

MEGAWIN Technology Co., Ltd.
and its subsidiaries

Consolidated Financial Statements and
Independent Auditors' Report
2017 and 2016

Address: 7F-1, No. 8, Taiyuan 1st St., Jhubei City, Hsinchu County

Statement of Declaration

The Company is required to prepare consolidated financial statements 2017 (from January 1 to December 31, 2017) with its subsidiaries under the “Criteria Governing the Preparation of Affiliations Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises”. Subsidiaries of the Company under said rules are identical with the subsidiaries defined under IFRS No. 10. Information on Financial Status and operation performance of such subsidiaries has been included in the disclosure of the aforementioned consolidated financial statement between parent and subsidiaries and therefore will not be prepared separately.

Declared as above.

Company name: MEGAWIN Technology Co., Ltd.

Responsible person: Wen, Kow-Liang

February 13, 2018
Auditor's report

INDEPENDENT AUDITOR'S REPORT

To: MEGAWIN Technology Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheet of MEGAWIN Technology Co., Ltd. and its subsidiaries as of December 31, 2017 and 2016, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement from January 1 to December 31, 2017 and 2016, as well as the notes to consolidated financial statements (including the summary of significant accounting policies).

In our opinion, said consolidated financial statements present fairly, in all material respects, the consolidated financial position of MEGAWIN Technology Co., Ltd. and its subsidiaries as of December 31, 2017 and 2016, and the results of their consolidated operations and cash flows from January 1 to December 31, 2017 and 2016 in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, IFRSs recognized by FSC, and IAS, SIC and IFRIC.

Basis for opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities required under said standards will be detailed in the paragraph about the external auditor's responsibility on auditing consolidated financial statements. Our firm's staff subject to the independence requirements have maintained their independent attitude with MEGAWIN Technology Co., Ltd. and its subsidiaries pursuant to the CPAs' ethical code, and perform the other responsibilities required under said code. We believe that we have obtain sufficient and valid evidence which may afford to serve as the basis for audit opinion.

Key Audit Matter (KAM)

The key audit matter (KAM) refers to the most important matter included in our audit on the consolidated financial statements 2017 of MEGAWIN Technology Co., Ltd. and its subsidiaries based on our professional judgment as the CPA. Said matter has been responded to during the overall audit on the consolidated financial statements and preparation of the audit opinion.

We hereby state the key audit matter (KAM) included in our audit on the consolidated financial statements 2017 of MEGAWIN Technology Co., Ltd. and its subsidiaries based on our professional judgment as the CPA as following:

KAM 1

1. MEGAWIN Technology Co., Ltd. and its subsidiaries are engaged in IC design, whose sales revenue varies depending on their customers' acceptability of products as well as stock prices. Therefore, we presuppose that there might be the risk over the management's earlier recognition of the revenue.
2. MEGAWIN Technology Co., Ltd. and its subsidiaries are primarily engaged in selling MCU. About 38% of the products are shipped to customers directly via an IC testing company based in Mainland China instead of via warehouses belonging to MEGAWIN Technology Co., Ltd. and its subsidiaries. Given this, the closing of revenue might be deferred for the purpose contemplated by the management in the preceding paragraph.
3. Our audit procedure covers:
 - (1) Verification of the procedure for recognition of revenue generated from the shipment via the IC testing company and execution of relevant control tests.
 - (2) Check on whether there is earlier recognition of revenue based on the sales order of the IC testing company in Mainland China on December 31, 2017 and four days thereafter.

KAM 2

1. The inventory of MEGAWIN Technology Co., Ltd. and its subsidiaries valued NT\$51,276 thousand on December 31, 2017. This is considered important to the consolidated financial statements. Please refer to Note 11.
2. MEGAWIN Technology Co., Ltd. and its subsidiaries are engaged in the industry which might suffer slow-moving or obsolete inventory due to changes of technology. That is, the inventory is likely to be unsalable, or needs to be sold at discount and thereby causes the value of inventory less than the book value thereof. For the

related accounting policy and important accounting estimation, please see Note 4 and Note 5.

3. Our audit procedure covers:

- (1) Obtain the details about inventory price decline and slow-moving inventory and information about the age of inventory tested on the balance sheet date, and calculate the allowance for loss on inventory price decline.
- (2) In order to test the book value of the inventory, we verified whether the book value is measured at cost or net realizable value, whichever is lower, and evaluated it based on the methods applied by MEGAWIN Technology Co., Ltd. and its subsidiaries.

Other Matters

We have also audited the individual financial statements of MEGAWIN Technology Co., Ltd. as of and for the years 2017 and 2016, and have issued the auditor's report without qualified opinion.

Management's and corporate governance unit's responsibility toward consolidated financial statements

The management shall be responsible for preparing the consolidated financial statements which fairly present the company in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, IFRSs recognized by FSC, and IAS, interpretations and SIC interpretations, and maintaining necessary internal controls over preparation of consolidated financial statements to ensure that the consolidated financial statements are free from any misrepresentation resulting from corruption or error.

When preparing the consolidated financial statements, the management shall also be responsible for evaluating the ability to continue operations of MEGAWIN Technology Co., Ltd. and its subsidiaries, disclosure of related matters, and adoption of the basis for continued operations, unless the management intends to liquidate MEGAWIN Technology Co., Ltd. and its subsidiaries, or wind up, or there is not any available program other than liquidation or windup.

The corporate governance unit of MEGAWIN Technology Co., Ltd. and its subsidiaries shall be responsible for supervising the financial reporting procedure.

Auditor's Responsibilities for Audit of the Consolidated Financial Statements

We conduct the audit on the consolidated financial statements in order to obtain reasonable assurance about whether the consolidated financial statements are free from

any misrepresentation resulting from corruption or error, and to issue the auditor's report. The reasonable assurance means high assurance. Notwithstanding, the audit conducted in conformity of the auditing standards generally accepted in the Republic of China doesn't warrant discovery of any misrepresentation in the consolidated financial statements. The misrepresentation might result from corruption or error. Where the misrepresented amount or summarization may be reasonably expected to affect the economic decision made by users of the consolidated financial statements, such misrepresentation would be considered material.

We exercise our professional judgment and remain objective professionally when conducting the audit in accordance with the auditing standards generally accepted in the Republic of China. We also execute the following work:

1. Identifying and evaluating the risk over misrepresentation in the consolidated financial statements resulting from corruption or error; designing and implementing adequate countermeasures against the evaluated risk; and obtaining sufficient and valid evidence which may afford to serve as the basis for the audit opinion. As corruption might involve conspiracy, forgery, intentional omission, misrepresentation or failure to comply with internal controls, failing to detect the material misrepresentation resulting from corruption is higher than that of misrepresentation resulting from error.
2. Obtaining the necessary understanding of internal controls critical to the audit; designing an audit procedure suitable under the circumstances; not expressing opinions on the validity of the internal controls of MEGAWIN Technology Co., Ltd. and its subsidiaries.
3. Evaluating the validity of the accounting policies adopted by the management, and the reasonableness of the accounting estimations and disclosures made by the management.
4. Concluding the validity of the accounting basis for continued operations applied by the management, and the existence of uncertainty on the event which might raise material doubt over the ability to continue operations of MEGAWIN Technology Co., Ltd. and its subsidiaries, based on the evidence obtained. Where we believe that some material uncertainty exists, we shall remind users of the consolidated financial statements in our audit report to note the disclosures related to the consolidated financial statements, or modify the audit opinion if the disclosure is considered inadequate. Our conclusion is made based on the evidence available at

the date of the audit report. Notwithstanding this, future events might result in the failure of MEGAWIN Technology Co., Ltd. and its subsidiaries to continue operations.

5. Evaluating the overall expression, structure and contents of the consolidated financial statements (including related notes hereto), and whether the consolidated financial statements adequately express the related transactions and events.
6. Obtaining sufficient and adequate evidence toward the individual financial information of MEGAWIN Technology Co., Ltd. and its subsidiaries to comment on the consolidated financial statements. We are responsible for directing, supervising and conducting the audit on MEGAWIN Technology Co., Ltd. and its subsidiaries, and producing the audit opinion on MEGAWIN Technology Co., Ltd. and its subsidiaries.

The matters communicated between the corporate governance unit and us include the range and time of the planned audit, and material audit findings (including the significant non-conformance in internal control identified in the process of audit).

We also provide the corporate governance unit with the statement of declaration for the compliance of our staff subject to the independence requirements with the independence requirements defined in the CPA's ethical code, and also communicate with the corporate governance unit about the relationships and other matters which are considered potentially affecting the CPA's independence (including related preventive measures).

We decide the key audit matter (KAM) included in our audit on the consolidated financial statements 2017 of MEGAWIN Technology Co., Ltd. and its subsidiaries based on the matters communicated between the corporate governance unit and us. We state the matters in our audit report, unless the laws prohibit disclosure of specific matters, or in some extraordinary circumstance, we decide not to communicate the specific matters in the audit report, as we reasonably expect that the adverse effect arising from the communication is greater than the public interest advanced therefor.

Deloitte & Touche

Tsai, Mei-Chen, CPA

Yeh, Tung-Hui, CPA

FSC Approval No.

Chin-Kuan-Cheng-Shen-Tzu No.
1010028123

FSC Approval No.

Chin-Kuan-Cheng-Shen-Tzu No.
0980032818

February 13, 2018

MEGAWIN Technology Co., Ltd. and subsidiaries
Consolidated balance sheets
December 31, 2017 and 2016

In thousands of NTD

Code	Assets	December 31, 2017		December 31, 2016		Code	Liabilities and equity	December 31, 2017		December 31, 2016	
		Amount	%	Amount	%			Amount	%	Amount	%
	Current assets						Current liabilities				
1100	Cash and cash equivalents (Notes 4, 6 and 25)	\$ 114,032	20	\$ 155,460	23	2120	Financial liabilities at fair value through profit or loss (Notes 4, 7 and 25)	\$ -	-	\$ 461	-
1147	Debt investments with no active market-current (Note Notes 4, 9 and 25)	130,407	23	120,892	18	2170	Accounts payable (Notes 4, 16 and 25)	34,718	6	65,097	10
1170	Notes and accounts receivable (Notes 4, 10 and 25)	66,162	12	103,202	16	2200	Other payables (Notes 4, 17 and 25)	33,512	6	47,003	7
130X	Inventories(Notes 4, 5 and 11)	51,276	9	70,633	11	2230	Current income tax liability (Notes 4 and 22)	1,234	-	3,715	1
1479	Other current assets (Note 15)	4,659	1	7,003	1	2300	Other current liabilities (Note 17)	2,158	1	2,443	-
11XX	Total current assets	<u>366,536</u>	<u>65</u>	<u>457,190</u>	<u>69</u>	21XX	Total current liabilities	<u>71,622</u>	<u>13</u>	<u>118,719</u>	<u>18</u>
	Non-current assets						Non-current liabilities				
1600	Property, plant and equipment (Notes 4, 13 and 27)	171,139	31	177,251	27	2640	Net defined benefit liabilities –non-current (Notes 4 and 18)	1,904	-	4,891	1
1780	Intangible assets (Notes 4 and 14)	22,304	4	24,844	4	2645	Guarantee deposits(Note 25)	3,664	1	4,384	-
1920	Refundable deposits (Note 25)	457	-	491	-	25XX	Total noncurrent liabilities	<u>5,568</u>	<u>1</u>	<u>9,275</u>	<u>1</u>
15XX	Total noncurrent assets	<u>193,900</u>	<u>35</u>	<u>202,586</u>	<u>31</u>	2XXX	Total liabilities	<u>77,190</u>	<u>14</u>	<u>127,994</u>	<u>19</u>
							Equity attributable to owners of the company (Notes 4 and 19)				
							Share capital				
						3110	Ordinary shares	392,999	70	392,999	60
						3200	Capital surplus	46,702	8	46,702	7
							Retained earnings				
						3310	Legal reserve	40,043	7	37,445	6
						3320	Special reserve	177	-	-	-
						3350	Unappropriated earnings (Note 22)	19,731	4	54,813	8
						3300	Total retained earnings	<u>59,951</u>	<u>11</u>	<u>92,258</u>	<u>14</u>
						3400	Other equity	(624)	-	(177)	-
						3500	Treasury stock	(15,782)	(3)	-	-
						31XX	Total equity attributable to owners of the company	<u>483,246</u>	<u>86</u>	<u>531,782</u>	<u>81</u>
						3XXX	Total equity	<u>483,246</u>	<u>86</u>	<u>531,782</u>	<u>81</u>
1XXX	Total assets	<u>\$ 560,436</u>	<u>100</u>	<u>\$ 659,776</u>	<u>100</u>		Total liabilities and equity	<u>\$ 560,436</u>	<u>100</u>	<u>\$ 659,776</u>	<u>100</u>

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

Chairman: Wen, Kow-Liang

President: Chiou, San-Wen

Chief Accountant: Hung, Hsien-Ling

MEGAWIN Technology Co., Ltd. and subsidiaries
Consolidated statements of comprehensive income statements
January 1~December 31, 2017 and 2016

