

**ORIENT SEMICONDUCTOR ELECTRONICS LIMITED  
AND SUBSIDIARIES  
CONSOLIDATED 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.

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

To Orient Semiconductor Electronics Limited

**Opinion**

We have audited the accompanying consolidated balance sheets of Orient Semiconductor Electronics Limited (the "Company") and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including the summary of significant accounting policies (collectively referred to as "the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2017 and 2016, and their consolidated 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, International Accounting Standards, interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by the Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matter.



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 rights' significant risk and remuneration were transferred. However, if the sale is not recognized in an appropriate period, it may have significant impact 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; and regarding transaction of some time before and after the reporting date, analyzing the reasonableness of fluctuations and selecting samples to perform cutoff procedures, tracing to relevant documentation 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 25 to the Company's consolidated financial statements.

2. Deferred tax assets

The Company recognized deferred tax assets and deferred tax liabilities in the amount of \$1,394,979 thousand and \$0 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 was 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 Note 5 and Note 31 to the Company's consolidated 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, which accounted for 1% of total assets 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 the design and operating effectiveness of internal controls around valuation of financial assets, including management's decision and approval of the methods and assumptions used in the valuation model; reassessing the reasonableness of the selection of comparable entities and discounts for lack of marketability for individual investments with the assistance of our internal valuation specialists on a sample basis; assessing whether the valuations performed by management were within a reasonable range compared to the valuations performed by our internal valuation specialists; and validating the accuracy of inputs of financial information of the selected comparable entities by benchmarking them with public information.

We also considered the appropriateness of the disclosures of available-for-sale financial assets. Please refer to Note 5 and Note 11 to the Company's consolidated financial statements.

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

We did not audit the financial statements of certain consolidated subsidiaries, whose statements reflected total assets of \$768,667 thousand and \$1,367,554 thousand accounting for 4.60% and 7.57% of consolidated total assets as of December 31, 2017 and 2016, respectively; total operating revenues amounted to \$33,714 thousand and \$471,230 thousand, constituting 0.24% and 2.99% of consolidated operating revenues for the years ended December 31 2017 and 2016, respectively. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the audit reports of the other 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 under equity method amounted to \$414,213 thousand and \$406,883 thousand, representing 2.48% and 2.25% of consolidated 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 \$43,225 thousand and \$41,076 thousand, representing (5.75%) and 6.45% of the consolidated net income before tax for the years ended December 31 2017 and 2016, respectively, and the related shares of other comprehensive income from the associates and joint ventures under the equity method amounted to \$0 thousand and \$0 thousand, representing 0% and 0% of the consolidated other comprehensive income for the years ended December 31, 2017 and 2016, respectively.



## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the 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 Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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.



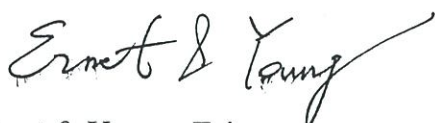
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We have audited and expressed an unqualified opinion on the parent company only financial statements of the Company as of and for the years ended December 31, 2017 and 2016.



Ernst & Young, Taiwan

March 28, 2018

English Translation of Financial Statements Originally Issued in Chinese  
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
As of December 31, 2017 and 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	\$1,294,247	8	\$1,073,721	6
Financial assets at fair value through profit or loss-Current	4, 7, 35	30,813	—	35,266	—
Notes receivable	4, 8	11,950	—	12,785	—
Accounts receivable-Non Affiliates	4, 9, 35	2,326,128	14	2,293,028	14
Accounts receivable-Affiliates	4, 9, 34	237,354	2	293,635	2
Other receivable-Non Affiliates		55,870	—	104,829	—
Other receivable-Affiliates	34	45,095	—	81,909	—
Inventories	4, 10	1,427,892	9	1,487,131	8
Prepayments	4, 17	56,390	—	113,533	1
Other current assets		30,802	—	56,059	—
Other financial assets-Current	35	510,960	3	268,051	1
Total current assets		6,027,501	36	5,819,947	32
Non-current assets					
Available-for-sale financial assets-Non current	4, 11	215,537	2	265,990	1
Financial assets measured at cost-Non current	4,12	37,246	—	9,009	—
Investments accounted for using the equity method	4, 13, 35	419,287	3	411,635	2
Property, plant, and equipment	4, 14, 35	7,646,666	46	9,174,961	51
Investment Property	4, 15	494,849	3	640,819	4
Intangible assets	4, 16	79,680	—	95,977	1
Deferred income tax assets	4, 31	1,394,979	8	1,318,908	7
Prepayment for purchase of fixed assets	4, 17	79,953	—	50,382	—
Refundable deposits	35	208,969	1	164,695	1
Long-term receivables-Affiliates	4, 18,34	92,384	1	100,047	1
Other non-current assets	4	14,257	—	20,260	—
Total non-current assets		10,683,807	64	12,252,683	68
Total assets		\$16,711,308	100	\$18,072,630	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 AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
As of December 31, 2017 and 2016  
(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Notes	December 31, 2017		December 31, 2016	
		Amount	%	Amount	%
Current liabilities					
Short-term loans	19	\$2,192,678	13	\$1,474,062	8
Short-term notes payable	20	398,938	3	249,131	2
Notes payable		25,116	—	45,048	—
Other notes payable		1,249	—	11,627	—
Accounts payable-Non Affiliates		3,177,352	19	3,200,021	18
Accounts payable-Affiliates	34	18,447	—	9,923	—
Accrued expenses		657,298	4	607,977	3
Payables on equipment		55,665	—	514,076	3
Other payables-Affiliates	34	—	—	248,693	1
Current income tax liabilities	4	5,704	—	16	—
Current portion of long-term loans	21	1,586,951	10	1,411,496	8
Lease payable-Current	4, 22	24,495	—	157,349	1
Other current liabilities		195,401	1	185,959	1
Total current liabilities		8,339,294	50	8,115,378	45
Non-current liabilities					
Long-term loans	21	2,170,755	13	2,656,909	15
Lease payable-Non current	4, 22	56	—	24,538	—
Net defined benefit liability-Non current	4, 23	537,783	3	595,722	3
Other non-current liabilities-Others	4	3,574	—	3,583	—
Total non-current liabilities		2,712,168	16	3,280,752	18
Total liabilities		11,051,462	66	11,396,130	63
Equity attributable to the parent company	4, 24				
Capital					
Common stock		8,060,158	48	8,060,158	45
Additional paid-in capital		21,420	—	21,868	—
Recognize changes in subsidiaries' ownership					
Retained earnings					
Retained deficits		(2,536,872)	(15)	(1,796,040)	(10)
Other Components of Equity		115,140	1	198,306	1
Equity attributable to stockholders of the parent		5,659,846	34	6,484,292	36
Non-controlling interests		—	—	192,208	1
Total stockholders' equity		5,659,846	34	6,676,500	37
Total liabilities and stockholders' equity		\$16,711,308	100	\$18,072,630	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 AND SUBSIDIARIES  
CONSOLIDATED 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	%
Net revenue	4, 25	\$13,886,312	100	\$15,786,333	100
Cost of goods sold	4, 28	(13,704,676)	(99)	(13,989,409)	(89)
Gross profit		181,636	11	1,796,924	11
Operating expenses	4, 28				
Selling and administration expenses		(666,725)	(5)	(873,497)	(5)
Research and development expenses		(239,284)	(1)	(239,815)	(2)
Subtotal		(906,009)	(6)	(1,113,312)	(7)
Operating income		(724,373)	(5)	683,612	4
Non-operating income and expenses	29				
Other income		122,843	1	133,446	1
Other gains and losses		(56,432)	—	(70,788)	—
Financial costs		(139,087)	(1)	(151,084)	(1)
Share of profit of associates under equity method	4, 13	45,524	—	41,467	—
Pretax income		(751,525)	(5)	636,653	4
Income tax expense	4, 31	36,721	—	(132,814)	(1)
Aftertax income from continuing operations		(714,804)	(5)	503,839	3
Consolidated net income		(714,804)	(5)	503,839	3
Other comprehensive income	4, 30				
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		(51,640)	—	(23,597)	—
Unrealized (loss) from available-for-sale financial assets		(50,453)	—	(24,315)	—
Share of other comprehensive (loss) of associates and joint ventures		(233)	—	(193)	—
Income tax relating to components of other comprehensive income		17,034	—	9,247	—
Total other comprehensive (loss) income for the period, net of tax		(112,314)	—	(53,154)	—
Total comprehensive income		<u>(\$827,118)</u>	<u>(5)</u>	<u>\$450,685</u>	<u>3</u>
Consolidated net income attributable to:					
Common stockholders of the parent		(\$713,577)	(5)	\$504,371	3
Non controlling interests		(1,227)	—	(532)	—
		<u>(\$714,804)</u>	<u>(5)</u>	<u>\$503,839</u>	<u>3</u>
Consolidated comprehensive income attributable to:					
Common stockholders of the parent		(\$823,998)	(5)	\$444,735	3
Non-controlling interests		(3,120)	—	5,950	—
		<u>(\$827,118)</u>	<u>(5)</u>	<u>\$450,685</u>	<u>3</u>
Basic earnings per share (Expressed in NTD)	4, 32	<u>(\$0.89)</u>		<u>\$0.63</u>	

