisted stocks	\$ 1,662,504	\$ 1,577,929
Beneficiary certificates	677,947	332,196
Less: Accumulated impairment	(73,795)	(73,795)
Total	\$ 2,266,656	\$ 1,836,330

- A. Based on the Group's intention, its investment in stocks and beneficiary certificates above should be classified as available-for-sale financial assets. However, the stocks above are not traded in active market, and no sufficient industry information of companies similar to them is available. Thus, the fair value of the investment in the stocks above cannot be measured reliably. The Group classified those stocks as 'financial assets measured at cost'.
- B. Information about the financial assets measured at cost reclassified to available-for-sale financial assets is provided in Note 6(3).
- C. Based on the objective information that LumenMax Corporation was reorganized due to financial difficulty, the Group assessed and recognized impairment loss of \$73,795 on equity investments –LumenMax Corporation as of December 31, 2017 and 2016.
- D. As of December 31, 2017 and 2016, no financial assets measured at cost held by the Group were pledged to others.

(5) Accounts receivable

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 18,162,030	\$ 19,000,745
Less: Allowance for bad debts	(101,554)	(109,836)
	\$ 18,060,476	\$ 18,890,909

- A. The Group does not hold any collateral as security.
- B. The credit quality information of accounts receivable is provided in Note 12(2) C.

(6) Transfer of financial assets

- A. The Group entered into a factoring agreement with financial institutions to sell its accounts receivable. Under the agreement, the Group is not obligated to bear the default risk of the transferred accounts receivable and does not have any continuing involvement in the transferred accounts receivable. Thus, the Group derecognized the transferred accounts receivable. As of

December 31, 2017, details of the guarantee notes issued for the factoring agreement are provided in Note 9(2).

B. As of December 31, 2017 and 2016, the outstanding accounts receivable sold were as follows:

December 31, 2017					
Purchaser of accounts receivable	Accounts receivable transferred	Amount		Amount advanced	Interest rate of amount advanced
		derecognised	Facilities		
E.SUN BANK	\$ 435,037	\$ 435,037	\$ 447,000	\$ 391,274	1.98%~2.03%
Ta Chong Bank	329,832	329,832	476,800	295,318	2.00%~2.43%
	<u>\$ 764,869</u>	<u>\$ 764,869</u>	<u>\$ 923,800</u>	<u>\$ 686,592</u>	

December 31, 2016					
Purchaser of accounts receivable	Accounts receivable transferred	Amount		Amount advanced	Interest rate of amount advanced
		derecognised	Facilities		
Taishin Bank	\$ 113,564	\$ 113,564	\$ 386,820	\$ 87,035	2.35%~2.56%
Ta Chong Bank	254,805	254,805	515,760	222,773	1.55%~1.98%
	<u>\$ 368,369</u>	<u>\$ 368,369</u>	<u>\$ 902,580</u>	<u>\$ 309,808</u>	

(7) Inventories

December 31, 2017			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 5,226,263	(\$ 452,092)	\$ 4,774,171
Work in progress	2,017,507	(210,128)	1,807,379
Finished goods	6,210,497	(620,739)	5,589,758
Inventory in transit	286,953	-	286,953
Total	<u>\$ 13,741,220</u>	<u>(\$ 1,282,959)</u>	<u>\$ 12,458,261</u>

December 31, 2016			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 3,858,232	(\$ 335,138)	\$ 3,523,094
Work in progress	2,045,832	(206,399)	1,839,433
Finished goods	5,236,040	(627,037)	4,609,003
Inventory in transit	322,666	-	322,666
Total	<u>\$ 11,462,770</u>	<u>(\$ 1,168,574)</u>	<u>\$ 10,294,196</u>

The cost of inventories recognised as expense for the period:

	For the years ended December 31,	
	2017	2016
Cost of goods sold	\$ 64,138,219	\$ 62,980,407
Provision for inventory obsolescence and market price decline	578,202	520,526
Others	(15,072)	(322)
	<u>\$ 64,701,349</u>	<u>\$ 63,500,611</u>

The inventory gains represent income from sale of scraps and wastes and the gain on physical count.

(8) Investments accounted for using equity method

A. Investments accounted for under the equity method were as follows:

	December 31, 2017	December 31, 2016
Associates:		
Newmax Technology Co., Ltd (Newmax)	\$ -	\$ 771,252
Sky-Fine Investment Limited (Sky-Fine)	45,719	66,698
	<u>\$ 45,719</u>	<u>\$ 837,950</u>

B. The share of profit (loss) of associates accounted for using equity method are as follows for the years ended December 31, 2017 and 2016:

	Years ended December 31,	
	2017	2016
Associates:		
Newmax Technology Co., Ltd (Newmax)	(\$ 108,013)	(\$ 120,918)
Sky-Fine Investment Limited (Sky-Fine)	(16,995)	(11,896)
	<u>(\$ 125,008)</u>	<u>(\$ 132,814)</u>

The amount of profit or loss of associates and other comprehensive profit or loss of the above associates accounted for using equity method, Sky - Fine Investment Limited, is evaluated by its financial statements audited by independent accountants for the same reporting period.

C. Associates

(a) On May 22, 2017, the shareholders of Newmax Technology Co., Ltd. ("Newmax") adopted a resolution in their meeting to raise additional cash through private placement of its common shares, resulting in the Group's ownership stake in Newmax to decrease from 22.38% to 17.76%. Subsequently, the number of Board members representing the Group decreased from three to one, after the re-election of Directors in the Board meeting held on October 31, 2017. The Group no longer has significant influence over Newmax as of October 31, 2017, and the investment in Newmax is reclassified from investments accounted for under equity method to available-for-sale financial assets-current, resulting in a gain of \$776,362 on the disposal of investments accounted for under equity method. Please refer to Note 6(25) for details.

(b) The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results are summarized below:

As of December 31, 2017 and 2016, the carrying amount of the Group's individually immaterial associates amounted to \$45,719 and \$66,698, respectively.

	For the years ended December 31,	
	<u>2017</u>	<u>2016</u>
Loss for the year from continuing operations	(\$ 16,995)	(\$ 11,896)
Other comprehensive loss, net of tax	(3,984)	(4,722)
Total comprehensive loss	<u>(\$ 20,979)</u>	<u>(\$ 16,618)</u>

(9) Property, plant and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Tooling equipment</u>	<u>Testing equipment</u>	<u>Construction in progress</u>	<u>Others</u>	<u>Total</u>
<u>At January 1, 2017</u>								
Cost	\$ 1,353,790	\$ 7,011,926	\$ 6,858,863	\$ 5,571,793	\$ 1,906,483	\$ 491,461	\$ 3,493,181	\$ 26,687,497
Accumulated depreciation and impairment	-	(1,577,770)	(3,336,988)	(4,349,837)	(1,471,628)	-	(2,456,008)	(13,192,231)
	<u>\$ 1,353,790</u>	<u>\$ 5,434,156</u>	<u>\$ 3,521,875</u>	<u>\$ 1,221,956</u>	<u>\$ 434,855</u>	<u>\$ 491,461</u>	<u>\$ 1,037,173</u>	<u>\$ 13,495,266</u>
<u>2017</u>								
Opening net book amount	\$ 1,353,790	\$ 5,434,156	\$ 3,521,875	\$ 1,221,956	\$ 434,855	\$ 491,461	\$ 1,037,173	\$ 13,495,266
Additions	-	48,581	476,710	375,324	211,644	437,584	468,317	2,018,160
Disposals	-	(373)	(50,080)	(63,716)	(3,029)	(27,900)	(17,793)	(162,891)
Reclassifications	-	-	120,916	197,530	36,647	(188,668)	99,557	265,982
Depreciation	-	(248,080)	(615,472)	(518,391)	(191,123)	-	(396,822)	(1,969,888)
Net exchange differences	(3,406)	(33,098)	(30,419)	(8,470)	(4,337)	(2,030)	(9,987)	(91,747)
Closing net book amount	<u>\$ 1,350,384</u>	<u>\$ 5,201,186</u>	<u>\$ 3,423,530</u>	<u>\$ 1,204,233</u>	<u>\$ 484,657</u>	<u>\$ 710,447</u>	<u>\$ 1,180,445</u>	<u>\$ 13,554,882</u>
<u>At December 31, 2017</u>								
Cost	\$ 1,350,384	\$ 7,008,820	\$ 6,965,235	\$ 5,468,324	\$ 2,084,777	\$ 710,447	\$ 3,793,133	\$ 27,381,120
Accumulated depreciation and impairment	-	(1,807,634)	(3,541,705)	(4,264,091)	(1,600,120)	-	(2,612,688)	(13,826,238)
	<u>\$ 1,350,384</u>	<u>\$ 5,201,186</u>	<u>\$ 3,423,530</u>	<u>\$ 1,204,233</u>	<u>\$ 484,657</u>	<u>\$ 710,447</u>	<u>\$ 1,180,445</u>	<u>\$ 13,554,882</u>

