# ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

**PARENT COMPANY ONLY**

**FINANCIAL STATEMENTS**

**WITH**

**REPORT OF INDEPENDENT AUDITORS**

**FOR THE YEARS ENDED**

**DECEMBER 31, 2017 AND 2016**

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.

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**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, 2017 and 2016, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, and their financial performance and cash flows for the years ended December 31, 2017 and 2016, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards.

**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 2017 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 where 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 24 in notes to the parent company only financial statements.

2. Deferred tax assets

   The Company recognized deferred tax assets in the amout of $1,394,979 thousand, for the year ended December 31, 2017. 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 29 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 $215,537 thousand, as of December 31, 2017 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 th 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. and OSE USA, INC. and 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 $153,734 thousand and $307,872 thousand, representing 0.93% and 1.77% of parent company only total assets as of December 31, 2017 and 2016, respectively. The related shares of profits from the associates and joint ventures under the equity method amounted to ($106,683) thousand and ($25,708) thousand, representing 13.85% and (4.07%) of the parent company only net loss and net income before tax for the years ended December 31 2017 and 2016, respectively. As of December 31, 2017 and 2016 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 2017 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.

Ernst & Young

Ernst & Young, Taiwan

March 28, 2018

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2017 and December 31, 2016

(Amounts expressed in Thousands of New Taiwan Dollars)

| Items | Notes | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|
| | | Amount | % | Amount | % |
| Current assets | | | | | |
| Cash and cash equivalents | 4, 6 | $1,060,043 | 7 | $802,090 | 5 |
| Financial assets at fair value through profit or loss-Current | 4, 7 | 30,813 | – | 35,266 | – |
| Notes receivable | 4, 8 | 11,950 | – | 12,785 | – |
| Accounts receivable-Non Affiliates | 4, 9, 32 | 2,283,089 | 14 | 2,230,359 | 13 |
| Accounts receivable-Affiliates | 4, 9, 31 | 237,785 | 1 | 293,635 | 2 |
| Other receivable-Non Affiliates | | 27,805 | – | 85,393 | – |
| Other receivable-Affiliates | 31 | 9,751 | – | 40,075 | – |
| Inventories | 4, 10 | 1,193,312 | 8 | 1,088,393 | 6 |
| Prepayments | 4, 16 | 34,602 | – | 53,358 | – |
| Other current assets | | 22,892 | – | 56,104 | – |
| Other financial assets-Current | 32 | 510,960 | 3 | 268,051 | 2 |
| Total current assets | | 5,423,002 | 33 | 4,965,509 | 28 |
| | | | | | |
| Non-current assets | | | | | |
| Available-for-sale financial assets-Non current | 4, 11 | 215,537 | 1 | 265,990 | 2 |
| Financial assets measured at cost-Non current | 4, 12 | 32,689 | – | 1,323 | – |
| Investments accounted for using the equity method | 4, 13, 32 | 1,035,870 | 6 | 1,137,898 | 7 |
| Property, plant, and equipment | 4, 14, 32 | 7,600,104 | 46 | 8,939,936 | 51 |
| Intangible assets | 4, 15 | 78,985 | 1 | 95,048 | 1 |
| Deferred income tax assets | 4, 29 | 1,394,979 | 8 | 1,315,960 | 7 |
| Prepayment for purchase of fixed assets | 4, 16 | 79,953 | 1 | 46,493 | – |
| Refundable deposits | 32 | 186,562 | 1 | 140,044 | 1 |
| Long-term receivables-Affiliates | 4, 17, 31 | 476,791 | 3 | 510,255 | 3 |
| Other non-current assets | | 9,454 | – | 10,323 | – |
| Total non-current assets | | 11,110,924 | 67 | 12,463,270 | 72 |
| | | | | | |
| Total assets | | $16,533,926 | 100 | $17,428,779 | 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, 2017 and December 31, 2016

(Amounts expressed in Thousands of New Taiwan Dollars)

| Items | Notes | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|
| | | Amount | % | Amount | % |
| Current liabilities | | | | | |
| Short-term loans | 18 | $2,192,678 | 14 | $1,451,487 | 8 |
| Short-term notes payable | 19 | 398,938 | 2 | 249,131 | 2 |
| Notes payable | | 25,116 | − | 45,048 | − |
| Other notes payable | | 1,249 | − | 11,627 | − |
| Accounts payable-Non Affiliates | | 2,954,308 | 18 | 2,898,045 | 17 |
| Accounts payable-Affiliates | 31 | 118,127 | 1 | 67,580 | − |
| Accrued expenses | | 602,797 | 4 | 559,492 | 3 |
| Payables on equipment | | 55,665 | − | 514,076 | 3 |
| Other payables-Affiliates | 31 | − | − | 245,000 | 2 |
| Current portion of long-term loans | 20 | 1,586,951 | 10 | 1,401,819 | 8 |
| Lease payable-Current | 4, 21 | 24,495 | − | 157,349 | 1 |
| Other current liabilities | | 201,688 | 1 | 173,838 | 1 |
| Total current liabilities | | 8,162,012 | 50 | 7,774,492 | 45 |
| Non-current liabilities | | | | | |
| Long-term loans | 20 | 2,170,755 | 13 | 2,546,254 | 15 |
| Lease payable-Non current | 4, 21 | 56 | − | 24,538 | − |
| Net defined benefit liabilities-noncurrent | 4, 22 | 537,783 | 3 | 595,722 | 3 |
| Other non-current liabilities | 4 | 3,474 | − | 3,481 | − |
| Total non-current liabilities | | 2,712,068 | 16 | 3,169,995 | 18 |
| Total liabilities | | 10,874,080 | 66 | 10,944,487 | 63 |
| Equity | 4, 23 | | | | |
| Capital | | | | | |
| Common stock | | 8,060,158 | 48 | 8,060,158 | 46 |
| Additional paid-in capital | | 21,420 | − | 21,868 | − |
| Retained earnings | | | | | |
| Retained deficits | | (2,536,872) | (15) | (1,796,040) | (10) |
| Other Components of Equity | | 115,140 | 1 | 198,306 | 1 |
| Total stockholders' equity | | 5,659,846 | 34 | 6,484,292 | 37 |
| Total liabilities and stockholders' equity | | $16,533,926 | 100 | $17,428,779 | 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 STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2017 and 2016

(Amounts expressed in Thousands of New Taiwan Dollars)

| Items | Notes | 2017 | | 2016 | |
|---|---|---|---|---|---|
| | | Amount | % | Amount | % |
| Gross sales | 4, 24, 31 | $13,468,695 | 100 | $15,130,357 | 100 |
| Cost of goods sold | 4, 26 | (13,462,884) | (100) | (13,618,524) | (90) |
| Gross profit | | 5,811 | — | 1,511,833 | 10 |
| Operating expenses | 4, 26 | | | | |
| Selling and administration expenses | | (542,680) | (4) | (626,380) | (4) |
| Research and development expenses | | (239,285) | (2) | (239,815) | (2) |
| Subtotal | | (781,965) | (6) | (866,195) | (6) |
| Operating (loss) income | | (776,154) | (6) | 645,638 | 4 |
| Non-operating income and expenses | 27 | | | | |
| Other income | | 123,267 | 1 | 134,282 | 1 |
| Other gains and losses | | 25,903 | — | (75,150) | — |
| Financial costs | | (138,112) | (1) | (148,349) | (1) |
| Share of profits of associates and joint ventures | 4, 13, 31 | (4,931) | — | 74,754 | — |
| Pretax (loss) income from continuing operations | | (770,027) | (6) | 631,175 | 4 |
| Income tax benefit (expense) | 4, 29 | 56,450 | 1 | (126,804) | (1) |
| Net (loss) income | | (713,577) | (5) | 504,371 | 3 |
| Other comprehensive income | 4, 28 | | | | |
| Items that will not be reclassified subsequently to profit or loss | | | | | |
| Remeasurements of defined benefit plans | | (32,557) | — | (17,224) | — |
| Income tax benefit (expense) related to items that will not be reclassified | | 5,535 | — | 2,928 | — |
| Items that may be reclassified subsequently to profit or loss | | | | | |
| Exchange differences on translation of foreign operations | | (49,747) | — | (30,079) | — |
| Unrealized (loss) gain from available-for-sale financial assets | | (50,453) | — | (24,315) | — |
| Share of other comprehensive (loss) income of associates and joint ventures | | (233) | — | (193) | — |
| Income tax related to components of other comprehensive income (loss) | | 17,034 | — | 9,247 | — |
| Total other comprehensive (loss) income for the period, net of tax | | (110,421) | — | (59,636) | — |
| Total comprehensive income | | ($823,998) | (5) | $444,735 | 3 |
| Basic earnings per share (Expressed in NTD) | 4, 30 | ($0.89) | | $0.63 | |