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

English Translation of Financial Statements Originally Issued in Chinese  
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
For the years ended December 31, 2017 and 2016  
(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Equity attributable to stockholders of the parent						Non-Controlling Interests	Total Equity
	Common stock	Capital surplus	Retained earnings	Other equity		Total		
			Retained deficits	Exchange differences on translation of foreign operations	Unrealized gains 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	\$144,211	\$6,164,037
Share of changes in net assets of associates and joint ventures accounted for using equity method		(1,928)				(1,928)	—	(1,928)
Profit for the years ended December 31, 2016			504,371			504,371	(532)	503,839
Other comprehensive income for the years ended December 31, 2016			(14,489)	(24,966)	(20,181)	(59,636)	6,482	(53,154)
Total comprehensive income	—	—	489,882	(24,966)	(20,181)	444,735	5,950	450,685
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	(16,940)	—
From shares of changes in equities of subsidiaries		4,719				4,719	—	4,719
Changes in non-controlling interests						—	58,987	58,987
Balance as of December 31, 2016	<u>\$8,060,158</u>	<u>\$21,868</u>	<u>(\$1,796,040)</u>	<u>\$11,134</u>	<u>\$187,172</u>	<u>\$6,484,292</u>	<u>\$192,208</u>	<u>\$6,676,500</u>
Balance as of January 1, 2017	\$8,060,158	\$21,868	(\$1,796,040)	\$11,134	\$187,172	\$6,484,292	\$192,208	\$6,676,500
Share of changes in net assets of associates and joint ventures accounted for using equity method		(1,113)				(1,113)	—	(1,113)
Profit for the years ended December 31, 2017			(713,577)			(713,577)	(1,227)	(714,804)
Other comprehensive income for the years ended December 31, 2017			(27,255)	(41,290)	(41,876)	(110,421)	(1,893)	(112,314)
Total comprehensive income	—	—	(740,832)	(41,290)	(41,876)	(823,998)	(3,120)	(827,118)
Effect of deconsolidation of subsidiary						—	(192,208)	(192,208)
From shares of changes in equities of subsidiaries		665				665	—	665
Changes in non-controlling interests						—	3,120	3,120
Balance as of December 31, 2017	<u>\$8,060,158</u>	<u>\$21,420</u>	<u>(\$2,536,872)</u>	<u>(\$30,156)</u>	<u>\$145,296</u>	<u>\$5,659,846</u>	<u>—</u>	<u>\$5,659,846</u>

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



English Translation of Financial Statements Originally Issued in Chinese  
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2017 and 2016  
(Amounts expressed in Thousands of New Taiwan Dollars)

Items	2017	2016	Items	2017	2016
	Amount	Amount		Amount	Amount
Cash flows from operating activities:			Cash flows from investing activities:		
Pretax (loss) income from continuing operations	(\$751,525)	\$636,653	Disposal of available-for-sale financial assets	57,651	—
Adjustments to reconcile net income (loss) before tax to net			Acquisition of financial assets measured at cost	—	(7,686)
The profit or loss items which did not affect cash flows:			Acquisition of investments accounted for under the equity method	—	(3,096)
Depreciation	1,483,370	1,420,476	Cashflow of subsidiaries derecognition	(98,513)	—
Amortization	58,097	43,138	Acquisition of property, plant and equipment	(677,436)	(2,679,195)
Bad debt (reversal) expenses	(996)	(1,200)	Disposal of property, plant and equipment	80,661	131,603
Net (income) loss of financial assets and liabilities at fair value through profit or loss	(53,198)	(13,554)	(Increase) in refundable deposits	(44,704)	(23,330)
Interest expense	139,087	151,084	Acquisition of intangible assets	(26,388)	(14,073)
Interest revenue	(6,794)	(5,027)	Decrease in long-term receivables	7,663	1,985
Dividend income	(3,677)	(2,510)	Acquisition of dividend	3,677	32,163
Share of (profit) of associates accounted for using the equity method	(45,524)	(41,467)	Other investing activities	1,569	3,224
(Gain) Loss on disposal of property, plant and equipment	(21,865)	7,125	Net cash (used) by investing activities	(695,820)	(2,558,405)
Loss on disposal of investments	872	—			
Loss (Reversal) of impairment of non-financial assets	75,591	(299)	Cash flows from financing activities:		
(Gain) Loss from price recovery of inventory	21,502	(20,797)	Increase in short-term loans	741,178	—
Changes in operating assets and liabilities:			(Decrease) in short-term loans	—	(1,780,319)
Decrease (Increase) in notes receivable-non affiliates	835	(196)	Increase in short-term notes payable	398,938	249,131
(Increase) Decrease in accounts receivable-non affiliates	(63,136)	162,223	(Decrease) in short-term notes payable	(249,131)	(249,336)
Decrease in accounts receivable-affiliates	55,933	401,454	Increase in long-term loans	1,386,000	3,667,507
Decrease (Increase) in other receivable-non affiliates	45,026	(54,875)	Repayment of long-term loans	(1,577,950)	(1,015,535)
Decrease (Increase) in other receivable-affiliates	66,409	(31,525)	(Decrease) in guarantee deposits received	(9)	(29,958)
(Increase) Decrease in inventories	(3,248)	29,777	(Decrease) in other payable-affiliates	(245,000)	(16,307)
Decrease in prepayments	20,536	48,610	Increase in lease payable	2,177	84,590
Decrease (Increase) in other current assets	25,139	(20,816)	(Decrease) in lease payable	(159,513)	(503,834)
(Increase) in other operating assets	(4,556)	(5,147)	Interest paid	(151,780)	(146,082)
(Decrease) in notes payable-non affiliates	(30,310)	(282,017)	Changes in non-controlling interests	3,120	58,987
Increase (Decrease) in accounts payable-non affiliates	15,633	(67,699)	Other financing activities	(244,973)	469,728
Increase (Decrease) in accounts payable-affiliates	4,831	(2,244)	Net cash (used) provided by financing activities	(96,943)	788,572
Increase (Decrease) in other payable	12,693	(5,002)			
Increase (Decrease) in other current liabilities	75,926	(13,064)			
(Decrease) in accrued pension liabilities	(90,496)	(156,315)			
Cash generated from operating activities	1,026,155	2,176,786	Foreign currency translation adjustment	(2,808)	1,386
Interest received	6,723	5,482	Net Increase in cash	220,526	404,738
Income tax (paid)	(16,781)	(9,083)	Cash and cash equivalents, beginning of period	1,073,721	668,983
Net cash provided by operating activities	1,016,097	2,173,185	Cash and cash equivalents, end of period	\$1,294,247	\$1,073,721