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Tooling equipment</u>	<u>Testing equipment</u>	<u>Construction in progress</u>	<u>Others</u>	<u>Total</u>
<u>At January 1, 2016</u>								
Cost	\$ 2,085,279	\$ 4,802,940	\$ 6,609,336	\$ 5,429,217	\$ 1,972,456	\$ 3,439,681	\$ 3,475,504	\$ 27,814,413
Accumulated depreciation and impairment	-	(1,435,442)	(3,086,944)	(4,013,734)	(1,383,707)	-	(2,433,104)	(12,352,931)
	<u>\$ 2,085,279</u>	<u>\$ 3,367,498</u>	<u>\$ 3,522,392</u>	<u>\$ 1,415,483</u>	<u>\$ 588,749</u>	<u>\$ 3,439,681</u>	<u>\$ 1,042,400</u>	<u>\$ 15,461,482</u>
<u>2016</u>								
Opening net book amount	\$ 2,085,279	\$ 3,367,498	\$ 3,522,392	\$ 1,415,483	\$ 588,749	\$ 3,439,681	\$ 1,042,400	\$ 15,461,482
Additions	14,181	51,209	504,939	521,189	75,028	1,415,909	313,158	2,895,613
Disposals	-	-	(8,107)	(97,622)	(1,646)	-	(24,892)	(132,267)
Reclassifications	(745,156)	2,518,813	154,615	153,881	40,903	(4,308,495)	206,336	(1,979,103)
Depreciation	-	(217,758)	(589,709)	(626,211)	(207,376)	-	(361,523)	(2,002,577)
Net exchange differences	(514)	(285,606)	(62,255)	(144,764)	(60,803)	(55,634)	(138,306)	(747,882)
Closing net book amount	<u>\$ 1,353,790</u>	<u>\$ 5,434,156</u>	<u>\$ 3,521,875</u>	<u>\$ 1,221,956</u>	<u>\$ 434,855</u>	<u>\$ 491,461</u>	<u>\$ 1,037,173</u>	<u>\$ 13,495,266</u>
<u>At December 31, 2016</u>								
Cost	\$ 1,353,790	\$ 7,011,926	\$ 6,858,863	\$ 5,571,793	\$ 1,906,483	\$ 491,461	\$ 3,493,181	\$ 26,687,497
Accumulated depreciation and impairment	-	(1,577,770)	(3,336,988)	(4,349,837)	(1,471,628)	-	(2,456,008)	(13,192,231)
	<u>\$ 1,353,790</u>	<u>\$ 5,434,156</u>	<u>\$ 3,521,875</u>	<u>\$ 1,221,956</u>	<u>\$ 434,855</u>	<u>\$ 491,461</u>	<u>\$ 1,037,173</u>	<u>\$ 13,495,266</u>

- A. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalisation are as follows:

	For the years ended December 31,	
	2017	2016
Amount capitalised	\$ 15,886	\$ 27,699
Interest rate	0.96%~2.04%	1.32%~2.28%

- B. As of December 31, 2017 and 2016, no property, plant and equipment owned by the Group were pledged to others.
- C. The land and headquarters building the Group owned located in Sanchong District, New Taipei City had been completed and was in use starting the fourth quarter of 2016. Some floors are self-used by the Company and the remaining floors are rented to related parties and third parties, which is the same as the old vacant building in Wugu District. The Group reclassified “Land”, “Buildings” and “Construction in progress” to “Investment property”, amounting to \$2,186,566 (the original book value).
- D. To promptly reflect the fair value information, the Group has undertaken a revaluation of the aforementioned properties in accordance with the regulations on revaluation at fair value when transferred to investment property at fair value in the third quarter of 2016. The revaluation surplus amounted to \$1,473,052 and recognised as other comprehensive income – revaluation surplus. After deduction of deferred tax liabilities recognised due to revaluation amounting to \$106,529 and addition of deferred tax liabilities recognised in prior year due to land revaluation amounting to \$21,756; the remaining balance of \$1,388,279 was added to revaluation surplus of shareholders’ equity.

(10) Investment property

	2017	2016
At January 1	\$ 5,547,494	\$ 1,855,650
Additions – from subsequent expenditures	588	-
Reclassifications	-	3,659,618
Gain on fair value adjustment	51,789	-
Net exchange differences	(81,890)	32,226
At December 31	\$ 5,517,981	\$ 5,547,494

A. Rental income from investment property and direct operating expenses arising from investment property are shown below:

	Years ended December 31,	
	2017	2016
Rental income from investment property	\$ 134,039	\$ 123,683
Direct operating expenses arising from the investment property that generated rental income during the period	\$ 61,999	\$ 46,186
Direct operating expenses arising from the investment property that did not generate rental income during the period	\$ 36,561	\$ 9,057

B. Basis of investment property at fair value:

The Group's investment properties are office building land and buildings. Office buildings are located in Tokyo City, Sanchong District and Wugu District in New Taipei City. They are mainly earn from rental revenue with rental period ranging from 1 to 7 years. The assumptions used for the years ended December 31, 2017 and 2016 are as follows:

(a) Details of the Group's investment property are as follows:

	December 31, 2017		
	CEC Headquarter	Wugu Building	Shinkawa Building
The subject	CEC Headquarter	Wugu Building	Shinkawa Building
Location	Sanchong District, New Taipei City	Wugu District, New Taipei City	Tokyo, Japan
Valuation method	Income approach	Income approach	Income approach
Valuation firm	Panasia	Panasia	Panasia
Valuer	Shao You, Chung	Wei Yuan, Cheng	Shao You, Chung
Evaluation basis date	November 30, 2017 (Note)	November 30, 2017 (Note)	November 30, 2017 (Note)
	December 31, 2016		
	CEC Headquarter	Wugu Building	Shinkawa Building
The subject	CEC Headquarter	Wugu Building	Shinkawa Building
Location	Sanchong District, New Taipei City	Wugu District, New Taipei City	Tokyo, Japan
Valuation method	Income approach	Income approach	Income approach
Valuation firm	Panasia	Panasia	Panasia
Valuer	Shao You, Chung	Shao You, Chung	Shao You, Chung
Evaluation basis date	November 30, 2016 (Note)	November 30, 2016 (Note)	November 30, 2016 (Note)

Note: We obtained effective statements of appraisal report on December 31, 2017 and 2016 from appraiser.

(b) The Company's office buildings' (including car parks) fair value was evaluated using the discounted cash flow analysis of income approach.

The estimation process of the valuation method involves differentiating between rented and not yet rented. The former is calculated by contract rent and the latter is calculated by market price. It also considers comparative rent information of similar properties to determine annual growth range of rent; includes idle loss, decoration offset loss, and the closing balance of disposal value of that property to calculate future cash inflow, then discounted by an appropriated discount rate accumulate till the valuation date. Future cash outflow consists of expenses directly related to operations, i.e. land tax, house tax, insurance fee, management fee, maintenance fee, replacement allocation, amortization of agent fee and etc., is estimated by the actual expenses incurred in the current year, considering the Company's current operating results and changes which may occur in the future.

- (c) The rent, occupancy rate and income of past year of the Group's office buildings (including car parks) and comparative rent information of similar properties are as follows:

	<u>Estimated rent (\$/3.3m²/month)</u>	<u>Similar comparative subject in local or market</u>	<u>Occupancy rate</u>	<u>Income of past year</u>
Year ended				
<u>December 31, 2017</u>				
CEC Headquarter	\$521~\$1,000	Equivalent to estimated rent	4.05%	\$ 12,845
Wugu Building	\$291~\$713	Equivalent to estimated rent	25.00%	-
Shinkawa Building	\$2,165~\$6,496	Equivalent to estimated rent	100.00%	121,194
	<u>Estimated rent (\$/3.3m²/month)</u>	<u>Similar comparative subject in local or market</u>	<u>Occupancy rate</u>	<u>Income of past year</u>
Year ended				
<u>December 31, 2016</u>				
CEC Headquarter	\$521~\$1,025	Equivalent to estimated rent	3.24%	\$ 751
Wugu Building	\$252~\$684	Equivalent to estimated rent	-	-
Shinkawa Building	\$2,374~\$7,122	Equivalent to estimated rent	100.00%	122,932

- (d) Rent growth rate is evaluated by considering the lease contract and actual market situation. Discount rate is evaluated by risk premium approach which takes the return rate on investment of the most general goods as standard, adopted the floating interest rate on a 2-year time deposits of a small amount, as posted by the Chunghwa Post Co., Ltd. plus 0.75 percentage points; and explore the liquidity, risk level, value-added level and the ease of management of the subject. The range of rent growth rate and discount rate are as follow:

	<u>December 31, 2017</u>			<u>December 31, 2016</u>		
	<u>CEC Headquarter</u>	<u>Wugu Building</u>	<u>Shinkawa Building</u>	<u>CEC Headquarter</u>	<u>Wugu Building</u>	<u>Shinkawa Building</u>
Rent growth rate	1.00%	0.50%	1.00%	1.00%	0.50%	1.00%
Discount rate	3.75%	4.05%	4.10%	3.75%	4.05%	4.10%