In thousands of NTD, except
EPS

Code		2017		2016	
		Amount	%	Amount	%
4000	Operating revenue (Notes 4 and 20)	\$ 437,095	100	\$ 602,098	100
5000	Operating cost (Notes 11 and 21)	(296,760)	(68)	(388,619)	(65)
5900	Gross profit	140,335	32	213,479	35
	Operating expenses (Note 21)				
6100	Marketing	(24,947)	(6)	(26,892)	(4)
6200	General and administrative	(60,223)	(14)	(69,797)	(12)
6300	Research and development	(79,534)	(18)	(85,553)	(14)
6000	Total operating expenses	(164,704)	(38)	(182,242)	(30)
6900	Profit (loss) from operations	(24,369)	(6)	31,237	5
	Non-operating income and expenses				
7010	Other income(Note 21)	8,386	2	4,634	1
7020	Other gains and losses (Note 21)	(1,170)	-	(5,376)	(1)
7050	Interest expense (Note 21)	(1)	-	(6)	-
7000	Total non-operating income and expenses	7,215	2	(748)	-
7900	Profit (loss) before income tax	(17,154)	(4)	30,489	5
7950	Income tax gains (expenses) (Notes 4 and 22)	1,860	-	(4,510)	(1)
8200	Net profit (loss) for the period	(15,294)	(4)	25,979	4

(Continued)

(Brought forward)

Code		2017		2016	
		Amount	%	Amount	%
	Other comprehensive income (Note 4)				
	Items that will not be reclassified subsequently to profit or loss:				
8311	Remeasurement of defined benefit plans (Note 18)	\$ 2,637	1	(\$ 1,535)	-
	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign operations	(447)	-	(932)	-
8300	Other comprehensive income for the year, net of income tax	2,190	1	(2,467)	-
8500	Total comprehensive income for the year	(\$ 13,104)	(3)	\$ 23,512	4
	Net profit (loss) attributable to:				
8610	Owner of the company	(\$ 15,294)	(4)	\$ 25,979	4
8620	Non-controlling interests	-	-	-	-
8600		(\$ 15,294)	(4)	\$ 25,979	4
	Total comprehensive income attributable to:				
8710	Owner of the company	(\$ 13,104)	(3)	\$ 23,512	4
8720	Non-controlling interests	-	-	-	-
8700		(\$ 13,104)	(3)	\$ 23,512	4
	EPS (Note 23)				
9750	Basic	(\$ 0.40)		\$ 0.67	
9850	Diluted	(\$ 0.40)		\$ 0.66	

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

Chairman: Wen, Kow-Liang

President: Chiou, San-Wen

Chief Accountant: Hung, Hsien-Ling

MEGAWIN Technology Co., Ltd. and subsidiaries
Consolidated Statement of Changes in Equity
January 1~December 31, 2017 and 2016

In thousands of NTD

Code		Equity attributable to owners of the Company						Other equity		Total equity
		Share Capital		Capital surplus	Retained earnings			Exchange differences on translation of foreign operations	Treasury stock	
		Shares (In thousands)	Amount		Legal reserve	Special reserve	Unappropriated earnings			
A1	Balance, January 1, 2016	39,300	\$ 392,999	\$ 40,339	\$ 33,464	\$ -	\$ 65,019	\$ 755	(\$ 12,203)	\$ 520,373
	Appropriations of 2015 earnings									
B1	Legal reserve	-	-	-	3,981	-	(3,981)	-	-	-
B5	Cash dividend	-	-	-	-	-	(30,669)	-	-	(30,669)
D1	Net profit for the year ended December 31, 2016	-	-	-	-	-	25,979	-	-	25,979
D3	Other comprehensive income for the year ended December 31, 2016	-	-	-	-	-	(1,535)	(932)	-	(2,467)
D5	Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	24,444	(932)	-	23,512
N1	Compensation cost of employee share options	-	-	6,227	-	-	-	-	-	6,227
N1	Reissue of treasury stock to employees	-	-	136	-	-	-	-	12,203	12,339
Z1	Balance, December 31, 2016	39,300	392,999	46,702	37,445	-	54,813	(177)	-	531,782
	Appropriations of 2016 earnings									
B1	Legal reserve	-	-	-	2,598	-	(2,598)	-	-	-
B3	Special reserve	-	-	-	-	177	(177)	-	-	-
B5	Cash dividend	-	-	-	-	-	(19,650)	-	-	(19,650)
D1	Net loss for the year ended December 31, 2017	-	-	-	-	-	(15,294)	-	-	(15,294)
D3	Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	2,637	(447)	-	2,190
D5	Total comprehensive income for the year ended December 31, 2017	-	-	-	-	-	(12,657)	(447)	-	(13,104)
L1	Buy-back of treasury stock	-	-	-	-	-	-	-	(15,782)	(15,782)
Z1	Balance, December 31, 2017	<u>39,300</u>	<u>\$ 392,999</u>	<u>\$ 46,702</u>	<u>\$ 40,043</u>	<u>\$ 177</u>	<u>\$ 19,731</u>	<u>(\$ 624)</u>	<u>(\$ 15,782)</u>	<u>\$ 483,246</u>

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

Chairman: Wen, Kow-Liang

President: Chiou, San-Wen

Chief Accountant: Hung, Hsien-Ling

MEGAWIN Technology Co., Ltd. and subsidiaries
Consolidated Statements of Cash flows
January 1~December 31, 2017 and 2016

In thousands of NTD

Code		2017	2016
	Cash flows from operating activities		
A10000	Profit before income tax	(\$ 17,154)	\$ 30,489
	Adjustments for:		
A20100	Depreciation expenses	6,845	7,668
A20200	Amortization expenses	3,377	3,296
A20300	Impairment loss recognized (reversal of impairment loss) on trade receivables	(437)	643
A20400	Net (gain) loss on fair value change of financial liabilities at fair value through profit or loss	(461)	461
A20900	Interest expense	1	6
A21200	Interest income	(1,607)	(2,369)
A21900	Compensation cost of share based payment	-	6,227
A22500	Loss on disposal of property, plant and equipment	2	-
A23100	Gain on disposal of investment	(2,700)	(1,000)
A23500	Impairment loss on financial liabilities	-	1,046
A23700	(Reversal of) write-down of inventories	2,493	(1,692)
A24100	Net unrealized gain on foreign currency exchange	(94)	(851)
	Net changes in operating assets and liabilities		
A31150	Notes and accounts receivable	37,459	(20,873)
A31200	Inventories	16,864	(15,178)
A31240	Other current assets	2,342	(1,798)
A32150	Accounts payable	(30,165)	7,813
A32180	Other payables	(13,475)	(3,908)
A32230	Other current liabilities	(285)	95
A32240	Net defined benefit liabilities	(350)	(373)
A33000	Cash generated from operations	2,655	9,702
A33100	Interest received	1,609	2,303
A33300	Interest paid	(1)	(6)
A33500	Income tax paid	(621)	(11,518)
AAAA	Net cash provided by operating activities	<u>3,642</u>	<u>481</u>

(Continued)

(Brought forward)

<u>Code</u>		<u>2017</u>	<u>2016</u>
	Cash flows from investing activities		
B00400	Proceeds on sale of available-for-sale financial assets	\$ 2,700	\$ 1,000
B00600	Purchase of debt investments with no active market	(9,515)	(33,571)
B02700	Acquisitions of property, plant and equipment	(746)	(2,491)
B03800	Decrease in refundable deposits	34	30
B04500	Acquisitions of intangible assets	(<u>839</u>)	(<u>2,587</u>)
BBBB	Net cash used in investing activities	(<u>8,366</u>)	(<u>37,619</u>)
	Cash flows from financing activities		
C00200	Repayments of short-term borrowings	-	(30,000)
C03100	Refund of guarantee deposits received	(720)	(91)
C04500	Cash dividends	(19,650)	(30,669)
C04900	Payments from transaction costs attributable to buy-back of ordinary	(15,782)	-
C05100	Proceeds from reissue of treasury stock	<u>-</u>	<u>12,339</u>
CCCC	Net cash used in financing activities	(<u>36,152</u>)	(<u>48,421</u>)
DDDD	Effect of exchange rate changes on cash and cash equivalents	(<u>552</u>)	(<u>115</u>)
EEEE	Net decrease in cash and cash equivalents	(41,428)	(85,674)
E00100	Balance of cash and cash equivalents, beginning of period	<u>155,460</u>	<u>241,134</u>
E00200	Balance of cash and cash equivalents, end of period	<u>\$ 114,032</u>	<u>\$ 155,460</u>

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

Chairman: Wen, Kow-Liang

President: Chiou, San-Wen

Chief Accountant: Hung, Hsien-Ling

MEGAWIN Technology Co., Ltd. and its subsidiaries

Notes to consolidated financial statements

January 1~December 31, 2017 and 2016

(Amounts in Thousands of New Taiwan Dollard, unless specified otherwise)

1. Corporate milestones

MEGAWIN Technology Co., Ltd. (hereinafter referred to as the "Company") was founded on June 21, 1999, primarily engaged in manufacturing and selling electronic instruments and spare parts thereof.

The Company was approved by TPEX to trade at the TPEX in January 2015.

The consolidated financial statements are expressed in the Company's functional currency, NTD.

2. Date and procedure for ratification of financial report

The consolidated financial statements were ratified and promulgated by the Board of Directors on February 13, 2018.

3. Application of new and amended standards and interpretations

- (1) The first-time application of the amended Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC and SIC approved and effective upon promulgation by Financial Supervisory Commission (hereinafter referred to as "FSC").

Except the following notes, the application of the amended Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs approved and effective upon promulgation by FSC will not cause material changes to the accounting policies of the Company and the entities controlled by the Company (hereinafter referred to as the "consolidated companies"):

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

By the Amendments, some accounting titles and requirements about disclosure of impairment on non-financial assets were added to be in line with the IFRSs approved and effective upon promulgation by FSC. Meanwhile, to be in line with implementation of the IFRSs domestically, the Company also emphasized certain requirements about recognition and measurement, and also added the disclosure of transactions with related parties and goodwill.

Per the amendments, where the board chairman or president of another company or institution is the same person as the board chairman or president of the consolidated company, or is the spouse or a relative within the second degree or closer of the board chairman or president of the consolidated company, they shall be deemed to have a substantive related party relationship, unless it can be established that no control or significant influence exists. Meanwhile, the amendments require that the information on the name and relationship of the related party who engages in transactions with the consolidated company shall be disclosed, and where the transaction amount or balance of any single related party reaches 10 percent or more of the consolidated company's total transaction amount or balance of that type of transaction, the name of each such related party shall be individually presented.

(2) The Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs recognized by FSC as applied as of 2018

New/amended/modified standards and interpretations	Effective date released by IASB (Note 1)		
"Improvement from 2014 to 2016"	Note 2		
Amendments to IFRS 2: "Classification and Measurement of Share-based Payment Transaction"	Monday, 2018	January	01,
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	Monday, 2018	January	01,
IFRS 9 "Financial instruments"	Monday, 2018	January	01,
Amendments to IFRS 9 and IFRS 7 "Compulsory Effective Date and Transitional Disclosure"	Monday, 2018	January	01,
IFRS 15 "Revenue from Contracts with Customers"	Monday, 2018	January	01,
Amendments to IFRS 15 "Clarifications to IFRS 15"	Monday, 2018	January	01,
Amendments to IAS 7 "Disclosure Initiative "	Sunday, 2017	January	01,
Amendments to IAS 12 "Recognition of Deferred Income Tax Assets of Unrealized Loss"	Sunday, 2017	January	01,
Amendments to IAS 40 "Conversion of Investment Property"	Monday, 2018	January	01,
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	Monday, 2018	January	01,

Note 1: Unless otherwise specified, said new/amended/modified standards or interpretations shall become effective during the years or periods ended after said respective date.

Note 2: The amendments to IFRS 12 are retroactively applied as of January 1, 2017. The amendments to IAS 28 are retroactively applied as of January 1, 2018.

1. IFRS 9 "Financial instruments" and related amendments thereto

Classification, measurement and impairment of financial assets

Any financial assets applicable under IAS 39 "Financial Instruments: Recognition and Measurement" originally shall be measured based on amortized cost or fair value subsequently. The financial assets are classified in the following manner under IFRS9:

If the contractual cash flows for the bond instruments invested by the consolidated companies are solely for the purpose of payments of principal and interest on the principal amount outstanding, the instruments shall be classified and measured as following:

- (1) If the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows, the financial assets shall be measured at amortized cost. The interest income from such financial assets is stated into income based on effective interest rate subsequently. The impairment thereof is evaluated continuously and the impairment income is stated into income.
- (2) If the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows and sell the financial assets, the financial assets shall be measured at fair value through other comprehensive income. The interest income from such financial assets is stated into income based on effective interest rate subsequently. The impairment thereof is evaluated continuously and the impairment income and exchange income are stated into income, while the other changes in fair value are stated into other comprehensive income. When derecognizing or reclassifying the financial asset, the accumulated changes in fair value of other comprehensive income shall be reclassified into income.