(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, 2017 and 2016

(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, 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 |
| | | | | | | |
| Balance as of January 1, 2017 | $8,060,158 | $21,868 | ($1,796,040) | $11,134 | $187,172 | $6,484,292 |
| Share of changes in net assets of associates and joint ventures accounted for using the equity method | | (1,113) | | | | (1,113) |
| Loss for the year ended December 31, 2017 | | | (713,577) | | | (713,577) |
| Other comprehensive income for the year ended December 31, 2017 | | | (27,255) | (41,290) | (41,876) | (110,421) |
| Total comprehensive income | — | — | (740,832) | (41,290) | (41,876) | (823,998) |
| From shares of changes in equities of subsidiaries | | 665 | | | | 665 |
| Balance as of December 31, 2017 | $8,060,158 | $21,420 | ($2,536,872) | ($30,156) | $145,296 | $5,659,846 |

(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, 2017 and 2016

(Amounts expressed in Thousands of New Taiwan Dollars)

| Items | 2017 Amount | 2016 Amount |
|---|---|---|
| Cash flows from operating activities: | | |
| Net (loss) income before tax | ($770,027) | $631,175 |
| Adjustments to reconcile net income before tax to net | | |
| cash provided by (used in) operating activities: | | |
| The profit or loss items which did not affect cash flows: | | |
| Depreciation | 1,454,409 | 1,367,512 |
| Amortization | 57,383 | 42,443 |
| Bad debt reversal | (1,321) | (1,954) |
| Net income of financial assets and liabilities at fair value through profit or loss | (53,198) | (13,554) |
| Interest expense | 138,112 | 148,349 |
| Interest revenue | (11,616) | (10,170) |
| Dividend revenue | (3,677) | (2,510) |
| Share of loss (profit) of associates accounted for using the equity method | 4,931 | (74,754) |
| (Gain) Loss on disposal of property, plant and equipment | (25,294) | 6,802 |
| Loss on disposal of investments | 872 | — |
| Loss (Gain) on inventory valuation | 21,662 | (20,974) |
| Changes in operating assets and liabilities: | | |
| Decrease (Increase) in notes receivable | 835 | (196) |
| (Increase) Decrease in accounts receivable-non affiliates | (46,093) | 142,686 |
| Decrease in accounts receivable-affiliates | 50,534 | 408,027 |
| Decrease (Increase) in other receivable-non affiliates | 62,880 | (33,711) |
| Decrease (Increase) in other receivable-affiliates | 44,190 | (26,425) |
| (Increase) Decrease in inventories | (126,581) | 195,670 |
| Decrease in prepayments | 28,949 | 81,298 |
| Decrease (Increase) in other current assets | 33,212 | (16,131) |
| (Increase) in other operating assets | (2,229) | — |
| (Decrease) in notes payable-non affiliates | (30,310) | (282,017) |
| Increase (Decrease) in accounts payable-non affiliates | 53,848 | (21,031) |
| Increase (Decrease) in accounts payable-affiliates | 52,962 | (208,743) |
| Increase (Decrease) in other payable | 12,693 | (5,002) |
| Increase in other current liabilities | 71,155 | 112,885 |
| (Decrease) in net defined benefit liabilities | (90,496) | (156,315) |
| Cash generated from operating activities | 927,785 | 2,263,360 |
| Interest received | 8,609 | 3,197 |
| Net cash provided by operating activities | 936,394 | 2,266,557 |

| Items | 2017 Amount | 2016 Amount |
|---|---|---|
| Cash flows from investing activities: | | |
| Proceeds from disposal of financial asset at fair value through profit or loss | 57,651 | — |
| Acqusition of property, plant and equipment | (680,096) | (2,659,278) |
| Disposal of property, plant and equipment | 76,257 | 128,761 |
| (Increase) in refundable deposits | (46,518) | (24,153) |
| Acqusition of intangible assets | (25,854) | (14,073) |
| Decrease in long-term receivables | 33,464 | 2,010 |
| Acqusition of dividend | 3,677 | 18,439 |
| Net cash (used in) investing activities | (581,419) | (2,548,294) |
| Cash flows from financing activities: | | |
| Increase in short-term loans | 741,178 | — |
| (Decrease) in short-term loans | — | (1,802,894) |
| Increase in short-term notes payable | 398,938 | 249,131 |
| (Decrease) in short-term notes payable | (249,131) | (249,336) |
| Increase in long-term loans | 1,386,000 | 3,561,753 |
| Repayment of long-term loans | (1,577,950) | (1,009,363) |
| (Decrease) in guarantee deposits received | (7) | (30,000) |
| (Decrease) in other payables-affiliates | (245,000) | (20,000) |
| Increase in lease payable | 2,177 | 84,590 |
| (Decrease) in lease payable | (159,513) | (503,834) |
| Interset paid | (150,805) | (143,347) |
| Other financing activities | (242,909) | 469,728 |
| Net cash (used in) provided financing activities | (97,022) | 606,428 |
| Net Increase in cash | 257,953 | 324,691 |
| Cash and cash equivalents, beginning of period | 802,090 | 477,399 |
| Cash and cash equivalents, end of period | $1,060,043 | $802,090 |

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

## 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, 2017, the Company's current liabilities and current assets were $8,162,012 thousand and $5,423,002 thousand, respectively. The current ratio was 66.44%. 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, 2017 and 2016 were authorized for issue by the Board of Directors on March 28, 2018.

## 3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments.

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after 1 January 2017. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

*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.

(2) Standards or interpretations issued, revised or amended, which are endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period 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 recognizes 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: Recognize 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. Consequential amendments on the related disclosures also become 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) *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.

(e) *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.

(f) *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.

(g) *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 recognized 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 derecognized on that date. Any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2018.

(h) *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).

(i) *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.

(j) *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 organization, 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.

(k) *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 recognizes 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 and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2018. Apart from the potential impact of the standards and interpretations listed under (a), (b), (e), and (f) which is described below, all other standards and interpretations have no material impact on the Company:

(a) IFRS 15"*Revenue* from Contracts with Customers" (including Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers")

The Company elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (1 January 2018). The Company also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Company's principal activities consist of the sale of goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Company are summarized as follows:

A. The assembly and testing of the majority in the Company are accepting commissions from customers and providing services. According to the contract, the ownership of the work in progress belongs to suppliers. The Company strengthens the work in progress during the processing, and customers obtain controls when strengthening. The aforementioned transaction complies with recognizing revenue over time of IFRS 15, therefore, the revenue from sale of goods will be recognized revenue over time in replacement of recognizing revenue when goods have been delivered to the buyer. The amount of contract asset, inventory and retained earning will be increased $212,604 thousand, decreased $215,358 thousand and decreased $2,754 thousand by the differences as at the date of initial application.

B. In accordance with the requir ements of IFRS 15, more extensive disclosure would have to be made.

(b) IFRS 9 "Financial Instruments"

The Company elects not to restate prior periods in accordance with the requirements of IFRS 9 at the date of initial application (1 January 2018). The adoption of IFRS 9 has the following impacts on the Company:

A. Classification and measurement of financial assets

<u>Available-for-sale financial assets – equity instrument investments</u>

The assessment of the cash flow characteristics will be based on the facts and circumstances that exited as at the date of initial application.