C. The fair value information about the investment property is provided in Note 12(3).

D. Impairment of investment property: None.

E. Information about the investment property that was pledged to others as collaterals is provided in Notes 6(16) and 8.

(11) Intangible assets

	<u>Trademarks</u>				
	<u>and patents</u>	<u>Software</u>	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
<u>At January 1, 2017</u>					
Cost	\$ 24,766	\$ 199,885	\$ 142,637	\$ 68,772	\$ 436,060
Accumulated amortisation and impairment	(13,327)	(131,197)	-	(36,393)	(180,917)
	<u>\$ 11,439</u>	<u>\$ 68,688</u>	<u>\$ 142,637</u>	<u>\$ 32,379</u>	<u>\$ 255,143</u>
<u>2017</u>					
Opening net book amount	\$ 11,439	\$ 68,688	\$ 142,637	\$ 32,379	\$ 255,143
Additions	15,140	54,912	-	477	70,529
Disposals – cost	(1,612)	(4,561)	-	-	(6,173)
Disposals – accumulated amortisation	1,612	4,561	-	-	6,173
Impairment loss	-	-	(96)	-	(96)
Reclassifications	-	1,282	-	-	1,282
Amortisation	(12,289)	(52,279)	-	(6,438)	(71,006)
Net exchange differences	-	381	(5,929)	(900)	(6,448)
Closing net book amount	<u>\$ 14,290</u>	<u>\$ 72,984</u>	<u>\$ 136,612</u>	<u>\$ 25,518</u>	<u>\$ 249,404</u>
<u>At December 31, 2017</u>					
Cost	\$ 38,294	\$ 251,452	\$ 136,612	\$ 66,494	\$ 492,852
Accumulated amortisation and impairment	(24,004)	(178,468)	-	(40,976)	(243,448)
	<u>\$ 14,290</u>	<u>\$ 72,984</u>	<u>\$ 136,612</u>	<u>\$ 25,518</u>	<u>\$ 249,404</u>

	Trademarks				
	and patents	Software	Goodwill	Others	Total
<u>At January 1, 2016</u>					
Cost	\$ 25,221	\$ 179,168	\$ 149,706	\$ 68,056	\$ 422,151
Accumulated amortisation and impairment	(11,660)	(116,221)	-	(31,152)	(159,033)
	<u>\$ 13,561</u>	<u>\$ 62,947</u>	<u>\$ 149,706</u>	<u>\$ 36,904</u>	<u>\$ 263,118</u>
<u>2016</u>					
Opening net book amount	\$ 13,561	\$ 62,947	\$ 149,706	\$ 36,904	\$ 263,118
Additions	9,673	53,187	-	-	62,860
Disposals – cost	(10,098)	(47,443)	-	(2,600)	(60,141)
Disposals – accumulated amortisation	10,098	47,443	-	1,213	58,754
Reclassifications	-	11,789	-	3,887	15,676
Amortisation	(11,795)	(58,170)	-	(6,792)	(76,757)
Net exchange differences	-	(1,065)	(7,069)	(233)	(8,367)
Closing net book amount	<u>\$ 11,439</u>	<u>\$ 68,688</u>	<u>\$ 142,637</u>	<u>\$ 32,379</u>	<u>\$ 255,143</u>
<u>At December 31, 2016</u>					
Cost	\$ 24,766	\$ 199,885	\$ 142,637	\$ 68,772	\$ 436,060
Accumulated amortisation and impairment	(13,327)	(131,197)	-	(36,393)	(180,917)
	<u>\$ 11,439</u>	<u>\$ 68,688</u>	<u>\$ 142,637</u>	<u>\$ 32,379</u>	<u>\$ 255,143</u>

A. Details of amortisation on intangible assets are as follows:

	For the years ended December 31,	
	2017	2016
Operating costs	\$ 3,749	\$ 3,215
Selling expenses	5,460	1,835
Administrative expenses	15,768	33,689
Research and development expenses	46,029	38,018
	<u>\$ 71,006</u>	<u>\$ 76,757</u>

B. Goodwill is allocated to the Group's cash-generating units identified according to operating segment as follows:

	December 31, 2017	December 31, 2016
Asia	\$ 73,540	\$ 74,311
America	63,072	68,326
	<u>\$ 136,612</u>	<u>\$ 142,637</u>

C. Goodwill is allocated to the Group's cash-generating units identified according to operating segment. The recoverable amount is calculated using the value-in-use. The Value-in-use is calculated using estimated cash flow before tax in the financial budget approved by management. For the years ended December 31, 2017 and 2016, the Group recognized impairment loss on goodwill amounting to \$96 and \$0, respectively.

(12) Other non-current assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Long-term prepaid rents - land use right	\$ 309,996	\$ 321,250
Guarantee deposits paid	59,929	44,254
Prepayments for business facilities	657,558	269,568
Others	275,656	331,746
	<u>\$ 1,303,139</u>	<u>\$ 966,818</u>

- A. As of December 31, 2017, the Group signed a land use right contract with Bureau of Land Resources for use of the land in municipality of Chongqing, WuJiang City of Jiangsu Province and Dongguan City of Guangdong Province with term of 50 years. All rentals had been paid on the contract date, shown as ‘Long-term prepaid rents - Land use right’. However, the local government of Chongqing has negotiated with the Group in October 2014 for collecting certain land use right in Chongqing and returning related rents to the Group. As of December 31, 2017 and 2016, the accumulative returned proceed of land use right were both \$218,594. The Group recognized rental expenses of \$8,281 and \$8,757 for the years ended December 31, 2017 and 2016, respectively.
- B. As of December 31, 2017 and 2016, CEM3, CEM5 and CPCQ received the local government grants amounting to \$263,986 and \$290,334, respectively, as a reward for the local investment, which were deducted from the cost of land use right.
- C. Information on other non-current assets that were pledged to others as collaterals is provided in Note 8.

(13) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2017</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank unsecured borrowings	\$ 4,246,383	0.45% ~ 1.10%	None
<u>Type of borrowings</u>	<u>December 31, 2016</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank unsecured borrowings	\$ 1,981,177	0.48% ~ 1.20%	None
Bank secured borrowings	120,000	1.47%	Time deposits
	<u>\$ 2,101,177</u>		

- A. As of December 31, 2017, the Group had issued promissory notes as guarantee for the short-term loans. Please see Note 9(2).
- B. Information about the short-term borrowings that were pledged to others as collaterals is provided in Note 8.

(14) Accounts payable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts payable	\$ 15,867,296	\$ 15,388,418
Estimated accounts payable	4,870,271	4,794,112
	<u>\$ 20,737,567</u>	<u>\$ 20,182,530</u>

(15) Other payables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Marketing allowance payable	\$ 2,867,882	\$ 3,096,647
Salary payable and annual bonus	1,735,476	1,494,373
Employees' dividends and directors' and supervisors' remuneration payable	947,492	814,722
Miscellaneous purchase payable	820,265	584,952
Processing expense payable	718,931	614,490
Construction and equipment expense	385,725	732,154
Others	1,650,096	1,144,438
	<u>\$ 9,125,867</u>	<u>\$ 8,481,776</u>

(16) Long-term borrowings

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2017</u>
Long-term bank borrowings				
E. Sun Bank (Series A)	Borrowing period is from March 20, 2014 to March 20, 2019; borrowing is repayable in installments by own funds or through refinancing at the maturity date of syndicated contract.	1.60%	None	\$ 380,000
DBS Bank	Borrowing period is from December 1, 2017 to November 29, 2019; interest is repayable monthly until the principal is matured.	0.57%	None	396,489
Sumitomo Mitsui Banking Corporation (Secured borrowings)	Borrowing period is from March 13, 2015 to March 12, 2022; interest is repayable monthly until the principal is matured.	0.78%	Investment property	954,792
TCB Bank	Borrowing period is from December 20, 2017 to April 22, 2018; interest is repayable until the principal is matured. (Note)	1.797%	None	
				100,000
				<u>\$ 1,831,281</u>

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2017</u>
Long-term bank borrowings				
E. Sun Bank (Series A)	Borrowing period is from March 20, 2014 to March 20, 2019; borrowing is repayable in installments by own funds or through refinancing at the maturity date of syndicated contract.	1.60%	None	\$ 840,000
Sumitomo Mitsui Banking Corporation	Borrowing period is from December 1, 2015 to December 1, 2017; interest is repayable monthly until the principal is matured.	0.66%	None	414,381
Sumitomo Mitsui Banking Corporation (Secured borrowings)	Borrowing period is from March 13, 2015 to March 12, 2022; interest is repayable monthly until the principal is matured.	0.78%	Investment property	997,996
TCB Bank	Borrowing period is from September 20, 2016 to January 20, 2017; interest is repayable until the principal is matured. (Note)	1.797%	None	
				100,000
				<u>\$ 2,352,377</u>

Note: Revolving credit in five years starting from the first drawdown, each credit period limited to 90 to 180 days.

A. As of December 31, 2017 and 2016, the Company's Chairman had issued promissory notes to guarantee the long-term loans, please see Note 9(2).

B. A long-term syndicated construction loan facility amounting to \$5,000,000 (Series A: \$2,000,000 can be financed in batches but credit revolvable; Series B: \$3,000,000, credit revolvable; Series C: USD 100,000,000, credit revolvable; the amount drawdown by Series B and Series C cumulatively must be below \$3,000,000.). For five years was signed by the Company, with E. Sun Commercial Bank as the lead bank in January, 2014. The loan facility will be used for medium-term operations, and repayments will be in accordance with contract requirements. In September 2015, the credit amount of series A was renewed to \$1,000,000, resulting in total loan

facility amounting to \$4,000,000. As of December 31, 2017, \$380,000 has been drawdown. The main contents of the contract are as follows:

(a) The Group should maintain financial ratios based on annual consolidated financial statements as follows:

- i. Current ratio is above 100%,
- ii. Financial liabilities divided by net tangible assets is under 200%,
- iii. Time interest earned is above 300%, and
- iv. Net tangible assets are above \$15,000,000,

If the Company does not conform to the contract, the Company should adjust within nine months. If the adjusted financial ratios meet the requirements, there is no breach of contract.