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

English Translation of Financial Statements Originally Issued in Chinese  
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Unless otherwise stated, all amounts expressed are in thousands of New Taiwan Dollars)

1. ORGANIZATION AND OPERATION

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

As of the year ended December 31, 2017, the Company and its subsidiaries current liabilities and current assets amounted to \$8,339,294 thousand and \$6,027,501 thousand, respectively. The current ratio was 72.28%. The Company has devoted to adjusting its product structure. The Company keeps making a profit and improving financial structure.

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

The consolidated financial statements of the Company and its subsidiaries ("the Group") for the years ended December 31, 2017 and 2016 were authorized for issue by the Board of Directors on March 28, 2017.

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 Group 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 Group 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 Group 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 “Share-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 Group:

(a) IFRS 15 “Revenue from Contracts with Customers” (including Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”)

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

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

- A. The assembly and testing of the majority in the Group are accepting commissions from customers and providing services. According to the contract, the ownership of the work in progress belongs to suppliers. The Group 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 requirements of IFRS 15, more extensive disclosure would have to be made.

(b) IFRS 9 “Financial Instruments”

The Group 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 Group:

A. Classification and measurement of financial assets

Available-for-sale financial assets – equity instrument investments

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

As these equity instrument investments are not held-for-trading, the Group elected to designate them as financial assets measured at fair value through other comprehensive income. On the date of initial application, the Group will reclassify available-for-sale financial assets (including financial assets measured at cost of \$37,246 thousand) to financial assets measured at fair value through other comprehensive income of \$252,783 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 \$300,066 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 NT\$41,526 thousand, and the Group will reclassify financial assets measured at cost to financial assets measured at fair value through other comprehensive income of \$37,246 thousand as at the date of initial application. The Group will decrease the carrying amount by \$41,526 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.

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

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).



#### Impairment of financial assets

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 Group.

#### 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 Group’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 treat 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 been endorsed by FSC at the date when the Group’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Group 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 Group at this point in time. All other standards and interpretations have no material impact on the Group.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (1) Statement of compliance

The consolidated financial statements of the Group for the years ended December 31, 2017 and 2016 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and International Financial Reporting Standards (IFRS), International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee which are endorsed by the Financial Supervisory Commission of the Republic of China.

#### (2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

### (3) Basis of consolidation

#### Preparation principle of consolidated financial statement

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- (a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- (b) exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee
- (b) rights arising from other contractual arrangements
- (c) the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control of a subsidiary, it:

- (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognizes the carrying amount of any non-controlling interest;
- (c) recognizes the fair value of the consideration received;
- (d) recognizes the fair value of any investment retained;
- (e) recognizes any surplus or deficit in profit or loss; and
- (f) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.



A. The consolidated entities are listed as follows:

Investor	Name of subsidiaries	Business nature	Percentage of ownership		Remarks
			December 31, 2017	December 31, 2016	
The Company	Orient Semiconductor Electronics Philippines, Inc. (OSE PHILIPPINES, INC. ; OSEP)	Manufacture and export of integrated circuits and computers	99.99%	99.99%	1. As of December 31, 2017, the Company owned 93.67% and OSE B.V.I. owned 6.33% of the shares of OSEP, which represented the aggregate of 99.99% ownership of OSEP. 2. OSEP ceased its operation in fourth quarter of 2011.
The Company	OSE INTERNATIONAL, LTD. (OSE B.V.I)	Investments of various manufacturing businesses	100.00%	100.00%	—
The Company	OSE USA, INC. (OSEU)	Investments of various manufacturing businesses	100.00%	100.00%	OSEA merged with OSEU on February 14, 2006 and assumed OSEU's assets, liabilities and preferred stocks. OSEA changed its name as OSE USA, Inc. after the merger.
The Company	COREPLUS (HK) LIMITED (COREPLUS)	Manufacture of electronics product	100.00%	100.00%	—
The Company	SPARQTRON CORP. (SPARQTRON)	Manufacture of electronics product	—	9.96%	As discussed in (B)
COREPLUS (HK) LIMITED (COREPLUS)	VALUE-PLUS TECHNOLOGY (SUZHOU) CO. (VALUE-PLUS (SUZHOU))	Manufacture of electronics product	100.00%	100.00%	—

Investor	Name of subsidiaries	Business nature	Percentage of ownership		Remarks
			December 31, 2017	December 31, 2016	
SPARQTRON CORP. (SPARQTRON)	CONSTELLAR TECHNOLOGY CORPORATION (CONSTELLAR)	Manufacture of electronics product	—	100.00%	—
SPARQTRON CORP. (SPARQTRON)	Diamond Creative Holding Limited	Investment holding.	—	71.43%	—
DIAMOND CREATIVE HOLDING LIMITED	DIAMOND DIGITAL CORPORATION	Manufacture of electronics product	—	100.00%	

B. According to IFRS10, based on the Company's ownership of voting rights of SPARQTRON, it has been determined that the Company is no longer able to influence the policy-making processes in shareholders meeting, which results in the loss of control. As a result, SPARQTRON is not included in the consolidated financial reporting entities. Please refer to Note 33 for the more details. Since the fourth quarter of 2017, the Company lost significant influence, therefore, recognized the investment for financial assets measured at cost.

C. The financial statements of part of the consolidated subsidiaries listed above had not been reviewed by auditors. As of December 31, 2017 and 2016, the related assets of the subsidiaries which were unaudited by auditors amount to \$768,667 thousand and \$1,367,554 thousand respectively, and the related liabilities amount to \$611,225 thousand and \$853,880 thousand, respectively. The comprehensive income of these subsidiaries amount to (\$113,804) thousand and (\$23,523) thousand for the years ended December 31, 2017 and 2016, respectively.

(4) Foreign currency transactions

The Group's consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Group 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 Group 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.

(5) 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.