As these equity instrument investments are not held-for-trading, the Company elected to designate them as financial assets measured at fair value through other comprehensive income. On the date of initial application, the Company will reclassify available-for-sale financial assets (include financial assets measured at cost $32,689 thousand) to financial assets measured at fair value through other comprehensive income of $248,226 thousand. Other related adjustments are described as follow:

(a) The stocks of unlisted companies currently measured at cost in accordance with IAS 39 had an original cost of $295,509 thousand. In accordance with the requirement of IFRS 9, stocks of unlisted companies must be measured at fair value. The estimated fair value of the stocks of unlisted companies was $36,969 thousand, and the Company will reclassify financial assets measured at cost to financial assets measured at fair value through other comprehensive income of $32,689 thousand as at the date of initial application. The Company will decrease the carrying amount by $36,969 thousand, and increase retained earning and decrease other equity by $262,820 thousand and $258,540 thousand, respectively.

(b) The amount of $215,537 thousand of stocks of unlisted companies are currently measured at fair value. As at the date of initial application, except for the reclassification to financial assets measured at fair value through other comprehensive income and other equity accounts, no other difference will incur.

<u>Available-for-sale financial assets – de-recognition of equity investments measured at fair value</u>

Upon de-recognition of equity investments currently classified as available-for-sale measured at fair value, the accumulated gains or losses previously recognized in other comprehensive income was recycled to profit or loss from equity. However, under IFRS 9, subsequent fair value changes of the aforementioned equity investments are recognized in other comprehensive income and cannot be recycled to profit or loss. Upon de-recognition, the accumulated amounts in other component of equity is reclassified to retained earnings (reclassification to profit or loss is not allowed).

<u>Impairment of financial assets</u>

This is applicable to financial assets not measured at fair value through profit or loss. In accordance with IFRS 9, a loss allowance for debt instruments is measured using the expected credit loss model, whereas trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 is measured using the simplified approach (provision matrix). The aforementioned requirements on impairment is different from the current incurred loss model and have no material impact on the Company.

B. Others

Consequential amendments on the related disclosures in IFRS 7 were also made as a result of the application of IFRS 9, which include the disclosure requirements related to the initial application of IFRS 9. Therefore more extensive disclosure would have to be made.

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

Additional disclosure of a reconciliation of the carrying amount of liabilities arising from financing activities at the beginning and end of the period would be required.

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

(a) *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.

(b) *IFRIC 23 "Uncertainty Over Income Tax Treatments"*

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after 1 January 2019.

(c) *IFRS 17 "Insurance Contracts"*

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

(1) estimates of future cash flows;

(2) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and

(3) a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts. IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

(d) *IAS 28"Investment in Associates and Joint Ventures" — Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

(e) *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

(f) *Improvements to International Financial Reporting Standards (2015-2017 cycle):*

*IFRS 3 "Business Combinations"*

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business. The amendments are effective for annual periods beginning on or after 1 January 2019.

*IFRS 11 "Joint Arrangements"*

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. The amendments are effective for annual periods beginning on or after 1 January 2019.

*IAS 12 "Income Taxes"*

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendments are effective for annual periods beginning on or after 1 January 2019.

*IAS 23 "Borrowing Costs"*

The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale. The amendments are effective for annual periods beginning on or after 1 January 2019.

(g) *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset. The amendments are effective for annual periods beginning on or after 1 January 2019.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company's financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Company is still currently determining the potential impact of the standards and interpretations listed under (a), it is not practicable to estimate their impact on the Company at this point in time. All other 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 2017 and 2016 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

(2) Basis of preparation

When preparing the parent company only financial statements, the Company account for subsidiaries and associates by using the equity method. In order to agree with the amount of net income, other comprehensive income and equity attributable to shareholders of the parent in the consolidated financial statements, the differences of the accounting treatment between the parent company only basis and the consolidated basis are adjusted under the heading of investments accounted for using equity method, share of profits of subsidiaries and associates and share of other comprehensive income of subsidiaries and associates in the parent company only financial statements.

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 far 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.

<u>Held-to-maturity financial assets</u>

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.

<u>Loans and receivables</u>

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.

<u>Impairment of financial assets</u>

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 exits 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 reocgnitoin 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 far 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 though 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 Company 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 affects 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.

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

<u>Company as a lessee</u>

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.

<u>Company as a lessor</u>

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.

<u>Sale and leaseback</u>

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 recognisedas 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:

| | Cost of computer software |
|---|---|
| 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:

<u>Sale of goods</u>

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 Company 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) 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 36 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 22 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 counties 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 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 , 2017 | Dec. 31 , 2016 |
|---|---|---|
| Cash on hand | $125 | $205 |
| Demand deposits | 1,059,918 | 801,885 |
| Total | $1,060,043 | $802,090 |

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

| | Dec. 31 , 2017 | Dec. 31 , 2016 |
|---|---|---|
| Designated financial assets at fair value through profit or loss at initial recognition: | | |
| Non-derivative financial assets | | |
| Listed stocks | $11,984 | $38,560 |
| Add：Valuation adjustments | 18,829 | (3,294) |
| Total | $30,813 | $35,266 |

Please refer to Note 32 for the more details on financial assets held for trading under pledge.

8. NOTES RECEIVABLE

| | Dec. 31 , 2017 | Dec. 31, 2016 |
|---|---|---|
| Notes receivables | $11,950 | $12,785 |
| Less: allowance for doubtful debts | (－) | (－) |
| Total | $11,950 | $12,785 |

Notes receivables were not pledged.

9. ACCOUNTS RECEIVABLE AND ACCOUNTS RECEIVABLE－AFFILIATES

(1)

| | Dec. 31 , 2017 | Dec. 31, 2016 |
|---|---|---|
| Accounts receivables | $2,290,586 | $2,234,686 |
| Add : Pledged accounts receivable | － | － |
| Less: allowance for sales returns and discoutns | (4,839) | － |
| Less: allowance for doubtful debts | (2,658) | (4,327) |
| Subtotal | 2,283,089 | 2,230,359 |
| Accounts receivables -affiliates | 238,171 | 293,673 |
| Less: allowance for doubtful debts | (386) | (38) |
| Subtotal | 237,785 | 293,635 |
| Total | $2,520,874 | $2,523,994 |

Please refer to Note 32 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 36 for credit risk disclosure):

| | Individually impaired | Collectively impaired | Total |
|---|---|---|---|
| As of Jan. 1, 2017 | － | $4,365 | $4,365 |
| Charge/reversal for the current period | － | (1,321) | (1,321) |
| As of Dec. 31, 2017 | － | $3,044 | $3,044 |
| | | | |
| 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 |

| | | Past due but not impaired | | | |
|---|---|---|---|---|---|
| | Neither past due nor impaired | 61-90 days | 91-120 days | >=121 days | Total |
| Dec. 31 , 2017 | $2,516,007 | $503 | $610 | $3,754 | $2,520,874 |
| Dec. 31 , 2016 | $2,511,595 | $514 | $2,731 | $9,154 | $2,523,994 |

(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, 2017

| Bank | Contract period | Banking facility | Loan amount | Factored amount |
|---|---|---|---|---|
| Far Eastern Bank | July 6, 2017 ~ July 6, 2018 | $135,000 | － | － |

Dec. 31, 2016

| Bank | Contract period | Banking facility | Loan amount | Factored amount |
|---|---|---|---|---|
| SinoPac Bank | March 23, 2016 ~ March 31, 2017 | US$9,000 $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 | | | － | － |

## 10. INVENTORIES

(1)

| | Dec. 31 , 2017 | Dec. 31, 2016 |
|---|---|---|
| Raw materials | $705,619 | $685,580 |
| Supplies | 86,849 | 78,465 |
| Work in progress | 241,672 | 204,587 |
| Finished goods | 159,172 | 119,761 |
| Total | $1,193,312 | $1,088,393 |

(2)

| | 2017 | 2016 |
|---|---|---|
| Cost of inventories sold | $13,419,388 | $13,583,676 |
| Loss on an realizable value and obsolescence of inventories | 21,342 | 55,732 |
| Loss (gain) in inventory write-off | 21,662 | (20,974) |
| Inventory loss | 492 | 90 |
| Cost of Goods Sold | $13,462,884 | $13,618,524 |

(3) As of December 31, 2017 and 2016, inventories were insured for $10,424,902 thousand and $9,917,203 thousand, respectively.