(b) The Company should use the debts for its intended purpose (not for treasury stock, capital expenditures, cash dividends and investments) and prepare the appropriate books and records for cash disbursements for future examination. Lenders do not take responsibility for supervision.

(c) If the Company needs additional operating capital, the Company should issue stocks for cash, borrow from stockholders, or other means. If the borrower obtains capital from stockholders, the Company should get the commitment from stockholders that the creditors' rights are subordinated, and the interest rate should not be over the lowest rate mentioned in the contract. The borrower should repay the principal, interests, and all the related expenses before repaying the advances made by the borrower's stockholders.

(d) Parts of the credit rights of qualified accounts receivable of the Company should be transferred to the lead bank after the contract date. These qualified accounts receivable plus the balance of the special-purpose bank account should be over 45% of the facility of Series B and Series C as a whole.

As of December 31, 2017, the Company did not violate any of the above requirements.

C. A long-term syndicated construction loan facility amounting to \$4,500,000 for a period of five years was signed by Chicony Power Technology Co., Ltd. with Taiwan Cooperative Bank as the lead bank in October 2015. The construction loan is for repaying for medium-term operations. The loan can be drawn down in United States Dollars or New Taiwan Dollars. The main content of the contract are as follows:

(a) CP's annual consolidated financial statements should maintain financial ratios as follows:

- i. Current ratio is above 100%,
- ii. Financial liabilities divided by net tangible assets after subtracting cash and cash equivalents is under 250%,
- iii. Time interest earned is above 300%, and
- iv. Net tangible assets are above \$4,000,000,

The above financial ratios are based on the annual financial statements. If the Company does

not conform to the contract, the Company should increase capital by cash or by other means. From the next day of the managing bank's notification till the next interest paid date after conforms to the contract, the lending rates will be increase by 0.125% of the used but unsettled amount of this contract, it is not a breach of contract. If CP could not adjust the financial ratios by next inspection day (subjected to the consolidated financial statements audited by independent accountants), as the borrower violates the contract.

- (b) CP should maintain appropriate accounts receivable ratio, which means the total of qualified accounts receivable balance and the compensation accounts balance divided by the remainder of undrawn balance should be above 50%. The remainder of undrawn balance is CP's expected drawdown amounts plus the remainder of undrawn amounts. If the ratio cannot be maintained appropriately, CP should choose any of the following actions to make the accounts receivable ratio comply with the contract within seven days after the managing bank's notification:
 - i. Provide other qualified accounts receivable which was certified by the managing bank, or,
 - ii. Repay the loan before maturity, or,
 - iii. Repay or deposit in compensation accounts to maintain appropriate accounts receivable ratio above (or equal to) 50%.
- (c) As part of the contract, the commitment fee should be calculated every three months, which begins six months after CP drawdowns the credit for the first time. During the commitment fee calculation period, if the average drawdown amounts are less than 60% of the total loan facility, the commitment fee should be calculated quarterly, using the difference of actual drawdown amounts and 50% of the total loan facility, multiplied by 0.1%, the annual fee rate, and then pay the managing bank every three months.

(17) Pensions

A. Defined benefit plans: Employee contributions

- (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified

for retirement next year, the Company and its domestic subsidiaries will make contribution to cover the deficit by next March.

(b) The amounts recognized in the balance sheet are determined as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	(\$ 374,673)	(\$ 348,775)
Fair value of plan assets	<u>174,478</u>	<u>172,355</u>
Net defined benefit liability	<u>(\$ 200,195)</u>	<u>(\$ 176,420)</u>

(c) Movements in net defined benefit liabilities are as follows:

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>Year ended December 31, 2017</u>			
Balance at January 1	(\$ 348,775)	\$ 172,355	(\$ 176,420)
Current service cost	(3,049)	-	(3,049)
Interest (expense) income	<u>(4,148)</u>	<u>2,073</u>	<u>(2,075)</u>
	<u>(355,972)</u>	<u>174,428</u>	<u>(181,544)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	(318)	(318)
Change in demographic assumptions	(12,611)	-	(12,611)
Change in financial assumptions	(471)	-	(471)
Experience adjustments	<u>(9,963)</u>	<u>-</u>	<u>(9,963)</u>
	<u>(23,045)</u>	<u>(318)</u>	<u>(23,363)</u>
Pension fund contribution	-	4,712	4,712
Paid pension	<u>4,344</u>	<u>(4,344)</u>	<u>-</u>
Balance at December 31	<u>(\$ 374,673)</u>	<u>\$ 174,478</u>	<u>(\$ 200,195)</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2016</u>			
Balance at January 1	(\$ 346,024)	\$ 197,690	(\$ 148,334)
Current service cost	(3,797)	-	(3,797)
Interest (expense) income	(4,971)	2,868	(2,103)
	<u>(354,792)</u>	<u>200,558</u>	<u>(154,234)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	(1,503)	(1,503)
Change in demographic assumptions	(11,855)	-	(11,855)
Change in financial assumptions	(8,426)	-	(8,426)
Experience adjustments	(5,077)	-	(5,077)
	<u>(25,358)</u>	<u>(1,503)</u>	<u>(26,861)</u>
Pension fund contribution	-	4,675	4,675
Paid pension	31,375	(31,375)	-
Balance at December 31	<u>(\$ 348,775)</u>	<u>\$ 172,355</u>	<u>(\$ 176,420)</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company and domestic subsidiaries have no right to participate in managing and operating that fund and hence the Company and domestic subsidiaries are unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(f) The principal actuarial assumptions used were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	<u>1.125%~1.400%</u>	<u>1.125%~1.400%</u>
Future salary increases	<u>2.500%~3.000%</u>	<u>2.500%~3.000%</u>

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	<u>Discount rate</u>		<u>Future salary increases</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	(\$ 8,989)	\$ 9,333	\$ 9,022	(\$ 8,736)
<u>December 31, 2016</u>				
Effect on present value of defined benefit obligation	(\$ 8,684)	\$ 9,019	\$ 8,718	(\$ 8,441)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The method and assumptions used for the preparation of sensitivity analysis during 2017 and 2016 are the same.

- (g) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2018 amounts to \$4,711.
- (h) As of December 31, 2017, the weighted average duration of the retirement plan is 8.9~12.7 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$ 31,415
1-2 year(s)	21,803
2-5 years	57,016
Over 5 years	<u>120,503</u>
	<u>\$ 230,737</u>

B. Defined contribution plans

- (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of

employment.

- (b) The overseas subsidiaries of the Company have defined contribution plans.
- (c) The Company's mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- (d) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2017 and 2016 were \$687,523 and \$663,842, respectively.

(18) Share-based payment

A. (a) For the years ended December 31, 2017 and 2016, CP's share-based payment arrangements were as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted</u>	<u>Contract period</u>	<u>Vesting conditions</u>
Restricted stocks to employees	August 28, 2015	4,008 thousand shares	2 years	Note
"	March 16, 2016	1,910 thousand shares	"	"
Treasury stock transferred to employees	March 1, 2017	3,555 thousand shares	-	Vested immediately

Note: Vesting conditions:

- i. The Company's overall operating performance in the previous year should meet the following indicators:
 - (A) Consolidated operating revenue shall grow by at least 10% higher than the average amount over past three years.
 - (B) Consolidated net income shall grow by at least 10% higher than the average amount over past three years.
 - (C) Return on equity shall be at least 15%.
- ii. For the employees who have met the vesting conditions since the allocation of restricted stocks, the ratio of vested shares is as follows:

<u>Vesting conditions</u>	<u>Ratio of vested shares</u>
A month after the restricted stocks are kept at the trust	40% of the shares
September 30, 2016	30% of the shares
September 30, 2017	30% of the shares

The restricted shares issued by the Company cannot be sold, pledged, transferred, donated, collateralised, or disposed in any other method during the vesting period. Other rights including but not limited to dividends, the distribution rights of bonuses and capital surplus, and share options and voting rights of cash capital, etc., are the same as the Company's issued ordinary shares. At the date of resignation, retirement or termination, the restricted

shares are considered as not meeting the vesting conditions if employees resign, retire or are terminated during the vesting period. The Company redeems at no consideration and retires the shares which do not meet the vesting condition. Employees are not required to return the dividends received.

(b) Details of the share-based payment arrangements are as follows:

	2017	
	No. of options	Weighted-average exercise price (in dollars)
Options outstanding at January 1	-	\$ -
Stock options granted	3,555	39.83
Options exercised	(3,555)	39.83
Options outstanding at December 31	<u>-</u>	-
Options exercisable at December 31	<u>-</u>	-

(c) For the year ended December 31, 2017, the weighted average stock price of options on the exercised date was NT\$ 48.98.

(d) CP's fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price	Exercise price	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit
Treasury stock transferred to employees	March 1, 2017	NTD 49.1	NTD 39.38	(Note)	0.0385	-	0.59%	NTD 9.279

Note: Expected price volatility rate was estimated by using the stock prices of the most recent period with length of this period approximate to the length of the stock options' expected life, and the standard deviation of return on the stock during this period.