The following partial disposals are accounted for as disposals:

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.

(6) Current and non-current distinction

An asset is classified as current when:

- (a) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
- (b) The Group holds the asset primarily for the purpose of trading.
- (c) The Group 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 Group expects to settle the liability in its normal operating cycle.
- (b) The Group 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 Group 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.

(7) 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.

(8) 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 recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group 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 group 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 group is provided internally on that basis to the key management personnel.

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

Available-for-sale financial assets

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



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

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

#### Held-to-maturity financial assets

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

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

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group 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 debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

#### Impairment of financial assets

The Group 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 reorganization; 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 Group 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group 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 Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
- iii. The Group 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

Classification between liabilities or equity

The Group 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 that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

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.

Financial liabilities at fair value through profit or loss

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

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

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

- i. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- ii. a group 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 group 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 loss including interest paid are recognized in profit or loss.

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

Financial liabilities at amortized cost

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

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

#### Derecognition of financial liabilities

A financial liability is derecognized 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 (whether or not attributable to the financial difficulty of the debtor), 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 and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

#### (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.

#### (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 Group.

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 Group 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 but excluding borrowing costs, on a average basis.

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



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

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

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

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

(12) Investment accounted for using the equity method

The Group's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

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

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Group's percentage of ownership interests in the associate or joint venture, the Group 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 or joint venture on a prorata basis.

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture 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 Group disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 39 Financial Instruments: Recognition and Measurement. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Group estimates:

- (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
- (b) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

#### (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 Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 Property, plant and equipment. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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

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

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

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

(14) Investment property

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

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

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

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

(15) Leases

Group as a lessee

Finance leases which transfer to the Group 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 Group 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.

Group as a lessor

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

Sale and leaseback

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

## (16) Intangible assets

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

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

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

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

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

### Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group 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 amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit.

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

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

#### (17) Impairment of non-financial assets

The Group 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 Group 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 groups 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.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's 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.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. 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 (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group 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 Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

##### Sale of goods

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

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

For the customer loyalty points programme that the Group 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 Group's right to receive the payment is established.

#### Rendering of services

Revenue is recognised when the Group 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 Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

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

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

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

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



## (21) Income taxes

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

### Current income tax

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

The 10% surtax on undistributed retained 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:

- (a) 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.
- (b) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, 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:

- (a) 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.
- (b) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, 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 Group 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.

(22) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 Financial Instruments: Recognition and Measurement either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the amount of the excess of the aggregate of the consideration transferred and the non-controlling interest over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the cash-generating unit retained.

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management to make judgements, 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 Group'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) Revenue recognition

The Group 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 Group 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 Group 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 Group'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 39 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 and future salary increases (decrease). Please refer to Note 23 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 Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group 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. Please refer to Note 38 for more details.

(4) Impairment of non-financial assets

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 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 less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. 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 Group 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	\$284	\$82,149
Demand deposits	1,293,963	991,572
Total	<u>\$1,294,247</u>	<u>\$1,073,721</u>

## 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	<u>\$30,813</u>	<u>\$35,266</u>

Please refer to Note 35 for the more details on financial assets held for trading under pledge.

## 8. NOTES RECEIVABLES

	Dec. 31 , 2017	Dec. 31, 2016
Notes receivables	\$11,950	\$12,785
Less : allowance for doubtful debts	(—)	(—)
Total	<u>\$11,950</u>	<u>\$12,785</u>

Notes receivables were not pledged.

## 9. ACCOUNTS RECEIVABLES AND ACCOUNTS RECEIVABLES – AFFILIATES

(1)

	Dec. 31 , 2017	Dec. 31, 2016
Accounts receivables	\$2,333,954	\$2,298,227
Add : accounts receivable to be factored	(—)	(—)
Less : allowance for sales returns and discounts	(4,839)	(—)
Less : allowance for doubtful debts	(2,987)	(5,199)
Subtotal	<u>2,326,128</u>	<u>2,293,028</u>
Accounts receivables -affiliates	237,740	293,673
Less : allowance for doubtful debts	(386)	(38)
Subtotal	<u>237,354</u>	<u>293,635</u>
Total	<u>\$2,563,482</u>	<u>\$2,586,663</u>

Please refer to Note 35 for the more details on part of accounts receivables under pledge.

- (2) Account receivable are generally on 30-150 day terms. The movement in the provision for impairment of accounts receivables are as follows (please refer to Note 39 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of Jan. 1, 2017	—	\$5,237	\$5,237
Charge/(reversal) for the current period	—	(996)	(996)
Effect of exchange rate	—	—	—
Other changes	—	(868)	(868)
As of Dec. 31, 2017	—	\$3,373	\$3,373
As of Jan. 1, 2016	—	\$6,440	\$6,440
Charge/(reversal) for the current period	—	(1,200)	(1,200)
Effect of exchange rate	—	(3)	(3)
As of Dec. 31, 2016	—	\$5,237	\$5,237

	Neither past due nor impaired	Past due but not impaired			Total
		61-90 days	91-120 days	>=121 days	
Dec. 31, 2017	\$2,561,208	\$881	\$387	\$1,006	\$2,563,482
Dec. 31, 2016	\$2,578,225	\$997	\$2,127	\$5,314	\$2,586,663

- (3) The Group signed loan agreements with the following banks and used its accounts receivable as securities for the loans. Certain of the Group'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	\$936,991	\$1,059,894
Supplies	86,849	78,466
Work in progress	242,917	212,322
Finished goods	161,135	136,449
Total	<u>\$1,427,892</u>	<u>\$1,487,131</u>

(2)

	Dec. 31 ,2017	Dec. 31,2016
Cost of inventories sold	\$13,661,340	\$13,954,384
Loss on an realizable value and obsolescence of inventories	21,342	55,732
Loss(Gain) in inventory write-off	21,502	(20,797)
Inventory loss	492	90
Cost of Goods Sold	<u>\$13,704,676</u>	<u>\$13,989,409</u>

(3) As of December 31, 2017 and 2016, inventories were insured for \$10,734,816 thousand and \$10,288,989 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	<u>\$215,537</u>	<u>\$265,990</u>

(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		<u>\$215,537</u>	<u>\$265,990</u>



## 12. FINANCIAL ASSETS MEASURED AT COST –NON CURRENT

### (1) Available-for-Sale Financial Assets

	Dec. 31 , 2017	Dec. 31 , 2016
STRATEDGE	\$1,323	\$1,323
SPINERGY	—	—
GOLFWARE, INC.	—	—
Foreign stocks	4,557	7,686
SPARQTRON CORP. (Note)	31,366	—
	<u>\$37,246</u>	<u>\$9,009</u>

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

No financial assets measured at cost were pledged.

- (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.

## 13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

Investee Company	Type of stock	Dec. 31, 2017		Dec. 31, 2016	
		Amount	Ownership	Amount	Ownership
<u>Investments in associates:</u>					
OSE PROPERTIES, INC.	Common stock	—	39.99%	—	39.99%
ATP ELECTRONICS, TAIWAN INC.	Common stock	\$414,213	18.31%	\$404,624	18.31%
INFOFAB, INC.	Common stock	5,074	14.85%	4,752	14.85%
SCS HIGHTECH INC.	Common stock	—	18.17%	—	18.17%
Sparqtronic Inc (Note)	Common stock	—	—	2,259	48.98%
Total		\$419,287		\$411,635	

(Note): On July 15, 2016, the Group originally invested Sparqtronic Inc USD \$96,000(equivalent to NTD 3,096 thousand). The Group held 48.98% ownership of Sparqtronic Inc.