(4) No inventories were pledged.

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

(1)

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Unlisted stocks | $40,482 | $40,482 |
| Less：Unrealized gains and losses | 175,055 | 225,508 |
| Total | $215,537 | $265,990 |

(2) Stock details are as follows:

| Investee Company | Type of stock | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|---|
| ACTIONTEC | Common stock | $102,023 | $126,367 |
| ACTIONTEC | Preferred stock | 113,514 | 139,623 |
| Total | | $215,537 | $265,990 |

12. FINANCIAL ASSETS MEASURED AT COST－NON CURRENT

(1)

| Investee Company | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| STRATEDGE | $1,323 | $1,323 |
| SPINERGY | － | － |
| GOLFWARE, INC. | － | － |
| SPARQTRON CORP.(Note) | 31,366 | － |
| Total | $32,689 | $1,323 |

(Note)：The Company lost significant influence, therefore, recognized the investment for financial assets measured at cost. Please refer to Note 13 for more detail.

(2) The above investments in the equity instruments of unlisted entities are measured at cost as the fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

(3) No financial assets measured at cost were pledged.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

| | | Dec. 31, 2017 | | Dec. 31, 2016 | |
|---|---|---|---|---|---|
| Investee Company | Type of stock | Amount | Ownership | Amount | Ownership |
| Investments in subsidiaries: | | | | | |
| ORIENT SEMICONDUCTOR ELECRTONICS PHILIPPINES INC.(OSEP) | Common stock | $54,429 | 93.67% | $167,908 | 93.67% |
| OSE USA, INC. (OSEU) | Common stock | 99,306 | 100.00% | 108,909 | 100.00% |
| SPARQTRON CORP. | Common stock | － | － | 31,056 | 9.96% |
| OSE INTERNATIONAL LTD. | Common stock | 266,535 | 100.00% | 264,875 | 100.00% |
| COREPLUS (HK) LIMITED | Common stock | 397,704 | 100.00% | 354,171 | 100.00% |
| Subtotal | | 817,974 | | 926,919 | |
| Investments in associates: | | | | | |
| OSE PROPERTIES, INC. | Common stock | － | 39.99% | － | 39.99% |
| ATP ELECTRONICS, TAIWAN INC. | Common stock | 212,822 | 9.57% | 206,227 | 9.57% |
| INFOFAB, INC. | Common stock | 5,074 | 14.85% | 4,752 | 14.85% |
| SCS HIGHTECH INC. | Common stock | － | 18.17% | － | 18.17% |
| Subtotal | | 217,896 | | 210,979 | |
| Total | | $1,035,870 | | $1,137,898 | |

(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, 2017.

(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) 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.

(8) 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.

(9) 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.

(10) On May 27, 2016, the board of directors of the Company approved to disposal the investment company Sparqtron Corp., at USD 0.05 per common stock 2,000 thousand shares and USD 0.311 per preferred stock A 10,350 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.

(11) In March 2017, the Company lost control of the investee company SPARQTRON, but still has significant influence. Therefore, the investment accounted for using the equity method. In October 2017, the Company had not been the director of SPARQTRON and lost significant influence. Therefore, the investment accounted for financial assets measured at cost, and the Company recognized the investment by fair value. When losing significant influence, the amount of difference between book value and fair value plus selling price was $872 thousand and classfied under loss on disposal of investments.

(12) The share of the profit or loss of these associates and joint ventures for using the equity method are as follows：

| | For the years ended December 31 | |
|---|---|---|
| Investee Companies | 2017 | 2016 |
| OSE PHILIPPNES INC. | ($105,385) | ($34,192) |
| OSE PROPERTIES, INC. | — | — |
| OSE USA, INC. | (1,297) | 4,686 |
| SPARQTRON CORP. | 639 | 3,798 |
| OSE INTERNATIONAL LTD. | 10,677 | 14,626 |
| INFOFAB, INC. | 1,659 | 391 |
| ATP TAIWAN | 22,593 | 22,153 |
| COREPLUS (HK) LIMITED. | 66,183 | 63,292 |
| Total | ($4,931) | $74,754 |

The 2017 and 2016 financial statements were audited by other auditors.

(13) In year 2017 and 2016, the Company obtained cash dividend from ATP Taiwan and InfoFab in the form of cash dividend for $15,037 thousand and $1,114 thousand, $15,037 thousand and $891 thousand, respectively. They are recorded as credit to “Investments accounted for using the equity method”.

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

| | For the years ended December 31 | |
|---|---|---|
| Investee Companies | 2017 | 2016 |
| OSE PHILIPPNES INC. | ($10,170) | ($4,109) |
| OSE USA, INC. | (8,306) | (2,060) |
| SPARQTRON CORP. | 543 | (8,191) |
| OSE INTERNATIONAL LTD. | (9,683) | (4,690) |
| ATP TAIWAN. | 162 | (123) |
| COREPLUS (HK) LIMITED. | (22,293) | (10,906) |
| Net | ($49,747) | ($30,079) |

(15) 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 32 for more details.

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

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

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Total assets (100%) | $3,032,959 | $2,809,663 |
| Total liabilities (100%) | $1,112,327 | $960,115 |

| | For the years ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Revenue (100%) | $3,869,411 | $3,230,146 |
| Profit (100%) | $247,259 | $238,316 |

14. 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, 2017 | $6,919,262 | $17,317,753 | $2,614 | $54,915 | $279,343 | $759,230 | $4,266 | $397,472 | $126,561 | $25,861,416 |
| Additions | 1,116 | — | — | — | — | — | — | — | 84,658 | 85,774 |
| Disposals | (99,862) | (2,731,440) | (860) | (25) | — | — | (4,266) | (47,754) | — | (2,884,207) |
| Transfers | 130,539 | 736,103 | 50 | — | — | (601,019) | — | 5,572 | (194,110) | 77,135 |
| As of Dec.31, 2017 | $6,951,055 | $15,322,416 | $1,804 | $54,890 | $279,343 | $158,211 | — | $355,290 | $17,109 | $23,140,118 |
| Depreciation and impairment: | | | | | | | | | | |
| As of Jan.1, 2017 | $4,000,451 | $12,230,281 | $2,022 | $52,889 | $118,833 | $212,329 | $1,156 | $303,519 | — | $16,921,480 |
| Depreciation | 224,885 | 1,168,444 | 28 | 500 | 6,685 | 23,039 | 70 | 26,407 | — | 1,450,058 |
| Disposals | (99,787) | (2,686,621) | (301) | (25) | — | — | (1,226) | (43,564) | — | (2,831,524) |
| Transfers | — | 183,803 | — | — | — | (183,803) | — | — | — | — |
| As of Dec.31, 2017 | $4,125,549 | $10,895,907 | $1,749 | $53,364 | $125,518 | $51,565 | — | $286,362 | — | $15,540,014 |

| | 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 | $6,919,262 | $17,317,753 | $2,614 | $54,915 | $279,343 | $759,230 | $4,266 | $397,472 | $126,561 | $25,861,416 |
| 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 | $4,000,451 | $12,230,281 | $2,022 | $52,889 | $118,833 | $212,329 | $1,156 | $303,519 | — | $16,921,480 |
| Net carrying amount: | | | | | | | | | | |
| As of Dec.31, 2017 | $2,825,506 | $4,426,509 | $55 | $1,526 | $153,825 | $106,646 | — | $68,928 | $17,109 | $7,600,104 |
| As of Dec.31, 2016 | $2,918,811 | $5,087,472 | $592 | $2,026 | $160,510 | $546,901 | $3,110 | $93,953 | $126,561 | $8,939,936 |

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

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Acquisition of property, plant, and equipment expenditure: | | |
| Increase of property, plant and equipment | $85,774 | $2,586,508 |
| Increase (decrease) of prepayment for equipment | 135,911 | 23,713 |
| Decrease (increase) of payables on equipment | 458,411 | 49,057 |
| Cash expenditure | $680,096 | $2,659,278 |

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

| | For the years ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Prepayments for equipment | $2,474 | $8,306 |
| Capitalisation rate of borrowing costs | 2.08％～3.24％ | 2.04％～2.85％ |

(4) As of December 31, 2017 and 2016, fixed assets were insured for $12,103,998 thousand and $11,803,936 thousand, respectively.