(e) The restricted stocks issued by CP were measured at their fair value which is the closing price of CP's shares at NT\$34 and \$37.85 on August 28, 2015 and March 16, 2016, respectively.

(f) Expenses incurred on share-based payment transactions are shown below:

	2017	2016
Equity-settled	<u>\$ 51,951</u>	<u>\$ 106,379</u>

B. (a) For the years ended December 31, 2017 and 2016, XAVi's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Cash capital increase reserved for employee preemption	December 12, 2016	678 thousand shares	-	Vested immediately

(b) Details of the share-based payment arrangements are as follows:

	2016	
	No. of options	Weighted-average exercise price (in dollars)
Options outstanding at January 1	-	\$ -
Stock options granted	678	16
Options exercised	(678)	16
Options outstanding at December 31	-	-
Options exercisable at December 31	-	-

(c) XAVi's fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price	Exercise price	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit
Cash capital increase reserved for employee preemption	December 12, 2016	NTD 15.56	NTD 16	29.58%	0.04	-	0.59%	NTD 0.1941

Note: Expected price volatility rate was estimated by using the stock prices of the most recent period with length of this period approximate to the length of the stock options' expected life, and the standard deviation of return on the stock during this period.

(d) Expenses incurred on share-based payment transactions are shown below:

	2016
Equity-settled	\$ 132

(19) Share capital

A. As of December 31, 2017, the Company's authorized capital was \$8,000,000, and the paid-in capital was \$7,206,051 with a par value of \$10 (in dollars) per share, and the outstanding common stock was 800,000 thousand shares.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	<u>2017 (Note)</u>	<u>2016 (Note)</u>
At January 1	672,304	667,002
Common stock dividends	3,571	3,519
Employee share compensation	4,952	4,753
Repurchased shares as treasury stock	-	(2,786)
Subsidiary received stock dividend from parent company	(185)	(184)
At December 31	<u>680,642</u>	<u>672,304</u>

Note: Shares in thousands.

- B. The stockholders' meeting held on June 7, 2017 had approved to issue common stock dividends amounting to \$35,712, A total of 3,571 thousand shares had been issued and, the Company has obtained a letter of approval from the appropriate authorities. The issued date was set on July 18, 2017, and the Company had completed the related registration on August 4, 2017.
- C. On March 10, 2017, the Company's Board of Directors approved the employees' stock bonus amounting to \$360,000 at the previous closing price of \$72.7 (in dollars) before the day of the Board of Directors' meeting, issuing 4,952 thousand shares. The Company has obtained a letter of approval from the appropriate authorities. The issued date was set on April 7, 2017, and the Company had completed the related registration on April 28, 2017.

D. Treasury Stock

- (a) Reason for stocks reacquisition and movements in the number of the Company's treasury stocks are as follows:

		<u>December 31, 2017</u>		
<u>Name of company holding the shares</u>	<u>Reason for reacquisition</u>	<u>Number of shares</u>	<u>Carrying amount</u>	<u>Fair value (in dollars) (per share)</u>
The Company	To be reissued to employees	2,786	\$ 205,888	\$ 75.00
UNIKEY	For investment	21,069	205,795	75.00
HEC	For investment	16,108	105,482	75.00
		<u>39,963</u>	<u>\$ 517,165</u>	

December 31, 2016				
Name of company holding the shares	Reason for reacquisition	Number of shares	Carrying amount	Fair value (in dollars) (per share)
The Company	To be reissued to employees	2,786	\$ 205,888	\$ 75.00
UNIKEY	For investment	20,964	205,795	75.00
HEC	For investment	16,028	105,482	75.00
		<u>39,778</u>	<u>\$ 517,165</u>	

- (b) Pursuant to the R.O.C. Securities and Exchange Law, the number of stocks bought back as treasury stock should not exceed 10% of the number of the Company's issued and outstanding stocks and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Law, treasury stocks should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Law, treasury stocks should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

(20) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

A summary of the Company's capital surplus as of December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Share premium	\$ 2,897,235	\$ 2,586,754
Treasury share transactions	1,118,094	960,876
Difference between consideration and carrying amount of subsidiaries acquired or disposed	668,276	668,269
Changes in ownership interests in subsidiaries	453,052	342,024
Net change in equity of associates	-	71,229
Others	3	-
	<u>\$ 5,136,660</u>	<u>\$ 4,629,152</u>

(21) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses, if any; and then 10% of the remaining amount shall be set aside as legal reserve until the legal reserve equals the total capital stock balance and as special reserve in accordance to relevant regulations when necessary; and the remainder, if any, to be appropriated shall be presented by the Board of Directors and resolved by the stockholders at the stockholders' meeting.
- B. The Company's dividend policy is summarized below: the Company is in the development of electronics industry, the dividend policy should be formulated by achieving both targets that supply the new products capital requirement and increase the return on shareholders' investment. Therefore, the total dividend each year cannot be above of the total distributable earnings, and the cash dividend cannot be less than 90% of the total dividend paid. The ratio is restricted until the total distributable common stock dividends reach \$0.5 per share.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. The Company elected to reclassify the unrealized revaluation increment and cumulative translation adjustment to unappropriated earnings and accrue special reserve by \$433,524 on initial application of IFRSs.

E. The appropriation of 2016 and 2015 earnings has been resolved at the shareholders' meeting on June 7, 2017 and June 8, 2016, respectively, and the details are summarized below:

	Years ended December 31,			
	2016		2015	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 353,107		\$ 384,799	
(Reversal of) special reserve	(517,964)		517,964	
Stock dividends	35,712	\$ 0.05	35,191	\$ 0.05
Cash dividends	3,035,553	4.25	3,026,383	4.30

F. Subsequent events: The appropriation of 2017 earnings had been proposed at the Board of Directors' meeting on March 9, 2018. However, the appropriation of earnings for 2017 was not yet resolved at the shareholders' meeting in 2018. Details are summarized below:

	Year ended December 31, 2017	
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 402,153	
Special reserve	1,427,780	
Stock dividends	36,199	\$ 0.05
Cash dividends	3,221,684	4.45

G. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(27).

(22) Other equity items

	2017			
	Revaluation increment	Available-for-sale investment	Currency translation	Total
At January 1	\$ 1,388,279	(\$ 1,379,630)	\$ 55,011	\$ 63,660
Revaluation				
– Group	-	(406,721)	-	(406,721)
– Transfer	-	(417,141)	-	(417,141)
Currency translation differences:				
–Group	-	-	(1,060,518)	(1,060,518)
–Associates	-	-	(3,984)	(3,984)
– Transfer	-	-	17	17
At December 31	\$ 1,388,279	(\$ 2,203,492)	(\$ 1,009,474)	(\$ 1,824,687)

2016

	Revaluaion increment	Available-for-sale investment	Currency translation	Total
At January 1	\$ -	(\$ 2,355,538)	\$ 1,400,453	(\$ 955,085)
Revaluation				
– Group	1,388,279	568,578	-	1,956,857
– Transfer	-	407,330	-	407,330
Currency translation differences:				
–Group	-	-	(1,317,732)	(1,317,732)
–Associates	-	-	(28,833)	(28,833)
– Transfer	-	-	1,123	1,123
At December 31	<u>\$ 1,388,279</u>	<u>(\$ 1,379,630)</u>	<u>\$ 55,011</u>	<u>\$ 63,660</u>

(23) Operating revenue

	Years ended December 31,	
	2017	2016
Sales revenue	\$ 78,054,458	\$ 76,928,720
Other operating revenue	101,228	89,340
	<u>\$ 78,155,686</u>	<u>\$ 77,018,060</u>

(24) Other income

	Years ended December 31,	
	2017	2016
Rental revenue	\$ 134,409	\$ 124,476
Interest income	38,665	34,953
Dividend income	186,211	196,714
Others	421,374	235,782
	<u>\$ 780,659</u>	<u>\$ 591,925</u>

(25) Other gains and losses

	Years ended December 31,	
	2017	2016
Net loss on financial assets and liabilities at fair value through profit or loss	(\$ 949,378)	(\$ 304,315)
Reversal of allowance for doubtful accounts	7,620	-
Net currency exchange gain	481,992	598,162
Gain on disposal of property, plant and equipment	30,484	19,829
Gain on disposal of investments	654,696	1,087,648
Gain on disposal of investments accounted for using equity method	776,362	-
Impairment on non-financial assets	(96)	-
Impairment on financial assets	-	(1,403,575)
Gain on fair value adjustment of investment property	51,789	-
Others	(83,731)	(47,593)
	<u>\$ 969,738</u>	<u>(\$ 49,844)</u>

(26) Expenses by nature

	Year ended December 31, 2017		
	Cost of revenue	Operating expense	Total
Employee benefit expense	\$ 7,202,030	\$ 3,772,475	\$ 10,974,505
Depreciation on property, plant and equipment	1,664,476	305,412	1,969,888
Amortization on intangible assets	3,749	67,257	71,006
Other non-current assets transferred to expense	33,574	23,321	56,895
Long-term lease amortization	-	8,281	8,281

	Year ended December 31, 2016		
	Cost of revenue	Operating expense	Total
Employee benefit expense	\$ 7,257,245	\$ 3,775,857	\$ 11,033,102
Depreciation on property, plant and equipment	1,719,332	283,245	2,002,577
Amortization on intangible assets	3,215	73,542	76,757
Other non-current assets transferred to expense	68,235	24,017	92,252
Long-term lease amortization	-	8,757	8,757