- (2) In September 2006, shares of the investee company ATP were exchanged with ATP TAIWAN so that the Company would hold 15.13% ownership of ATP TAIWAN after the exchange. The Group had purchased 1,929 thousand shares of treasury stocks. So the Group held 18.31% ownership of ATP TAIWAN as of December 31, 2016.

- (3) SCS HIGHTECH INC. was written off as losses in 2004, and the company was rescinded based on the approval granted by Science Park Bureau on March 8, 2007 by Doc No.0960006126.
- (4) 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 classified under loss on disposal of investments.
- (5) Part of the shares in long-term equity investments has been pledged to the banks as securities for bank loans granted to the Group. Please refer to Note 35 for the more details.
- (6) The Group's investments by using the equity method are not published price quotations.
- (7) The investment gain (loss) recognized under the equity method for 2017 and 2016 are \$45,524 thousand and \$41,467 thousand. The investment other comprehensive (loss) gain recognized under the equity method for 2017 and 2016 are (\$233) thousand and (\$193) thousand.
- (8) The following table lists the investments accounted for using the equity method of the Group:

	Dec. 31, 2017	Dec. 31, 2016
Total assets (100%)	\$3,032,959	\$2,814,359
Total liabilities (100%)	\$1,112,327	\$961,491

	For the years ended December 31	
	2017	2016
Revenue (100%)	\$3,869,411	\$3,231,980
Profit (100%)	\$247,259	\$235,321

14. PROPERTY, PLANT AND EQUIPMENT

(1)

	Land and land Improvements	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	\$35,856	\$7,030,483	\$18,108,900	\$8,945	\$97,500	\$279,342	\$759,230	\$19,686	\$409,005	\$126,561	\$26,875,508
Additions	—	1,116	6,837	111	89	—	—	—	2,789	84,658	95,600
Disposals	—	(99,862)	(2,904,217)	(861)	(14,458)	—	—	(4,266)	(47,887)	—	(3,071,551)
Transfers	—	130,540	736,103	50	—	—	(601,019)	—	5,572	(194,111)	77,135
Exchange differences	—	—	(30,993)	(75)	(1,482)	—	—	—	(215)	—	(32,765)
Effect of deconsolidation of Subsidiary	(35,856)	(111,222)	(199,847)	(2,954)	(14,625)	—	—	(15,420)	(933)	—	(380,857)
As of Dec. 31, 2017	—	\$6,951,055	\$15,716,783	\$5,216	\$67,024	\$279,342	\$158,211	—	\$368,331	\$17,108	\$23,563,070
Depreciation and impairment:											
As of Jan.1, 2017	—	\$4,011,383	\$12,936,991	\$5,619	\$88,212	\$118,833	\$212,329	\$14,665	\$312,515	—	\$17,700,547
Depreciation	—	224,885	1,171,930	496	940	6,685	23,040	70	26,980	—	1,455,026
Disposals	—	(99,787)	(2,853,369)	(301)	(14,387)	—	—	(1,226)	(43,685)	—	(3,012,755)
Transfers	—	—	183,804	—	—	—	(183,804)	—	—	—	—
Exchange differences	—	—	(30,724)	(41)	(1,427)	—	—	—	(174)	—	(32,366)
Effect of deconsolidation of Subsidiary	—	(10,932)	(157,809)	(1,859)	(9,425)	—	—	(13,509)	(514)	—	(194,048)
As of Dec. 31, 2017	—	\$4,125,549	\$11,250,823	\$3,914	\$63,913	\$125,518	\$51,565	—	\$295,122	—	\$15,916,404

	Land and land Improvements	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	\$36,568	\$6,985,457	\$19,390,259	\$9,202	\$96,370	\$412,751	\$1,305,299	\$18,743	\$414,191	\$159,775	\$28,828,615
Additions	—	431	22,818	762	1,815	—	—	864	496	927,690	954,876
Disposals	—	(105,711)	(4,218,184)	(690)	(133)	(141,952)	—	—	(62,864)	—	(4,529,534)
Transfers	—	152,513	2,944,322	—	1,032	8,543	(546,069)	375	58,148	(960,904)	1,657,960
Exchange differences	(712)	(2,207)	(30,315)	(329)	(1,584)	—	—	(296)	(966)	—	(36,409)
As of Dec. 31, 2016	<u>\$35,856</u>	<u>\$7,030,483</u>	<u>\$18,108,900</u>	<u>\$8,945</u>	<u>\$97,500</u>	<u>\$279,342</u>	<u>\$759,230</u>	<u>\$19,686</u>	<u>\$409,005</u>	<u>\$126,561</u>	<u>\$26,875,508</u>
Depreciation and impairment:											
As of Jan. 1, 2016	—	\$3,877,037	\$15,945,960	\$5,418	\$86,948	\$180,133	\$273,298	\$13,956	\$353,295	—	\$20,736,045
Depreciation	—	247,608	972,550	1,058	2,270	9,311	126,789	964	22,758	—	1,383,308
Impairment	—	—	(299)	—	—	—	—	—	—	—	(299)
Disposals	—	(105,711)	(4,143,536)	(690)	(119)	(77,997)	—	—	(62,753)	—	(4,390,806)
Transfers	—	(7,395)	187,758	—	(23)	7,386	(187,758)	9	—	—	(23)
Exchange differences	—	(156)	(25,442)	(167)	(864)	—	—	(264)	(785)	—	(27,678)
As of Dec. 31, 2016	<u>—</u>	<u>\$4,011,383</u>	<u>\$12,936,991</u>	<u>\$5,619</u>	<u>\$88,212</u>	<u>\$118,833</u>	<u>\$212,329</u>	<u>\$14,665</u>	<u>\$312,515</u>	<u>—</u>	<u>\$17,700,547</u>
Net carrying amount:											
As of Dec. 31, 2017	<u>—</u>	<u>\$2,825,506</u>	<u>\$4,465,960</u>	<u>\$1,302</u>	<u>\$3,111</u>	<u>\$153,824</u>	<u>\$106,646</u>	<u>—</u>	<u>\$73,209</u>	<u>\$17,108</u>	<u>\$7,646,666</u>
As of Dec. 31, 2016	<u>\$35,856</u>	<u>\$3,019,100</u>	<u>\$5,171,909</u>	<u>\$3,326</u>	<u>\$9,288</u>	<u>\$160,509</u>	<u>\$546,901</u>	<u>\$5,021</u>	<u>\$96,490</u>	<u>\$126,561</u>	<u>\$9,174,961</u>

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

Item	Dec.31, 2017	Dec.31, 2016
Acquisition of property, plant, and equipment expenditure		
Increase of property, plant and equipment	\$172,735	\$2,612,836
Increase of prepayment for equipment	46,290	17,302
Decrease of payables on equipment	458,411	49,057
Cash expenditure	<u>\$677,436</u>	<u>\$2,679,195</u>

(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 \$12,689,548 thousand and \$12,703,327 thousand, respectively.

