

**ORIENT SEMICONDUCTOR ELECTRONICS LIMITED**  
**PARENT COMPANY ONLY**  
**FINANCIAL STATEMENTS**  
**WITH**  
**REPORT OF INDEPENDENT AUDITORS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2016 AND 2015**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese financial statements shall prevail.

**Independent Auditors' Audit Report**  
**English Translation of a Report Originally Issued in Chinese**

To Orient Semiconductor Electronics Limited

**Opinion**

We have audited the accompanying parent company only balance sheets of Orient Semiconductor Electronics Limited (the "Company") as of December 31, 2016 and 2015, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the financial statements, including the summary of significant accounting policies (collectively referred to as "the financial statements").

In our opinion, based on our audits and the reports of other auditors (please refer to the Other Matter – Making Reference to the Audits of Component Auditors section of our report), the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and their financial performance and cash flows for the years ended December 31, 2016 and 2015, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed the by Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2016 parent company only financial statements. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 1. Revenue recognition

The Company recognized operating revenue when goods were delivered to carrier consented by client or the assigned destination, for which the proprietary right's significant risk and remuneration were transferred. However, if the sale is not recognized in an appropriate period, it may have significant impacts on the parent company only financial statements. As a result, we determined the matter to be a key audit matter. Our audit procedures include (but are not limited to) assessing the appropriateness of the accounting policy for revenue recognition; evaluating and testing the effectiveness of internal control which is related to the timing of revenue recognition; performing test of details on samples selected from top ten customers and reviewing the significant terms of sales agreements and tracing to relevant documentation of transactions; adopting audit sampling on trade receivables and performing confirmation procedures on final balance and key terms of sales agreements; with respect to transactions taking place sometime before and after the reporting date, analyzing the reasonableness of fluctuations and selecting samples to perform cutoff procedures, tracing the related documents to verify that revenue has been recorded in the correct accounting period; in addition, we also reviewed if there are significant reversals in subsequent periods.

We also considered the appropriateness of the disclosures of sales. Please refer to Note 5 and Note 23 in notes to the parent company only financial statements.

### 2. Deferred tax assets

The Company recognized deferred tax assets and deferred tax liabilities in the amount of \$1,315,960 thousand and \$0 thousand, for the year ended December 31, 2016. The recognition of deferred tax assets for the related unused tax losses, unused tax credits, and deductible temporary differences arising from operating entities located in other areas is based on management estimates of its future available taxable profits and the probability that the related deferred tax assets will be realized. As a result, we determined the matter to be a key audit matter.



Our audit procedures include (but are not limited to) understanding and testing the controls surrounding the Company's assessment process for recognition of deferred tax assets; understanding the Company's significant operating entities for which deferred tax assets are recognized and assessing the management estimates for assumptions used in the future cash flow projection and future taxable profits calculation; retrospectively reviewing the accuracy of assumptions used in prior-period estimates of future cash flow projection and assessing whether there are any other matters that will affect the recognition of deferred tax assets; and assessing the adequacy of the Company's disclosures regarding its deferred tax asset recognition policy and other related disclosures.

We also considered the appropriateness of the income tax disclosures. Please refer to Notes 5 and Note 28 in notes to the parent company only financial statements.

3. Financial instruments valuation - Available-for-sale financial assets

The Company invested in different types of financial assets. Its investment in common stocks of unlisted companies classified as available-for-sale financial assets amounted to \$267,313 thousand, which accounted for 2% of total assets as of December 31, 2016 whose fair value level was classified as Level 3(based on unobservable inputs). As valuation of investment is inherently subjective, especially when valuation of Level 3 investment is based on unobservable inputs, including the significant impact on fair value estimates as a result of discounts for lack of marketability, we therefore considered this a key audit matter.

Our audit procedures included, but not limited to, evaluating and testing the design and operating effectiveness of internal controls around valuation of financial assets, including management's decision and approval of the methods and assumptions used in the valuation model; reassessing the reasonableness of the selection of comparable entities and discounts for lack of marketability for individual investments with the assistance of our internal valuation specialists on a sample basis; assessing whether the valuations performed by management were within a reasonable range compared to the valuations performed by our internal valuation specialists; and validating the accuracy of inputs of financial information of the selected comparable entities by benchmarking them with public information.

We also considered the appropriateness of the disclosures of available-for-sale financial assets. Please refer to Note 5 and Note 11 in notes to the parent company only financial statements.

### **Other Matter – Making Reference to the Audits of Component Auditors**

We did not audit the financial statements of certain associates and joint ventures accounted for under the equity method whose statements are based solely on the reports of other auditors. These associates and joint ventures, OSE PHILIPPINES, INC., OSE PROPERTIES, INC., OSE USA, INC. and SPARQTRON CORP., the balances of investments accounted for using the equity method on these investee companies amounted to \$307,872 thousand and \$427,450 thousand, representing 1.77% and 2.46% of parent company only total assets as of December 31, 2016 and 2015, respectively. The related shares of profits from the associates and joint ventures under the equity method amounted to (\$25,708) thousand and (\$39,408) thousand, representing (4.07%) and (3.03%) of the parent company only net income before tax for the years ended December 31 2016 and 2015, respectively. As of December 31, 2016 and 2015 the share of other comprehensive income of associates and joint ventures were both \$0 thousand.

### **Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements**

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.



## **Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements**

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

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the accompanying notes, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2016 parent company only financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We have audited and expressed an unqualified opinion on the parent company only financial statements of the Company as of and for the years ended December 31, 2016 and 2015.



Ernst & Young, Taiwan

March 23, 2017

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2016 and December 31, 2015

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Notes	December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Current assets					
Cash and cash equivalents	4, 6	\$802,090	5	\$477,399	3
Financial assets at fair value through profit or loss-Current	4, 7	35,266	—	21,712	—
Notes receivable	4, 8	12,785	—	12,589	—
Accounts receivable-Non Affiliates	4, 9, 31	2,230,359	13	2,371,209	14
Accounts receivable-Affiliates	4, 9, 30	293,635	2	701,544	4
Other receivable-Non Affiliates		85,393	—	44,709	—
Other receivable-Affiliates	30	40,075	—	13,650	—
Inventories	4, 10	1,088,393	6	1,263,089	7
Prepayments	4, 15	53,358	—	129,229	1
Other current assets		56,104	—	39,973	—
Other financial assets-Current	31	268,051	2	737,779	4
Total current assets		4,965,509	28	5,812,882	33
Non-current assets					
Available-for-sale financial assets-Non current	4, 11	267,313	2	291,628	2
Investments accounted for using the equity method	4, 12, 31	1,137,898	7	1,189,358	7
Property, plant, and equipment	4, 13, 31	8,939,936	51	7,847,154	45
Intangible assets	4, 14	95,048	1	25,402	—
Deferred income tax assets	4, 28	1,315,960	7	1,430,589	8
Prepayment for purchase of fixed assets	4, 15	46,493	—	127,016	1
Refundable deposits	31	140,044	1	115,891	1
Long-term receivables-Affiliates	4, 16, 30	510,255	3	512,265	3
Other non-current assets	31	10,323	—	22,267	—
Total non-current assets		12,463,270	72	11,561,570	67
Total assets		\$17,428,779	100	\$17,374,452	100

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



English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2016 and December 31, 2015

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Notes	December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Current liabilities					
Short-term loans	17	\$1,451,487	8	\$3,254,414	19
Short-term notes payable	18	249,131	2	249,336	1
Notes payable		45,048	—	298,282	2
Other notes payable		11,627	—	40,410	—
Accounts payable-Non Affiliates		2,898,045	17	2,919,118	17
Accounts payable-Affiliates	30	67,580	—	276,323	2
Accrued expenses		559,492	3	635,927	4
Payables on equipment		514,076	3	563,133	3
Other payables-Affiliates	30	245,000	2	265,000	1
Current portion of long-term loans	19	1,401,819	8	700,514	4
Lease payable-Current	4, 20	157,349	1	451,003	3
Other current liabilities		173,838	1	86,857	—
Total current liabilities		7,774,492	45	9,740,317	56
Non-current liabilities					
Long-term loans	19	2,546,254	15	695,887	4
Lease payable-Non current	4, 20	24,538	—	150,128	1
Net defined benefit liabilities-noncurrent	4, 21	595,722	3	734,813	4
Other non-current liabilities	4	3,481	—	33,481	—
Total non-current liabilities		3,169,995	18	1,614,309	9
Total liabilities		10,944,487	63	11,354,626	65
Equity	4, 22				
Capital					
Common stock		8,060,158	46	8,060,158	47
Additional paid-in capital		21,868	—	2,137	—
Retained earnings					
Retained deficits		(1,796,040)	(10)	(2,285,922)	(13)
Other Components of Equity		198,306	1	243,453	1
Total stockholders' equity		6,484,292	37	6,019,826	35
Total liabilities and stockholders' equity		\$17,428,779	100	\$17,374,452	100

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

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED  
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2016 and 2015

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Notes	2016		2015	
		Amount	%	Amount	%
Gross sales	4, 23, 30	\$15,130,357	100	\$15,171,746	100
Cost of goods sold	4, 25	(13,618,524)	(90)	(13,018,288)	(86)
Gross profit		1,511,833	10	2,153,458	14
Operating expenses	4, 25				
Selling and administration expenses		(626,380)	(4)	(625,794)	(4)
Research and development expenses		(239,815)	(2)	(208,811)	(1)
Subtotal		(866,195)	(6)	(834,605)	(5)
Operating income		645,638	4	1,318,853	9
Non-operating income and expenses	26				
Other income		134,282	1	63,765	—
Other gains and losses		(75,150)	—	(3,584)	—
Financial costs		(148,349)	(1)	(189,591)	—
Share of profits of associates and joint ventures	4, 12, 30	74,754	—	109,242	—
Pretax income from continuing operations		631,175	4	1,298,685	9
Income tax expense	4, 28	(126,804)	(1)	(247,186)	(2)
Net income		504,371	3	1,051,499	7
Other comprehensive income	4, 27				
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of defined benefit plans		(17,224)	—	(23,345)	—
Income tax benefit (expense) related to items that will not be reclassified		2,928	—	3,969	—
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		(30,079)	—	30,956	—
Unrealized (loss) gain from available-for-sale financial assets		(24,315)	—	(55,812)	—
Share of other comprehensive (loss) income of associates and joint ventures		(193)	—	(12,374)	—
Income tax related to components of other comprehensive income (loss)		9,247	—	4,225	—
Total other comprehensive (loss) income for the period, net of tax		(59,636)	—	(52,381)	—
Total comprehensive income		\$444,735	3	\$999,118	7
Basic earnings per share (Expressed in NTD)	4, 29	\$0.63		\$1.30	

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



English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the Years ended December 31, 2016 and 2015