(27) Employee benefit expense

	Year ended December 31, 2017		
	<u>Cost of revenue</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 6,202,737	\$ 3,358,093	\$ 9,560,830
Labor and health insurance fees	70,970	150,699	221,669
Pension costs	550,816	141,831	692,647
Other personnel expenses	<u>377,507</u>	<u>121,852</u>	<u>499,359</u>
	<u>\$ 7,202,030</u>	<u>\$ 3,772,475</u>	<u>\$ 10,974,505</u>

	Year ended December 31, 2016		
	<u>Cost of revenue</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 6,437,232	\$ 3,383,960	\$ 9,821,192
Labor and health insurance fees	59,624	138,227	197,851
Pension costs	528,975	140,767	669,742
Other personnel expenses	<u>231,414</u>	<u>112,903</u>	<u>344,317</u>
	<u>\$ 7,257,245</u>	<u>\$ 3,775,857</u>	<u>\$ 11,033,102</u>

- A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 11% for employees' compensation and shall not be higher than 1% for directors' and supervisors' remuneration.
- B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$607,048 and \$502,391, respectively; directors' and supervisors' remuneration was accrued at \$37,714 and \$31,212, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 11.72% and 0.73% of distributable profit of current year for the year ended December 31, 2016. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$607,048 and \$37,714, respectively, and the employees' compensation will be distributed in the form of cash and shares.

For the year ended December 31, 2016, the difference between the amounts of employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors and those recognized in the consolidated financial statements—employees' compensation of \$502,391 and directors' and supervisors' remuneration of \$31,212—was \$4,933. The difference is due to the overestimation of the directors' and supervisors' remuneration and is adjusted in the profit or loss for the year ended December 31, 2017. For the year ended December 31, 2016, 4,952 thousand shares of stock were issued as employee compensation, and the number of shares were calculated based on the share price of \$72.7.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(28) Finance costs

	Years ended December 31,	
	2017	2016
Finance costs		
Interest expense of bank borrowings	\$ 120,586	\$ 105,682
Less: Capitalisation of qualifying assets	(15,886)	(27,699)
	<u>\$ 104,700</u>	<u>\$ 77,983</u>

(29) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31,	
	2017	2016
Current tax:		
Current tax on profits for the year	\$ 1,073,132	\$ 983,419
Tax on undistributed surplus earnings	61,966	3,175
Prior year income tax (under) overestimation	(11,862)	(8,737)
Total current tax	1,123,236	977,857
Deferred tax:		
Origination and reversal of temporary differences	94,567	72,433
Income tax expense	<u>\$ 1,217,803</u>	<u>\$ 1,050,290</u>

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	Years ended December 31,	
	2017	2016
Revaluation increment	\$ -	\$ 84,773

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2017	2016
Tax calculated based on profit before tax and statutory tax rate (Note)	\$ 1,323,989	\$ 1,031,766
Effect from items adjusted in accordance with tax regulation	(156,290)	24,086
Prior year income tax (under) overestimation	(11,862)	(8,737)
Additional 10% tax on undistributed earnings	61,966	3,175
Income tax expense	<u>\$ 1,217,803</u>	<u>\$ 1,050,290</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences, tax losses and investment tax credits are as follows:

	2017			
	Recognised in			
	January 1	Recognised in profit or loss	other comprehensive income	December 31
Temporary differences:				
—Deferred tax assets:				
Provision for inventory price decline and obsolescence	\$ 22,904	(\$ 4,917)	\$ -	\$ 17,987
Allowance for doubtful accounts in excess of tax limit	373	(297)	-	76
Unrealized accrued expense	63,506	2,851	-	66,357
Unrealized compensation revenue	46,785	(1,697)	-	45,088
Impairment loss	565	-	-	565
Fair value adjustment of investment property	23,518	(1,018)	-	22,500
Others	1,736	7,987	-	9,723
Total	<u>\$ 159,387</u>	<u>\$ 2,909</u>	<u>\$ -</u>	<u>\$ 162,296</u>

2017				
Recognised in				
	January 1	Recognised in profit or loss	other comprehensive income	December 31
— Deferred tax liabilities:				
Fair value adjustment of investment property	(\$ 106,529)	(\$ 16,370)	\$ -	(\$ 122,899)
Unrealised exchange gain	(11,416)	(93,551)	-	(104,967)
Long-term investment gain	(12,205)	12,205	-	-
Temporary differences of fixed assets for tax and financial purposes	(3,183)	240	-	(2,943)
Total	(\$ 133,333)	(\$ 97,476)	\$ -	(\$ 230,809)
2016				
Recognised in				
	January 1	Recognised in profit or loss	other comprehensive income	December 31
Temporary differences:				
— Deferred tax assets:				
Unrealised exchange gain	(\$ 5,879)	(\$ 5,537)	\$ -	(\$ 11,416)
Unrealised profit (loss) from sales	(552)	552	-	-
Provision for inventory price decline and obsolescence	25,948	(3,044)	-	22,904
Allowance for doubtful accounts in excess of tax limit	46	327	-	373
Unrealized accrued expense	32,944	30,562	-	63,506
Unrealized compensation revenue	52,917	(6,132)	-	46,785
Impairment loss	565	-	-	565
Fair value adjustment of investment property	23,116	402	-	23,518
Others	6,571	(4,835)	-	1,736
Total	\$ 135,676	\$ 12,295	\$ -	\$ 147,971

2016

	Recognised in			
	January 1	Recognised in profit or loss	other comprehensive income	December 31
—Deferred tax liabilities:				
Fair value adjustment of investment property	\$ -	\$ -	(\$ 106,529)	(\$ 106,529)
Reverse for land revaluation increment tax	(21,756)	-	21,756	-
Long-term investment gain	(12,205)	-	-	(12,205)
Temporary differences of fixed assets for tax and financial purposes	(3,228)	45	-	(3,183)
	<u>(\$ 37,189)</u>	<u>\$ 45</u>	<u>(\$ 84,773)</u>	<u>(\$ 121,917)</u>

D. Expiration dates of unused net operating loss carryforward and amounts of unrecognized deferred tax assets of domestic subsidiaries are as follows:

December 31, 2017

Year incurred	Amount filed/		deferred tax		Expiry year
	assessed	Unused amount	assets		
2010	\$ 13,233	\$ 13,233	\$ 13,233		2020
2011	12,688	12,688	12,688		2021
2012	10,162	10,162	10,162		2022
2013	8,559	8,559	8,559		2023
2014	7,873	7,873	7,873		2024

December 31, 2016

Year incurred	Amount filed/		deferred tax		Expiry year
	assessed	Unused amount	assets		
2006	\$ 48,484	\$ 24,250	\$ 24,250		2016
2009	16,699	7,496	1,414		2019
2010	16,255	16,255	16,255		2020
2011	12,688	12,688	12,688		2021
2012	10,162	10,162	10,162		2022
2013	9,083	9,083	9,083		2023
2014	9,851	9,851	9,851		2024
2015	4,444	4,444	4,444		2025
2016	1,038	1,038	1,038		2026

E. As of December 31, 2017 and 2016, the amounts of deductible temporary difference that are not recognized as deferred tax assets are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Deductible temporary differences	\$ 175,856	\$ 55,293

F. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

G. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

Unappropriated retained earnings on December 31, 2016:

	<u>December 31, 2016</u>
Earnings generated in and before 1997	\$ 8,024
Earnings generated in and after 1998	8,041,089
	<u>\$ 8,049,113</u>

H. As of December 31, 2016, the balance of the imputation tax credit account was \$405,256. For the year ended December 31, 2016, the creditable tax rate for cash dividend and share dividend were 7.08% and 8.07%, respectively.

(30) Earnings per share

	<u>Year ended December 31, 2017</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 4,021,529	679,719	<u>\$ 5.92</u>
<u>Diluted earnings per share</u>			
Employees' bonus	-	9,017	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 4,021,529</u>	<u>688,736</u>	<u>\$ 5.84</u>

	Year ended December 31, 2016		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 3,531,068	677,273	\$ <u>5.21</u>
<u>Diluted earnings per share</u>			
Employees' bonus	-	<u>7,715</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 3,531,068</u>	<u>684,988</u>	<u>\$ 5.15</u>

The above weighted-average outstanding shares of common stock have been adjusted according to the earnings distribution approved by the Board of Directors and stockholders.

(31) Supplemental cash flow information

Investing activities with partial cash payments

	Years ended December 31,	
	<u>2017</u>	<u>2016</u>
Purchase of property, plant and equipment	\$ 2,018,160	\$ 2,895,613
Add: Opening balance of payable on equipment	732,154	270,259
Less: Ending balance of payable on equipment	(385,725)	(732,154)
Cash paid during the year	<u>\$ 2,364,589</u>	<u>\$ 2,433,718</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Company
Newmax Technology Co., Ltd.	Other related parties (Note 1)
Clevo Co.	Other related parties
Hongwell	Other related parties
Chicony Square	Other related parties
Kapok Computer (Kunshan) Co., Ltd.	Other related parties
Buynow Group (including Loyang, Anshan, Quanzhou, Zhengzhou, etc)	Other related parties
Far win (Kunshan) Co., Ltd.	Other related parties
Far win (Dong guan) Co., Ltd.	Other related parties
ShunOn Electronic Co.	Other related parties
Jiaying Chunxiang Electronic Technology Co., Ltd.	Other related parties
Chongqing Chunxiang Electronic Technology Co., Ltd.	Other related parties
Jim Yu Plastic Electronic (Wujiang) Co., Ltd.	Other related parties
Cheung Shun (Wujiang) Plastic Processing Technology Co., Ltd.	Other related parties
Genesis Photonics Inc.	Other related parties (Note 2)

Note 1 : Newmax was an associate company before October 30, 2017, the Group lost significant control over this company from October 31, 2017, please refer to Note 6(8).