(5) Please refer to Note 35 for more details on property, plant and equipment under pledge.

## 15. INVESTMENT PROPERTY

	Buildings
Cost :	
As of Jan.1, 2017	\$703,838
Exchange difference	(53,906)
As of Dec.31, 2017	<u>\$649,932</u>
As of Jan.1, 2016	\$717,806
Exchange difference	(13,968)
As of Dec.31, 2016	<u>\$703,838</u>
Depreciation:	
As of Jan.1, 2017	\$63,019
Depreciation	23,993
Impairment losses	75,591
Exchange difference	(7,520)
As of Dec.31, 2017	<u>\$155,083</u>
As of Jan.1, 2016	\$38,504
Depreciation	25,224
Exchange difference	(709)
As of Dec.31, 2016	<u>\$63,019</u>

	<u>Buildings</u>
Net carrying amount :	
As of Dec.31, 2017	\$494,849
As of Dec.31, 2016	\$640,819

No investment properties were pledged.

The fair value of investment property is \$488,064 thousand and \$709,393 thousand as of 31 December 2017 and December 31, 2016. The fair value has been determined based on valuations performed by an independent appraiser and on transactions observable in the market. The investment property has no rent revenue.

#### 16. 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 Group is listed as below:

	<u>Computer software</u>
Cost:	
As of Jan. 1, 2017	\$229,771
Addition	26,388
Transfer	15,466
Exchange differences	—
As of Dec. 31, 2017	\$271,625
As of Jan. 1, 2016	\$117,682
Addition	14,073
Transfer	98,016
As of Dec. 31, 2016	\$229,771
Amortization and impairment:	
As of Jan. 1, 2017	\$133,794
Amortization	58,097
Exchange differences	54
As of Dec. 31, 2017	\$191,945
As of Jan. 1, 2016	\$90,622
Amortization	43,138
Exchange differences	34
As of Dec. 31, 2016	\$133,794
Net carrying amount as of:	
Dec. 31, 2017	\$79,680
Dec. 31, 2016	\$95,977

(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
Operating expenses	\$23,482	\$22,823

#### 17. PREPAYMENTS

	Dec. 31, 2017	Dec. 31, 2016
Current assets — prepayments		
Prepaid expenses	\$50,868	\$104,669
Other prepayments	5,522	8,864
Total	\$56,390	\$113,533
Non-current assets — prepayments for equipment :		
Prepayment for equipment	\$79,953	\$50,382

#### 18. LONG-TERM RECEIVABLES-AFFILIATES

(1)

	Dec. 31, 2017	Dec.31, 2016
Loan receivable -PROPERTIES	\$92,384	\$100,047
Less : Allowance for doubtful debts	(—)	(—)
Net	\$92,384	\$100,047

(2) OSE PHILIPPINES, INC. lent USD 4,387 thousand to OSE PROPERTIES Inc. in July 31, 1996. OSE PROPERTIES Inc. disposed of part of the land and returned USD 1,285 thousand in the first quarter of 2015. The principal was USD 3,102 thousand as of December 31, 2017. The interest rates for the years ended December 31, 2017 and 2016 were both 2.50%. The contract periods were 10 years and may be extended to another 10 years, if necessary.

#### 19. SHORT-TERM LOANS

(1) Details are as follows:

Items	Dec. 31, 2017	Dec. 31, 2016
L/C	\$382,699	\$153,206
Unsecured bank loans	1,809,979	1,212,542
Mortgage loan on machine and equipment	—	108,314
Total	\$2,192,678	\$1,474,062



(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% ~ 4.00%
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 lines of credits were \$1,600,591 thousand and \$2,606,240 thousand, respectively.

(4) Please refer to Note 35 for more details on short-term loans.

## 20. SHORT-TERM NOTES PAYABLE

(1) Details 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 ~ November 23, 2018	August 30, 2017 ~ August 31, 2017

## 21. LONG-TERM LOANS

(1) Details are as follows:

Items	Dec. 31, 2017	Dec. 31, 2016
Mortgage loan	\$3,757,706	\$3,948,073
Other loan	—	120,332
Total	3,757,706	4,068,405
Less: Due within one year	(1,586,951)	(1,411,496)
Net	\$2,170,755	\$2,656,909

(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% ~ 4.82%
Due dates	March 1, 2018 ~ July 28, 2021	June 29, 2017 ~ August 20, 2026

(3) Part of property, plant and equipment, and deposits reserved for repayment are pledged as security for the Group's long-term borrowings. Please refer to Note 35 for more details.

## 22. LONG-TERM LEASE PAYABLE

The Group has finance leases contracts for various items of machinery. These leases contain purchase options. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	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 : finance charges on finance lease	(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

## 23. POST-EMPLOYMENT BENEFITS

### (1) Defined contribution plan

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

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

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 and its domestic subsidiaries adopt 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 and its domestic subsidiaries contribute 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 and its domestic subsidiaries assess 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 and its domestic subsidiaries will make up the difference in one appropriation before the end of March the following year.

Expenses under the defined benefit obligation 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 Group expects to contribute \$54,285 thousand to its defined benefit plan during the 12 months beginning after 31 December 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 31 December 2017 and 2016:

	For the years ended December 31	
	2017	2016
Current period service costs	\$8,188	\$8,851
Net interest expense of net defined benefit liability (asset)	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	\$1,016,345
Plan assets at fair value	(484,675)	(423,822)	(281,531)
Other non-current liabilities - Accrued pension liabilities recognized on the consolidated balance sheets	\$537,783	\$595,722	\$734,813

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

	Present value of the defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
As at Jan. 1, 2016	\$1,016,344	(\$281,531)	\$734,813
Current period service costs	8,851	—	8,851
Interest cost (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	—
Contribution 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	—
Contribution by employer	—	(107,619)	(107,619)
As at Dec. 31, 2017	\$1,022,458	(\$484,675)	\$537,783

The principal underlying actuarial assumptions are as follows:

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

Sensitivity analysis for significant assumption:

	For the years ended December 31			
	2017		2016	
	Increase in defined benefit obligation	Decrease in defined benefit obligation	Increase in defined benefit obligation	Decrease in 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.

## 24. EQUITY

### (1) Common stock

- A. The Company had increased capital by cash by \$1,800,000 thousand with par value \$10 per share and issued price \$9.2 on May 30, 2007. The rights and obligations of new shares by private placement are the same as those of common shares. Ownership of shares by private placement cannot be transferred to others within three years since issuance per Security and Exchange regulations.
- B. The board of directors of the Company agreed on June 21, 2011 to increase capital 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 designated 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. Additional paid-in capital arising from long-term equity investment can not be used for any purpose.
- 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:

- Payment of all taxes and dues;
- Offset prior years' operation losses;
- Set aside 10% of the remaining amount as legal reserve;
- Set aside or reverse special reserve in accordance with the requirements for operating and law and regulations;
- 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 April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

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

The Company still had accumulated deficit on March 28, 2018 and June 15, 2017, as a result the Company did not distribute earnings.

Please refer to Note 28 for further details on employees' compensation and remuneration to directors and supervisors.