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Common stock	Additional Paid-in Capital	Retained earnings	Other equity		Total Equity
			Retained deficits	Exchange differences on translation of foreign operations	Unrealized gain or loss from available-for-sale financial assets	
Balance as of January 1, 2015 (After Retrospect)	\$8,060,158	—	(\$3,317,941)	\$10,407	\$265,947	\$5,018,571
Share of changes in net assets of associates and joint ventures accounted for using the equity method		\$809				809
Profit for the year ended December 31, 2015			1,051,499			1,051,499
Other comprehensive income for the year ended December 31, 2015			(19,480)	25,693	(58,594)	(52,381)
Total comprehensive income	—	—	1,032,019	25,693	(58,594)	999,118
From shares of changes in equities of subsidiaries		1,328				1,328
Balance as of December 31, 2015	\$8,060,158	\$2,137	(\$2,285,922)	\$36,100	\$207,353	\$6,019,826
Balance as of January 1, 2016	\$8,060,158	\$2,137	(\$2,285,922)	\$36,100	\$207,353	\$6,019,826
Share of changes in net assets of associates and joint ventures accounted for using the equity method		(1,928)				(1,928)
Profit for the year ended December 31, 2016			504,371			504,371
Other comprehensive income for the year ended December 31, 2016			(14,489)	(24,966)	(20,181)	(59,636)
Total comprehensive income	—	—	489,882	(24,966)	(20,181)	444,735
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries		16,940				16,940
From shares of changes in equities of subsidiaries		4,719				4,719
Balance as of December 31, 2016	\$8,060,158	\$21,868	(\$1,796,040)	\$11,134	\$187,172	\$6,484,292

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

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	2016	2015	Items	2016	2015
	Amount	Amount		Amount	Amount
Cash flows from operating activities:			Cash flows from investing activities:		
Net income before tax	\$631,175	\$1,298,685	Proceeds from capital reduction of investments accounted for using the equity method	—	132,536
Adjustments to reconcile net income before tax to net cash provided by (used in) operating activities:			Acquisition of property, plant and equipment	(2,659,278)	(2,729,475)
The profit or loss items which did not affect cash flows:			Disposal of property, plant and equipment	128,761	644,413
Depreciation	1,367,512	1,146,214	(Increase) in refundable deposits	(24,153)	(11,564)
Amortization	42,443	28,399	Acquisition of intangible assets	(14,073)	(23,080)
Bad debt (reversal) expenses	(1,954)	1,754	Decrease (Increase) in long-term receivables	2,010	(26,606)
Net (income) loss of financial assets and liabilities at fair value through profit or loss	(13,554)	28,113	Acquisition of dividend	18,439	10,743
Interest expense	148,349	189,591	Net cash (used in) investing activities	(2,548,294)	(2,003,033)
Interest revenue	(10,170)	(12,029)			
Dividend revenue	(2,510)	(2,510)	Cash flows from financing activities:		
Share of (profit) of associates accounted for using the equity method	(74,754)	(109,242)	(Decrease) in short-term loans	(1,802,894)	(12,305)
Loss (gain) on disposal of property, plant and equipment	6,802	(4,884)	Increase in short-term notes payable	249,131	249,336
(Gain) Loss on disposal of investments	(20,974)	20,701	(Decrease) in short-term notes payable	(249,336)	(49,242)
Changes in operating assets and liabilities:			Increase in long-term loans	3,561,753	1,029,000
(Increase) Decrease in notes receivable	(196)	2,576	Repayment of long-term loans	(1,009,363)	(1,913,887)
Decrease in accounts receivable-non affiliates	142,686	129,032	Increase in guarantee deposits received	—	7
Decrease (Increase) in accounts receivable-affiliates	408,027	(657,446)	(Decrease) in guarantee deposits received	(30,000)	—
(Increase) in other receivable-non affiliates	(33,711)	(1,844)	Increase in other payables-affiliates	—	190,100
(Increase) in other receivable-affiliates	(26,425)	(9,634)	(Decrease) in other payables-affiliates	(20,000)	—
Decrease (Increase) in inventories	195,670	(89,537)	Increase in lease payable	84,590	647,488
Decrease (Increase) in prepayments	81,298	(22,817)	(Decrease) in lease payable	(503,834)	(569,074)
(Increase) Decrease in other current assets	(16,131)	132	Change in non-controlling interests	(143,347)	(186,024)
Decrease in other operating assets	—	272	Other financing activities	469,728	103,968
(Decrease) in notes payable-non affiliates	(282,017)	(10,147)	Net cash provided (used in) financing activities	606,428	(510,633)
(Decrease) Increase in accounts payable-non affiliates	(21,031)	417,699			
(Decrease) Increase in accounts payable-affiliates	(208,743)	109,131			
(Decrease) in other payable	(5,002)	(3,567)			
Increase in other current liabilities	112,885	273,898			
(Decrease) Increase in net defined benefit liabilities	(156,315)	12,182			
Cash generated from operating activities	2,263,360	2,734,722	Net Increase in cash	324,691	224,050
Interest received	3,197	2,994	Cash and cash equivalents, beginning of period	477,399	253,349
Net cash provided by operating activities	2,266,557	2,737,716	Cash and cash equivalents, end of period	\$802,090	\$477,399

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



English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED  
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS

December 31, 2016 and 2015

(Unless otherwise stated, all amounts expressed are in thousands of New Taiwan Dollars)

1. ORGANIZATION AND OPERATION

Orient Semiconductor Electronics Limited (the Company) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China in June 1971. The Company was registered in Kaohsiung City and the registered address is 9 Central 3Rd St. N.E.P.Z., Kaohsiung, Taiwan, 11, R.O.C. The principal activity of the Company is to engage in the manufacture, assembly, processing and sale of integrated circuits, parts for semiconductors, computer motherboards and related products. The Company's shares commenced trading in the Taiwan stock exchange market in April 1994.

As of December 31, 2016, the Company's current liabilities and current assets were \$7,774,492 thousand and \$4,965,509 thousand, respectively. The current ratio was 63.87%. The Company has devoted to adjusting its product structure, cutting down costs and expenses, rearranging repayment periods and obtaining the new finance sources. Otherwise, the primary shareholders provided financial support to the Company. The Company has generated cash inflows these two years and keeps making a profit and improving financial structure.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The parent company only financial statements of the Company for the year ended December 31, 2016 and 2015 were authorized for issue by the Board of Directors on March 23, 2017.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

(1) Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission ("FSC"), but not yet adopted by the Company at the date of issuance of the Group's financial statements are listed below.

(a) IAS 36 "Impairment of Assets" (Amendment)

This amendments relate to the amendments issued in May 2011 and require entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendments also require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendments are effective for annual periods beginning on or after 1 January 2014.

(b) IFRIC 21 “Levies”

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after 1 January 2014.

(c) IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for annual periods beginning on or after 1 July 2014.

(d) Improvements to International Financial Reporting Standards (2010-2012 cycle):

IFRS 2 “Share-based Payment”

The annual improvements amend the definitions of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendments prospectively apply to share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 “Business Combinations”

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 Provisions, Contingent Liabilities and Contingent Assets or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; (3) amending the classification requirements of IFRS 9 Financial Instruments to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

IFRS 8 “Operating Segments”

The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendments are effective for annual periods beginning on or after 1 July 2014.

IFRS 13 “Fair Value Measurement”

The amendments to the Basis for Conclusions of IFRS 13 clarify that when deleting paragraph B5.4.12 of IFRS 9 Financial Instruments and paragraph AG79 of IAS 39 Financial Instruments: Recognition and Measurement as consequential amendments from IFRS 13 Fair Value Measurement, the IASB did not intend to change the measurement requirements for short-term receivables and payables.



IAS 16 "Property, Plant and Equipment"

The amendments clarify that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 24 "Related Party Disclosures"

The amendments clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 38 "Intangible Assets"

The amendments clarify that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after 1 July 2014.

(e) Improvements to International Financial Reporting Standards (2011-2013 cycle):

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

The amendments clarify that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 "Business Combinations"

This amendments clarify that paragraph 2(a) of IFRS 3 Business Combinations excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendments are effective for annual periods beginning on or after 1 July 2014.

IFRS 13 "Fair Value Measurement"

The amendments clarify that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of the amendments is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. The amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 40 "Investment Property"

The amendments clarify the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property, separate application of both standards independently of each other is required. The amendments are effective for annual periods beginning on or after 1 July 2014.

(f) IFRS 14 “Regulatory Deferral Accounts”

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

(g) IFRS 11 “Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 “Business Combinations”, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendments also require certain disclosure. The amendments are effective for annual periods beginning on or after 1 January 2016.

(h) IAS 16 “Property, Plant and Equipment and IAS 38 “Intangible Assets” — Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendments are effective for annual periods beginning on or after 1 January 2016.

(i) IAS 16 “Property, Plant and Equipment and IAS 41 “Agriculture” — Agriculture: Bearer Plants

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 Property, Plant and Equipment, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendments are effective for annual periods beginning on or after 1 January 2016.

(j) IAS 27 “Separate Financial Statements” — Equity Method in Separate Financial Statements

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements. In 2003, the equity method was removed from the options. This amendments remove the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions.

The amendments are effective for annual periods beginning on or after 1 January 2016.

(k) Improvements to International Financial Reporting Standards (2012-2014 cycle):

IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”

The amendments clarify that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendments also require identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendments are effective for annual periods beginning on or after 1 January 2016.

IFRS 7 “Financial Instruments: Disclosures”

The amendments clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 Financial Instruments: Disclosures is required. The amendments also clarify that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 Interim Financial Reporting. The amendments are effective for annual periods beginning on or after 1 January 2016.

IAS 19 “Employee Benefits”

The amendments clarify the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendments are effective for annual periods beginning on or after 1 January 2016.

IAS 34 “Interim Financial Reporting”

The amendments clarify what is meant by “elsewhere in the interim financial report” under IAS 34; the amendments state that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendments are effective for annual periods beginning on or after 1 January 2016.

(l) Disclosure Initiative — Amendment to IAS 1 “Presentation of Financial Statements”:

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2016.

(m) IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities”, and IAS 28 “Investments in Associates and Joint Ventures” — Investment Entities: Applying the Consolidation Exception

The amendments contain (1) clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and (3) allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments are effective for annual periods beginning on or after 1 January 2016.

The abovementioned standards and interpretations issued by IASB and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2017. The remaining standards and interpretations have no material impact on the Company.

- (2) Standards or interpretations issued, revised or amended, by IASB but not yet recognized by FSC at the date of issuance of the Company’s financial statements are listed below.



(a) IFRS 15 “Revenue from Contracts with Customers”

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after 1 January 2018.

(b) IFRS 9 “Financial Instruments”

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 Financial Instruments (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that 'own credit risk' adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after 1 January 2018.

(c) IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

(d) IFRS 16 “Leases”

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after 1 January 2019.

(e) IAS 12 “Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after 1 January 2017.

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

The amendments relate to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendments are effective for annual periods beginning on or after 1 January 2017.

(g) IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15

The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendments are effective for annual periods beginning on or after 1 January 2018.

(h) IFRS 2 “Shared-Based Payment” — Amendments to IFRS 2

The amendments contain (1) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee’s tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and (3) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognised in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date. Any difference between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2018.

(i) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4

The amendments help to resolve issues arising from the different effective dates for IFRS 9 “Financial Instruments” (1 January 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before 1 January 2020). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 “Financial Instruments” before the IASB’s new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

(j) *Transfers of Investment Property — Amendments to IAS 40*

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018.

(k) *Improvements to International Financial Reporting Standards (2014-2016 cycle):*  
*IFRS 1 "First-time Adoption of International Financial Reporting Standards"*

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after 1 January 2018.

*IFRS 12 "Disclosure of Interests in Other Entities"*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after 1 January 2017.

*IAS 28 "Investments in Associates and Joint Ventures"*

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after 1 January 2018.

(l) *IFRIC 22 "Foreign Currency Transactions and Advance Consideration"*

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 "The Effects of Changes in Foreign Exchange Rates", in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018.