The financial assets invested by the consolidated companies refer to those other than said assets and are measured at fair value. The changes in fair value are stated into income. Notwithstanding, the consolidated companies may designate the investment other than equity investment held for trading to be measured at fair value through other comprehensive income at the time of initial recognition. Except the income from stock dividend on such financial assets which is stated into income, the other related gains and losses are stated into other comprehensive income. No impairment shall be evaluated subsequently. The accumulated changes in fair value of other comprehensive income need not to be reclassified into income either.

The consolidated companies evaluated that the classification and measurement of the following financial assets will vary upon the application of IFRS 9, based on the financial assets held by them on December 31, 2017 and the facts and circumstances available on the same day.

The investment in Debt investments with no active market was stated as the bond investment measured at amortized cost. The cash flow by contract stated initially was used to pay the principal and the interest accruing thereon in whole. The business model aimed to collect the cash flow by contract and classify the same measured at amortized cost according to IFRS 9.

IFRS 9 adopted the "Expected Credit Loss Model" instead to recognize the impairment on financial assets. Allowance for loss shall be recognized for financial assets measured at amortized cost, bond investment at fair value through profit and loss other comprehensive income, receivable leasehold payment, the contractual assets generated from IFRS 15 "Revenue from Contracts with Customers" or contracts for commitment of loaning and financial guarantee. If the credit risk over financial assets is not increased significantly after the initial recognition, the allowance for credit loss shall be measured based on the expected credit loss for the following twelve (12) months. If the credit risk over financial assets is increased significantly after the initial recognition, which is not considered low credit risk, the allowance for credit loss shall

be measured based on the expected credit loss for the residual period of the duration of the contract. Notwithstanding, for the receivable accounts excluding important financial elements, the allowance for credit loss shall be measured based on the expected credit loss for the duration of the contract.

Meanwhile, for the financial assets on which credit impairment has been recognized at the time of initial recognition, the consolidated companies take the expected credit loss recognized initially to calculate the effective interest rate upon adjustment of credit, and the subsequent allowance for credit loss is measured based on the accumulated changes in subsequent expected credit loss.

The consolidated companies will apply the simplified policy toward receivable accounts, contractual assets and receivable lease payment, by measuring the allowance for loss based on the credit loss expected subject to the period. The consolidated companies evaluates whether the credit risk over bond investment and financial guarantee is increased significantly after the initial recognition to decide whether the allowance for loss should be measured based on the credit loss expected subject to twelve (12) months or the period. The consolidated companies expect that the measurement of credit loss under IFRS 9 will result in earlier recognition of the credit loss on financial assets.

The consolidated companies choose not to re-prepare the comparative information 2017 when applying the classification, measurement and impairment of financial assets defined under IFRS 9. The accumulated effects generated upon the first-time application thereof will be stated on the date of the first application. Meanwhile, the information about changes in classification and adjustment under IFRS 9 will be disclosed too.

The retroactive application of the classification, measurement and impairment of financial assets defined under IFRS 9 renders no effect to the assets, liabilities and equity on January 1, 2018.

2. IFRS 15 “Revenue from Contracts with Customers” and related amendments thereto

IFRS 15 governs the recognition of revenue from contracts with customers, which will replace IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

Upon application of IFRS 15, the consolidated companies state the revenue in the following manners:

- (1) Identify the contract(s) with a customer;
- (2) Identify the performance obligations in the contract;
- (3) Determine the transaction price;
- (4) Allocate the transaction price to the performance obligations in the contract; and
- (5) Recognize revenue when (or as) the entity satisfies a performance obligation.

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

The net result of recognized revenue, received and receivable accounts will be stated as the contract assets (liabilities). Before application of IFRS 15, the contract processed based on IAS 18 is stated as receivable account or decrease in unearned revenue when revenue is recognized.

The consolidated companies choose to apply IFRS 15 retroactively only with respect to the contract pending on January 1, 2018. The related accumulated effects will be adjusted as the retained earnings on the same day.

Meanwhile, the consolidated companies will disclose the difference from application of IFRS 15 if the existing accounting treatment policy is still adopted in 2018.

The effects on assets, liabilities and equity to be generated by the retroactive application of IFRS 15 on January 1, 2018 are stated as following:

	Book value, December 31, 2017	First-time application adjustment	Book value upon adjustment on January 1, 2018
Advanced sales receipts	\$ 1,141	(\$ 1,141)	\$ -
Contract liabilities	<u>-</u>	<u>1,141</u>	<u>1,141</u>
Effect of liabilities	<u>\$ 1,141</u>	<u>\$ -</u>	<u>\$ 1,141</u>

3. Amendments to IAS 12 "Recognition of Deferred Income Tax Assets of Unrealized Loss"

The amendments to IAS 12 are intended to clarify that irrelevant with the investment in bond instruments expected to be measured based on fair value through sale or collection of contractual cash flows by the consolidated companies and no matter whether the assets incur unrealized loss or not, the temporary difference shall be decided by the price difference between the fair value of assets and taxation basis.

Meanwhile, unless the tax laws restrict the type of income deductible based on the deductible temporary difference and it is necessary to evaluate whether deferred income tax assets shall be stated based on the deductible temporary difference of the same type, all deductible temporary differences shall be evaluated altogether. When evaluating whether deferred income tax assets shall be stated, if there is sufficient evidence to signify that the consolidated companies are very likely to collect assets at the price higher than book value thereof, the collectible amount of assets to be considered in estimation of future taxable income will not be limited to the book value, and the estimation of taxable income shall exclude the effect generated by reversal of deductible temporary difference.

When evaluating deferred income tax assets, the consolidated companies initially estimated the future taxable income based on the collectible amount of assets stated as book value. Notwithstanding, the consolidated companies will retroactively apply said amended rules.

4. IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 requires that the initial recognition of foreign currency transactions generally records foreign currency transactions using the spot conversion rate to that functional currency on the date of the transaction. IFRIC 22 further details that where an enterprise has prepaid or received in advance the consideration prior to initial recognition of non-monetary assets or liabilities, the date of initial recognition of advance consideration shall be identified as the date of the transaction. Where the enterprise prepays or receives in advance the consideration in installment, it shall determine the separate date of transaction for each consideration prepaid or received in advance.

The consolidated companies will defer the application of IFRIC 22 as of January 1, 2018.

In addition to said effects, until the date when the consolidated financial statements were ratified and promulgated, the consolidated companies still continue to evaluate the effect produced by the amendments to the other standards and interpretations to the financial status and performance. The related effects will be disclosed upon completion of the evaluation.

(3) IFRSs promulgated by IASB but not yet recognized and became effect upon promulgation by FSC

<u>New/amended/modified standards and interpretations</u>	<u>Effective date released by IASB (Note 1)</u>
"Improvement from 2015 to 2017"	Tuesday, January 01, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	Tuesday, January 01, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Investment of Assets between Investors and Their Affiliates or Joint Ventures"	Pending
IFRS 16 "Lease"	Tuesday, January 01, 2019 (Note 3)
IFRS 17 " Insurance Contracts"	Friday, January 01, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	Tuesday, January 01, 2019
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	Tuesday, January 01, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	Tuesday, January 01, 2019

Note 1: Unless otherwise specified, said new/amended/modified standards or interpretations shall become effective during the years or periods ended after said respective date.

Note 2: FSC approves that the consolidated companies may apply the amendments earlier on January 1, 2018.

Note 3: FSC announced on December 19, 2017 that the enterprises in Taiwan should apply IFRS 16 as of January 1, 2018.

1. IFRS 16 "Lease"

IFRS 16 governs the accounting for lease, which will be replaced by IAS 17 "Lease" and related interpretation.

When applying IFRS 16, where the consolidated company acts as a lessor, the low-price lease and short-term lease may be treated as the operating lease similar to that under IAS 17, while the other leases shall be stated as assets and liabilities of the lease on the consolidated balance sheet. The consolidated income statement shall express the depreciation expenses of the leased assets and interest expenses on the liabilities of the lease calculated at the valid interest rate. In the consolidated cash flow statement, the repayment of principal of the liabilities shall be stated as financing activity, and payment of interest shall be stated as operating activity.

The accounting treatment which holds the consolidated company as the lessor is expected to render no material effect.

After IFRS 16 became effective, the consolidated companies may choose to retroactively apply the standard until the comparative period, or state the accumulated effects for the first-time application on the first-application date.

2 . IFRIC 23 "Uncertainty over Income Tax Treatments"

When uncertain over income tax treatments is verified under IFRIC 23, the consolidated companies shall hypothesize that the tax competent authority will obtain all related information and review the same. If it is judged that the income tax treatment is likely to be accepted by the tax competent authority, the consolidated companies shall adopt the treatment policy identical with that applicable to the income tax return by them when deciding the taxable income, taxable

base, unused taxable loss, unused tax credit and tax rate. If the tax competent authority is not likely to accept the income tax treatment as declared, the consolidated companies shall evaluate based on the probable amount or expected value (either one more likely to forecast the consequence resulting from the uncertainty). In the event of changes in facts or circumstances, the consolidated companies shall re-evaluate their judgment and estimation.

The consolidated companies may apply IFRIC 23 retroactively and re-prepare the information available in the comparative periods, or state the accumulated effects generated upon the first-time application on the date of the first-time application, without relying on hindsight.

In addition to said effects, until the date when the consolidated financial statements were ratified and promulgated, the consolidated companies still continue to evaluate the effect produced by the amendments to the other standards and interpretations to the financial status and performance. The related effects will be disclosed upon completion of the evaluation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Statement of Compliance

The consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs recognized and effective upon promulgation by FSC.

(2) Basis of Preparation

Except for financial instruments measured at fair value and the net defined benefit liability stated upon the present value of defined benefit obligation minus the fair value of assets under the Plan, the consolidated financial statement was prepared based on the historical cost.

The fair value measurement is categorized into Tier 1~Tier 3, subject to the observable degree and importance:

1. Tier 1 input value: The public quotation for the same financial assets or liabilities in an active market on the date of measurement (without adjustment).
2. Tier 2 input value: The observable input value other than Tier 1 quotation accessed from assets or liabilities directly (e.g. price) or indirectly (e.g. inferred from the price)

3. Tier 3 input value: The non-observable input value of assets or liabilities.

(3) Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

1. Assets primarily held for the purpose of trading;
2. Assets expected to be realized within twelve (12) months after the date of the balance sheet; and
3. Cash or cash equivalents (exclusive of the assets to be used for an exchange or to settle a liability, or otherwise remain restricted at more than twelve (12) months after the date of the balance sheet).

Current liabilities include:

1. Liabilities primarily held for the purpose of trading;
2. Liabilities expected to be repaid within twelve (12) months after the date of the balance sheet; and
3. Liabilities of which the Company does not have an unconditional right to defer settlement for at least twelve (12) months after the date of the balance sheet.

Any liabilities other than the current assets or liabilities shall be classified into noncurrent assets or liabilities.

(4) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and entities controlled by the Company (subsidiaries). The subsidiaries' financial statements have been adjusted to enable their accounting policies to be consistent with the consolidated companies'. The transactions, balance of account, income and expense among the entities have been written off when the Company prepared the consolidated financial statements. The subsidiaries' total comprehensive income is attributable to the owners of parent and non-controlling interest, even if the non-controlling interest becomes balance of loss therefor.

(5) Foreign Currencies

The transactions stated in any currency (foreign currency) other than the Company's functional currency when the Company prepared the separate financial statement shall be re-stated in the functional currency converted based at the foreign exchange rate prevailing on the trading day.

The foreign monetary items shall be converted based on the closing exchange rate on each balance sheet date. The exchange difference derived from settlement of monetary items or conversion of monetary items shall be stated as income in current year.

The non-monetary items at historical cost denominated in foreign currency shall be converted at the exchange rate on the date of transaction.

When the consolidated financial statements were prepared, the assets and liabilities of foreign operations (including subsidiaries situated in the countries where the Company operated using the currency different from that used by the Company) shall be translated into NTD at the exchange rate prevailing on each balance sheet date. The income and expense are translated at the current average exchange rate. The exchange difference generated therefor is stated into other comprehensive income.

(6) Inventories

Inventory includes raw material, products, finished goods and work in process. The inventories shall be stated at the lower of cost and net realizable present value. When the cost and net realizable value are compared, inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value means the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. The cost of inventory shall be calculated under the weighted average method.

(7) Property, plant and equipment

Property, plant and equipment shall be stated at cost initially. The following evaluation is based on the cost less accumulated depreciation and accumulated impairment loss.

The Company provides depreciation for each important element of property, plant and equipment under the straight line method within the expected useful years. The consolidated companies shall review the useful years, residual value and depreciation method at least once at the end of each year, and treat the effect on changes in accounting estimation in a deferral manner.

The price difference between net proceeds from disposition of assets and book value of the assets shall be stated as income, when the property, plant and equipment are derecognized.