Note 2 : The Company is this company's legal person-director before November 2016.

(2) Significant related party transactions

A. Operating revenue:

	Years ended December 31,	
	2017	2016
Sales of goods:		
Other related parties	\$ 775,412	\$ 846,102

The terms of the sales to related parties were the same as those to third parties, with reasonable discounts. In general, the collection periods ranged from 60 to 90 days.

B. Purchases:

	Years ended December 31,	
	2017	2016
Purchases of goods:		
Associates	\$ 247,189	\$ 361,005
Other related parties	1,412,989	1,745,605
	\$ 1,660,178	\$ 2,106,610

The terms of the purchases from related parties were the same as those to third parties.

C. Receivables from related parties:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable:		
Other related parties	\$ <u>325,997</u>	\$ <u>473,676</u>

The receivables from related parties arise mainly from sale transactions and providing marketing services. The credit term is limited from 60 to 90 days after the date of transaction. The receivables are unsecured in nature and bear no interest. There was no allowance for doubtful accounts made of accounts receivable from related parties.

D. Payables to related parties:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts payable:		
Associates	\$ -	\$ 97,946
Other related parties	<u>482,419</u>	<u>507,448</u>
	<u>\$ 482,419</u>	<u>\$ 605,394</u>

The payables from related parties arise mainly from purchase transactions. The credit term is limited from 60 to 90 days after the date of transaction. The payables are unsecured in nature and bear no interest.

E. Property transactions – acquisition of financial assets

For the year ended December 31, 2017: None.

	<u>Accounts</u>	<u>Transaction</u> <u>unit</u>	<u>Objects</u>	<u>Year ended</u> <u>December 31, 2016</u>
Other related parties	Available-for-sale financial assets- non-current	9,000,000	Fu Hwa Securities Investment Trust Fund	<u>\$ 150,854</u>

F. Dividend income:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other related parties	<u>\$ 52,393</u>	<u>\$ 70,872</u>

(3) Key management compensation

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Salaries and other short-term employee benefits	\$ 402,017	\$ 327,630
Termination benefits	<u>2,598</u>	<u>2,497</u>
	<u>\$ 404,615</u>	<u>\$ 330,127</u>

8. PLEDGED ASSETS

(1) The Group's assets pledged as collateral are as follows:

Pledged asset	Book value		Purpose
	December 31, 2017	December 31, 2016	
Time deposits (shown as other current assets)	\$ 28,338	\$ 162,445	Guarantee for taxes and social insurance and bank borrowings
Refundable deposits (shown as other non-current assets)	59,929	44,254	Deposits and guarantee for futures, plant and operating leases
Investment property	1,814,105	1,887,876	Long-term borrowings
	<u>\$ 1,902,372</u>	<u>\$ 2,094,575</u>	

(2) As of December 31, 2017 and 2016, UNIKEY and HEC have pledged the Company's common stock (shown as "treasury stock") amounting to 8,500,000 and 12,600,000 shares, respectively, as pledge for loans.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

- (1) As of December 31, 2017, the Group had unused letters of credit for purchases of raw materials amounting to approximately \$13,724.
- (2) As of December 31, 2017, for bank loans, financing forward exchange contracts, bill purchased and accounts receivable factoring purposes, the Group provided standby promissory notes totaling \$44,737,460 as security.
- (3) The Company's Board of Directors had resolved to increase the headquarter's building and residential buildings construction budget proposal amounting to \$4,030,000 and \$1,400,000, respectively. The related construction will be conducted in accordance with the overall construction schedule. As of December 31, 2017, the capital expenditures that have not been incurred amounted to \$45,605 and \$768,676, respectively.
- (4) Mao-Ray and Dong Guan Had Eri Iou Plastic Corporation have aggregate minimum commitments under the agreements with local government for the lease of land from 1998 to 2042. The related leasing and management fee each year is \$30,176.
- (5) The subsidiaries, XAVi, CP, Mao-Ray, CAI, CPCQ, CPDG, CPSZ, GSE, CPHK and CPUS had leasing commitments, which are summarized below:

	December 31, 2017	December 31, 2016
No later than one year	\$ 80,356	\$ 86,573
Later than one year but no later than five years	198,161	237,572
Later than five years	129,651	186,297
	<u>\$ 408,168</u>	<u>\$ 510,442</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1) The amendments to the Income Tax Act were promulgated by the President of the Republic of China on February 7, 2018, and went into effect on January 1, 2018. Except for the effects described in Note 6(29)G, The Company's applicable income tax rate will be raised from 17% to 20%. As of January 1, 2018, the Company's deferred tax assets and deferred tax liabilities will both increase by 3% as a result, and the income tax expense of the current period will increase or decrease accordingly.

(2) Please see Note 6 (21) F. and 6(27) for the details on appropriation of the 2017 earnings.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

(2) Financial instruments

A. Fair value information of financial instruments

Except for those listed in the table below, the carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable (including related parties), other receivables, other current assets, other non-current assets, short-term loans, notes payable, accounts payable (including related parties) and other payables) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(b) Risk management is carried out by a central treasury department (Group treasury) under

policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use forward foreign exchange contracts, transacted with Group treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group uses derivative financial instruments such as forward foreign exchange contracts and swap contracts to hedge the expected transaction of recognized foreign currency assets/liabilities to reduce the fair value risk and cash flow risk arising from fluctuations in exchange rates.

The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2017			Year ended December 31, 2017		
	Foreign currency		Book value (NTD)	Sensitivity analysis		
	amount (In thousands)	Exchange rate		Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	USD 479,840	29.8000	\$ 14,299,232	1%	\$ 142,992	\$ -
USD:RMB (Note)	USD 923,417	6.5179	27,517,827	1%	275,178	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	USD 912,819	29.8000	\$ 27,202,006	1%	\$ 272,020	\$ -
USD:RMB (Note)	USD 670,628	6.5179	19,984,714	1%	199,847	-
JPY:USD	JPY 3,922,439	0.0089	1,040,309	1%	10,403	-
	December 31, 2016			Year ended December 31, 2016		
	Foreign currency		Book value (NTD)	Sensitivity analysis		
	amount (In thousands)	Exchange rate		Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	USD 543,047	32.2350	\$ 17,505,120	1%	\$ 175,051	\$ -
USD:RMB (Note)	USD 968,450	6.9773	31,217,986	1%	312,180	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	USD 939,651	32.2350	\$ 30,289,650	1%	\$ 302,897	\$ -
USD:RMB (Note)	USD 772,160	6.9773	24,890,578	1%	248,906	-
JPY:USD	JPY 3,920,669	0.0086	1,086,892	1%	10,869	-

Note: The functional currencies of certain subsidiaries belonging to the Group are not NTD, thus, this information has to be considered when reporting. For example, when a subsidiary's functional currency is RMB, the subsidiary's segments that are involved with USD have to be taken into consideration.

Total exchange gain, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2017 and 2016, amounted to \$481,992 and \$598,162, respectively.

Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2017 and 2016 would have increased/decreased by \$73,059 and \$54,445, respectively.

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. During the years ended December 31, 2017 and 2016, the Group's borrowings at variable rate were denominated in the NTD, USD and JPY.

At December 31, 2017 and 2016, if market interest rates had been 0.25% higher with all other variables held constant, other comprehensive income for the years ended December 31, 2017 and 2016 would have been \$5,317 and \$6,293 higher, respectively.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures

to wholesale and retail customers, including outstanding receivables.

- ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The credit quality information of accounts receivable (including related party) that are neither past due nor impaired is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Group 1	\$ 9,321,660	\$ 9,487,866
Group 2	8,598,068	9,358,577
	<u>\$ 17,919,728</u>	<u>\$ 18,846,443</u>

Group 1: Low-risk customers with larger scale of operations and better credits.

Group 2: Other normal-risk customers.

- iv. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Up to 30 days	\$ 299,318	\$ 350,992
31 to 120 days	164,320	166,609
121 to 215 days	3,107	541
	<u>\$ 466,745</u>	<u>\$ 518,142</u>

- v. The analysis of the Group's accounts receivable that were impaired is as follows:

(1) As of December 31, 2017 and 2016, the Group's accounts receivable that were impaired amounted to \$101,554 and \$109,836, respectively.