The abovementioned standards and interpretations issued by IASB have not yet recognized by FSC at the date of issuance of the Company's financial statements, the local effective dates are to be determined by FSC. The Company determines that the abovementioned standards and interpretations have no material impact on the Company.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (1) Statement of compliance

The parent company only financial statements for the year ended 31 December 2016 and 2015 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

##### (2) Basis of preparation

The parent company only financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The PARENT COMPANY ONLY financial statements are expressed in thousands of New Taiwan Dollars ("NT\$") unless otherwise stated.

##### (3) Foreign currency transactions

The parent company only financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in The Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by The Company entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- (a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- (b) Foreign currency items within the scope of IAS 39 Financial Instruments: Recognition and Measurement are accounted for based on the accounting policy for financial instruments.
- (c) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(4) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(5) Current and non-current distinction

An asset is classified as current when:

- (a) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
- (b) The Company holds the asset primarily for the purpose of trading.
- (c) The Company expects to realize the asset within twelve months after the reporting period.
- (d) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- (a) The Company expects to settle the liability in its normal operating cycle.
- (b) The Company holds the liability primarily for the purpose of trading.
- (c) The liability is due to be settled within twelve months after the reporting period.
- (d) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Fixed-term deposits include deposits that have maturities of three months from the date of acquisition and can be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

(7) Financial instruments

(a) Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company accounts for regular way purchase or sales of financial assets on the trade date. The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. A financial asset is classified as held for trading if:

- i. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- ii. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- iii. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- i. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- ii. a company of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about The Company is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment). If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

#### Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

#### Loans and receivables

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

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

#### Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.



A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

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

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a company of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss.

If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

#### Derecognition of financial assets

A financial asset is derecognized when:

- i. The rights to receive cash flows from the asset have expired
- ii. The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- iii. The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

#### (b) Financial liabilities and equity instruments

##### Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

##### Equity instruments

An equity instrument is any contract of the Company that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

##### Financial liabilities

Financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

The measurement of financial liabilities depends on their classification as follows:

##### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. A financial liability is classified as held for trading if:

- i. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- ii. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- iii. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- i. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- ii. a company of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the company is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or losses including interest paid are recognized in profit or loss.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

#### Financial liabilities at amortized cost

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

#### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

#### (c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

#### (8) Derivative financial instrument

The Company uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

(9) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (a) In the principal market for the asset or liability, or
  - (b) In the absence of a principal market, in the most advantageous market for the asset or liability
- The principal or the most advantageous market must be accessible to by The Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(10) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	— Purchase cost on an average basis
Finished goods and work in progress	— Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity on weighted average cost basis

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

(11) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction that is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.



In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

(12) Investments accounted for using the equity method

The Company's investment in its associate is accounted for using the equity method. An associate is an entity in which the Company has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the Company's related interest in the associate.

When changes in the net assets of an associate occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Company's percentage of ownership interests in the associate, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate on a prorata basis.

When the associate issues new stock, and the Company's interest in an associate is reduced or increased as the Company fails to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in Additional Paid in Capital and Investment in associate. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognized in profit or loss.

The Company recognizes its interest in the jointly controlled entities using the equity method other than those that meet the criteria to be classified as held for sale. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity.

Upon loss of significant influence over the associate, the Company measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognized in profit or loss.

The Company recognizes its interest in the jointly controlled entities using the equity method other than those that meet the criteria to be classified as held for sale. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity.

(13) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 Property, plant and equipment. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	10~50 years
Machinery and equipment	7~15 years
Transportation equipment	5 years
Office equipment	5 years
Leased assets	7~15 years
Leasehold improvements	5~15 years
Other equipment	5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(14) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the cost model in accordance with the requirements of IAS 16 for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	40 years
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Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Assets are transferred to or from investment properties when there is a change in use.

(15) Leases

Company as a lessee

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Company as a lessor

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

Sale and leaseback

The company sold and portion machinery and equipment and leased back. When sale and leaseback determined as finance lease, the company (the lessor and lessee) deferred the amount exceed book value in the leasehold period.

#### (16) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

##### Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- (a) The technical feasibility of completing the intangible asset so that it will be available for use or sale
- (b) Its intention to complete and its ability to use or sell the asset
- (c) How the asset will generate future economic benefits
- (d) The availability of resources to complete the asset
- (e) The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

A summary of the policies applied to the Company's intangible assets is as follows:

	<u>Cost of computer software</u>
Useful lives	1 ~ 3 years
Amortization method used	Amortized on a straight-line basis
Internally generated or acquired	Acquired

(17) Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or companies of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (company of units), then to the other assets of the unit (company of units) pro rata on the basis of the carrying amount of each asset in the unit (company of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

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

(18) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

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

- (a) the significant risks and rewards of ownership of the goods have passed to the buyer;
- (b) neither continuing managerial involvement nor effective control over the goods sold have been retained;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) the costs incurred in respect of the transaction can be measured reliably.

For the customer loyalty points programme that the Company operates, consideration received is allocated between the goods sold and the points issued, with the consideration allocated to the points equal to their fair value. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Dividends

Revenue is recognised when the Company's right to receive the payment is established.

Rendering of services

Revenue is recognised when the Company finishes the processing services.

(19) Borrowing costs

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

(20) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries.

Therefore fund assets are not included in the parent company only financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

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

- (a) the date of the plan amendment or curtailment, and
- (b) the date that the Group recognizes restructuring-related costs

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

(21) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.



### Deferred tax

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

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

- i. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- ii. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- i. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- ii. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTMATES AND ASSUMPTIONS

The preparation of the parent company only financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### Judgement

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the parent company only financial statements:

#### (1) Investment properties

Certain properties of the Company comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. If these portions could be sold separately, the Company accounts for the portions separately as investment properties and property, plant and equipment. If the portions could not be sold separately, the property is classified as investment property in its entirety.

#### (2) Operating lease commitment — Company as the lessor

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

#### (3) De facto control without a majority of the voting rights in subsidiaries

The Company does not have majority of the voting rights in certain subsidiaries. However, after taking into consideration factors such as absolute size of the Company's holding, relative size of the other shareholdings, how widely spread is the remaining shareholding, contractual arrangements between shareholders, potential voting rights, etc., the Company reached the conclusion that it has de facto control over these subsidiaries. Please refer to Note 4 for further details.

#### (4) Revenue recognition

The Company based on trading patterns and whether the economic substance were expose to the sale of goods or services related to the significant risks and rewards, to determine whether the Company should be classified as the principal of the transaction or agent. When expose to the sale of goods or services related to the significant risks and rewards, the principal of the transaction should recognize the total receivables or received economic benefit as revenue; if determine as the agent, recognize the net transaction as revenue.

The Company provides electronic manufacturing services and integrated circuit packaging and testing manufacturing services, determined as to conform to the following indicators; it is recognized as total revenue collected:

- (a) Has the primary responsibility to the provision of goods or services provided
- (b) Assumed inventory risk
- (c) Assumed customer's credit risk

### Estimates and assumptions

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

#### (1) The Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example the discounted cash flows model) or the market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 35 for more details.

#### (2) Post-employment benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Please refer to Note 21 for more details.

#### (3) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(4) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs that would be directly attributable to the disposal of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

6. CASH AND CASH EQUIVALENTS

	Dec. 31 , 2016	Dec. 31 , 2015
Cash on hand	\$205	\$200
Demand deposits	801,885	477,199
Total	\$802,090	\$477,399

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – CURRENT

	Dec. 31 , 2016	Dec. 31 , 2015
Designated financial assets at fair value through profit or loss at initial recognition:		
Non-derivative financial assets		
Listed stocks	\$38,560	\$38,560
Add : Valuation adjustments	(3,294)	(16,848)
Total	\$35,266	\$21,712

Please refer to Note 31 for the more details on financial assets held for trading under pledge.

8. NOTES RECEIVABLE

	Dec. 31 , 2016	Dec. 31, 2015
Notes receivables	\$12,785	\$12,589
Less: allowance for doubtful debts	(—)	(—)
Total	\$12,785	\$12,589

Notes receivables were not pledged.

## 9. ACCOUNTS RECEIVABLE AND ACCOUNTS RECEIVABLE – AFFILIATES

(1)

	Dec. 31 , 2016	Dec. 31, 2015
Accounts receivables	\$2,234,686	\$2,168,910
Add : Pledged accounts receivable	—	208,462
Less: allowance for doubtful debts	(4,327)	(6,163)
Subtotal	2,230,359	2,371,209
Accounts receivables -affiliates	293,673	701,700
Less: allowance for doubtful debts	(38)	(156)
Subtotal	293,635	701,544
Total	\$2,523,994	\$3,072,753

Please refer to Note 31 for more details on the part of accounts receivables under pledge.

- (2) Accounts receivables are generally on 30-150 day terms. The movements in the provision for impairment of accounts receivables are as follows (please refer to Note 35 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of Jan. 1, 2016	—	\$6,319	\$6,319
Charge/reversal for the current period	—	(1,954)	(1,954)
As of Dec. 31, 2016	—	\$4,365	\$4,365
As of Jan. 1, 2015	—	\$4,565	\$4,565
Charge/reversal for the current period	—	1,754	1,754
As of Dec. 31, 2015	—	\$6,319	\$6,319

	Past due but not impaired				
	Neither past due nor impaired	61-90 days	91-120 days	>=121 days	Total
Dec. 31 , 2016	\$2,511,595	\$514	\$2,731	\$9,154	\$2,523,994
Dec. 31 , 2015	\$3,048,991	\$12,473	\$1,226	\$10,063	\$3,072,753

- (3) The Company signed loan agreements with the following banks and used its accounts receivable as securities for the loans. Certain of the Company's accounts receivable were under pledge to the banks. The details of the loan agreements are as follows:

Dec. 31, 2016

Bank	Contract period	Banking facility	Loan amount	Factored amount
SinoPac Bank	March 23, 2016	US\$9,000	—	—
	~ March 31, 2017	\$350,000		
Far Eastern Bank	June 28, 2016		—	—
	~ June 28, 2017	\$450,000		
Far Eastern Bank	June 28, 2016		—	—
	~ June 28, 2017	\$135,000		
Total			—	—

Dec. 31, 2015

Bank	Contract period	Banking facility	Loan amount	Factored amount
SinoPac Bank	March 31, 2015	US\$13,600		
	~ March 31, 2016	\$265,000	\$196,653	\$208,462
SinoPac Bank	March 31, 2015			
	~ March 31, 2016	\$260,000	—	—
Far Eastern Bank	April 10, 2015			
	~ April 10, 2016	\$450,000	—	—
Far Eastern Bank	April 10, 2015			
	~ April 10, 2016	\$135,000	—	—
Total			\$196,653	\$208,462

10. INVENTORIES

(1)

	Dec. 31, 2016	Dec. 31, 2015
Raw materials	\$685,580	\$797,987
Supplies	78,465	73,727
Work in progress	204,587	277,933
Finished goods	119,761	113,442
Total	\$1,088,393	\$1,263,089

(2)

	2016	2015
Cost of inventories sold	\$13,583,676	\$12,971,603
Loss on an realizable value and obsolescence of inventories	55,732	26,038
(Gain) loss in inventory write-off	(20,974)	20,701
Inventory loss (profit)	90	(54)
Cost of Goods Sold	\$13,618,524	\$13,018,288



(3) As of December 31, 2016 and 2015, inventories were insured for \$9,917,203 thousand and \$9,463,890 thousand, respectively.