(8) Intangible Assets

1. Acquired separately

The intangible assets within limited useful years that are acquired separately shall be stated at cost initially. The following evaluation thereof shall be based on the cost less accumulated amortization and accumulated impairment. The intangible assets are amortized under straight line method within limit useful years, and the useful years, residual value and amortization method shall be reviewed at the end of each year. The effect on changes in accounting estimation shall be treated in a deferral manner. The intangible assets within uncertain useful years are stated at cost less accumulated impairment loss.

2. Domestically generated - R&D expenditure

Research expenditure is stated as expenses when it is incurred.

3. Derecognition

The price difference between net proceeds from disposition of assets and book value of the assets shall be stated as income, when the intangible assets are derecognized.

(9) Impairment on tangible and intangible assets

The consolidated companies shall evaluate on each balance sheet date whether there is any sign showing that tangible and intangible assets might suffer impairment. If there is, it is necessary to evaluate the collectible amount of the assets. It is impossible to evaluate the collectible amount of individual asset, the consolidated companies shall evaluate the collectible amount of the cash generation unit vested in the asset.

The collectible amount is the higher of fair value less selling cost and its use value. If the collectible amount of individual asset or cash generation unit is less than the book value of the asset, the book value shall be reduced to the collectible, and the impairment loss is stated as income.

When the impairment loss is reversed subsequently, the book value of the asset or cash generation unit shall be increased to the collectible amount after the amendments, provided that the increased book value shall be no

more than the book value of the asset or cash generation unit if no impairment loss was recognized in the previous year (less amortization or depreciation). The reversal of impairment loss is stated as income.

(10) Financial instruments

Financial assets and financial liabilities are stated into the consolidated balance sheet when the consolidated companies became a part to the financial instrument contract.

When recognizing the financial assets or liabilities other than those measured at fair value through profit or loss initially, such assets or liabilities shall be evaluated based on fair value, plus the transaction cost directly attributable to acquisition or issuance of financial assets or financial liabilities. The transaction cost directly attributable to acquisition or issuance of financial assets or financial liabilities at fair value through profit or loss shall be stated as income immediately.

1. Financial assets

The customary transactions of financial assets shall be recognized and derecognized on the date of transaction.

(1) Types of measurement

The financial assets held by the consolidated companies are classified into loans and receivable accounts.

Loans and receivable accounts

The loans and receivable accounts (including cash and cash equivalents, Investments in Debt Instrument with No Active Market, and notes and accounts receivable) shall be evaluated based on amortized cost less impairment loss under effective interest method, unless the recognition of the interest on short-term accounts receivable is insignificant.

The cash equivalents include the bank time deposits and Repo that have high liquidity within three (3) months, and may be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, intended to satisfy the short-term cash commitment.

(2) Impairment on financial assets

The impairment on any financial assets other than financial assets at fair value through profit or loss shall be evaluated on each balance sheet date. If there is any objective evidence showing that the future cash flow of the financial assets is affected due to a single or multiple events occurring after the initial recognition of the financial assets, the financial assets shall be deemed impaired.

If there is not any objective evidence showing impairment on financial assets stated at amortized cost, such as accounts receivable and other accounts receivable, upon individual evaluation, the impairment shall be evaluated again collectively. The combined objective evidence for accounts receivable might include the Company's past experience in collection, the increase in overdue payment, and observable national or regional economic changes related to the defaulted receivable accounts.

The recognized impairment loss on the financial assets measured at amortized cost is the difference in the book value of financial assets and the present value after the projected cash flow is discounted at initial interest rate.

Where the decrease in impairment, if any, when the financial assets are measured at amortized cost is objectively related to the events subsequent to recognition of impairment loss, the impairment loss recognized previously shall be reversed and stated as income directly or via adjustment of the allowance account, provided that the book value of such assets upon the reversal shall be no more than the cost after amortization if the impairment was not recognized.

Meanwhile, the fair value of equity investment in available-for-sale declining drastically or permanently until it is less than the cost of the equity investment also constitutes the objective evidence about of impairment.

The other objective evidence about impairment on financial assets include obvious financial problems confronting the issuer or debtor, breach (e.g., overdue or non-performance of interest or

principal payment), the debtor likely to wind up or proceed with other financial reorganizations, and the active market of financial assets extinguishing due to financial difficulty.

When the assets in available-for-sale are impaired, the accumulated gain and loss already stated as other comprehensive income will be reclassified as income.

The impairment loss on equity instruments in available-for-sale that was initially recognized as income shall not be reversed. The revaluation of fair value upon recognition of impairment loss, if any, shall be stated as other comprehensive income. If the revaluation of fair value of obligation instruments in available-for-sale is objectively related to the events subsequent to recognition of impairment loss, it shall be reversed and stated as income.

The impairment loss on financial assets shall be deducted from the book value of financial assets, provided that the book value of receivable accounts and other receivable accounts is adjusted through allowance accounts. If the receivable accounts and other receivable accounts are held uncollectible, they shall write off against the allowance accounts. The accounts initially written off but collected afterwards are credited into the allowance accounts. Unless the receivable accounts and other receivable accounts write off against the allowance accounts because they are held uncollectible, the changes in book value of allowance account shall be stated as income.

(3) Derecognition of financial assets

The consolidated companies will derecognize financial assets only when the contractual rights toward the cash flow of the assets are terminated or the financial assets are transferred and the risk and return over the ownership of the assets are transferred to another enterprise.

When derecognizing a single financial asset in whole, the price difference between the book value and collected or collectible

total consideration plus the value recognized as other comprehensive income shall be recognized as income.

2. Equity instruments

The obligation and equity instruments issued by the consolidated companies are classified into financial liabilities or equities according to definitions of the financial liabilities and equity instruments referred to in an agreement.

The equity instruments issued by the consolidated companies shall be recognized based on the payment of acquisition less the directly issuing cost.

The recalled equity instruments of the consolidated companies shall be recognized and derecognized under equity titles. Purchase, sale, issuance or cancellation of the consolidated companies' equity instruments shall not be stated into income.

3. Financial liabilities

(1) Following measurement

All liabilities are measured under the effective interest method at amortized cost, except:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

The financial liabilities held for trading are measured at fair value. The gains or losses from re-measurement thereof are stated as income. For the approach to determine the fair value, please see Note 25.

(2) Derecognition of financial liabilities

When derecognizing a financial liability in whole, the price difference between the book value and paid consideration (including any transferred assets other than cash or liabilities) shall be recognized as income.

(11) Recognition of revenue

The revenue is stated at the fair value of received or receivable consideration less the sale returns, sales discount and similar discount. Sales

return was provided based on the amount of future returned goods estimated according to past experience and other critical factors reasonably.

1. Sale of goods

The revenue from sale of goods shall be recognized upon satisfaction of the following conditions:

- (1) The consolidated companies had transferred major risk and return over the ownership of goods to the buyer;
- (2) The consolidated companies discontinued to participate in the management of, or to maintain effective control over, the sold goods;
- (3) The revenue may be measured reliably;
- (4) The economic effect related to transactions is very likely to flow into the consolidated companies;
- (5) The cost related to transactions, incurred or to be incurred, may be measured reliably.

The major risk and return over ownership of processed goods are not transferred at the time of processing on order, the processing will not be treated as sale of goods.

2. Interest income

The interest income from financial assets shall be stated when the economic effect is very likely to flow into the consolidated companies and the amount thereof may be measured reliably. The interest income shall be stated based on the outstanding capital and applicable valid interest rate on an accrual basis, by the lapse of time.

(12) Employee benefits

1. Short-term employee benefits

Liabilities related to short-term employee benefit shall be measured at non-discounted rate expected to be paid in exchange of employees' services.

2. Termination benefit

The pension under defined contribution plan shall be stated as current expenses during the employee service years.

The defined benefit cost under the defined benefit pension plan (including service cost, net interest and remeasurement) is actuated

based on the Projected Unit Credit Method. The service cost (including the service cost in the current period) and net interest on net defined benefit liabilities are stated employee benefit expenses when they are incurred. The remeasurement (including actuated income and return on planned assets less interest) is stated into other comprehensive income and included into the retained earnings when it is incurred, but shall not be reclassified into income subsequently.

The net defined benefit liabilities refer to the allocation shortfall of the defined benefit pension plan.

(13) Income tax

Income tax expenses mean the total of current income tax and deferred income tax.

1. Current income tax

The 10% additional income tax levied on unallocated earnings calculated according to the Income Tax Law is stated as the income tax expenses in the year of the resolution made by the shareholders' meeting.

The adjustment of payable income tax for previous years is stated as current income tax.

2. Deferred income tax

The deferred income tax is recognized based on the book value of assets and liabilities and temporary difference generated from the taxation basis for assets and liabilities. The deferred income tax liabilities are recognized based on the taxable temporary difference, while the deferred income tax assets are recognized when it is very likely to generate taxable income enough to deduct temporary difference and income tax credit generated from R&D expenditure.

The taxable temporary difference related to investee subsidiaries is stated as deferred income tax liabilities, unless the consolidated companies were able to control the timing of reversal of temporary difference, and the temporary difference is very unlikely to be reversed in the foreseeable future. The deferred income tax assets generated from deductible temporary difference related to such investment will be recognized only when they are very likely to generate taxable income

enough to realize the gain on temporary difference and expected to be reversed in the foreseeable future.

The book value of deferred income tax assets shall be re-checked on each balance sheet date, and the book value of the assets which are very unlikely to generate taxable income enough to recall all or some of the assets shall be decreased. Those which were not recognized as deferred income tax assets initially shall be re-checked on each balance sheet date, and the book value of the assets which are very likely to generate taxable income enough to recall all or some of the assets shall be increased.

The deferred income tax assets and liabilities are measured at the tax rate prevailing when the assets are expected to be realized or liabilities are expected to be repaid, and based on the statutory tax rate or tax rate substantially enacted on the balance sheet date. The evaluation of deferred income tax liabilities and assets is intended to reflect the taxation consequence arising from the book value of assets and liabilities expected by an enterprise to be collected or repaid on the balance sheet date.

3. Current and deferred income tax

Current and deferred income tax is stated into income, provided that the current and deferred income tax related to other comprehensive income is stated into other comprehensive income separately.

5. Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty

When adopting any accounting policies, the consolidated companies' management shall make the related judgment, estimation and hypotheses toward the related information that cannot be obtained from other source easily based on historical experience and other critical factors. The actual result may vary from the estimation.

The management will continue to review the estimation and basic hypotheses. If modification to estimation only renders effect during the current period, it shall be recognized in the current period. If the modification to accounting estimation renders effect during the current period and in the future, it shall be recognized during the current period and in the future.

Impairment on inventories

Net realizable value was the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. The estimates were based on the current market status and historical experience in selling similar goods. The estimation result might vary depending on changes of the market condition.

6. Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand and working capital	\$ 183	\$ 309
Demand deposits	20,497	32,459
Cash equivalents (Investment to expire within three (3) months initially)		
Bank time deposits	12,352	72,692
Repo	81,000	50,000
	<u>\$114,032</u>	<u>\$155,460</u>

7. Financial Asseste and instruments at fair value through profit or loss

	December 31, 2017	December 31, 2016
<u>Financial liabilities - current</u>		
Held for trading		
Derivative instruments (without designated hedge)		
— Forward Foreign Exchange Contracts(1)	\$ -	\$ 461

- (1) The forward foreign exchange contracts which didn't apply the hedging accounting or hadn't yet been matured on the balance sheet date:

December 31, 2016

	<u>Currency type</u>	<u>M a t u r i t y</u>	<u>Contract amount (NT\$ thousand)</u>
Forward foreign exchange - sell	RMB exchanged for NTD	From January 16, 2017 to February 15, 2017	RMB 7,947

The consolidated companies engaged in forward foreign exchange rate transactions primarily in order to hedge against the risk on foreign currency assets and liabilities arising from fluctuations in foreign exchange rates.

8. Financial assets in available-for-sale

	December 31, 2017	December 31, 2016
<u>Non-current</u>		
Domestic investment		
Unlisted/non-OTC stock	\$ <u> -</u>	\$ <u> -</u>

9. Debt Investments with no active market

	December 31, 2017	December 31, 2016
<u>Current</u>		
Bank time deposit to expire after more than three (3) months initially	\$130,407	\$99,492
Repo to expire after more than three (3) months initially	<u> -</u>	<u> 21,400</u>
	<u>\$130,407</u>	<u>\$120,892</u>

Until December 31, 2017 and 2016, the interest rate ranges of the bank time deposits and Repo to expire after more than three (3) months initially were 0.11%~1.55% and 0.05%~1.55%.

10. Notes and accounts receivable

	December 31, 2017	December 31, 2016
<u>Receivable notes</u>		
Incurring for business	<u>\$ 3,379</u>	<u>\$ 3,512</u>
<u>Receivable accounts</u>		
Receivable accounts	\$65,406	\$102,750
Less: allowance for bad debt	(<u>2,623</u>)	(<u>3,060</u>)
	<u>\$62,783</u>	<u>\$99,690</u>

The loan period for sale of goods granted by the consolidated companies lasts 5~90 days. When deciding collectability of receivable accounts, the consolidated companies would consider any changes in credit quality of receivable accounts from the date of initial loan until the balance sheet date. According to the historical experience, there were no receivable accounts that were overdue for more than 360 days. Meanwhile, based on the conservative and stable policy, the consolidated companies provided 100% allowance for bad debt for receivable accounts overdue for more than 360 days, and provided the allowance for bad debt for receivable accounts overdue for no more than 360

days, according to the trading counterpart's record and analysis on its financial position.