#### (4) Non-controlling interests

	For the years ended December 31	
	2017	2016
Beginning balance	\$192,208	\$144,211
Profit (loss) attributable to non-controlling interests		
Consolidated net income	(1,227)	(532)
Actual disposal or acquisition of interest in subsidiaries	—	(16,940)
Increase (Decrease) in non-controlling interests	3,120	58,987
Other comprehensive (loss) income	(1,893)	6,482
Effect of deconsolidation of Subsidiary	(192,208)	—
Ending balance	—	\$192,208

#### 25. OPERATING REVENUE

The detail are as follow:

	For the years ended December 31	
	2017	2016
Sale of goods	\$13,308,974	\$15,265,818
Revenue arising from rendering of services	364,900	474,843
Income on sale of material	248,290	111,058
Total	13,922,164	15,851,719
Less: Sales returns and allowances	(35,852)	(65,386)
Net sales	\$13,886,312	\$15,786,333



## 26. LEASES

Operating lease commitments – Group 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 Group has signed non-cancellable operating leases. There are no restrictions placed upon the Group by entering into these leases. Future minimum rentals payable as at December 31, 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	<u>\$42,420</u>	<u>\$85,949</u>

### B. Recognized as an expense :

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

## 27. AMORTIZATION EXPENSE AND OPERATING LEASE EXPENSES IN THE STATEMENT OF COMPREHENSIVE INCOME

	For the years ended December 31	
	2017	2016
Included in operating costs :		
Amortization expense of intangible assets	\$34,615	\$20,315
Minimum lease payments recognized as operating lease expenses	\$30,011	\$33,679
Included in operating expenses :		
Amortization expense of intangible assets	\$23,482	\$22,823
Minimum lease payments recognized as operating lease expenses	\$13,219	\$15,173

## 28. 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	\$2,171,967	\$378,170	\$2,550,137	\$2,363,574	\$497,937	\$2,861,511
Pension	\$130,872	\$24,327	\$155,199	\$116,729	\$21,578	\$138,307
Labor and health insurance	\$240,871	\$38,796	\$279,667	\$243,052	\$40,181	\$283,233
Other employee benefits expense	\$257,317	\$48,127	\$305,444	\$389,250	\$52,374	\$441,624
Depreciation	\$1,417,877	\$65,493	\$1,483,370	\$1,321,466	\$99,010	\$1,420,476
Amortization	\$34,615	\$23,482	\$58,097	\$20,315	\$22,823	\$43,138

A resolution was passed at a shareholders' meeting of the Company held on June 22, 2016 to amend the Articles of Incorporation of the Company. According to the resolution, the employee's compensation and remuneration to directors and supervisors is based on the current year's earnings, which should be used first to cover accumulated deficit, if any, and then the remaining balance shall be distributed: 8%~12% as employees' compensation, and no more than 3% as remuneration to directors and supervisors.

The distribution ratio of employee's compensation and remuneration to directors and supervisors and employee's compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Cash or stock dividends as bonus to employees shall only be given to employees who satisfy certain conditions.

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 years 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 years 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 years ended 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 Group were 6,496 and 6,802, 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.

## 29. NON-OPERATING INCOME AND EXPENSES

### (1) Other income

	For the years ended December 31	
	2017	2016
Rental income	\$24,701	\$26,831
Interest income	6,794	5,027
Dividend income	3,677	2,510
Other income	87,671	99,078
Total	<u>\$122,843</u>	<u>\$133,446</u>

### (2) Other gains and losses

	For the years ended December 31	
	2017	2016
Gains (Losses) on disposal of property, plant and equipment	\$21,865	(\$7,125)
(Losses) on disposal of investments	(872)	—
Foreign exchange (losses), net	(54,547)	(77,178)
Gains on financial assets at fair value through profit or loss	53,198	13,554
(Losses) Gains on impairment of non-financial assets	(75,591)	299
Other losses	(485)	(338)
Total	<u>(\$56,432)</u>	<u>(\$70,788)</u>

### (3) Finance costs

	For the years ended December 31	
	2017	2016
Interest on borrowings from bank	(\$134,919)	(\$122,871)
Interest on borrowings from others	(4,168)	(28,213)
Total	<u>(\$139,087)</u>	<u>(\$151,084)</u>

### 30. COMPONENTS OF OTHER COMPREHENSIVE INCOME

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 may be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	(\$51,640)	—	(\$51,640)	\$8,457	(\$43,183)
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 of other comprehensive income	(\$134,883)	—	(\$134,883)	\$22,569	(\$112,314)

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 subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	(\$23,597)	—	(\$23,597)	\$5,113	(\$18,484)
Unrealized gain from available- for-sale financial assets	(24,315)	—	(24,315)	4,134	(20,181)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(193)	—	(193)	—	(193)
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	(17,224)	—	(17,224)	2,928	(14,296)
Total of other comprehensive income	(\$65,329)	—	(\$65,329)	\$12,175	(\$53,154)

### 31. 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	(\$17,706)	(\$9,083)
Adjustments in respect of current income tax of prior periods	—	—
Deferred tax (expense) income:		
Deferred tax (expense) relating to origination and reversal of temporary differences	(90,176)	(22,353)
Deferred tax income (expense) relating to origination and reversal of tax loss and tax credit	143,678	(101,503)
Others	925	125
Total income tax (expense)	<u>\$36,721</u>	<u>(\$132,814)</u>

#### 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 (loss), net of tax	<u>\$22,569</u>	<u>\$12,175</u>

(2) 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	<u>(\$751,525)</u>	<u>\$636,653</u>
At parent company statutory income tax rate of 17%	\$127,759	(\$108,231)
Effect of different tax rates applicable to OSE and its subsidiaries	(13,974)	(22,271)
Tax effect of revenues exempt from taxation	3,371	427
Tax effect of deferred tax assets/liabilities	(82,966)	(17,649)
Other adjustment due to taxation	4,554	14,785
Exchange adjustments	(2,023)	125
Total income tax (expense) recognized in profit or loss	<u>\$36,721</u>	<u>(\$132,814)</u>

(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 comprehensive income other	Exchange adjustments	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	102,438	143,678	—	—	246,116
Deferred tax income/ (expense)		<u>\$53,502</u>	<u>\$22,569</u>	<u>—</u>	
Net deferred tax assets/(liabilities)	<u>\$1,318,908</u>				<u>\$1,394,979</u>
Reflected in balance sheet as follows:					
Deferred tax assets	<u>\$1,357,245</u>				<u>\$1,424,739</u>
Deferred tax liabilities	<u>\$38,337</u>				<u>\$29,760</u>

For the year ended December 31, 2016

		Deferred tax income	Deferred tax income	Deferred tax (expense) recognized in other comprehensive income	Exchange adjustments	Ending balance as of Dec. 31, 2016
	Beginning balance as of Jan. 1, 2016	(expense) recognized in profit or loss				
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	(101,378)	—	—	(\$125)	102,438
Deferred tax income/ (expense)		(\$123,731)	\$12,175	—	(\$125)	
Net deferred tax assets/(liabilities)	\$1,430,589					\$1,318,908
Reflected in balance sheet as follows:						
Deferred tax assets	\$1,473,060					\$1,357,245
Deferred tax liabilities	\$42,471					\$38,337

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

Tax losses for the		Unused tax losses as at			
Year	period	Dec. 31, 2017	Dec. 31, 2016	Expiration year	Note
2009	\$377,207	\$377,207	\$388,999	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
	Total	\$1,447,742	\$597,027		

(5) Unrecognized deferred tax assets

As of December 31, 2017 and 2016, deferred tax assets that have not been recognized amount to \$0 and \$0 thousand, respectively.