(4) No inventories were pledged.

# 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS — NON CURRENT

(1)

	Dec. 31, 2016	Dec. 31, 2015
Unlisted stocks	\$41,805	\$41,805
Less : Unrealized gains and losses	225,508	249,823
Total	<u>\$267,313</u>	<u>\$291,628</u>

(2) Stock details are as follows:

Investee Company	Type of stock	Dec. 31, 2016	Dec. 31, 2015
STRATEDGE	Common stock	\$1,323	\$1,323
ACTIONTEC	Common stock	126,367	136,592
ACTIONTEC	Preferred stock	139,623	153,713
SPINERGY	Common stock	—	—
GOLFWARE, INC.	Common stock	—	—
Total		<u>\$267,313</u>	<u>\$291,628</u>

# 12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(1) The company investments accounted for using the equity method are as follows:

Investee Company	Type of stock	Dec. 31, 2016		Dec. 31, 2015	
		Amount	Ownership	Amount	Ownership
<u>Investments in subsidiaries:</u>					
ORIENT SEMICONDUCTOR ELECRTONICS PHILIPPINES INC.(OSEP)	Common stock	\$167,908	93.67%	\$203,700	93.67%
OSE USA, INC. (OSEU)	Common stock	108,909	100.00%	106,283	100.00%
SPARQTRON CORP.	Common stock	31,056	9.96%	117,468	44.89%
	Preferred stock				
OSE INTERNATIONAL LTD.	Common stock	264,875	100.00%	253,601	100.00%
COREPLUS (HK) LIMITED	Common stock	354,171	100.00%	301,699	100.00%
Subtotal		926,919		982,751	
<u>Investments in associates:</u>					
OSE PROPERTIES, INC.	Common stock	—	39.99%	—	39.99%
ATP ELECTRONICS, TAIWAN INC.	Common stock	206,227	9.57%	201,162	9.66%
INFOFAB, INC.	Common stock	4,752	14.85%	5,445	14.85%
SCS HIGHTECH INC.	Common stock	—	18.17%	—	18.17%
Subtotal		210,979		206,607	
Total		\$1,137,898		\$1,189,358	

- (2) In February 2006, for the purpose of a merger, the investee company OSE ACQUISITION CORP. purchased 100% of common shares in OSE USA, Inc. at a price of US\$0.006 per share and assumed all of its assets and liabilities. After the merger, OSE ACQUISITION CORP. changed its name to OSE USA, Inc.
- (3) In September 2006, shares of the investee company ATP were exchanged with ATP TAIWAN so that the Company would hold 6.79% ownership of ATP TAIWAN after the exchange. The Company had purchased 1,929 thousand treasury shares. So the Company held 9.57% ownership of ATP TAIWAN on December 31, 2016.
- (4) Because SCS HIGHTECH INC. was in financial crisis in 2004, the long-term investment amounted to \$96,203 thousand was written off as losses in 2004.
- (5) Owing to the continue loss of OSE PROPERTIES, INC., the accumulated investment loss has made the book value of long-term investment declining to zero, the company will no longer recognize the investment loss.
- (6) In order to improve the financial structure of OSEP, the Company made a financial structure improvement plan as following:
- A. On December 12, 2008, the board of directors of the Company approved OSEP to issue first set of new stocks for a total value of US\$8 million, consisting of US\$5.18 million of cash and US \$2.82 million worth of debt to equity swap. This was approved on May 21, 2009 by Investment Commission M.O.E.A.
  - B. On December 9, 2009, the board of directors of the Company approved OSEP to issue second set stocks for a total value of US\$8 million, consisting of US\$1.6 million of cash and US\$6.4 million of debt-to-equity swap. This was approved on September 8, 2011 by Investment Commission M.O.E.A.
  - C. On May 5, 2010, the board of the directors of the Company approved OSEP to issue third set of stocks for a total value of US\$13.5 million, consisting of US\$2.7 million of cash and US\$10.8 million of debt-to-equity swap. This was approved on September 8, 2011 by Investment Commission M.O.E.A.
  - D. On August 26, 2010, the board of the directors of the Company approved OSEP to issue fourth set of stocks for a total value of US\$10.5 million, consisting of US\$2.1 million of cash and US\$8.4 million of debt-to-equity swap. This was approved on September 8, 2011 by Investment Commission M.O.E.A.
  - E. On December 28, 2010, the board of the directors of the Company approved OSEP to issue fifth set of stocks for a total value of US\$8 million, consisting of US\$1.6 million of cash and US\$6.4 million of debt-to-equity swap. This was approved on January 16, 2012 by Investment Commission M.O.E.A.

- (7) OSE INTERNATIONAL LTD was approved by its Board of Directors to decrease its capital by US\$2,800 thousand and US\$4,200 thousand on June 25, 2008 and April 20, 2015, respectively. The Company had taken back the investment amount by \$84,280 thousand (US\$2,800 thousand) and \$132,536 thousand (US\$4,200 thousand), respectively.
- (8) In order to improve the financial structure of OSEU, the Company made financial improvement plan as following:
- A. On July 15, 2010, the board of directors of the Company approved to merge OSEI and OSEU in September 2010. OESU is the remaining existing entity while OSEI ceased to operate. Starting from September 2010, all assets, liabilities, rights and obligations of OSEI were transferred to OSEU.
- B. On July 15, 2010 the board of directors of the Company approved OSEU to raise capital by the issuance of new stock for the total value of US\$35,762 thousand in debt-to-equity swap. This was approved on January 17, 2011 by Investment Commission M.O.E.A.
- (9) On March 24, 2011, the board of the directors of the Company approved COREPLUS (HK) LIMITED to issue stocks, consisting of US\$2.7 million of debt-to-equity swap. This was approved on October 3, 2012 by Investment Commission M.O.E.A.
- (10) The share of the profit or loss of these associates and joint ventures for using the equity method are as follows :

Investee Companies	For the years ended December 31	
	2016	2015
OSE PHILIPPINES INC.	(\$34,192)	(\$36,818)
OSE PROPERTIES, INC.	—	—
OSE USA, INC.	4,686	(20,837)
SPARQTRON CORP.	3,798	18,246
OSE INTERNATIONAL LTD.	14,626	60,149
INFOFAB, INC.	391	2,059
ATP TAIWAN	22,153	28,324
COREPLUS (HK) LIMITED.	63,292	58,119
Total	\$74,754	\$109,242

The 2016 and 2015 financial statements were audited by other auditors.

- (11) In year 2016 and 2015, the Company obtained cash dividend from ATP Taiwan and InfoFab in the form of cash dividend for \$15,037 thousand and \$7,519 thousand, \$891 thousand and \$713 thousand, respectively. They are recorded as credit to "Investments accounted for using the equity method".

- (12) The details of translation adjustment from investments accounted for using the equity method are as follows :

Investee Companies	For the years ended December 31	
	2016	2015
OSE PHILIPPINES INC.	(\$4,109)	\$8,111
OSE USA, INC.	(2,060)	4,156
SPARQTRON CORP.	(8,191)	4,217
OSE INTERNATIONAL LTD.	(4,690)	3,718
ATP TAIWAN.	(123)	1,634
COREPLUS (HK) LIMITED.	(10,906)	9,120
Net	(\$30,079)	\$30,956

- (13) Part of investments accounted for using the equity method has been pledged to the banks as securities for bank loans granted to the Company. Please refer to Note 31 for more details.

- (14) The Company investments by using the equity method are not published price quotations.

- (15) The following table lists the investments accounted for using the equity method of the Company:

	Dec. 31, 2016	Dec. 31, 2015
Total assets (100%)	\$2,809,663	\$2,631,241
Total liabilities (100%)	\$960,115	\$846,484

  

	For the years ended December 31	
	2016	2015
Revenue (100%)	\$3,230,146	\$2,820,886
Profit (100%)	\$238,316	\$320,359

- (16) On May 27, 2016, the board of directors of the Company approved to disposal the investment company Sparqtron Corp., at USD 0.5 per common stock 2,000 thousand shares and USD 0.311 per preferred stock A 14,000 thousand shares, the proceeds were USD 3,319 thousand, which was received on August 23, 2016, therefore, the company held 9.96% ownership as of December 31, 2016.

### 13. PROPERTY, PLANT AND EQUIPMENT

(1)

	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Rental assets	Leased assets	Leasehold improvements	Other equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of Jan.1, 2016	\$6,872,030	\$18,585,786	\$2,614	\$53,883	\$412,751	\$1,305,299	\$3,463	\$401,076	\$159,775	\$27,796,677
Additions	430	—	—	—	—	—	428	—	927,690	928,548
Disposals	(105,711)	(4,212,355)	—	—	(141,951)	—	—	(61,752)	—	(4,521,769)
Transfers	152,513	2,944,322	—	1,032	8,543	(546,069)	375	58,148	(960,904)	1,657,960
As of Dec.31, 2016	<u>\$6,919,262</u>	<u>\$17,317,753</u>	<u>\$2,614</u>	<u>\$54,915</u>	<u>\$279,343</u>	<u>\$759,230</u>	<u>\$4,266</u>	<u>\$397,472</u>	<u>\$126,561</u>	<u>\$25,861,416</u>
Depreciation and impairment:										
As of Jan.1, 2016	\$3,868,796	\$15,229,507	\$1,837	\$52,514	\$180,133	\$273,298	\$392	\$343,046	—	\$19,949,523
Depreciation	244,761	951,168	185	375	9,311	126,789	755	22,224	—	1,355,568
Disposals	(105,711)	(4,138,152)	—	—	(77,997)	—	—	(61,751)	—	(4,383,611)
Transfers	(7,395)	187,758	—	—	7,386	(187,758)	9	—	—	—
As of Dec.31, 2016	<u>\$4,000,451</u>	<u>\$12,230,281</u>	<u>\$2,022</u>	<u>\$52,889</u>	<u>\$118,833</u>	<u>\$212,329</u>	<u>\$1,156</u>	<u>\$303,519</u>	<u>—</u>	<u>\$16,921,480</u>

	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Rental assets	Leased assets	Leasehold improvements	Other equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of Jan.1, 2015	\$6,815,903	\$18,159,174	\$4,064	\$52,445	\$412,751	\$830,468	—	\$375,538	\$265,360	\$26,915,703
Additions	87	394	—	1,438	—	96,452	\$3,459	4,516	713,865	820,211
Disposals	(64,487)	(1,987,979)	(2,350)	—	—	—	—	(1,670)	(1,823)	(2,058,309)
Transfers	120,527	2,414,197	900	—	—	378,379	4	22,692	(817,627)	2,119,072
As of Dec.31, 2015	<u>\$6,872,030</u>	<u>\$18,585,786</u>	<u>\$2,614</u>	<u>\$53,883</u>	<u>\$412,751</u>	<u>\$1,305,299</u>	<u>\$3,463</u>	<u>\$401,076</u>	<u>\$159,775</u>	<u>\$27,796,677</u>
Depreciation and impairment:										
As of Jan.1, 2015	\$3,694,187	\$15,853,915	\$4,064	\$52,441	\$169,421	\$129,953	—	\$326,951	—	\$20,230,932
Depreciation	238,664	656,460	124	73	10,712	210,445	\$392	17,706	—	1,134,576
Disposals	(64,055)	(1,347,968)	(2,351)	—	—	—	—	(1,611)	—	(1,415,985)
Transfers	—	67,100	—	—	—	(67,100)	—	—	—	—
As of Dec.31, 2015	<u>\$3,868,796</u>	<u>\$15,229,507</u>	<u>\$1,837</u>	<u>\$52,514</u>	<u>\$180,133</u>	<u>\$273,298</u>	<u>\$392</u>	<u>\$343,046</u>	<u>—</u>	<u>\$19,949,523</u>
Net carrying amount:										
As of Dec.31, 2016	<u>\$2,918,811</u>	<u>\$5,087,472</u>	<u>\$592</u>	<u>\$2,026</u>	<u>\$160,510</u>	<u>\$546,901</u>	<u>\$3,110</u>	<u>\$93,953</u>	<u>\$126,561</u>	<u>\$8,939,936</u>
As of Dec.31, 2015	<u>\$3,003,234</u>	<u>\$3,356,279</u>	<u>\$777</u>	<u>\$1,369</u>	<u>\$232,618</u>	<u>\$1,032,001</u>	<u>\$3,071</u>	<u>\$58,030</u>	<u>\$159,775</u>	<u>\$7,847,154</u>