(5) Please refer to Note 32 for more details on property, plant and equipment under pledge.

15. INTANGIBLE ASSETS

(1) As of December 31, 2017 and 2016, 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, 2017 | $222,543 |
| Addition | 25,854 |
| Transfers | 15,466 |
| As of Dec. 31, 2017 | $263,863 |
| As of Jan. 1, 2016 | $110,454 |
| Addition | 14,073 |
| Transfers | 98,016 |
| As of Dec. 31, 2016 | $222,543 |
| | |
| Amortization and impairment： | |
| As of Jan. 1, 2017 | $127,495 |
| Amortization | 57,383 |
| As of Dec. 31, 2017 | $184,878 |
| As of Jan. 1, 2016 | $85,052 |
| Amortization | 42,443 |
| As of Dec. 31, 2016 | $127,495 |

| | Computer software |
|---|---|
| | Amount |
| Dec. 31, 2017 | $78,985 |
| Dec. 31, 2016 | $95,048 |

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

| | For the years ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Operating costs | $34,615 | $20,315 |
| Managing costs | $2,779 | $7,483 |
| Research and development costs | $19,989 | $14,645 |

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

16. PREPAYMENTS

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Current assets－prepayments | | |
| Prepaid expenses | $32,246 | $49,172 |
| Other prepayments | 2,356 | 4,186 |
| Total | $34,602 | $53,358 |
| Non-current assets－prepayments for equipment： | | |
| Prepayment for equipment | $79,953 | $46,493 |

17. LONG-TERM RECEIVABLES-AFFILIATES

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Loan receivable (Note) | $366,436 | $396,828 |
| Receivable for sale/rent of machinery and equipment and payment on behalf (Note) | 72,446 | 78,455 |
| Interest receivable from financial activities (Note) | 37,909 | 34,972 |
| Total | 476,791 | 510,255 |
| (Less) : Allowance for bad debts | (－) | (－) |
| Net | $476,791 | $510,255 |

(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.

18. SHORT-TERM LOANS

(1) Detail are as follows :

| Items | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| L/C | $382,699 | $153,206 |
| Unsecured bank loans | 1,809,979 | 1,189,967 |
| Mortgage loans on machine and equipment | － | 108,314 |
| Total | $2,192,678 | $1,451,487 |

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

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Ranges of interest rates | 1.14％～3.54％ | 1.40%～3.24% |
| Due dates | January 19, 2018～ December 31, 2018 | January 18, 2017～ December 29, 2017 |

(3) As of December 31, 2017 and 2016, unused short-term loans were $1,600,591 thousand and $2,606,240 thousand, respectively.

(4) Please refer to Note 32 for more detail on held for trading financial assets pledged as security for short-term loans.

19. SHORT-TERM NOTES PAYABLE－NET

(1) Detail are as follows :

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Par value of commercial papers | $400,000 | $250,000 |
| (Less) : Discount for short-term notes payable | (1,062) | (869) |
| Net | $398,938 | $249,131 |

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

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Ranges of interest rates | 1.65%～1.988% | 1.94%～2.10% |
| Due dates | January 10, 2018～<br>November 23, 2018 | August 30, 2017～<br>August 31, 2017 |

20. LONG-TERM LOANS

(1) Detail are as follows:

| Items | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Mortgage loan | $3,757,706 | $3,948,073 |
| Less: Due within one year | (1,586,951) | (1,401,819) |
| Net | $2,170,755 | $2,546,254 |

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

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Ranges of interest rates | 1.80%～3.38% | 2.22%～2.88% |
| Due dates | March 01, 2018～<br>July 28, 2021 | June 29, 2017～<br>December 20, 2019 |

(3) Part of property, plant and equipment, and deposits reserved for repayment are pledged as security for the Company's long-term borrowings. Please refer to Note 32 for more details.

21. LONG-TERM LEASE PAYABLE

(1)

| | Dec. 31, 2017 | | Dec. 31, 2016 | |
|---|---|---|---|---|
| | Minimum payments | Present value of payments | Minimum payments | Present value of payments |
| Within one year | $24,835 | $24,495 | $161,247 | $157,349 |
| After one year but not more than five years | 69 | 56 | 24,904 | 24,538 |
| More than five years | — | — | — | — |
| Total minimum lease payments | 24,904 | 24,551 | 186,151 | 181,887 |
| Less amounts representing finance charges | (353) | — | (4,264) | — |
| Present value of minimum lease payments | $24,551 | $24,551 | $181,887 | $181,887 |
| Current | | $24,495 | | $157,349 |
| Non-current | | $56 | | $24,538 |

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

| Year | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| 2017 | － | $161,247 |
| 2018 | $24,835 | 24,835 |
| 2019 | 69 | 69 |
| Total | $24,904 | $186,151 |

22. 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, 2017 and 2016 are $98,932 thousand and $101,106 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.

Costs under the defined contribution plan for the years ended December 31, 2017 and 2016 are $56,267 thousand and $37,201 thousand, respectively.

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 $54,285 thousand to its defined benefit plan during the 12 months beginning after December 31, 2017.

The average duration of the defined benefits plan obligation as at December 31, 2017 and 2016, is the end of the year of 2027 and 2026, respectively.

Pension costs recognized in profit or loss for the years ended December 31, 2017 and 2016:

| | For the years ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Current period service costs | $8,188 | $8,851 |
| Interest income or expense | 8,936 | 11,022 |
| Expected return on plan assets | — | — |
| Total | $17,124 | $19,873 |

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

| | Dec. 31, 2017 | Dec. 31, 2016 | Jan. 1, 2016 |
|---|---|---|---|
| Present value of the defined benefit obligation | $1,022,458 | $1,019,544 | $1,016,344 |
| Plan assets at fair value | (484,675) | (423,822) | (281,531) |
| Other non-current liabilities - Accrued pension liabilities recognized on the company only balance sheets | $537,783 | $595,722 | $734,813 |

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, 2016 | $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 | 24,096 | (4,223) | 19,873 |
| 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 | 15,660 | 1,564 | 17,224 |
| 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 |
| Current period service costs | 8,188 | — | 8,188 |
| Net interest expense (income) | 15,293 | (6,357) | 8,936 |
| Subtotal | 23,481 | (6,357) | 17,124 |
| Remeasurements of the net defined benefit liability (asset): | | | |
| Actuarial gains and losses arising from changes in demographic assumptions | (1,424) | — | (1,424) |
| Actuarial gains and losses arising from changes in financial assumptions | 12,447 | — | 12,447 |
| Experience adjustments | 18,446 | — | 18,446 |
| Return on plan assets | — | 3,087 | 3,087 |
| Subtotal | 29,469 | 3,087 | 32,556 |
| Payments from the plan | (50,036) | 50,036 | — |
| Contributions by employer | — | (107,619) | (107,619) |
| As at Dec. 31, 2017 | $1,022,458 | ($484,675) | $537,783 |

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

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Discount rate | 1.39% | 1.50% |
| Expected rate of salary increases | 1.40% | 1.40% |

A sensitivity analysis for significant assumption as at 31 December 2017 and 2016 is, as shown below:

| | Effect on the defined benefit obligation | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Increase defined benefit obligation | Decrease defined benefit obligation | Increase defined benefit obligation | Decrease defined benefit obligation |
| Discount rate increase by 0.5% | － | $54,153 | － | $60,709 |
| Discount rate decrease by 0.5% | $60,776 | － | $67,904 | － |
| Future salary increase by 0.5% | $60,426 | － | $67,622 | － |
| Future salary decrease by 0.5% | － | $54,402 | － | $61,050 |

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.