The age of account for receivable accounts is analyzed as following:

	December 31, 2017	December 31, 2016
0~30 days	\$ 32,182	\$102,750
31~90 days	<u>33,224</u>	<u>-</u>
	<u>\$65,406</u>	<u>\$102,750</u>

Said age of account analysis was conducted based on the post date.

The consolidated companies had no overdue receivable accounts, but unimpaired or individually impaired receivable accounts on the balance sheet date.

The information about changes in allowance for bad debt for receivable accounts:

	2017	2016
Balance, beginning	\$ 3,060	\$ 2,417
Add: Expenses for bad debt provided this year	(<u>437</u>)	<u>643</u>
Balance, ending	<u>\$ 2,623</u>	<u>\$ 3,060</u>

11. inventories

	December 31, 2017	December 31, 2016
Finished goods	\$33,373	\$40,332
Work in process	13,450	24,014
Raw materials	3,685	5,651
Goods	<u>768</u>	<u>636</u>
	<u>\$51,276</u>	<u>\$70,633</u>

The cost of sold goods related to inventory in 2017 and 2016 were NT\$296,760 thousand and NT\$388,619 thousands.

The cost of sold goods related to inventory in 2017 included the loss from price decline of inventory, NT\$2,493 thousands. The cost of sold goods related to inventory in 2016 included the price recovery from net realizable value of inventory, NT\$6,007 thousands, and the loss from scrapping of inventory, NT\$4,315 thousands. The price recovery from net realizable value of inventory primarily resulted from the increase in selling price of the inventory in specific markets.

12. Subsidiary

Subsidiaries included into consolidated financial statements

The subjects included into the consolidated financial statements are stated as following:

<u>I n v e s t o r</u>	<u>S u b s i d i a r y</u>	<u>N a t u r e o f</u> <u>b u s i n e s s</u>	<u>O w n e r s h i p o f e q u i t y (%)</u>	
			<u>2017</u> <u>December 31</u>	<u>2016</u> <u>December 31</u>
The Company	Regent Pacific Management Ltd.	General investment	100.00%	100.00%
Regent Pacific Management Ltd.	MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED	IC design service, trading and general investment	100.00%	100.00%
MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED	MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	IC design service, trading and general investment	100.00%	100.00%

13. Property, plant and equipment

	<u>Own land</u>	<u>Building</u>	<u>R&D equipment</u>	<u>Furniture & fixture</u>	<u>Other equipment</u>	<u>Leasehold improvement</u>	<u>Total</u>
<u>Cost</u>							
Balance, January 1, 2016	\$ 45,279	\$ 136,298	\$ 2,702	\$ 11,098	\$ 9,107	\$ 700	\$ 205,184
Addition	-	-	599	1,492	400	-	2,491
Disposition	-	-	-	(62)	-	-	(62)
Net exchange differences	-	-	(18)	(54)	(102)	-	(174)
Balance, December 31, 2016	<u>\$ 45,279</u>	<u>\$ 136,298</u>	<u>\$ 3,283</u>	<u>\$ 12,474</u>	<u>\$ 9,405</u>	<u>\$ 700</u>	<u>\$ 207,439</u>
<u>Accumulated depreciations</u>							
Balance, January 1, 2016	\$ -	\$ 6,691	\$ 2,242	\$ 5,641	\$ 7,834	\$ 290	\$ 22,698
Depreciation expenses	-	3,760	318	2,249	991	350	7,668
Disposition	-	-	-	(62)	-	-	(62)
Net exchange differences	-	-	(12)	(38)	(66)	-	(116)
Balance, December 31, 2016	<u>\$ -</u>	<u>\$ 10,451</u>	<u>\$ 2,548</u>	<u>\$ 7,790</u>	<u>\$ 8,759</u>	<u>\$ 640</u>	<u>\$ 30,188</u>
Net, December 31, 2016	<u>\$ 45,279</u>	<u>\$ 125,847</u>	<u>\$ 735</u>	<u>\$ 4,684</u>	<u>\$ 646</u>	<u>\$ 60</u>	<u>\$ 177,251</u>

(Continued)

(Brought forward)

<u>Cost</u>							
Balance, January 1, 2017	\$ 45,279	\$136,298	\$ 3,283	\$ 12,474	\$ 9,405	\$ 700	\$207,439
Addition	-	-	110	426	210	-	746
Disposition	-	-	-	(6)	-	-	(6)
Net exchange differences	-	-	(3)	(7)	(15)	-	(25)
Balance, December 31, 2017	<u>\$ 45,279</u>	<u>\$136,298</u>	<u>\$ 3,390</u>	<u>\$ 12,887</u>	<u>\$ 9,600</u>	<u>\$ 700</u>	<u>\$208,154</u>
<u>Accumulated depreciations</u>							
Balance, January 1, 2017	\$ -	\$ 10,451	\$ 2,548	\$ 7,790	\$ 8,759	\$ 640	\$ 30,188
Depreciation expenses	-	3,760	386	2,090	549	60	6,845
Disposition	-	-	-	(4)	-	-	(4)
Net exchange differences	-	-	(1)	(5)	(8)	-	(14)
Balance, December 31, 2017	<u>\$ -</u>	<u>\$ 14,211</u>	<u>\$ 2,933</u>	<u>\$ 9,871</u>	<u>\$ 9,300</u>	<u>\$ 700</u>	<u>\$ 37,015</u>
Net, December 31, 2017	<u>\$ 45,279</u>	<u>\$122,087</u>	<u>\$ 457</u>	<u>\$ 3,016</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$171,139</u>

The depreciation expenses were provided under straight-line basis over the useful years:

Building	8~50 years
R&D equipment	3~5 years
Furniture & fixture	1~5 years
Other equipment	1~4 years
Leasehold improvement	2 years

For the property, plant and equipment pledged to secure the loan, please see Note 27.

14. Intangible assets

	<u>Computer software</u>	<u>Technology license</u>	<u>Total</u>
<u>Cost</u>			
Balance, January 1, 2016	\$ 24,518	\$ 27,123	\$ 51,641
Addition	865	1,722	2,587
Net exchange differences	(19)	-	(19)
Balance, December 31, 2016	<u>\$ 25,364</u>	<u>\$ 28,845</u>	<u>\$ 54,209</u>

(Continued)

(Brought forward)

<u>Accumulated amortization</u>			
Balance, January 1, 2016	(\$ 22,615)	(\$ 3,466)	(\$ 26,081)
Amortization expenses	(1,009)	(2,287)	(3,296)
Net exchange differences	<u>12</u>	<u>-</u>	<u>12</u>
Balance, December 31, 2016	<u>(\$ 23,612)</u>	<u>(\$ 5,753)</u>	<u>(\$ 29,365)</u>
Net, December 31, 2016	<u>\$ 1,752</u>	<u>\$ 23,092</u>	<u>\$ 24,844</u>
<u>Cost</u>			
Balance, January 1, 2017	\$ 25,364	\$ 28,845	\$ 54,209
Addition	839	-	839
Net exchange differences	(<u>3</u>)	<u>-</u>	(<u>3</u>)
Balance, December 31, 2017	<u>\$ 26,200</u>	<u>\$ 28,845</u>	<u>\$ 55,045</u>
<u>Accumulated amortization</u>			
Balance, January 1, 2017	(\$ 23,612)	(\$ 5,753)	(\$ 29,365)
Amortization expenses	(995)	(2,382)	(3,377)
Net exchange differences	<u>1</u>	<u>-</u>	<u>1</u>
Balance, December 31, 2017	<u>(\$ 24,606)</u>	<u>(\$ 8,135)</u>	<u>(\$ 32,741)</u>
Net, December 31, 2017	<u>\$ 1,594</u>	<u>\$ 20,710</u>	<u>\$ 22,304</u>

The amortization expenses were provided under straight-line basis over the useful years:

Computer software	1~10 years
Technology license	3~15 years

15. Other current assets

	December 31, 2017	December 31, 2016
Prepayment	\$ 2,417	\$ 3,696
Receivable and refundable tax	1,718	2,694
Other receivables	386	458
Others	<u>138</u>	<u>155</u>
	<u>\$ 4,659</u>	<u>\$ 7,003</u>

16. Payable notes and accounts receivable

	December 31, 2017	December 31, 2016
<u>Accounts payable</u>		
Incurred for business	<u>\$34,718</u>	<u>\$65,097</u>

The credit period applicable to the consolidated companies' purchase of goods was OA 30~60 days. The consolidated companies had defined the financial risk management policy to ensure that all accounts payable are repaid within the credit period agreed previously.

17. Other liabilities

	December 31, 2017	December 31, 2016
<u>Current</u>		
Other payables		
Payable salary and bonus	\$ 15,247	\$ 20,122
Payable remuneration to employees	-	4,542
Payable remuneration to directors/supervisors	-	1,514
Payable labor service fees	2,645	3,425
Payable loss on scrapping and slow-moving of wafer	581	1,905
Payable optical mask fees	37	131
Other payable expenses	<u>15,002</u>	<u>15,364</u>
	<u>\$ 33,512</u>	<u>\$ 47,003</u>
Other current liabilities		
Advance receipts	\$ 1,141	\$ 1,411
Temporary receipts	727	727
Receipts under custody	<u>290</u>	<u>305</u>
	<u>\$ 2,158</u>	<u>\$ 2,443</u>

18. Termination benefit plan

(1) Defined contribution plan

Among the consolidated companies, the Company applies the pension system under the "Labor Pension Act", which refers to the defined contribution plan managed by the Government. The pension fund equivalent to 6% of each employee's monthly salary is contributed to the exclusive personal account maintained at Bureau of Labor Insurance on a monthly basis.

(2) Defined benefit plan

Among the consolidated companies, the Company applies the pension system under the "Labor Standard Law" refers to the defined benefit pension plan managed by the Government. The employee pension was paid according to the employee's seniority and average salary of the six (6) months prior to his/her retirement as approved. The Company contributes 2% of the total salaries of the employees and have the same deposited into the special

pension fund account maintained at Bank of Taiwan via the Employee Pension Fund Reserve Supervisory Committee in the name of the Committee, on a monthly basis. If the balance in said account is estimated to be insufficient for the payment of pension to workers who meet the retirement conditions in next year, the price difference shall be allocated in full by the end of March of the next year. The special pension fund account is managed by Bureau of Labor Funds, Ministry of Labor on a commission basis. The Company has no right to affect the investment management strategies.

The defined benefit plan amounts included into the consolidated balance sheet are listed as following:

	December 31, 2017	December 31, 2016
Present value of defined benefit obligation	\$ 13,159	\$ 15,627
Fair value of assets under the Plan	(11,255)	(10,736)
Net defined benefit liabilities	<u>\$ 1,904</u>	<u>\$ 4,891</u>

Changes in net defined benefit liabilities:

	Present value of defined benefit obligation	Fair value of assets under the Plan	Net defined benefit liabilities Benefit liabilities
Balance, January 1, 2016	<u>\$ 13,966</u>	<u>(\$ 10,237)</u>	<u>\$ 3,729</u>
Interests expenses (revenue)	<u>209</u>	<u>(157)</u>	<u>52</u>
Stated into income	<u>209</u>	<u>(157)</u>	<u>52</u>
Remeasurement			
Return on assets under the Plan (exclusive of the amount included into net interest)	-	83	83
Actuarial losses — changes in hypothesis about demographics	699	-	699

(Continued)

(Brought forward)

Actuarial losses — changes in hypothesis about finance	401	-	401
Actuarial losses - experience adjustment	<u>352</u>	<u>-</u>	<u>352</u>
Stated into other comprehensive income	<u>1,452</u>	<u>83</u>	<u>1,535</u>
Contributed by employer	<u>-</u>	<u>(425)</u>	<u>(425)</u>
Balance, December 31, 2016	<u>15,627</u>	<u>(10,736)</u>	<u>4,891</u>
Interests expenses (revenue)	<u>196</u>	<u>(137)</u>	<u>59</u>
(continued)			
(Brought forward)			
Stated into income	<u>196</u>	<u>(137)</u>	<u>59</u>
Remeasurement			
Return on assets under the Plan (exclusive of the amount included into net interest)	-	27	27
Actuarial losses — changes in hypothesis about demographics	404	-	404
Actuarial losses — changes in hypothesis about finance	151	-	151
Actuarial losses - experience adjustment	<u>(3,219)</u>	<u>-</u>	<u>(3,219)</u>
Stated into other comprehensive income	<u>(2,664)</u>	<u>27</u>	<u>(2,637)</u>
Contributed by employer	<u>-</u>	<u>(409)</u>	<u>(409)</u>
Balance, December 31, 2017	<u>\$ 13,159</u>	<u>(\$ 11,255)</u>	<u>\$ 1,904</u>

The consolidated companies are exposed to the following risk due to the pension system under "Labor Standard Law":

1. Investment risk: The Bureau of Labor Funds, Ministry of Labor invests the labor pension fund, via proprietary trading and discretionary investment service, in domestic (foreign) equity securities and bond securities and bank deposits, provided that the amount allocated from the Company's assets under the Plan shall be no less than the income calculated at the interest rate applicable to the local bank's two-year time deposits.
2. Interest rate risk: The decline of interest rate on government bonds will result in increase in the present value of defined benefit obligation, but also increase in the return on the obligation investment of assets under the Plan relatively. They both will offset against the effect of net defined benefit liabilities in part.
3. Salary risk: The present value of defined benefit obligation is calculated based on the future salary of the members under the Plan. Therefore, the increase in salary of the members under the Plan will result in increase in the present value of defined benefit obligation.