(2) Affects both the cash and non-cash items of investing activities:

	Dec. 31, 2016	Dec. 31, 2015
Acquisition of property, plant, and equipment expenditure:		
Increase of property, plant and equipment	\$2,586,508	\$2,939,283
Increase (decrease) of prepayment for equipment	23,713	(161,358)
Decrease (increase) of payables on equipment	49,057	(48,450)
Cash expenditure	<u>\$2,659,278</u>	<u>\$2,729,475</u>

(3) Details of capitalized borrowing costs are as follows:

	For the years ended December 31	
	2016	2015
Prepayments for equipment	\$8,306	\$8,205
Capitalisation rate of borrowing costs	2.04%~2.85%	2.3591%~2.6175%

(4) As of December 31, 2016 and 2015, fixed assets were insured for \$11,803,936 thousand and \$11,519,350 thousand, respectively.

(5) Please refer to Note 31 for more details on property, plant and equipment under pledge.

#### 14. INTANGIBLE ASSETS

(1) As of December 31, 2016 and 2015, the cost of the computer software, original cost, accumulated amortization and amount of amortization in the book of the Company is listed as below:

	Computer software
	Amount
Cost:	
As of Jan. 1, 2016	\$110,454
Addition	14,073
Transfers	98,016
As of Dec. 31, 2016	<u>\$222,543</u>
As of Jan. 1, 2015	\$85,834
Addition	23,080
Transfers	1,540
As of Dec. 31, 2015	<u>\$110,454</u>
Amortization and impairment:	
As of Jan. 1, 2016	\$85,052
Amortization	42,443
As of Dec. 31, 2016	<u>\$127,495</u>
As of Jan. 1, 2015	\$56,653
Amortization	28,399
As of Dec. 31, 2015	<u>\$85,052</u>
Dec. 31, 2016	<u>\$95,048</u>
Dec. 31, 2015	<u>\$25,402</u>

(2) Amortization expense of intangible assets under the statement of comprehensive income:

	For the years ended December 31	
	2016	2015
Operating costs	\$20,315	\$1,607
Managing costs	\$7,483	\$14,653
Research and development costs	\$14,645	\$12,139

(3) The cost of the computer software is amortized with straight-line method over the estimated useful life of 1~3 years.

#### 15. PREPAYMENTS

	Dec. 31, 2016	Dec. 31, 2015
Current assets—prepayments		
Prepaid expenses	\$49,172	\$124,816
Other prepayments	4,186	4,413
Total	\$53,358	\$129,229
Non-current assets—prepayments for equipment :		
Prepayment for equipment	\$46,493	\$127,016

#### 16. LONG-TERM RECEIVABLES-AFFILIATES

	Dec. 31, 2016	Dec. 31, 2015
Loan receivable (Note)	\$396,828	\$404,704
Receivable for sale/rent of machinery and equipment and payment on behalf (Note)	78,455	80,012
Interest receivable from financial activities (Note)	34,972	27,549
Total	510,255	512,265
(Less) : Allowance for bad debts	(—)	(—)
Net	\$510,255	\$512,265

(Note): (1) Long-term receivable – OSE PHILIPPINES INC. and Long-term receivable – OSE USA Inc. amounted to \$803,966 thousand and \$1,148,668 thousand, respectively. In 2010, they were converted to common stocks of OSEP and common stocks of OSEU through debt-to-equity swap options.

(2) Long-term receivable – OSE PHILIPPINES INC. amounted to \$183,843 thousand. In May 2011, the receivable was subsequently converted to common stocks of OSE PHILIPPINES INC. through debt-to-equity swap options.

(3) Long-term receivable – COREPLUS amounted to \$79,893 thousand. In October, 2012, the amount was converted to common stocks of investment of COREPLUS through debt-to-equity swap options.

# 17. SHORT-TERM LOANS

(1) Detail are as follows :

Items	Dec. 31, 2016	Dec. 31, 2015
L/C	\$153,206	\$583,717
Unsecured bank loans	1,189,967	2,124,653
Mortgage loans on machine and equipment	108,314	546,044
Total	\$1,451,487	\$3,254,414

(2) The ranges of interest rates and the due dates:

	Dec. 31, 2016	Dec. 31, 2015
Ranges of interest rates	1.40%~3.24%	1.19%~4.17%
Due dates	January 18, 2017~ December 29, 2017	February 17, 2016~ July 31, 2017

(3) As of December 31, 2016 and 2015, unused short-term loans were \$2,606,240 thousand and \$1,852,782 thousand, respectively.

(4) Please refer to Note 31 for more detail on held for trading financial assets pledged as security for short-term loans.

# 18. SHORT-TERM NOTES PAYABLE—NET

(1) Detail are as follows :

	Dec. 31, 2016	Dec. 31, 2015
Par value of commercial papers	\$250,000	\$250,000
(Less) : Discount for short-term notes payable	(869)	(664)
Net	\$249,131	\$249,336

(2) The ranges of interest rates and the due dates:

	Dec. 31, 2016	Dec. 31, 2015
Ranges of interest rates	1.94%~2.10%	2.45%~2.70%
Due dates	August 30, 2017~ August 31, 2017	January 25, 2016~ February 26, 2016

# 19. LONG-TERM LOANS

(1) Detail are as follows:

Items	Dec. 31, 2016	Dec. 31, 2015
Mortgage loan	\$3,948,073	\$1,396,401
Less: Due within one year	(1,401,819)	(700,514)
Net	\$2,546,254	\$695,887

(2) The ranges of interest rates and the due dates:

	Dec. 31, 2016	Dec. 31, 2015
Ranges of interest rates	2.220%~2.88%	2.610%~4.2759%
Due dates	June 29, 2017~ December 20, 2019	August 5, 2016~ September 28, 2019

(3) Part of property, plant and equipment, account receivable, time deposits, and deposits reserved for repayment are pledged as security for the Company's long-term borrowings. Please refer to Note 31 for more details.

- (4) On October 30, 2014, the Company signed a syndicated loan contract with Far Eastern Bank. The contract period was 3 years, and the amount of the loan facility was \$400,000 thousand. Within the contract period and before the full repayment of the loan, the Company is required to maintain the following financial ratios:
- A. Liability ratio (total liability/net tangible assets): lower than 200% in 2014, 160% in 2015, 120% in 2016.
  - B. Interest coverage ratio: lower than 300%.
  - C. Net tangible assets (stockholders' equity minus intangible assets): higher than 4,000,000
- (5) On June 29, 2015, the Company signed a medium-term loan contract with Bank of Shanghai. The amount of the loan facility was \$200,000 thousand. Commencing on September 29, 2015, the loan will be repaid in 8 installments by paying \$25,000 thousand every installment.
- (6) On June 30, 2015, the Company signed a medium-term loan contract with King's Town Bank. The amount of the loan facility was \$100,000 thousand. Commencing on July 30, 2015, the loan will be repaid in 36 installments by paying every month.
- (7) On July 24, 2015, the Company signed a medium-term loan contract with Chang Hwa Bank. The amount of the loan facility was \$81,000 thousand. Commencing on October 24, 2015, the loan will be repaid in 10 installments by paying \$8,100 thousand every installment.
- (8) On November 24, 2015, the Company signed a medium-term loan contract with Chang Hwa Bank. The amount of the loan facility was \$88,000 thousand. Commencing on February 24, 2016, the loan will be repaid in 10 installments by paying \$8,800 thousand every installment.
- (9) On November 10, 2015, the Company signed a medium-term loan contract with CTBC Bank. The amount of the loan facility was \$80,000 thousand. Commencing on December 15, 2016, the loan will be repaid in 12 installments by paying \$7,000 thousand every installment which the last installment will be repaid \$3,000 thousand.
- (10) On November 12, 2015, the Company signed a medium-term loan contract with CTBC Bank. The amount of the loan facility was \$100,000 thousand. Commencing on December 15, 2016, the loan will be repaid in 24 installments by paying \$4,200 thousand every installment which the last installment will be repaid \$3,400 thousand.
- (11) On November 30, 2015, the Company signed a medium-term loan contract with Taishin Bank. The amount of the loan facility was \$70,000 thousand. Commencing on February 28, 2017, the loan will be repaid in 8 installments by paying \$8,750 thousand every installment.
- (12) On January 26, 2016, the Company signed a medium-term loan contract with King's Town Bank. The amount of the loan facility was \$200,000 thousand. From February 28, 2017, the Company will make monthly amortized payment on principal and interest calculated by annuity method within 24 months.
- (13) On February 1, 2016, the Company signed a medium-term loan contract with Taishin International Bank. The amount of the loan facility was \$270,000 thousand. From September 1, 2016, the repayment of the loan principal will be repaid by 18 installments of which term for each installment is 1 month and amount for each installment is \$15,000 thousand.

- (14) On March 1, 2016, the Company signed a medium-term loan contract with Shanghai Commercial & Savings Bank. The amount of the loan facility was \$200,000 thousand. From June 1, 2016, the repayment of the loan principal will be repaid by 8 installments of which term for each installment is 3 months and amount for each installment is \$25,000 thousand.
- (15) On March 28, 2016, the Company signed a medium-term loan contract with Taiwan Business Bank. The amount of the loan facility was \$140,000 thousand. From October 28, 2016, the repayment of the loan principal will be repaid by 30 installments of which term for each installment is 1 month and amount for each installment is \$4,667 thousand.
- (16) On March 28, 2016, the Company signed a medium-term loan contract with Taiwan Business Bank. The amount of the loan facility was \$60,000 thousand. From April 28, 2016, the repayment of the loan principal will be repaid by 36 installments of which term for each installment is 1 month and amount for each installment is \$1,667 thousand.
- (17) On April 29, 2016, the Company signed a medium-term loan contract with SinoPac Bank. The amount of the loan facility was \$200,000 thousand. From April 29, 2017, the repayment of the loan principal will be repaid by 8 installments of which term for each installment is 3 months and amount for each installment is \$25,000 thousand.
- (18) On May 17, 2016, the Company signed a medium-term loan contract with Industrial Bank of Taiwan. The amount of the loan facility was \$100,000 thousand. From February 17, 2017, the repayment of the loan principal will be repaid by 4 installments of which term for each installment is 3 months and amount for each installment is \$25,000 thousand.
- (19) On June 15, 2016, the Company signed a medium-term loan contract with Bank of Taiwan. The amount of the loan facility was \$100,000 thousand. From July 15, 2017, the repayment of the loan principal will be repaid by 24 installments of which term for each installment is 1 months and amount for each installment is \$4,167 thousand.
- (20) On July 28, 2016, the Company signed a medium-term loan contract with First Commercial Bank. The amount of the loan facility was \$1,000,000 thousand. From February 28, 2018, the repayment of the loan principal will be repaid by 42 installments of which term for each installment is 1 month and amount for each installment is \$24,000 thousand; amount for last installment is \$16,000 thousand.
- (21) On July 28, 2016, the Company signed a medium-term loan contract with Far Eastern Bank. The amount of the loan facility was \$341,753 thousand (US\$10,597 thousand). From January 28, 2017, the repayment of the loan principal will be repaid by 31 installments of which term for each installment is 1 month and amount for each installment is US\$342 thousand.
- (22) On December 20, 2016, the Company signed a medium-term loan contract with CTBC Bank. The amount of the loan facility was \$400,000 thousand. From January 20, 2018, the loan will be repaid by 24 installments by paying \$16,667 thousand.
- (23) On November 28, 2016, the Company signed a medium-term loan contract with Yuanta Commercial Bank. The amount of the loan facility was \$200,000 thousand. From February 28, 2017, the loan will be repaid by 12 installments of which term for each installment is 3 months and amount for each installment is \$16,700, and the last installment will be repaid \$16,300 thousand.