23. <u>EQUITY</u>

(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, 2017 and December 31, 2016, 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, 2017 | Dec. 31, 2016 |
|---|---|---|
| Form shares of changes in equities of subsidiaries | $6,712 | $6,047 |
| 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 | 16,940 |
| Share of changes in net assets of associates and joint ventures accounted for using the equity method | (2,232) | (1,119) |
| Total | $21,420 | $21,868 |

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

According to the Company's original Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

(a) Payment of all taxes and dues;

(b) Offset prior years' operation losses;

(c) Set aside 10% of the remaining amount as legal reserve;

(d) Set aside or reverse special reserve in accordance with the requirements for operating and law and regulations;

(e) The remaining balance combined with the undistributed earnings accumulated during previous years shall be distributed to the shareholders as dividends.

The Company shall take into account the changing environment of the industry and development stage of the Company in meeting the needs of capital in the future and in establishing long-term financial planning together with satisfying the shareholders' demand for cash. The earnings distributed for the current year shall not be lower than 10% of accumulated distributable earnings and shall not be distributed if the accumulated distributable earnings is lower than 1% of contributed capital. Cash dividends distributed shall not be lower than 10% of the dividends distributed.

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 6 April 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.

The Board of shareholders' meeting on March 28, 2018 and June 15, 2017, respectively. The Company still had accumulated deficit. As a result the Company did not distribute earnings.

Please refer to Note 26 for further details on employees' compensation and remuneration to directors and supervisors.

24. OPERATING REVENUE

The detail are as follow:

| | For the years ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Sale of goods | $12,937,773 | $14,615,897 |
| Revenue arising from rendering of services | 364,900 | 474,843 |
| Income on sale of material | 196,439 | 102,922 |
| Total | 13,499,112 | 15,193,662 |
| (Less):Sales returns and allowances | (30,417) | (63,305) |
| Net sales | $13,468,695 | $15,130,357 |

25. 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 2017 and 2016 are as follows:

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Within one year | $10,375 | $20,321 |
| After one year but not more than five years | 22,380 | 44,014 |
| More than five years | 9,665 | 21,614 |
| Total | $42,420 | $85,949 |

B.Recognized as an expense:

During December 31, 2017 and 2016 the rental expenses were $13,135 thousand and $9,314 thousand, respectively.

26. EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES

| | For the years ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Operating costs | Operating expenses | Total amount | Operating costs | Operating expenses | Total amount |
| Employee benefits expense | | | | | | |
| Salaries | $2,048,490 | $342,042 | $2,390,532 | $2,184,224 | $359,946 | $2,544,170 |
| Pension | $130,872 | $24,327 | $155,199 | $116,729 | $21,578 | $138,307 |
| Labor and health insurance | $233,669 | $34,708 | $268,377 | $235,272 | $33,978 | $269,250 |
| Other employee benefits expense | $248,265 | $45,194 | $293,459 | $378,842 | $49,016 | $427,858 |
| Depreciation | $1,413,923 | $40,486 | $1,454,409 | $1,315,347 | $52,165 | $1,367,512 |
| Amortization | $34,615 | $22,768 | $57,383 | $20,315 | $22,128 | $42,443 |

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, 2017 and recognized as employee benefits expense. As of December 31, 2017, 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, 2017 was $0.

The estimated employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2016 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, 2016 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, 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.

As of December 31, 2017 and 2016, the total number of employees of the Company were 6,009 and 6,187, 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.

## 27. NON-OPERATING INCOME AND EXPENSES

(1) Other income

| | For the years ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Rental income | $24,626 | $24,206 |
| Interest income | 11,616 | 10,170 |
| Dividend income | 3,677 | 2,510 |
| Other income | 83,348 | 97,396 |
| Total | $123,267 | $134,282 |

(2) Other gains and losses

| | For the years ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Gains (losses) on disposal of property, plant and equipment | $25,294 | ($6,802) |
| Losses on disposal of investments | (872) | — |
| Foreign exchange (losses), net | (51,717) | (81,781) |
| Gains on financial assets at fair value through profit or loss | 53,198 | 13,554 |
| Other losses | — | (121) |
| Total | $25,903 | ($75,150) |

(3) Finance costs

| | For the years ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Interest on borrowings from bank | ($133,944) | ($120,136) |
| Interest on borrowings from others | (4,168) | (28,213) |
| Total | ($138,112) | ($148,349) |

28. COMPONENTS OF OTHER COMPREHENSIVE INCOME(LOSS)

For the year ended Dec. 31, 2017

| | 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 | ($49,747) | — | ($49,747) | $8,457 | ($41,290) |
| Unrealized gain from available-for-sale financial assets | (50,453) | — | (50,453) | 8,577 | (41,876) |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | (233) | — | (233) | — | (233) |
| Items that will not be reclassified subsequently to profit or loss: | | | | | |
| Remeasurements of defined benefit plans | (32,557) | — | (32,557) | 5,535 | (27,022) |
| Total | ($132,990) | — | ($132,990) | $22,569 | ($110,421) |

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 may be reclassified 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 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) |

29. 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 | |
|---|---|---|
| | 2017 | 2016 |
| 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 | ($90,176) | ($22,353) |
| Deferred tax (expense) relating to origination and reversal of tax loss and tax credit | 146,626 | (104,451) |
| Total income tax (expense) | $56,450 | ($126,804) |

B. Income tax relating to components of other comprehensive income

| | For the years ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Deferred tax (expense) income: | | |
| Exchange differences on translation of foreign operations | $8,457 | $5,113 |
| Remeasurements of defined benefit plans | 5,535 | 2,928 |
| Unrealized gain from available-for-sale financial assets | 8,577 | 4,134 |
| Total other comprehensive income, net of tax | $22,569 | $12,175 |

(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 | |
|---|---|---|
| | 2017 | 2016 |
| Accounting (loss) profit before tax from continuing operations | ($770,027) | $631,175 |
| At parent company statutory income tax rate of 17% | 130,904 | (107,300) |
| Tax effect of revenues exempt from taxation | 3,371 | 427 |
| Tax effect of deferred asset/liability | (82,966) | (20,597) |
| Other adjustment due to taxation | 5,141 | 666 |
| Total income tax (expense) recognized in profit or loss | $56,450 | ($126,804) |

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

For the year ended December 31, 2017

| | Beginning balance as of Jan. 1, 2017 | Deferred tax income (expense) recognized in profit or loss | Deferred tax income (expense) recognized in other comprehensive income | Ending balance as of Dec. 31, 2017 |
|---|---|---|---|---|
| Temporary differences | | | | |
| Unrealized exchange gains and losses | $1,242 | ($22) | — | $1,220 |
| Loss on inventory obsolescence | 35,615 | 3,683 | — | 39,298 |
| Investments accounted for using the equity method | 1,015,997 | (28,633) | $8,457 | 995,821 |
| Unrealized gains and losses on available-for-sale financial assets | (38,337) | — | 8,577 | (29,760) |
| Unrealized intragroup profits and losses | 443 | (387) | — | 56 |
| Impairment of assets | 1,793 | — | — | 1,793 |
| Bad debts | 50,124 | (50,124) | — | — |
| Non-current liability – Defined benefit Liability | 101,273 | (15,384) | 5,535 | 91,424 |
| Compensated absences | 4,708 | 1,151 | — | 5,859 |
| Other | 43,612 | (460) | — | 43,152 |
| Unused tax losses | 99,490 | 146,626 | — | 246,116 |
| Deferred tax income/ (expense) | | $56,450 | $22,569 | |
| Net deferred tax assets/(liabilities) | $1,315,960 | | | $1,394,979 |
| Reflected in balance sheet as follows: | | | | |
| Deferred tax assets | $1,354,297 | | | $1,424,739 |
| Deferred tax liabilities | $38,337 | | | $29,760 |