The present value of defined benefit obligation of the consolidated companies is actuated by a qualified actuary.

The important hypotheses applied subsidiaries the date of measurement are stated as following:

	December 31, 2017	December 31, 2016
Discount rate	1.125%	1.250%
Expected rate of increase in salary	3.000%	3.000%

If the important actuation hypotheses are changed reasonably, while the other hypotheses remain unchanged, the increase (decrease) in the present value of defined benefit obligation is stated as following:

	December 31, 2017	December 31, 2016
Discount rate		
Increase by 0.25%	(<u>\$ 311</u>)	(<u>\$ 421</u>)
Decrease by 0.25%	<u>\$ 323</u>	<u>\$ 437</u>
Expected rate of increase in salary		
Increase by 0.25%	<u>\$ 312</u>	<u>\$ 423</u>
Decrease by 0.25%	(<u>\$ 302</u>)	(<u>\$ 409</u>)

Given that the hypotheses might be related to each other, it is not likely that one single hypothesis would vary independently, said analysis of sensitivity might be unable to reflect the actual changes in the present value of defined benefit obligation.

	December 31, 2017	December 31, 2016
Amount expected to be contributed within one year	<u>\$ 348</u>	<u>\$ 448</u>
Average maturity of defined benefit obligation	9.6 years	11 years

19. Equity

(1) Share capital

1. Common stock

	December 31, 2017	December 31, 2016
Authorized quantity (thousand shares)	<u>60,000</u>	<u>60,000</u>
Authorized share capital	<u>\$600,000</u>	<u>\$600,000</u>
Quantity of issued and paid-up shares (thousand shares)	<u>39,300</u>	<u>39,300</u>
Issued share capital	<u>\$392,999</u>	<u>\$392,999</u>

The par value of issued common stock is NT\$10 per share. Each share is entitled to one voting right and right to collect stock dividend.

The share capital retained for issuance of employee stock options in the authorized share capital totaled 5,000 thousand shares.

The information about employee stock options given by the consolidated companies due to transfer of treasury stock in 2016 is stated as following:

Employee stock options	2016	
	Unit (Thousand)	Weighted average Exercise price (NT\$)
Outstanding, beginning	-	\$ -
Given this year	964	12.8
Executed this year	(964)	12.8
Outstanding, ending	<u>-</u>	
Executable at the end of the year	<u>-</u>	
Weighted average fair value of stock options granted this year	<u>\$ 6.46</u>	

The remuneration cost recognized based on the employee stock options due to transfer of treasury stock in 2016 was NT\$6,227 thousand. The treasury stock was transferred to employees in April 2016.

(1) Capital surplus

	December 31, 2017	December 31, 2016
<u>To cover loss, distribute cash dividend or allocate share capital (1)</u>		
Stock issued in excess of par value	\$ 37,304	\$ 37,304
Trading of treasury stock	7,675	7,675
Price difference between the proceeds from acquisition of subsidiaries' equity and book value of the equity	1	1
<u>Not used for any other purposes</u>		
Employee stock options	<u>1,722</u>	<u>1,722</u>
	<u>\$ 46,702</u>	<u>\$ 46,702</u>

- Such capital surplus may be used to cover losses or allocate cash dividend or be transferred to share capital when the Company suffers no loss, provided that such capital surplus transferred to share capital shall be within a certain ratio of the paid-in share capital per year.

(3) Retained earnings and dividend policy

According to the amendments to Company Law in May 2015, the stock dividend and bonus shall be allocated to shareholders, while employees are excluded from the subjects to whom earnings should be allocated. The Company has resolved to pass the earnings allocation policy under the amended Articles of Incorporation at the general shareholders' meeting on June 7, 2016, and also defined the policy for allocation of remuneration to employees and directors/supervisors in the Articles of Incorporation.

According to the earnings allocation policy under the amended Articles of Incorporation, if the Company has a profit at the year's final accounting, it shall be allocated in the following order:

1. To pay tax;
2. To offset against loss;
3. To allocate 10% as the legal reserve, unless the accumulated legal reserve amounts to the Company's paid-in capital;
4. To set aside or reverse the special reserve pursuant to the Securities and Exchange Act;
5. The balance refers to the shareholders' bonus, which will be allocated on a pro rata basis subject to the total shareholdings or retained upon resolution of the shareholders' meeting.

For the policies for allocation of remuneration to employees and directors/supervisors defined in the Articles of Incorporation before and after the amendments, please see Note 21(6) Remuneration to employees and directors/supervisors.

According to the Company's Articles of Incorporation, under the environment in which the competition becomes intensive increasingly, the Company adopts the dividend equalization policy in order to pursue sustainable operation, by taking the long-term financial planning and funding need into consideration. Notwithstanding, the shareholders' meeting may adjust the policy subject to the earnings gained in the year. The payment ratio of cash dividend shall be no less than 10% of the total stock dividend allocated from earnings for then year.

The Company shall contribute the legal reserve until it is equivalent to the paid-in capital. The legal reserve may be used to cover loss. When the Company suffers no loss, cash may be allocated from the legal reserve,

provided that the new shares or cash allocated shall be no more than 25% of the paid-in capital.

The Company provided and reversed special reserve pursuant to the FSC's official letter under Ching-Kuan-Cheng-Fa-Tzu No. 1010012865, FSC's official letter under Ching-Kuan-Cheng-Fa-Tzu No. 1010047490 and "Q&A for Provision of Special Reserve upon Adoption of IFRSs".

When unallocated earnings are allocated, any shareholders other than those residing within the territories of the R.O.C. may receive the shareholders' deductible tax at the tax credit rate prevailing on the date of allocation of stock dividend.

The Company held the general shareholders' meeting on May 23, 2017 and June 7, 2016, resolving to pass the motions for allocation of earnings 2016 and 2015:

	Motion for allocation of earnings		EPS (NT\$)	
	2016	2015	2016	2015
Legal reserve	\$ 2,598	\$ 3,981	\$ -	\$ -
Special reserve	177	-	-	-
Cash dividend	19,650	30,669	0.513	0.80

Before the reporting date, the Company's board of directors has not yet resolved the motion for allocation of earnings 2017.

The motion for allocation of earnings 2017 is still pending resolution by the general shareholders' meeting to be called on May 23, 2018.

(4) Special reserve

	2017	2016
Balance, beginning	\$ -	\$ -
Provision of special reserve		
Provision of other equity deductions	177	-
Balance, ending	<u>\$ 177</u>	<u>\$ -</u>

(5) Treasury stock

<u>Cause of collection</u>	<u>Transfer shares to employees (Thousand shares)</u>
Quantity of shares, January 1, 2016	964
Decrease this year	(<u>964</u>)
Quantity of shares, December 31, 2016	<u> -</u>
Quantity of shares, January 1, 2017	-
Increase in current year	<u>1,000</u>
Quantity of shares, December 31, 2017	<u>1,000</u>

According to the Securities and Exchange Act, the treasury stock held by the Company shall not be pledged, or entitled to the right to allocate stock dividends and vote.

20. Revenue

	<u>2017</u>	<u>2016</u>
Revenue from sale of goods	<u>\$437,095</u>	<u>\$602,098</u>

21. Net profit of continued operations

Net profit of continued operations consists of the following elements:

(1) Other income

	<u>2017</u>	<u>2016</u>
Interest income	\$ 1,607	\$ 2,369
Others	<u>6,779</u>	<u>2,265</u>
	<u>\$ 8,386</u>	<u>\$ 4,634</u>

(2) Other gains and losses

	<u>2017</u>	<u>2016</u>
Net foreign currency exchange income	(\$ 4,577)	(\$ 5,410)
Gain (loss) from financial liabilities held for trading	461	(239)
Gain from disposition of investment	2,700	1,000
Loss from impairment on financial assets	-	(1,046)
Loss from disposition of property, plant and equipment	(2)	-
Others	<u>248</u>	<u>319</u>
	<u>(\$ 1,170)</u>	<u>(\$ 5,376)</u>

(3) Interest expense

	<u>2017</u>	<u>2016</u>
Interest on bank loans	<u>\$ 1</u>	<u>\$ 6</u>

(4) Depreciation and amortization

	<u>2017</u>	<u>2016</u>
Property, plant and equipment	\$ 6,845	\$ 7,668
Intangible assets	<u>3,377</u>	<u>3,296</u>
Total	<u>\$ 10,222</u>	<u>\$ 10,964</u>
Depreciation expenses summarized by function		
Operating cost	\$ 356	\$ 629
Operating expenses	<u>6,489</u>	<u>7,039</u>
	<u>\$ 6,845</u>	<u>\$ 7,668</u>

(Continued)

(Brought forward)

Amortization expenses summarized by function		
Marketing	\$ 22	\$ -
General and administrative expenses	847	923
R&D expenditures	<u>2,508</u>	<u>2,373</u>
	<u>\$ 3,377</u>	<u>\$ 3,296</u>

(5) Employee benefit expenses

	<u>2017</u>	<u>2016</u>
Short-term employee benefits	<u>\$ 99,491</u>	<u>\$ 106,422</u>
Termination benefit		
Defined contribution plan	4,314	4,226
Defined benefit plan (Note 18)	-	-
	<u>4,314</u>	<u>4,226</u>
Share-based payment (Note 19)		
Settlement of equity	-	<u>6,227</u>
Total employee benefit expenses	<u>\$ 103,805</u>	<u>\$ 116,875</u>
Summarized by function		
Operating cost	\$ -	\$ -
Operating expenses	<u>103,805</u>	<u>116,875</u>
	<u>\$ 103,805</u>	<u>\$ 116,875</u>

(6) Remuneration to directors/supervisors

The Company allocated 12%~15% and 3%~5% of the income before tax before deduction of remuneration to employees and directors/supervisors as the remuneration to employees and directors/supervisors. Because the Company suffered loss in 2017, no remuneration to employees and directors/supervisors were stated. The remuneration to employees and directors/supervisors in 2016 was allocated subject to the following resolution made by the directors' meetings on February 14, 2017:

Estimated percentage

	<u>2016</u>
Remuneration to employees	12.5%
Remuneration to directors/supervisors	4.2%

Amount

	<u>2016</u>	
	<u>Cash</u>	<u>Stock dividend</u>
Remuneration to employees	\$ 4,542	\$ -
Remuneration to directors/supervisors	1,514	-

In the case of variation in the amount on the date of approval and release of the consolidated financial statements, the variation shall be treated as the change in accounting estimation and stated in next year.

There was no variance between the remuneration to employees and directors/supervisors allocated actually in 2016 and that stated in the consolidated financial statements 2016.

The remuneration to employees and directors/supervisors allocated upon resolution of the directors' meeting on March 15, 2016, and that is recognized in the consolidated financial statements is stated as follows:

	2015	
	Remuneration to employees	Remuneration to directors/supervis ors
Amount to be allocated upon resolution by the directors' meeting	<u>\$ 7,568</u>	<u>\$ 2,523</u>
Amounts recognized in the annual financial statements	<u>\$ 9,460</u>	<u>\$ 3,153</u>

Said variance was adjusted as income 2016.

For the information about remuneration to employees and directors/supervisors resolved by the Company's directors' meeting in 2018 and 2017, please visit the "MOPS" website of the TWSE.

22. Income tax of continued operations

(1) The income tax expenses stated into income consist of the following elements:

	2017	2016
Current income tax		
Generated this year	\$ 51	\$ 4,537
Levied on unappropriated earnings	355	516
Adjustment in previous years	(<u>2,266</u>) (<u>1,860</u>)	(<u>543</u>) 4,510
Deferred income tax		
Generated this year	-	-
Income tax (gain) expenses stated into income	<u>(\$ 1,860)</u>	<u>\$ 4,510</u>

The accounting income and income tax expenses are adjusted as following:

	<u>2017</u>	<u>2016</u>
Net profit (loss) before tax of continued operations	(<u>\$ 17,154</u>)	<u>\$ 30,489</u>
Income tax for which the net profit before tax is calculated at statutory tax rate	\$ -	\$ 5,183
Levied on unappropriated earnings	355	516
Unrecognized deductible temporary difference	-	(820)
Effect of application of different tax rates by entities included into the consolidated financial statements	51	174
Current adjustment of current income tax expenses of previous years	(<u>2,266</u>)	(<u>543</u>)
Income tax (gain) expenses stated into income	(<u>\$ 1,860</u>)	<u>\$ 4,510</u>

The consolidated companies shall apply the tax rate, 17%, which the entity may apply under the R.O.C. Income Tax Law. The subsidiary in territories of Mainland China shall apply the tax rate, 25%. The tax derived in any other jurisdiction shall be calculated at the tax rate prevailing in the relevant jurisdiction.