(24) On November 30, 2016, the Company signed a medium-term loan contract with Ta Chong Bank. The amount of the loan facility was \$350,000 thousand. From December 30, 2016, the repayment of the loan principal will be repaid by 36 installments of which term for each installment is 1 month and amount for each installment is \$9,722 thousand.

## 20. LONG-TERM LEASE PAYABLE

(1)

	Dec. 31, 2016		Dec. 31, 2015	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	\$161,247	\$157,349	\$470,739	\$451,003
After one year but not more than five years	24,904	24,538	153,497	150,128
More than five years	—	—	—	—
Total minimum lease payments	186,151	181,887	624,236	601,131
Less amounts representing finance charges	(4,264)	—	(23,105)	—
Present value of minimum lease payments	<u>\$181,887</u>	<u>\$181,887</u>	<u>\$601,131</u>	<u>\$601,131</u>

(2) The details of future annual rental lease payments are as follow:

Year	Dec. 31, 2016	Dec. 31, 2015
2016	—	\$470,739
2017	\$161,247	135,123
2018	24,904	18,374
Total	<u>\$186,151</u>	<u>\$624,236</u>

## 21. POST-EMPLOMENT BENEFITS

(1) Defined contribution plan

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

Expenses under the defined contribution plan for the years ended December 31, 2016 and 2015 are \$101,106 thousand and \$85,872 thousand, respectively.



## (2) Defined benefits plan

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute \$176,188 thousand to its defined benefit plan during the 12 months beginning after December 31, 2016.

The average duration of the defined benefits plan obligation as at December 31, 2016 and 2015, is the end of the year of 2026 and 2025, respectively.

Pension costs recognized in profit or loss for the years ended December 31, 2016 and 2015:

	For the years ended December 31	
	2016	2015
Current period service costs	\$8,851	\$9,335
Interest income or expense	11,022	15,734
Expected return on plan assets	—	—
Total	\$19,873	\$25,069

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	Dec. 31, 2016	Dec. 31, 2015	Jan. 1, 2015
Present value of the defined benefit obligation	\$1,019,544	\$1,016,345	\$975,552
Plan assets at fair value	(423,822)	(281,532)	(276,266)
Other non-current liabilities - Accrued pension liabilities recognized on the company only			
balance sheets	\$595,722	\$734,813	\$699,286

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
As at Jan. 1, 2015	\$975,552	(\$276,266)	\$699,286
Current period service costs	9,335	—	9,335
Net interest expense (income)	21,950	(6,216)	15,734
Subtotal	1,006,837	(282,482)	724,355
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	(82,276)	—	(82,276)
Actuarial gains and losses arising from changes in financial assumptions	91,999	—	91,999
Experience adjustments	14,866	—	14,866
Return on plan assets	—	(1,244)	(1,244)
Subtotal	1,031,426	(283,726)	747,700
Payments from the plan	(15,082)	15,082	—
Contributions by employer	—	(12,887)	(12,887)
As at Dec. 31, 2015	\$1,016,344	(\$281,531)	\$734,813
Current period service costs	8,851	—	8,851
Net interest expense (income)	15,245	(4,223)	11,022
Subtotal	\$1,040,440	(\$285,754)	\$754,686
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	80,041	—	80,041
Actuarial gains and losses arising from changes in financial assumptions	46,677	—	46,677
Experience adjustments	(111,058)	—	(111,058)
Return on plan assets	—	1,564	1,564
Subtotal	1,056,100	(284,190)	771,910
Payments from the plan	(36,556)	36,556	—
Contributions by employer	—	(176,188)	(176,188)
As at Dec. 31, 2016	\$1,019,544	(\$423,822)	\$595,722

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

	Dec. 31, 2016	Dec. 31, 2015
Discount rate	1.50%	1.50%
Expected rate of salary increases	1.40%	1.00%

A sensitivity analysis for significant assumption as at 31 December 2016 and 2015 is, as shown below:

	Effect on the defined benefit obligation			
	2016		2015	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	—	\$60,709	—	\$58,422
Discount rate decrease by 0.5%	\$67,904	—	\$65,456	—
Future salary increase by 0.5%	\$67,622	—	\$65,456	—
Future salary decrease by 0.5%	—	\$61,050	—	\$58,971

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

## 22. EQUITY

### (1) Common stock

- A. The Company had increased capital by cash by \$1,800,000 thousand with par value \$10 per share and issued price \$9.2 on May 30, 2007. The rights and obligations of new shares by private placement are the same as those of common shares. Ownership of shares by private placement cannot be transferred to others within three years since issuance per Security and Exchange regulations.
- B. The board of directors of the Company agreed on June 21, 2011 to capital injection by issuing common stocks for cash in order to repay loan and improve the Company financial structure. A total of 200,000 thousand shares of common stocks, with face value of \$10 per share, will be issued for a total of \$2,000,000 thousand. Approval has been granted by Financial Supervisory Commission on July 22, 2011 by Doc No. 1000030977. In the event of existing shareholders or employees forfeiting purchasing rights or the event of shortage of subscription of share, the board of directors will authorize the chair of directors to contact a arranged person for purchases. As of August 2, 2011, the board of directors agreed stocks will be issued with the issuance price of NTD 6.4 per share with the official issuance date of September 5, 2011. As of September 19, 2011, registration for the issuance of new stocks is complete.
- C. As of December 31, 2016 and December 31, 2015, the authorized capitals were both \$20,000,000 thousand. Issued capital were both \$8,060,158 thousand with 806,015,782 shares.

(2) Additional paid-in capital

	Dec. 31, 2016	Dec. 31, 2015
Form shares of changes in equities of subsidiaries	\$6,047	\$1,328
The differences between the fair value of consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	16,940	—
Share of changes in net assets of associates and joint ventures accounted for using the equity method	(1,119)	809
Total	<u>\$21,868</u>	<u>\$2,137</u>

A. According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

B. According to the prevailing laws and regulations, each year, the amount of capital increase transferred from capital reserve arising from premiums on issuance of capital stock and donations cannot exceed 10% of the Company's total issued capital.

(3) Retained earnings and dividend policies

The Company's original Articles of Incorporation is listed below:

The company is under a still growing industry environment, considering the company's future capital needs and long-term financial planning for sustainable management and long-term development. According to the annual accounts, if surplus, besides the payment accordance to tax and cover previous year deficits, the distribution of surplus are as follow:

- (a) Legal reserve, which is 10% of leftover profits;
- (b) Special reserve appropriated or reversed as stipulated by laws or competent securities authority. The remaining profits, if any, shall be appropriated in the following manners:
- (c) Remuneration to the directors and supervisors appropriated as 1% of the remaining balance after the deductions specified in Paragraph (A) to (B) of the Article.
- (d) Bonus to the employees appropriated as 10% of the remaining balance after the deductions specified in Paragraph (A) to (B) of the Article.
- (e) The remaining balance combined with the undistributed earnings accumulated during previous years shall be distributed to the shareholders as dividends. (The cash dividend shall not be lower than 10 percent of the total dividends and shall not be higher than 50 percent.)

However, according to the addition of Article 235-1 of the Company Act announced on May 20, 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as “employees’ compensation”, after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employees’ compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders’ meeting. Furthermore the Articles of Incorporation may stipulate that the employees’ compensation could be distributed to employees of affiliated enterprises meeting certain criteria. The Articles of Incorporation are to be amended in accordance with the aforementioned recent amendment to the Company Act in the shareholders’ meeting in 2016. According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Following the adoption of TIFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders’ equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. Following a company’s adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to “other net deductions from shareholders’ equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders’ equity. For any subsequent reversal of other net deductions from shareholders’ equity, the amount reversed may be distributed.

Details of the 2016 and 2015 earnings distribution and dividends per share as approved and resolved by the Board of Directors’ meeting and shareholders’ meeting on March 23, 2017 and June 22, 2016, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	2016(Note)	2015(Note)	2016	2015
Legal reserve	—	—	—	—
Special reserve	—	—	—	—
Common stock -cash dividend	—	—	—	—

(Note):The Company still had accumulated deficit. As a result the Company did not distribute earnings.

Please refer to Note 25 for further details on employees' compensation and remuneration to directors and supervisors.

## 23. OPERATING REVENUE

The detail are as follow:

	For the years ended December 31	
	2016	2015
Sale of goods	\$14,615,897	\$14,800,621
Revenue arising from rendering of services	474,843	349,249
Income on sale of material	102,922	68,103
Total	15,193,662	15,217,973
(Less):Sales returns and allowances	(63,305)	(46,227)
Net sales	\$15,130,357	\$15,171,746

## 24. LEASES

### Operating lease commitments – Company as lessee

#### A.Long-term Rental Agreement:

The Company has entered into a series of land rental agreements with the government which will expire between March 31, 2018 and April 30, 2025. The Company could apply for lease renewal three months prior to the expiry date. If the Company fails to do so, the land shall be returned to the government and the building on the land shall be sold to another approved exporting enterprise within six months after the expiry date. If the Company fails to complete all the above-mentioned procedures within the prescribed six months, the government has the right to dispose the property on the land on the behalf of the Company. The government has the right to adjust the rent based on the publicly announced land value. The government also has the right to terminate the contract if the Company breaches the contract or fails to pay the rent over four months or violates the civil law or the land law.

The Company has signed non-cancellable operating leases. There are no restrictions placed upon the Company by entering into these leases. Future minimum rentals payable as at 31 December 2016 and 2015 are as follows:

	Dec. 31, 2016	Dec. 31, 2015
Within one year	\$20,321	\$10,165
After one year but not more than five years	44,014	27,182
More than five years	21,614	14,144
Total	\$85,949	\$51,491

#### B.Recognized as an expense:

During December 31, 2016 and 2015 the rental expenses were \$9,314 thousand and \$9,245 thousand, respectively.