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 |

(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 Dec. 31, 2017 | Unused tax losses as of Dec. 31, 2016 | Expiration year | Note |
|---|---|---|---|---|---|
| 2009 | $377,207 | $377,207 | 377,207 | 2019 | Assessed |
| 2011 | $155,641 | 155,641 | 155,641 | 2021 | Assessed |
| 2013 | $52,387 | 52,387 | 52,387 | 2023 | Assessed |
| 2017 | $862,507 | 862,507 | — | 2027 | Non-assessed |
| | | $1,447,742 | $585,235 | | |

(5) Unrecognized deferred tax assets

As of December 31, 2017 and 2016, 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, 2017 | Dec. 31, 2016 |
|---|---|---|
| A. Balances of imputation credit amounts | $40,661 | $36,199 |

B. The tax-deductible rate for retained earnings to be distributed to stockholders were both 0.00%. The 2016 imputation credit ratio for individual stockholders residing in R.O.C. is half of the original ratio according to Article 66-6 of Income Tax Act. On 18 January 2018, the Legislative Yuan passed amendments to the Income Tax Act that the imputation credit ratio will no longer be used. The expected creditable ratio for 2017 is provided for reference only.

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, 2017, 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 2015 (except for 2014) |

30. 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 | |
|---|---|---|
| | 2017 | 2016 |
| Net (loss) income | ($713,577) | $504,371 |
| Earnings per share (thousand shares) | 806,016 | 806,016 |
| (Loss) earnings per share-basic (NT$) | ($0.89) | $0.63 |

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.

31. RELATED PARTY TRANSACTIONS

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

Name and nature of relationship of the related parties

| Name of the related parties | Nature of relationship of the related parties |
|---|---|
| ORIENT SEMICONDUCTOR ELECTRONICS PHILIPPINES,INC. (OSEP) | Subsidiary |
| OSE USA, INC.（OSEU） | Subsidiary |
| SPARQTRON CORP.(SPARQTRON) | Associate(No longer listed as a related party in the fourth quarter) |
| ATP Electronics Taiwan Inc.(ATP) | Associate |
| INFOFAB, INC.(INFOFAB) | Associate |
| OSE INTERNATIONAL LTD.(B.V.I) | Subsidiary |
| COREPLUS (HK) LIMITED.(COREPLUS) | Subsidiary |
| GOLFWARE INC. | Substantive related party |
| VALUE–PLUS TECHNOLOGY (SUZHOU) CO.(VALUE–PLUS (SUZHOU)) | Subsidiary |
| Chin-Hsing Investment Co., Ltd. | Substantive related party |
| YUANJEN INVESTMENT CO., LTD. | Substantive related party |
| Edward Du et al. | Director of the Company |
| Michael Lee et al. | The management of Vice General Manager |
| Phison Electronics Corporation(PHISON) | Legal Director of the Company |
| Longsys Electronics Co., Ltd. | Legal Director of the Company |
| Longsys (HK) Electronics Co., Ltd. | Associate of Legal Director of the Company |
| DIAMOND DIGITAL CORPORATION(DIAMOND) | Substantive related party(No longer listed as a related party in the fourth quarter) |

(1) Significant transactions with related parties:

A.Sales

| | For the years ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Subsidiaries | $438 | $15,453 |
| Associates | 150,681 | 160,753 |
| PHISON | 1,043,413 | 1,911,019 |
| LONGSYS | 611,187 | 1,546,318 |
| Substantive related party | 62,072 | — |
| Total | $1,867,791 | $3,633,543 |

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 2017 and 2016 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 | |
|---|---|---|
| | 2017 | 2016 |
| COREPLUS | $620,411 | $497,934 |
| Subsidiaries | — | 12,330 |
| Associates | 11,443 | 9 |
| Key management personnel of the Company | — | 633 |
| Substantive related party | 4,792 | — |
| Total | $636,646 | $510,906 |

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

C. Accounts Receivable

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Subsidiaries | $431 | — |
| ATP | 31,621 | $38,365 |
| LONGSYS | 120,590 | 169,943 |
| PHISON | 85,529 | 85,365 |
| Less: allowance for doubtful debts | (386) | (38) |
| Total | $237,785 | $293,635 |

D. Other Receivable

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| VALUE－PLUS | $7,219 | $1,758 |
| Associates | 1,082 | 1,248 |
| LONGSYS | 1,450 | 5,032 |
| PHISON | — | 32,037 |
| Total | $9,751 | $40,075 |

E. Accounts Payable

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| COREPLUS | $100,685 | $55,422 |
| Subsidiaries | 363 | 2,235 |
| INFOFAB | 17,069 | 9,833 |
| Key management personnel of the Company | 10 | 90 |
| Total | $118,127 | $67,580 |

F. Property Exchange

For the year ended December 31, 2017

| Counterparties | Assets | Amount | The gain(loss) of Selling Assets | The Reference of Trading Price |
|---|---|---|---|---|
| Purchases | | | | |
| INFOFAB | Buildings | $713 | NA | Negotiate |
| INFOFAB | Other equipment | 5,017 | NA | Negotiate |
| INFOFAB | Computer Software | 21,013 | NA | Negotiate |
| | Total | $26,743 | | |

| Counterparties | Assets | Unreduced balance | Selling Amount | The gain(loss) of Selling Assets | The Reference of Trading Price |
|---|---|---|---|---|---|
| Sales | | | | | |
| DIAMOND | Machinery and equipment | $43,523 | $55,751 | $12,228 | Negotiate |
| DIAMOND | Transportation equipment | 559 | 559 | — | Negotiate |
| DIAMOND | Leasehold improvement | 3,040 | 3,040 | — | Negotiate |
| DIAMOND | Other equipment | 4,190 | 10,687 | 6,497 | Negotiate |
| Subsidiaries | Machinery and equipment | 329 | 886 | 557 | Negotiate |
| | Total | $51,641 | $70,923 | $19,282 | |

For the year ended December 31, 2016

| Counterparties | Assets | Amount | The gain(loss) of Selling Assets | The Reference of Trading Price |
|---|---|---|---|---|
| Purchases | | | | |
| INFOFAB | Other equipment | $53,361 | NA | Negotiate |
| INFOFAB | Computer Software | 88,855 | NA | Negotiate |
| | Total | $142,216 | | |

G. Intercompany borrowing

| Related parties | Dec. 31, 2017 Maximum amount | Amount | Interest rates | Interest income (expense) |
|---|---|---|---|---|
| Amount lent to: (included in long-term receivables-affiliates accounts) | | | | |
| OSEP | $366,436 (USD12,305 thousand) | $366,436 (USD12,305 thousand) | 2.00% | $7,455 |
| Amount borrowed from: (included in other payable-affiliates accounts) | | | | |
| Other related parties | $245,000 | – | – | – |

| Related parties | Dec. 31, 2016 Maximum amount | Amount | Interest rates | Interest income (expense) |
|---|---|---|---|---|
| Amount lent to: (included in long-term receivables-affiliates accounts) | | | | |
| Subsidiaries | $396,828 (USD12,305 thousand) | $396,828 (USD12,305 thousand) | 2.00% | $7,952 |
| Amount borrowed from: (included in other payable-affiliates accounts) | | | | |
| Other related parties | $265,000 | $245,000 | 1.65%~ 3.00% | ($7,481) |

H. Compensation of key management personnel

| | For the years ended December 31 2017 | 2016 |
|---|---|---|
| Short-term employee benefits | $38,362 | $45,606 |
| Post-employment benefits | 720 | 813 |
| Total | $39,082 | $46,419 |

I.Other disclosures

(a)The Company has engaged with OSEU as its sales and collection agent in America. For the year ended December 31, 2017, total commission expenses amounted to $33,600 thousand and the amount unpaid as at December 31, 2017 was $7,510 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, 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.