According to the R.O.C. Income Tax Law amended and promulgated by the Presidential Order in February 2018, the profit-making business income tax rate shall be adjusted from 17% to 20% as of 2018. Meanwhile, the tax rate applicable to unallocated earnings 2018 shall be adjusted from 10% to 5%.

(2) Current income tax liabilities

	December 31, 2017	December 31, 2016
Current income tax liabilities		
Payable income tax	<u>\$ 1,234</u>	<u>\$ 3,715</u>

(3) Items not recognized as deferred income tax assets

	December 31, 2017	December 31, 2016
Deductible temporary difference		
Loss credit	\$ 2,600	\$ -
Loss from inventory price decline and obsolete and slow-moving inventories	2,531	2,107
Income of subsidiary under equity method	2,196	2,162
Others	<u>2,015</u>	<u>2,632</u>
	<u>\$ 9,342</u>	<u>\$ 6,901</u>

(4) Information about two-in-one tax policy:

	December 31, 2017	December 31, 2016
Unappropriated earnings After 1998	<u>\$19,731</u>	<u>\$54,813</u>
Balance of shareholders' deductible tax account	<u>\$ 5,118</u>	<u>\$ 9,372</u>
	<u>2016 (Projected)</u>	<u>2016</u>
Tax credit ratio applicable to allocation of earnings	Note:	15.80%

Note: Considering that the amended Income Tax Law promulgated in February 2018 abolished the two-in-one tax policy, the Company expects that said tax credit ratio is not applicable to the allocation of earnings 2018.

The Company had no unallocated earnings before 1997 (inclusive).

(5) Authorization of income tax

The income tax returns of the Company until 2015 have been authorized by the tax collection authority.

23. EPS

The earnings and number of the weighted average shares of outstanding common stock used to calculate the EPS are stated as following:

Current income (loss)

	<u>2017</u>	<u>2016</u>
Net profit (loss) attributable to shareholders of the parent	(<u>\$ 15,294</u>)	<u>\$ 25,979</u>
Net profit (loss) used to calculate basic EPS	(<u>15,294</u>)	<u>25,979</u>
Net profit (loss) used to calculate diluted EPS	(<u>\$ 15,294</u>)	<u>\$ 25,979</u>

Quantity of shares

Unit: Thousand shares

	<u>2017</u>	<u>2016</u>
Quantity of the weighted average shares of common stock used to calculate the EPS	38,543	39,059
Effect of dilutive potential common stock:		
Remuneration to employees	<u>-</u>	<u>436</u>
Quantity of the weighted average shares of common stock used to calculate the EPS	<u>38,543</u>	<u>39,495</u>

If the consolidated companies may choose to grant remuneration to employees in the form of stock or in cash, when calculating the diluted EPS, it shall hypothesize that remuneration to employees will be granted in the form of stock, and include the weighted average quantity of outstanding shares when the potential common stock is dilutive, so as to calculate the EPS. When calculating diluted EPS before resolving the quantity of shares granted as remuneration to employees in next year, the Company should also continue to consider the dilutive effect of the potential common stock.

24. Capital risk management

The consolidated companies proceeded with capital management to ensure that the member enterprises within the consolidated companies could maximize

shareholders' return by optimizing the balance of debt and equity, on the premises that their operation may be continued.

The consolidated companies' capital structure consists of its net obligation (i.e. the loan less cash and cash equivalents) and equity attributable to the owners of parent (namely, share capital, capital surplus, retained earnings and other equities).

The consolidated companies' management will check the consolidated companies' capital structure from time to time, by taking into consideration various capital costs and related risks. The consolidated companies balanced its entire capital structure by payment of stock dividend, issuance of new shares, repurchase of shares, issuance of new obligation or repayment of old obligation according to the management's suggestion.

The consolidated companies did not need to comply with the other external capital requirements.

25. Financial instruments

(1) Information about fair value - Financial instruments not measured at fair value

There was no material difference between the book value of financial assets and liabilities not measured at fair value, and the fair value thereof.

(2) Information about fair value - Financial instruments measured at fair value on a repeated basis

1. Tiers of fair value

December 31, 2016

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>	<u>Total</u>
<u>Financial liabilities at fair value through profit or loss</u>				
Derivative instruments	\$ _____ -	\$ _____ 461	\$ _____ -	\$ _____ 461

In 2017 and 2016, no transfer between Tier 1 and Tier 2 of fair value took place.

2. Adjustment of financial instruments measured at fair value of Tier 3

	Investment in equity instruments in available-for-sale	
	Investment in equity instruments	
	2017	2016
<u>Financial assets</u>		
Balance, beginning	\$ -	\$ 1,046
Stated into income		
– Realized	-	(1,046)
Balance, ending	<u>\$ -</u>	<u>\$ -</u>

In the total earnings or loss 2016, the loss on assets measured at fair value of Tier 3 held at the end of the year was NT\$1,046 thousands.

3. Valuation technology and input value for measurement at fair value of Tier 2

<u>Types of financial instruments</u>	<u>Valuation technology and input value</u>
Derivative instrument – Forward Foreign Exchange Contracts	Discounted cash flow method: To estimate the future cash flow based on the observable forward foreign exchange rate at the end of year and foreign exchange rate defined in the contract, and to discount the same based on the discount rate which may reflect various trading counterparts' credit risk.

4. Valuation technology and input value for measurement at fair value of Tier 3

Domestic/overseas unlisted (non-OTC) equity investment applies the market-based approaches. Namely, the value of evaluated object is estimated by appropriate multiples based on the trading price of comparable object and by taking into consideration of the difference between the evaluated object and comparable object. The common valuation under the market-based approach is based on the price of stock with active market of the stock of the enterprise engaged in the same or similar business lines to decide the relevant multiples and evaluate.

(2) Types of financial instruments

	December 31, 2017	December 31, 2016
<u>Financial assets</u>		
Loans and receivable accounts (Note 1)	\$311,058	\$380,045
<u>Financial liabilities</u>		
at fair value through profit or loss		
Held for trading	-	461
Measured at amortized cost (Note 2)	71,894	116,484

Note 1: The balance includes the loans and accounts receivable measured at cost after amortization including cash and cash equivalent, Debt investments with no active market, receivable notes, receivable accounts and refundable deposits.

Note 2: The balance includes the financial liabilities measured at cost after amortization including short-term borrowing, accounts payable, other accounts payable, and guarantee deposits.

(4) Purpose and policy of financial risk management

The consolidated companies' main financial instruments include equity investment, receivable accounts and accounts payable. The consolidated companies' financial management department is dedicated to providing various business units with services, coordinating the operation in domestic and international financial markets, and analyzing risk per the degree and extension of risk and managing the financial risk over the Company's operation. The risks include market risk (including foreign exchange rate risk and the interest risks), credit risk and liquidity risk.

The consolidated companies hedged exposure via the financial derivatives to mitigate the effect produced by the risk. The utilization of financial derivatives is governed by the policy approved by the Company's Board. The policy refers to the written principles for the utilization of foreign exchange risk, interest rate risk, credit risk, financial derivatives and non-financial derivatives and investment of residual working capital. Internal auditors shall re-audit compliance with the policy and exposure limit. The

consolidated companies never engaged in transactions of financial instruments (including financial derivatives) for the purpose of speculation.

1. Market risk

The main market risk borne by the consolidated companies' operating activities means the risk over changes in foreign exchange rate of foreign currency (see the following (1)) and risk over changes in interest rate (see the following (2)). The foreign currency exchange rate risk borne by the consolidated companies to manage forward contract.

The consolidated companies' exposure related to financial instrument market risk and the management and evaluation of such exposure remain unchanged.

(1) Foreign exchange rate risk

The consolidated companies engaged in sale and purchase denominated in foreign currency and thereby exposed it to the risk over changes of foreign exchange rate. About 90% of the consolidated companies' turnover were denominated in the currency other than functional currency, and about 74% of the cost were denominated were denominated in the currency other than functional currency. The consolidated companies' exposure to the risk over foreign exchange rate was managed in the form of forward contract, insofar as it was permitted by the relevant policy. Meanwhile, the consolidated companies also had some bank deposits denominated in foreign currency to collect the interest income. Until December 31, 2017, about 10% of the cash and cash equivalents have been denominated in the currency other than functional currency.

For the book value of the consolidated companies' monetary assets and monetary liabilities denominated in the currency other than functional currency on the balance sheet date, please refer to Note 28.

Sensitivity analysis

The consolidated companies were primarily affected by the fluctuation in USD and RMB.

The following table states the consolidated companies' sensitivity analysis in the case of increase/decrease in foreign exchange rate of NTD (functional currency) vs. USD/RMB by 1%. 1% means the sensitivity ratio which is applied when reporting the foreign interest rate risk to the management within the consolidated companies, also representing the management's evaluation about reasonable potential changes in the foreign exchange rate of foreign currency. The sensitivity analysis only included the outstanding monetary items denominated in the foreign currency, and adjusted the conversion at the end of year by changes in the foreign exchange rate by 1%. The following table states that the revaluation of NTD against USD/RMB by 1% will result in decrease or increase in net income before tax. Notwithstanding, the devaluation of NTD against USD/RMB by 1%, the effect on net income before tax will be the equivalent amount positively.

	Effect of USD		Effect of RMB	
	2017	2016	2017	2016
Income	(\$ 276)	(\$ 686)	(\$ 307)	(\$ 571)
Equity	(276)	(686)	(307)	(571)

(2) Interest rate risk

The consolidated companies evaluated the hedging activities periodically to keep them consistent with the view about interest rate and existing risk preference and to ensure the adoption of hedging strategies that met the cost benefit best.

The book value of the consolidated companies' monetary assets and monetary liabilities exposed to the interest rate risk on the balance sheet date is stated as following:

	December 31, 2017	December 31, 2016
Fair value interest rate risk		
- Financial assets	\$223,759	\$243,584
Cash flow interest rate risk		
- Financial assets	20,497	32,459
- Financial liabilities	-	-

2. Credit risk

The credit risk refers to the consolidated companies' financial loss risk derived from the failure of any trading counterpart to perform its contractual obligation. Until the balance sheet date, the maximum credit risk which the consolidated companies might be exposed to because of the trading counterpart's failure to perform the contractual obligation has primarily resulted from the book value of financial assets stated in the consolidated balance sheet.

In order to mitigate the credit risk, the consolidated companies' management designated the dedicated team to decide the facility to be granted, approve facility and handle other controlling procedures, in order to ensure that appropriate measures have been taken to collect overdue receivables. Meanwhile, the consolidated companies would check the collectible amount of receivable accounts one by one on the balance sheet date to ensure that appropriate impairment loss has been provided for the receivable accounts which could not be collected. Given this, the consolidated companies' management considered that its credit risk shall have been mitigated significantly.

Meanwhile, the trading counterpart of working capital and financial derivatives was the bank that was granted high credit rating by the international credit rating organization. Therefore, the credit risk shall be considered minor.

The consolidated companies' credit risk by territory was primarily centralized in Hong Kong and Mainland China, which has accounted for 37% and 44%, and 47% and 46% of the total receivable accounts until December 31, 2017 and 2016.

The consolidated companies' risk credit was primarily centralized in its top 5 customers. The receivable accounts from said customers have been accounted for 81% and 86% of the total receivable accounts until December 31, 2017 and 2016.

3. Liquidity risk

The consolidated companies managed and maintained sufficient cash and cash equivalents to cover the consolidated companies' operation and mitigate the effect produced by fluctuation in cash flows. The consolidated companies' management supervised the status of

bank facility to ensure compliance with the terms and conditions in the loan contract.

For the consolidated companies, the bank loan was a very important source of liquidity. For the facility that has been drawn down by the consolidated companies before December 31, 2017 and 2016, please see the following Note (2), facility.

(1) Statement of liquidity and interest rate risk of non-derivative financial liabilities

The analysis on residual duration of contract for non-derivative financial liabilities was prepared in accordance with the earliest date of repayment which was requested from the consolidated companies and non-discounted cash flows for financial liabilities (including the principal and estimated interest). Therefore, the bank loans that the consolidated companies could be requested to repay immediately are listed in the earliest period identified in the following table, without needing to take the opportunity of the bank's immediate exercise of the right into consideration. The analysis on expiry of other non-derivative financial liabilities was prepared based on the agreed date of repayment.