## 25. EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES

	For the years ended December 31					
	2016			2015		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$2,184,224	\$359,946	\$2,544,170	\$1,970,115	\$318,666	\$2,288,781
Pension	\$116,729	\$21,578	\$138,307	\$84,837	\$16,009	\$100,846
Labor and health insurance	\$235,272	\$33,978	\$269,250	\$201,333	\$29,396	\$230,729
Other employee benefits expense	\$378,842	\$49,016	\$427,858	\$381,552	\$13,023	\$394,575
Depreciation	\$1,315,347	\$52,165	\$1,367,512	\$1,086,079	\$60,135	\$1,146,214
Amortization	\$20,315	\$22,128	\$42,443	\$1,607	\$26,792	\$28,399

A resolution was passed at a Board of Directors meeting of the Company held on June 22, 2016 to amend the Articles of Incorporation of the Company. According to the resolution, 8%~12% of profit of the current year is distributable as employees' compensation and no higher than 3% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. The Articles of Incorporation are to be amended in the shareholders' meeting in 2016.

The Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors based on profit of current year for the year ended 31 December, 2016 and recognized as employee benefits expense. As of December 31, 2016, the Company still had accumulated deficit. As a result the Company's expected amounts of Employees' bonuses and rewards for Directors and Supervisors for the years ended December 31, 2016 was \$0.

The estimated employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2015 were based on post-tax net income of the period and the Company's Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The estimated employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2015 are recognized as employee benefits expense for the period. If the Board modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The difference between the estimation and the resolution of shareholders' meeting will be recognized in profit or loss of the subsequent year. The number of stocks distributed as employee bonuses was calculated based on the closing price one day earlier than the date of shareholders' meeting and considered the impacts of ex-right/ex-dividend. As of December 31, 2015, the Company still had accumulated deficit. As a result the Company's expected amounts of Employees' bonuses and rewards for Directors and Supervisors for the years ended December 31, 2015 was \$0.

As of December 31, 2016 and 2015, the total number of employees of the Company were 6,187 and 5,785, respectively.

Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

## 26. NON-OPERATING INCOME AND EXPENSES

### (1) Other income

	For the years ended December 31	
	2016	2015
Rental income	\$24,206	\$22,870
Interest income	10,170	12,029
Dividend income	2,510	2,510
Other income	97,396	26,356
Total	\$134,282	\$63,765

### (2) Other gains and losses

	For the years ended December 31	
	2016	2015
(Losses) gains on disposal of property, plant and equipment	(\$6,802)	\$4,884
Foreign exchange (losses) gains, net	(81,781)	20,109
Gains (losses) on financial assets at fair value through profit or loss	13,554	(28,113)
Other losses	(121)	(464)
Total	(\$75,150)	(\$3,584)

### (3) Finance costs

	For the years ended December 31	
	2016	2015
Interest on borrowings from bank	(\$120,136)	(\$146,144)
Interest on borrowings from others	(28,213)	(43,447)
Total	(\$148,349)	(\$189,591)



## 27. COMPONENTS OF OTHER COMPREHENSIVE INCOME(LOSS)

For the year ended Dec. 31, 2016

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Items that maybe reclassified subsequently to profit or loss:					
Exchange differences arising on translating of foreign operation	(\$30,079)	—	(\$30,079)	\$5,113	(\$24,966)
Unrealized gain from available-for-sale financial assets	(24,315)	—	(24,315)	4,134	(20,181)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(193)	—	(193)	—	(193)
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	(17,224)	—	(17,224)	2,928	(14,296)
Total	(\$71,811)	—	(\$71,811)	\$12,175	(\$59,636)

For the year ended Dec. 31, 2015

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Items that may be reclassified to profit or loss:					
Exchange differences arising on translating of foreign operation	\$30,956	—	\$30,956	(\$5,263)	\$25,693
Unrealized gain from available-for-sale financial assets	(55,812)	—	(55,812)	9,488	(46,324)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(12,374)	—	(12,374)	—	(12,374)
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit plans	(23,345)	—	(23,345)	3,969	(19,376)
Total	(\$60,575)	—	(\$60,575)	\$8,194	(\$52,381)

## 28. INCOME TAX

(1) The major components of income tax expense (income) are as follows:

### A. Income tax expense (income) recognized in profit or loss

	For the years ended December 31	
	2016	2015
Current income tax (expense) income:		
Current income tax charge	—	—
Adjustments in respect of current income		
tax of prior periods	—	—
Deferred tax (expense):		
Deferred tax (expense)		
relating to origination and reversal		
of temporary differences	(\$22,353)	(\$2,975)
Deferred tax (expense)		
relating to origination and reversal		
of tax loss and tax credit	(104,451)	(244,211)
Total income tax (expense)	(\$126,804)	(\$247,186)

### B. Income tax relating to components of other comprehensive income

	For the years ended December 31	
	2016	2015
Deferred tax (expense) income:		
Exchange differences on translation of		
foreign operations	\$5,113	(\$5,263)
Remeasurements of defined benefit		
plans	2,928	3,969
Unrealized gain from available-for-sale		
financial assets	4,134	9,488
Total other comprehensive income, net		
of tax	\$12,175	\$8,194

(2) A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the years ended December 31	
	2016	2015
Accounting profit before tax from continuing operations	\$631,175	\$1,298,685
At parent company statutory income tax rate of 17%	(107,300)	(220,777)
Tax effect of revenues exempt from taxation	427	427
Tax effect of non-deductible expenses	—	(4,779)
Tax effect of deferred asset/liability	(20,597)	(22,057)
Other adjustment due to taxation	666	—
Total income tax (expense) recognized in profit or loss	(\$126,804)	(\$247,186)

(3) Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2016

	Beginning balance as of Jan. 1, 2016	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Ending balance as of Dec. 31, 2016
Temporary differences				
Unrealized exchange gains and losses	\$2,622	(\$1,380)	—	\$1,242
Loss on inventory obsolescence	39,181	(3,566)	—	35,615
Investments accounted for using the equity method	1,004,963	5,921	\$5,113	1,015,997
Unrealized gains and losses on available-for-sale financial assets	(42,471)	—	4,134	(38,337)
Unrealized intragroup profits and losses	884	(441)	—	443
Impairment of assets	1,793	—	—	1,793
Bad debts	45,942	4,182	—	50,124
Non-current liability – Defined benefit Liability	124,920	(26,575)	2,928	101,273
Compensated absences	4,746	(38)	—	4,708
Other	44,068	(456)	—	43,612
Unused tax losses	203,941	(104,451)	—	99,490
Deferred tax income/ (expense)		(\$126,804)	\$12,175	
Net deferred tax assets/(liabilities)	\$1,430,589			\$1,315,960
Reflected in balance sheet as follows:				
Deferred tax assets	\$1,473,060			\$1,354,297
Deferred tax liabilities	\$42,471			\$38,337

For the year ended December 31, 2015

		Deferred tax income (expense) recognized in other comprehensive income	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Ending balance as of Dec. 31, 2015
	Beginning balance as of Jan. 1, 2015				
Temporary differences					
Unrealized exchange gains and losses	(\$4,515)	\$7,137	—	—	\$2,622
Loss on inventory obsolescence	35,662	3,519	—	—	39,181
Investments accounted for using the equity method	1,025,441	(15,215)	(\$5,263)	—	1,004,963
Unrealized gains and losses on available-for-sale financial assets	(51,959)	—	9,488	—	(42,471)
Unrealized intragroup profits and losses	1,273	(389)	—	—	884
Impairment of assets	1,793	—	—	—	1,793
Bad debts	46,478	(536)	—	—	45,942
Non-current liability – Defined benefit Liability	118,879	2,072	3,969	—	124,920
Compensated absences	3,850	896	—	—	4,746
Other	44,527	(459)	—	—	44,068
Unused tax losses	448,152	(244,211)	—	—	203,941
Deferred tax income/ (expense)		(\$247,186)	\$8,194		
Net deferred tax assets/(liabilities)	<u>\$1,669,581</u>				<u>\$1,430,589</u>
Reflected in balance sheet as follows:					
Deferred tax assets	<u>\$1,726,055</u>				<u>\$1,473,060</u>
Deferred tax liabilities	<u>\$56,474</u>				<u>\$42,471</u>

(4) The following table contains information of the unused tax losses of the Company:

Year	Tax losses for the period	Unused tax losses as of		Expiration year	Note
		Dec. 31, 2016	Dec. 31, 2015		
2006	\$598,921	—	\$598,921	2016	Assessed
2009	\$377,207	\$377,207	377,207	2019	Assessed
2011	\$155,641	155,641	155,641	2021	Assessed
2013	\$52,387	52,387	67,883	2023	Non-assessed
		<u>\$585,235</u>	<u>\$1,199,652</u>		

(5) Unrecognized deferred tax assets

As of December 31, 2016 and 2015, deferred tax assets that have not been recognized as they may not be used to offset taxable profits both amount to \$0.

(6) Imputation credit information

	Dec. 31, 2016	Dec. 31, 2015
A. Balances of imputation credit amounts	\$36,199	\$32,069
B. The tax-deductible rate for retained earnings to be distributed to stockholders were both 0.00%.		
C. OSE's earnings generated in the year ended December 31, 1997 and prior years have been fully appropriated.		

(7) The assessment of income tax returns

As of December 31, 2016, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2011

29. EARNINGS PER SHARE

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

	For the years ended December 31	
	2016	2015
Net income	\$504,371	\$1,051,499
Earnings per share (thousand shares)	806,016	806,016
Earnings per share-basic (NT\$)	\$0.63	\$1.30

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

30. RELATED PARTY TRANSACTIONS

(1) Significant transactions with related parties:

A. Sales

	For the years ended December 31	
	2016	2015
Subsidiaries	\$15,453	\$21,931
Associates	160,753	182,775
Key management personnel of the Company	3,457,337	1,944,245
Total	\$3,633,543	\$2,148,951

The sales price to the above related parties was determined through mutual agreement based on the market rates. The details of credit period are 15~60 days. The outstanding balance at 31 December 2015 and 2014 was unsecured, non-interest bearing and must be settled in cash. The receivables from the related parties were not guaranteed.

**B. Purchase**

	For the years ended December 31	
	2016	2015
Subsidiaries	\$510,264	\$809,947
Associates	9	7,886
Key management personnel of the Company	633	—
Total	\$510,906	\$817,833

The terms of the above-mentioned purchases were similar to those of the Company's vendors.