(b)As of December 31,2017 and 2016, the Company paid $36,507 thousand and $2,416 thousand、$34,046 thousand and $8,795 thousand service fees to maintain information system of INFOFAB, respectively, which are accounted for as maintenance expenses. As of December 31, 2017 and 2016, the unpaid maintenance expenses amounted to $17,069 thousand and $9,833 thousand, respectively, 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 | |
|---|---|---|
| | 2017 | 2016 |
| ATP | $4,258 | $3,834 |
| INFOFAB | 2,940 | 2,940 |
| Other affiliates | 42 | 42 |
| Total | $7,240 | $6,816 |

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

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| COREPLUS | $74,450 | $80,625 |
| | (USD2,500 thousand) | (USD2,500 thousand) |

(e)As at December 31, 2017, the Company's earned $3,482 thousand of labour expense for business support to DIAMOND and recognized other income.

32. <u>ASSETS PLEDGED AS SECURITY</u>

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

| | Carrying amount | | |
|---|---|---|---|
| Assets pledged for security | Dec. 31, 2017 | Dec. 31, 2016 | Secured liabilities details |
| Financial assets at fair value through profit or loss, current | — | $15,736 | Short-term borrowings |
| Accounts Receivable – Long-term | — | 82,744 | Long-term borrowings |
| Other financial assets–non current–time deposits | $389,832 | 128,688 | Short and long-term borrowings |
| Other financial assets–non current–deposits reserved for repayment | 121,128 | 139,363 | Short and long-term borrowings |
| Investments accounted for using the equity method –ATP | 158,221 | 153,318 | Short-term borrowings |
| Property, plant and equipment–Building and equipment | 919,768 | 962,094 | Short and long-term borrowings |
| Property, plant and equipment–Machinery and equipment | 3,013,675 | 3,391,642 | Short and long-term borrowings |
| Property, plant and equipment–Lease Assets | 106,646 | 546,901 | Short and long-term borrowings |
| Refundable deposits-time deposits | 182,572 | 135,045 | Customs export guarantee and Other |
| Total | $4,891,842 | $5,555,531 | |

33. <u>COMMITMENTS AND CONTINGENCIES</u>

(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 $8,428,108 thousand as guarantees for bank loans.

(3) The Company issued promissory notes of $170,751 thousand as guarantee for finance lease.

(4) The Company issued promissory notes of $5,472 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, 2017, the Company kept the processed electronic products of $7,536,676 thousand and raw materials of $518,682 thousand on custodian.

(7) As of December 31, 2017, the Company had opened an unused letter of credit amounting to JPY 212,926 thousand.

34. <u>LOSSES DUE TO MAJOR DISASTERS</u>

None.

35. SIGNIFICANT SUBSEQUENT EVENTS

On 18 January 2018, the Legislative Yuan passed amendments to the Income Tax Act. The amendments raised the corporate income tax rate for companies from 17% to 20%. After the change of the tax rate, the deferred tax assets and deferred tax liabilities will be increased by $251,424 thousand and $5,252 thousand, respectively.

36. FINANCIAL INSTRUMENTS

(1) Categories of financial instruments

| Financial assets | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Financial assets at fair value through profit or loss: | | |
| Financial assets at fair value through profit or loss-Current | $30,813 | $35,266 |
| Available-for-sale financial assets –Non current (including $32,689 reported as financial assets measured at cost in balance sheet) | 248,226 | 267,313 |
| Loans and receivables: | | |
| Cash and cash equivalents (exclude cash on hand) | 1,059,918 | 801,885 |
| Notes, accounts and other receivable | 2,570,380 | 2,662,247 |
| Long-term receivables-Affiliates | 476,791 | 510,255 |
| Subtotal | 4,107,089 | 3,974,387 |
| Total | $4,386,128 | $4,276,966 |

| Financial liabilities | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Financial liabilities at amortized cost: | | |
| Short-term borrowings | $2,192,678 | $1,451,487 |
| Short-term notes payable | 398,938 | 249,131 |
| Notes, accounts and other payable | 3,757,262 | 4,340,868 |
| Long-term loans (including of current portion) | 3,757,706 | 3,948,073 |
| Lease payable (including of current portion) | 24,551 | 181,887 |
| Total | $10,131,135 | $10,171,446 |

(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 activates. 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, 2017

| Key risk | Variation | Sensitivity of profit and loss |
|---|---|---|
| Foreign currency risk | NTD/USD Foreign currency +/− 1% | +/− 24,451 thousand |
| | NTD/JPY Foreign currency +/− 1% | +/− 78 thousand |
| Interest rate risk | Market rate +/− 10 fundamental proposition | +/− 5,951 thousand |
| Equity price risk | Market price +/− 10 fundamental proposition | +/− 2,790 thousand |

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 |

(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, 2017 and 2016, amounts receivables from top ten customers represent 73.64% and 69.52% 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

| | Less than 1 year | 2 to 3 years | 4 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| As of Dec. 31, 2017 | | | | | |
| Borrowings | $3,781,483 | $2,010,755 | $160,000 | － | $5,952,238 |
| Lease payable | $24,835 | $69 | － | － | $24,904 |
| | | | | | |
| 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 |

(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 36. (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, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Stocks | $30,813 | – | – | $30,813 |
| Available-for-sale financial assets | | | | |
| equity securities | – | – | $248,226 | $248,226 |

As of December. 31, 2016

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| 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 |

Transfers between Level 1 and Level 2 during the period

During the years ended December 31, 2017 and 2016, 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:

| | Available-for-sale financial assets |
|---|---|
| | Stock |
| Beginning balance as of Jan. 1, 2017 | $267,313 |
| Recognized in other comprehensive income | (50,453) |
| Transfer in of reclassifying | 31,366 |
| Transfer out of Level 3 | — |
| Ending balance as of Dec. 31, 2017 | $248,226 |

| | Available-for-sale financial assets |
|---|---|
| | Stock |
| 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 | $267,313 |

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, 2017

| | 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 | 13%~16% | (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 $2,502 thousand. |

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. |

(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, 2017 | | |
|---|---|---|---|
| | Foreign currencies | Foreign exchange rate | NTD |
| Financial assets | | | |
| Monetary items: | | | |
| USD | $135,220 | 29.78 | $4,026,852 |
| JPY | $443,960 | 0.2647 | $117,516 |
| Non-monetary items: | | | |
| USD | $28,213 | 29.78 | $840,183 |
| Financial liabilities | | | |
| Monetary items: | | | |
| USD | $81,327 | 29.78 | $2,421,918 |
| JPY | $473,334 | 0.2647 | $125,292 |

| | Dec. 31, 2016 | | |
|---|---|---|---|
| | Foreign currencies | Foreign exchange rate | NTD |
| Financial assets | | | |
| Monetary items: | | | |
| USD | $102,535 | 32.25 | $3,306,754 |
| Non-monetary items: | | | |
| USD | $28,811 | 32.25 | $929,155 |
| Financial liabilities | | | |
| Monetary items: | | | |
| USD | $71,940 | 32.25 | $2,320,065 |
| JPY | $1,400,143 | 0.2758 | $386,159 |

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

The Company's entities functional currencies are various, and hence are not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant asset and liability denominated in foreign currencies. The foreign exchange losses were $51,717 thousand and $81,781 thousand for the ended December 31, 2017 and 2016, respectively.

(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.