December 31, 2017

	Payable on demand or less than one months	1~3 months	3 months~ 1 year	1~5 years	5 years or more
<u>Non-derivative financial liabilities</u> Liabilities without interest	<u>\$24,080</u>	<u>\$17,572</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

(Brought forward)

December 31, 2016

	Payable on demand or less than one months	1~3 months	3 months~ 1 year	1~5 years	5 years or more
<u>Non-derivative financial liabilities</u> Liabilities without interest	<u>\$36,752</u>	<u>\$33,533</u>	<u>\$ -</u>	<u>\$ 2,019</u>	<u>\$ -</u>

(2) Facility

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Non-secured bank loan facility		
- Amount drew down	\$ -	\$ -
- Amount not yet drawn down	<u>65,000</u>	<u>74,675</u>
	<u>\$65,000</u>	<u>\$74,675</u>
Secured bank loan facility		
- Amount drew down	\$ -	\$ -
- Amount not yet drawn down	<u>-</u>	<u>112,875</u>
	<u>\$ -</u>	<u>\$112,875</u>

26. Transactions with related parties

The transactions, balance of account, income and expenses between the Company and its subsidiaries (the Company's related parties) were written off at the time of consolidation and, therefore, are not disclosed herein. In addition to the transactions disclosed in the other notes, the transactions between the consolidated companies and related parties are stated as following:

Remuneration to the management

	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 14,534	\$ 16,013
Termination benefit	603	509
	<u>\$ 15,137</u>	<u>\$ 16,522</u>

The remuneration to directors and the other management was decided by the Remuneration Committee subject to personal performance and market trend.

27. Pledged assets

The following assets were furnished as the collateral to secure the facility:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Own land and buildings, net	<u>\$161,553</u>	<u>\$164,076</u>

28. Information about foreign-currency-denominated assets and liabilities that have significant influence

The following is expressed by summarization of the foreign currencies other than functional currencies applied by entities in the consolidated companies. The foreign exchange rate as disclosed refers to the foreign exchange rate applied to conversion of the foreign currency to the functional currency. Foreign-currency-denominated assets and liabilities that have significant influence::

December 31, 2017

	<u>Foreign currency</u>	<u>Foreign exchange rate</u>	<u>Book value</u>
<u>Foreign currency assets</u>			
<u>Monetary items</u>			
USD	\$ 1,744	29.76	\$ 51,893
RMB	6,718	4.57	30,717
HKD	38	3.76	143
			<u>\$ 82,753</u>
<u>Foreign currency liabilities</u>			
<u>Monetary items</u>			
USD	817	29.77	\$ 24,324
HKD	440	4.20	1,850
			<u>\$ 26,174</u>

(Continued)

(Brought forward)

December 31, 2016

	<u>Foreign currency</u>	<u>Foreign exchange rate</u>	<u>Book value</u>
<u>Foreign currency assets</u>			
<u>Monetary items</u>			
USD	\$ 3,628	32.24	\$116,963
RMB	12,365	4.62	57,088
HKD	994	4.16	<u>4,135</u>
			<u>\$178,186</u>
<u>Foreign currency liabilities</u>			
<u>Monetary items</u>			
USD	1,504	32.15	\$ 48,360
HKD	1,139	4.13	<u>4,708</u>
			<u>\$ 53,068</u>

Foreign-currency-denominated exchange income (unrealized) that has significant influence:

	<u>2017</u>		<u>2016</u>	
<u>Foreign currency</u>	<u>Foreign exchange rate</u>	<u>Net exchange income</u>	<u>Foreign exchange rate</u>	<u>Net exchange income</u>
USD	30.43 (USD:NTD)	(\$ 224)	32.26 (USD:NTD)	\$ 938
RMB	4.51 (RMB:NTD)	315	4.84 (RMB:NTD)	28
HKD	3.91 (HKD:NTD)	(1)	4.16 (HKD:NTD)	(128)
		<u>\$ 90</u>		<u>\$ 838</u>

29. Noted disclosure

(1) Important transactions and (2) Information about investees:

1. Fund granted to others: N/A
2. Endorsement and guarantee made for others: N/A
3. Marketable securities-end (exclusive of those held by investment in subsidiaries): see Schedule 1.
4. Cumulative amount of the same marketable security purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
5. Cumulative amount of the same marketable security purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
6. Amount on disposal of real estate reaching 300 million NTD or more than 20% of the paid-in capital: N/A.

7. Purchase/sale amount of transactions with related parties reaching 100 million NTD or more than 20% of the paid-in capital: N/A.
8. Accounts receivable-related party reaching 100 million NTD or more than 20% of the paid-in capital: N/A.
9. Transactions of derivatives: N/A.
- 10: Others: Business relationship and material transactions between parent company and subsidiaries: see Schedule 2.
11. Information about investees: see Schedule 3.

(3) Information about investment in Mainland China:

1. Name of investee in Mainland China, principal business, paid-in capital, mode of investment, outward/inward remittance of fund, shareholding percentage, investment income, book value of investment, ending, investment income repatriated to Taiwan, and limit of investment in Mainland China: see Schedule 4.
2. Direct or indirect major transactions between the invested companies in the Mainland China and the Company, and the price, payment terms and unrealized income thereof: see Schedule 5.
 - (1) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - (2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - (3) The amount of property transactions and the amount of the resultant gains or losses.
 - (4) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
 - (5) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - (6) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

30. Information by department

It refers to the information provided to the decision maker to allocate resources and evaluate departments' performance, primarily focused on the

types of product or labor service as delivered or provided. The consolidated companies primarily engaged in MCU products, namely the IC design business, dedicated to the principal business. The information provided to the decision maker to allocate resources and evaluate departments' performance is that identified in the consolidated financial statements.

(1) Revenue from main product

	<u>2017</u>	<u>2016</u>
MCU	<u>\$437,095</u>	<u>\$602,098</u>

(2) Information by territory

The Company primarily operates in two territories - Taiwan and Mainland China.

The consolidated companies' continued operations revenue from external customers is listed as follows by territory of operation and non-current assets:

	<u>Revenue from external customers</u>		<u>Non-current assets</u>	
	<u>2017</u>	<u>2016</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taiwan	\$432,076	\$598,467	\$193,044	\$201,419
Mainland China	<u>5,019</u>	<u>3,631</u>	<u>399</u>	<u>676</u>
	<u>\$437,095</u>	<u>\$602,098</u>	<u>\$193,443</u>	<u>\$202,095</u>

The consolidated companies' revenue by territory was calculated based on the territory where the revenue was generated. The non-current assets refer to fixed assets and other assets, exclusive of financial instruments and deferred income tax assets.

(3) Information about important customers

Customers from whom the income accounts for more than 10% of the consolidated companies' total sale revenue in 2017 and 2016:

<u>Customer's name</u>	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Company A	\$119,578	27%	\$193,554	32%
Company B	98,194	22%	60,845	10%
Company C	51,381	12%	153,589	26%

MEGAWIN Technology Co., Ltd. and its subsidiaries
 Marketable securities-end
 December 31, 2017

Schedule 1 Unit: Unless otherwise noted,

In thousands of NTD

Holder of securities	Type and Name	Affiliation with issuer	Account title	Ending				Remarks
				Number of shares	Book value	Ratio of Shareholding	Fair value	
The Company	Government bond	N/A	Cash and cash equivalents	-	\$ 81,000	Not applicable	\$ 81,000	No guarantee or pledge was made.

Note: For the information about investment in a subsidiary, please see Schedule 3 and Schedule 4.

MEGAWIN Technology Co., Ltd. and its subsidiaries
 Business relationship and material transactions between parent company and subsidiaries
 January 1~December 31, 2017

Schedule 2

In thousands of NTD

No. (Note 1)	Name of trader	Trading counterpart	Affiliation to trader (Note 2)	Transaction			
				Title	Amount	Trading conditions	Percentage in consolidated total revenue or total assets (Note 3)
0	MEGAWIN Technology Co., Ltd.	MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	(1)	Operating revenue	\$ 4,612	Note 5	1%
				Other non-operating revenue	105	Note 5	-
				Marketing	13,779	Note 6	3%
				Receivable accounts	3,024	-	1%
				Other payables	1,039	-	-

Note 1: The information about transactions between parent company and subsidiaries shall be numbered and noted in the following manner in the box of numbers:

(1) "0" for parent company

(2) Subsidiaries shall be numbered from 1 in accordance with the type of company.

Note 2: The affiliation to traders shall be numbered and noted in the following three (3) types (provided that the same transaction between the parent company and subsidiary, or subsidiaries do not need to be disclosed repeatedly. For example, if the parent company has disclosed any transaction between the parent company and subsidiary, it is not necessary to disclose the same transaction between subsidiaries again. If a transaction between subsidiaries has been disclosed by either of the subsidiaries, the other subsidiary does not need to disclose the same transaction again.):

(1) Parent company vs. subsidiary

(2) Subsidiary vs. parent company

(3) Subsidiary vs. subsidiary

Note 3: Percentage in consolidated total revenue or total assets shall be calculated at the percentage of the balance-end in consolidated total assets, in the case of asset/liability titles, and at the percentage of cumulative amount-midterm in consolidated total revenue, in the case of income titles.

Note 4: The major transactions referred to herein may be identified based on the materiality principle subject to the Company's sole discretion.

Note 5: The trading price of the Company's transactions with related parties was agreed by both parties. Generally, the collection period was OA 30 days.

Note 6: The Company appointed MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED to provide the after-sale service to customers in the territories of Mainland China. The Company would pay the after-sale service fees at specific percentage per the agreement.

MEGAWIN Technology Co., Ltd. and its subsidiaries
Information related to the investees, such as names and locations, etc.
January 1~December 31, 2017

Schedule 3

Unit: NTD and foreign currency thousands dollars/thousand shares

Investor	Investee	Address	Principle Business	Original investment cost		End			Investee Income in the current period	Investment income recognized in the current period Investment income	Remarks
				End of the current period	End of the previous period	Quantity (thousand shares)	Percentage (%)	Book value			
The Company	Regent Pacific Management Ltd.	Mauritius	General investment	\$ 30,824 (US\$ 921)	\$ 30,824 (US\$ 921)	921	100	\$ 17,601	\$ 246	\$ 246	Subsidiary
Regent Pacific Management Ltd.	MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED	Hong Kong	IC design service, trading and general investment	12,238 (US\$ 385)	12,238 (US\$ 385)	3,129	100	14,614	562	562	Indirect subsidiary
MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED	MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	Mainland China	IC design service, trading and general investment	9,459 (US\$ 300)	9,459 (US\$ 300)	300	100	10,880 (HK\$ 2,858)	386 (HK\$ 99)	386 (HK\$ 99)	Great-grandson subsidiary

Note: For the information about investees in Mainland China, please see Schedule 4.

MEGAWIN Technology Co., Ltd. and its subsidiaries

Information about investment in Mainland China

January 1~December 31, 2017

Schedule 4

Unit: Unless otherwise noted,
NT\$ thousand

Name of investee in Mainland China Company name	Principle Business	Paid-in Capital	Mode of investment	at beginning Cumulative investments outward remitted from Taiwan Investment amount	Investment Remittance or Regain during the fiscal Year		at ending Cumulative investments outward remitted from Taiwan Investment amount	Investee Income in the current period	The Company' s Direct or Indirect Investment Holding Ratio	recognized in the current period Investment income	Investment, ending Book value	Investment income repatriated to Taiwan in the current period	Remar ks
					Outward remitted	Repatriated							
MEGAWIN TECHNOLOG Y SHENZHEN COMPANY LIMITED	IC design service, trading and general investment	\$ 9,459 (US\$ 300 thousands)	Note 1	\$ 9,459 (US\$ 300 thousands)	\$ -	\$ -	\$ 9,459 (US\$ 300 thousands)	\$ 386 (HK\$ 99 thousands)	100%	\$ 386 (HK\$ 99 thousands) (Note 2)	\$ 10,880 (HK\$ 2,858 thousands)	\$ -	—

Amount accumulated, remitted from Taiwan for investment in Mainland China at the end of the current term	Investment Amount Approved by Investment Commission of MOEAIC	Mainland China Investment Ceiling As Regulated by Investment Commission of MOEAIC
US\$300 thousands (equivalent to NT\$9,459 thousands)	US\$300 thousands (equivalent to NT\$9,459 thousands)	\$289,948 thousands

Note 1: Invested through the company invested by Regent Pacific Management Limited in the third region, MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED.

Note 2: The investment income recognized in the current period was recognized based on the financial statements audited by the parent company in Taiwan.

MEGAWIN Technology Co., Ltd. and its subsidiaries

Direct or indirect major transactions between the invested companies in the Mainland China and the Company, and the price, payment terms and unrealized income thereof, and related information

January 1~December 31, 2017

Schedule 5

In thousands of NTD

Name of investee in Mainland China	Type of transaction	Amount	Percentage	Price	Trading conditions		Receivable (payable) notes/accounts		Unrealized profit/loss	Remarks
					Payment term	the general suppliers Comparison with	Balance	Percentage		
MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED	Sales revenue	\$ 4,612	1%	As agreed	Subject to the general terms and conditions	—	\$ 3,024	5%	\$ 127	—
	Other non-operating revenue	105	1%	As agreed	Subject to the general terms and conditions	—	-	-	-	—
	Marketing	13,779	42%	As agreed	Subject to the general terms and conditions	—	(1,039)	3%	-	—