**C. Intercompany receivables and payables**

	Dec. 31, 2016	Dec. 31, 2015
<u>Accounts Receivable</u>		
Subsidiaries	—	\$6,573
Associates	\$38,365	37,329
Key management personnel of the Company	255,308	657,798
Less: allowance for doubtful debts	(38)	(156)
Total	\$293,635	\$701,544

Other Receivable

Subsidiaries	\$1,758	\$5,172
Associates	1,248	1,543
Key management personnel of the Company	37,069	6,935
Total	\$40,075	\$13,650

Accounts Payable

Subsidiaries	\$57,657	\$264,156
Associates	9,833	12,167
Key management personnel of the Company	90	—
Total	\$67,580	\$276,323

#### D. Property Exchange

For the year ended December 31, 2016

Counterparties	Assets	Amount	The gain(loss) of Selling Assets	The Reference of Trading Price
<u>Purchases</u>				
Associates	Other equipment	\$53,361	NA	Negotiate
Associates	Computer Software	\$88,855	NA	Negotiate

For the year ended December 31, 2015

Counterparties	Assets	Amount	The gain(loss) of Selling Assets	The Reference of Trading Price
<u>Purchases</u>				
Associates	Other equipment	\$15,241	NA	Negotiate
<u>Sales</u>				
Subsidiaries	Machinery and equipment	\$54,499	NA	Negotiate

#### E. Intercompany borrowing

Dec. 31, 2016

Related parties	Maximum amount	Amount	Interest rates	Interest income (expense)
Amount lent to: (included in long-term receivables-affiliates accounts)				
	\$396,829	\$396,829		
Subsidiaries	(USD12,305 thousand)	(USD12,305 thousand)	2.00%	\$7,952
Amount borrowed from: (included in other payable-affiliates accounts)				
Other related			1.65%~	
parties	\$265,000	245,000	3.00%	(\$7,481)

Dec. 31, 2015

Related parties	Maximum amount	Amount	Interest rates	Interest income (expense)
Amount lent to: (included in long-term receivables-affiliates accounts)				
	\$417,202	\$404,704		
Subsidiaries	(USD12,685 thousand)	(USD12,305 thousand)	2.00%	\$7,863
Amount borrowed from: (included in other payable-affiliates accounts)				
Other related			1.65%~	
parties	\$324,900	\$265,000	3.00%	(\$7,240)

F. Compensation of key management personnel

	For the years ended December 31	
	2016	2015
Short-term employee benefits	\$45,606	\$48,198
Post-employment benefits	813	709
Total	\$46,419	\$48,907

G. Other disclosures

(a)The Company has engaged with OSEU as its sales and collection agent in America. For the year ended December 31, 2016, total commission expenses amounted to \$49,948 thousand and the amount unpaid as at December 31, 2016 was \$8,883 thousand, which was included in accrued expenses account.

The Company has engaged with OSEU as its sales and collection agent in America. For the year ended December 31, 2015, total commission expenses amounted to \$25,294 thousand and the amount unpaid as at December 31, 2015 was \$4,188 thousand, which was included in accrued expenses account.

(b)The Company paid \$34,046 thousand and \$8,795 thousand service fees to maintain information system of related parties, which are accounted for as maintenance expenses. As of December 31, 2016 the unpaid maintenance expenses amounted to \$9,833 thousand, which were recorded under accounts payable – affiliates-account.

(c)The rental incomes from Associates for machinery and equipment and furniture and fixtures are as follows :

	For the years ended December 31	
	2016	2015
Associates	\$6,774	\$5,364
Other affiliates	42	—
Total	\$6,816	\$5,364

(d)The summary of the guaranty/ warranty balance toward the Company's affiliates is as follows:

	Dec. 31, 2016	Dec. 31, 2015
Subsidiaries	\$80,625	\$82,225
	(USD2,500 thousand)	(USD2,500 thousand)



### 31. ASSETS PLEDGED AS SECURITY

The following table lists assets of the Company pledged as security:

Assets pledged for security	Carrying amount		Secured liabilities details
	Dec. 31, 2016	Dec. 31, 2015	
Financial assets at fair value through profit or loss, current	\$15,736	\$9,688	Short-term borrowings
Accounts Receivable - Short-term	—	208,462	Short-term borrowings
Accounts Receivable - Long-term	82,744	127,216	Long-term borrowings
Other financial assets-non current-time deposits	128,688	492,003	Short and long-term borrowings
Other financial assets-non current-deposits reserved for repayment	139,363	245,776	Short and long-term borrowings
Investments accounted for using the equity method -ATP	153,318	149,552	Short-term borrowings
Property, plant and equipment-Building and equipment	962,094	1,006,244	Short and long-term borrowings
Property, plant and equipment-Machinery and equipment	3,391,642	1,638,648	Short and long-term borrowings
Property, plant and equipment-Lease Assets	546,901	—	Short and long-term borrowings
Property, plant and equipment-Rental assets- Building	—	22,632	Short and long-term borrowings
Refundable deposits-time deposits	135,045	110,600	Customs export guarantee and Other
Total	<u>\$5,555,531</u>	<u>\$4,010,821</u>	

### 32. COMMITMENTS AND CONTINGENCIES

- (1) Guarantee given by the bank for the payment of input tax imposed for sales from a tax free zone to non-tax free zone amounted to \$200,000 thousand.
- (2) The Company issued promissory notes of \$9,758,225 thousand as guarantees for bank loans.
- (3) The Company issued promissory notes of \$899,921 thousand as guarantee for finance lease.
- (4) The Company issued promissory notes of \$372,999 thousand as guarantee for payments of raw materials purchased.
- (5) The Company issued promissory notes of \$19,200 thousand as guarantee for project.
- (6) The Company has acted as a subcontractor for processing electronic products and provided storage services for outsiders. As of December 31, 2016, the Company kept the processed electronic products of \$7,108,158 thousand and raw materials of \$394,542 thousand on custodian.

### 33. LOSSES DUE TO MAJOR DISASTERS

None.

### 34. SIGNIFICANT SUBSEQUENT EVENTS

None.

### 35. FINANCIAL INSTRUMENTS

#### (1) Categories of financial instruments

<u>Financial assets</u>	<u>Dec. 31, 2016</u>	<u>Dec. 31, 2015</u>
Financial assets at fair value through profit or loss:		
Financial assets at fair value through profit or loss-Current	\$35,266	\$21,712
Available-for-sale financial assets –Non current	267,313	291,628
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	801,885	477,199
Notes, accounts and other receivable	2,662,247	3,143,701
Long-term receivables-Affiliates	510,255	512,265
Subtotal	3,974,387	4,133,165
Total	<u>\$4,276,966</u>	<u>\$4,446,505</u>
 <u>Financial liabilities</u>	 <u>Dec. 31, 2016</u>	 <u>Dec. 31, 2015</u>
Financial liabilities at amortized cost:		
Short-term borrowings	\$1,451,487	\$3,254,414
Short-term notes payable	249,131	249,336
Notes, accounts and other payable	4,340,868	4,998,193
Long-term loans (including of current portion)	3,948,073	1,396,401
Lease payable (including of current portion)	181,887	601,131
Total	<u>\$10,171,446</u>	<u>\$10,499,475</u>

#### (2) Financial risk management objectives and policies

The company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Company identifies measures and manages the aforementioned risks based on the company's policy and risk appetite.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

#### (3) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

#### Foreign currency risk

The company's exposure to the risk of changes in foreign exchange rates relates primarily to the company's operating activities (when revenue or expense are denominated in a different currency from the company's functional currency) and the company's net investments in foreign subsidiaries.

The Company has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Company also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the company's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The company's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency USD and foreign currency JPY.

#### Interest rate risk

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

The Company manages its interest rate risk by having a balanced portfolio of fixed and variable loans and borrowings and entering into interest rate swaps. Hedge accounting does not apply to these swaps as they do not qualify for it.

#### Equity price risk

The company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The company's listed equity securities are classified under held for trading financial assets or available-for-sale financial assets, while unlisted equity securities are classified as available-for-sale. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the company's senior management on a regular basis. The company's Board of Directors reviews and approves all equity investment decisions.

Risks of pre-tax Sensitivity analysis are as follows:

For the year ended December 31, 2016

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency +/- 1%	+/- 19,158 thousand
	NTD/JPY Foreign currency +/- 1%	+/- 3,862 thousand
Interest rate risk	Market rate +/- 10 fundamental proposition	+/- 5,399 thousand
Equity price risk	Market price +/- 10 fundamental proposition	+/- 3,026 thousand

For the year ended December 31, 2015

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency +/- 1%	+/- 11,709 thousand
	NTD/JPY Foreign currency +/- 1%	+/- 7,869 thousand
Interest rate risk	Market rate +/- 10 fundamental proposition	+/- 4,651 thousand
Equity price risk	Market price +/- 10 fundamental proposition	+/- 3,133 thousand

(4) Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

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

As of December 31, 2016 and 2015, amounts receivables from top ten customers represent 69.52% and 55.24% of the total accounts receivables of the Company, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the company's treasury in accordance with the company's policy. The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

(5) Liquidity risk management

The company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments, bank borrowings, convertible bonds and finance leases. The table below summarizes the maturity profile of the company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	<u>Less than 1 year</u>	<u>2 to 3 years</u>	<u>4 to 5 years</u>	<u>&gt; 5 years</u>	<u>Total</u>
As of Dec. 31, 2016					
Borrowings	\$2,804,817	\$2,253,795	\$456,155	—	\$5,514,767
Lease payable	\$228,967	\$39,254	\$13	—	\$268,234
Other payables	\$258,242	—	—	—	\$258,242
As of Dec. 31, 2015					
Borrowings	\$3,954,627	\$719,385	\$13,056	—	\$4,687,068
Lease payable	\$470,739	\$153,427	\$70	—	\$624,236
Other payables	\$272,190	—	—	—	\$272,190

(6) Fair values of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

- (a) The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

- (c) Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
  - (d) Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)
  - (e) The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).
- B. Fair value of financial instruments measured at amortized cost
- The carrying amount of the Company's financial assets and liabilities measured at amortized cost approximate their fair value.
- C. Fair value measurement hierarchy for financial instruments
- Please refer to Note 35. (7) for fair value measurement hierarchy for financial instruments of the Company.

(7) Fair value measurement hierarchy

A. Fair value measurement hierarchy:

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

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

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

Level 3: Unobservable inputs for the asset or liability

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

B. Fair value measurement hierarchy of the Company's assets and liabilities:

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis is as follows:

As of December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Stocks	\$35,266	—	—	\$35,266
Available-for-sale financial assets				
equity securities	—	—	\$267,313	\$267,313

As of December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Stocks	\$21,712	—	—	\$21,712
Available-for-sale financial assets				
equity securities	—	—	\$291,628	\$291,628

Transfers between Level 1 and Level 2 during the period

During the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

	<u>Available-for-sale financial assets</u>
	<u>Stock</u>
Beginning balance as of Jan. 1, 2016	\$291,628
Recognized in other comprehensive income	(24,315)
Transfer out of Level 3	—
Ending balance as of Dec. 31, 2016	<u>\$267,313</u>
	<u>Available-for-sale financial assets</u>
	<u>Stock</u>
Beginning balance as of Jan. 1, 2015	\$347,440
Recognized in other comprehensive income	(55,812)
Transfer out of Level 3	—
Ending balance as of Dec. 31, 2015	<u>\$291,628</u>

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

As of December 31, 2016

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Available-for-sale					
Stocks	Option-Pricing Model	discount for lack of marketability	16%~18%	(1) The higher the discount rate, the lower the fair value of the stocks (2) The higher the discount for lack of marketability, the lower the fair value of the stocks	1% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Company's equity by \$3,193 thousand.

As of December 31, 2015

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Available-for-sale					
Stocks	Market approach	discount for lack of marketability	18%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks	1% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Company's equity by \$27,496 thousand.



(8) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

Dec. 31, 2016			
	Foreign currencies	Foreign exchange rate	NTD
<u>Financial assets</u>			
Monetary items:			
USD	\$102,535	32.25	\$3,306,754
Non-monetary items:			
USD	\$28,811	32.25	\$929,155
<u>Financial liabilities</u>			
Monetary items:			
USD	\$71,940	32.25	\$2,320,065
JPY	\$1,400,143	0.2758	\$386,159
Dec. 31, 2015			
	Foreign currencies	Foreign exchange rate	NTD
<u>Financial assets</u>			
Monetary items:			
USD	\$111,402	32.89	\$3,664,102
Non-monetary items:			
USD	\$30,038	32.89	\$987,950
<u>Financial liabilities</u>			
Monetary items:			
USD	\$75,802	32.89	\$2,493,128
JPY	\$2,879,270	0.2733	\$786,904

(9) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.