(2) Movements on the Group provision for impairment of accounts receivable are as follows:

<u>Individual provision</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
At January 1	\$ 109,836	\$ 103,065
Provision for impairment	-	9,580
Reversal of impairment	(7,620)	-
Effects of foreign exchange	(662)	(2,809)
At December 31	<u>\$ 101,554</u>	<u>\$ 109,836</u>

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant

compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements.

ii. Group treasury invests surplus cash in interest bearing current accounts, time deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As at December 31, 2017 and 2016, the Group held money market position of \$9,375,269 and \$7,365,866, respectively, that are expected to readily generate cash inflows for managing liquidity risk.

iii. The Group has the following undrawn borrowing facilities:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Floating rate:		
Expiring within one year	\$ 8,152,610	\$ 7,698,611

iv. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

December 31, 2017		
<u>Non-derivative financial liabilities</u>	<u>Less than 1 year</u>	<u>Over 1 year</u>
Short-term borrowings	\$ 4,249,273	\$ -
Notes payable	2,187	-
Accounts payable (including related parties)	21,219,986	-
Other payables (including related parties)	9,125,867	-
Long-term borrowings (including current portion)	13,521	1,856,888
<u>Derivative financial liabilities:</u>		
Financial liabilities at fair value through profit or loss	\$ 488,548	\$ -

December 31, 2016		
<u>Non-derivative financial liabilities</u>	<u>Less than 1 year</u>	<u>Over 1 year</u>
Short-term borrowings	\$ 2,104,730	\$ -
Notes payable	6,819	-
Accounts payable (including related parties)	20,787,924	-
Other payables (including related parties)	8,481,776	-
Long-term borrowings (including current portion)	10,245	2,414,811
<u>Derivative financial liabilities:</u>		
Financial liabilities at fair value through profit or loss	\$ 93,327	\$ -

(3) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A.

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks (including emerging stocks), beneficiary certificates and convertible bonds, is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in most derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in certain derivative instruments and investment property is included in Level 3.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2017 and 2016 is as follows:

December 31, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Forward exchange	\$ -	\$ 411,117	\$ -	\$ 411,117
Exchange rate swaps	-	1,194	-	1,194
Available-for-sale financial assets				
Equity securities	6,352,195	64,592	-	6,416,787
Debt securities	311,924	-	-	311,924
Beneficiary certificates	889,092	-	-	889,092
Investment property (Note)	-	-	5,517,981	5,517,981
	<u>\$ 7,553,211</u>	<u>\$ 476,903</u>	<u>\$ 5,517,981</u>	<u>\$ 13,548,095</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange	\$ -	\$ 486,793	\$ -	\$ 486,793
Exchange rate swaps	-	1,755	-	1,755
	<u>\$ -</u>	<u>\$ 488,548</u>	<u>\$ -</u>	<u>\$ 488,548</u>

December 31, 2016	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Forward exchange	\$ -	\$ 200,715	\$ -	\$ 200,715
Exchange rate swaps	-	36,743	-	36,743
Available-for-sale financial assets				
Equity securities	4,184,078	51,537	-	4,235,615
Debt securities	265,353	-	-	265,353
Beneficiary certificates	1,208,859	-	-	1,208,859
Investment property (Note)	-	-	5,547,494	5,547,494
	<u>\$ 5,658,290</u>	<u>\$ 288,995</u>	<u>\$ 5,547,494</u>	<u>\$ 11,494,779</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange	<u>\$ -</u>	<u>\$ 93,327</u>	<u>\$ -</u>	<u>\$ 93,327</u>

Note : Investment property measured at fair value.

D. The methods and assumptions the Group used to measure fair value are as follows:

(a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Emerging stock</u>	<u>Closed-end fund</u>	<u>Open-end fund</u>	<u>Convertible bond</u>
Market quoted price	Closing price	Average trades price	Closing price	Net asset value	Closing

(b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes.

(c) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants. Forward exchange contracts are usually valued based on the current forward exchange rate.

(d) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the

Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the balance sheet date. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

- (e) Under "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the independent external appraisers evaluate using the income approach to calculate the fair value of investment property. Related assumption and information of inputs are as follow:
 - i. Cash flow: Cash flow shall be valued on the basis of existing lease contracts, rent at local market rates, or current market rents for similar comparable properties in the same location and condition, and overvalued and undervalued comparable properties shall be excluded. If there is a period-end value, the discounted present period-end value may be added.
 - ii. Analysis period: When there is no specified period for the income, the analysis period in principle shall not be longer than 10 years; when there is a specified period for the income, the income shall be estimated for the remainder of the specified period.
 - iii. Discount rate: Determined by the risk premium method, using the likely rate of return on the most common investment as a basis, which is not lower than the floating interest rate on a 2-year time deposit of a small amount, posted by the Chunghwa Post Co., Ltd., plus 0.75 percentage points (it is 1.845% now). The differences of individual characteristics between the above most common investment and the subject property is then compared in terms of their liquidity, risk, appreciation, and management.
 - (f) The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.
- E. For the years ended December 31, 2017 and 2016, there was no transfer between Level 1 and Level 2.
- F. For the years ended December 31, 2017 and 2016, there was no transfer into or out from Level 3.
- G. The Group treasury is in charge of valuation procedures for fair value measurements of financial asset at fair value through profit or loss being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the source of information is independent, reliable and in line with other sources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value. Investment property were evaluated by external appraiser.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 4.
- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 5.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 6.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2) and 6(25).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 8.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 9.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 13(1).

14. SEGMENT INFORMATION

(1) General information

The Group operates business from a geographic perspective; geographically, the Group currently focuses on wholesale in Taiwan, Mainland China, America, and Europe.

(2) Measurement of segment information

The Chief Operating Decision-Maker evaluates the performance of the operating segments based on a measure of adjusted EBITDA. Interest income and expense are not allocated to operating segments, as this type of activity is driven by the Group central treasury, which manages the cash position of the group. The accounting policies of the operating segments are in agreement with the significant accounting policies summarized in Note 4.

(3) Information about segment profit or loss, assets and liabilities

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

Year ended					
December 31, 2017	<u>Taiwan</u>	<u>Mainland China</u>	<u>America</u>	<u>Europe</u>	<u>Total</u>
Revenue from external customers	\$48,878,461	\$ 25,893,389	\$ 2,670,815	\$713,021	\$ 78,155,686
Inter-segment revenue	<u>1,472,536</u>	<u>65,602,615</u>	<u>30,731,572</u>	<u>5,874</u>	<u>97,812,597</u>
Segment revenue	<u>\$50,350,997</u>	<u>\$ 91,496,004</u>	<u>\$33,402,387</u>	<u>\$718,895</u>	<u>\$175,968,283</u>
Segment profit	<u>\$ 2,269,306</u>	<u>\$ 4,172,814</u>	<u>\$ 211,402</u>	<u>\$ 21,878</u>	<u>\$ 6,675,400</u>

Year ended					
December 31, 2016	<u>Taiwan</u>	<u>Mainland China</u>	<u>America</u>	<u>Europe</u>	<u>Total</u>
Revenue from external customers	\$51,303,344	\$ 22,518,322	\$ 2,256,588	\$939,806	\$ 77,018,060
Inter-segment revenue	<u>1,383,847</u>	<u>67,909,224</u>	<u>33,045,284</u>	<u>3,243</u>	<u>102,341,598</u>
Segment revenue	<u>\$52,687,191</u>	<u>\$ 90,427,546</u>	<u>\$35,301,872</u>	<u>\$943,049</u>	<u>\$179,359,658</u>
Segment profit	<u>\$ 2,399,335</u>	<u>\$ 4,030,296</u>	<u>\$ 732,419</u>	<u>\$ 46,370</u>	<u>\$ 7,208,420</u>

(4) Reconciliation for segment income

The revenue from external customers reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income. A reconciliation of reportable segment profit or loss to the profit before tax and discontinued operations for the years ended December 31, 2017 and 2016 is provided as follows:

	Years ended December 31,	
	<u>2017</u>	<u>2016</u>
Reportable segments income	\$ 6,675,400	\$ 7,208,420
Related loss not yet classified	(2,106,070)	(2,180,343)
Total non-operating revenue and expense	<u>1,520,689</u>	<u>331,284</u>
Income before tax from continuing operations	<u>\$ 6,090,019</u>	<u>\$ 5,359,361</u>

(5) Information on products and services

Revenue from third parties is mainly derived from the sale of computer peripheral products, consumer electronic products and other electronic products as follows:

	Years ended December 31,	
	<u>2017</u>	<u>2016</u>
Electrical components	\$ 38,969,332	\$ 40,041,202
Consumer electronic products	38,339,996	36,034,959
Other electronic products	<u>846,358</u>	<u>941,899</u>
	<u>\$ 78,155,686</u>	<u>\$ 77,018,060</u>

(6) Geographical information

Geographical information for the years ended December 31, 2017 and 2016 is as follows:

	<u>Year ended December 31, 2017</u>		<u>Year ended December 31, 2016</u>	
	<u>Revenue</u>	<u>Non-current assets</u>	<u>Revenue</u>	<u>Non-current assets</u>
Domestic	\$ 48,878,461	\$ 4,755,356	\$ 51,303,344	\$ 4,470,985
Asia	25,893,389	10,144,368	22,518,322	10,016,723
US	2,670,815	146,319	2,256,588	182,880
Europe	713,021	1,453	939,806	2,385
	<u>\$ 78,155,686</u>	<u>\$ 15,047,496</u>	<u>\$ 77,018,060</u>	<u>\$ 14,672,973</u>

The Group's geographical revenue information is determined based on the area collecting the accounts receivable.

Non-current assets include property, plant and equipment, investment assets, intangible assets and other assets, but excluding financial assets and deferred income tax assets.

(7) Major customer information

The Group has no single customer presented 10% of total sales revenue for the years ended December 2017 and 2016.