(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%.		
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 2014)

32. 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.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible bonds payable) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	For the years ended 31 Dec.	
	2017	2016
Basic earnings per share		
(Loss) Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	(\$713,577)	\$504,371
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	806,016	806,016
Basic earnings per share (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.



### 33. CHANGES IN OWNERSHIP INTEREST IN SUBSIDIARIES

On August 23, 2016 the Company sold 12,350,000 shares of SPARQTRON to Diamond Creative Holding Limited, reducing its shareholding ratio to 9.96%. As at December 31, 2016, despite holding less than 50% of the voting rights, the Company determined that it still had control over SPARQTRON. From the beginning of investment in SPAQTRON, the Company has been the single largest shareholder of SPAQTRON. The Company and its related parties jointly hold more than 50% ownership. Therefore, the Company is capable of leading decision-making activities at shareholders' meetings and exercising substantial control. During the three-month period ended 31 March 2017, the Company lost majority interest because of the change of the related parties. As a result, the Company lost control of SPAQTRON in March, 2017. Though, the Company and the related parties jointly hold less than 50% of shareholding rights, but remained the board members. The Company still has material influence and recognized the investments using the equity method. 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 classified under loss on disposal of investments.

#### (A) Analysis of assets and liabilities of lost control

##### Current asset

	Book Value
Cash and cash equivalents	\$98,513
Accounts receivables	31,380
Inventories	41,670
Other current asset	50,077

##### Non-Current asset

Property, plant and equipment	186,809
Financial assets measured at cost	3,037
Investment	2,259
Other non-current asset	7,891

##### Current liability

Short-term loans	(22,575)
Accounts payable	(38,302)
Long-term loans due within one year	(9,677)
Other current liability	(17,163)

##### Non-current liability

Long-term loans	(110,655)
Total net assets	\$223,264

(B) Gain on subsidiary derecognition

	<u>Book Value</u>
Fair value of the investment	\$31,056
Less: Book value of the investment	
Net assets of derecognition	223,264
Non-controlling interests	<u>(192,208)</u>
	<u>31,056</u>
Gain on subsidiary derecognition	<u>—</u>

(C) Cashflow of subsidiary derecognition

Cash and cash equivalents of derecognition	<u>\$98,513</u>
--	-----------------

34. 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

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
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 PROPERTIES, INC.(PROPERTIES)	Associate
Phison Electronics Corporation(PHISON)	Legal Director of the Company
Longsys Electronics Co., Ltd.	Legal Director of the Company
Longsys Electronics (HK) 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)
Chin-Hsing Investment Co., Ltd.	Substantive related party
YUANJEN INVESTMENT CO., LTD.	Substantive related party

(1) Significant transactions with related parties:

A.Sales

	<u>For the years ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Associates	\$150,681	\$160,753
PHISON	1,043,413	1,911,019
LONGSYS	611,187	1,546,318
Other related party	<u>62,072</u>	<u>—</u>
	<u>\$1,867,353</u>	<u>\$3,618,090</u>

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
Associates	—	\$9
PHISON	—	633
SPARQTRON	\$9,622	—
DIAMOND	4,792	—
	<u>\$14,414</u>	<u>\$642</u>

The purchase price to the above related parties was determined through mutual agreement based on the market rates. The payment terms from the related party suppliers are comparable with third party suppliers.

**C. Accounts Receivable**

	Dec. 31, 2017	Dec. 31, 2016
ATP	\$31,621	\$38,365
PHISON	85,529	85,365
LONGSYS	120,590	169,943
Less : Allowance for doubtful debts	(386)	(38)
Net	<u>\$237,354</u>	<u>\$293,635</u>

**D. Other Receivable**

	Dec. 31, 2017	Dec. 31, 2016
Associates	\$1,082	\$1,248
Key management personnel of the Group	1,450	5,033
PHISON	—	32,037
PROPERTIES	42,563	43,591
Net	<u>\$45,095</u>	<u>\$81,909</u>

**E. Accounts Payable**

	Dec. 31, 2017	Dec. 31, 2016
INFOFAB	\$18,437	\$13,526
Key management personnel of the Group	10	90
Net	<u>\$18,447</u>	<u>\$13,616</u>

#### F. Transaction of properties

For the year ended December 31, 2017 :

Counterparty	Property	Amount	Gain (loss) on sales of assets	The basis of transaction price
<u>Purchase</u>				
INFOFAB	Buildings	\$713	Not applicable	Negotiate
INFOFAB	Other equipment	5,017	Not applicable	Negotiate
INFOFAB	Computer software	21,013	Not applicable	Negotiate
	Total	<u>\$26,743</u>		

Counterparty	Property	Unreduced balance	Amount	Gain (loss) on sales of assets	The basis of transaction price
<u>Sales</u>					
DIAMOND	Machinery and equipment	\$43,523	\$55,751	\$12,228	Negotiate
DIAMOND	Transportation equipment	559	559	—	Negotiate
DIAMOND	Leasehold improvements	3,040	3,040	—	Negotiate
DIAMOND	Other equipment	4,190	10,687	6,497	Negotiate
	Total	<u>\$51,312</u>	<u>\$70,037</u>	<u>\$18,725</u>	

For the year ended December 31, 2016 :

Counterparty	Property	Amount	Gain (loss) on sales of assets	The basis of transaction price
<u>Purchase</u>				
INFOFAB	Other equipment	\$53,361	Not applicable	Negotiate
INFOFAB	Computer software	\$88,855	Not applicable	Negotiate
	Total	<u>\$142,216</u>		

#### G. Intercompany borrowing

<u>Dec. 31, 2017</u>				
Related parties	Maximum amount	Amount	Interest rates	Interest income (expense)
Amount lent to: (included in long-term receivables-affiliates accounts)				
	\$92,384	\$92,384		
PROPERTIES	(USD3,102 thousand)	(USD3,102 thousand)	2.50%	\$2,374
Amount borrowed from: (included in other payable-affiliates accounts)				
Other related parties	\$245,000	—	—	—

	Dec. 31, 2016			
Related parties	Maximum amount	Amount	Interest rates	Interest income (expense)
Amount lent to: (included in long-term receivables-affiliates accounts)				
	\$100,047	\$100,047		
Associates	(USD3,102 thousand)	(USD3,102 thousand)	2.50%	\$2,497
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	\$49,026
Post-employment benefits	720	813
Total	\$39,082	\$49,839

For details of total compensation paid to the Company's key management personnel, please refer to the annual report for the Company.

#### I. Other disclosures

- As of December 31, 2017 and 2016, interest receivables from PROPERTIES amounted to \$42,562 thousand and \$43,591 thousand, respectively, which were included in other receivable-affiliates accounts.
- PROPERTIES had borrowed USD\$3,102 thousand from subsidiary and provided all of real estates to trust as the mortgage for financing bank.
- The Group rent land from PROPERTIES .As of December 31, 2017 , the amount of rent payable was USD16,387 thousand.
- As of December 31, 2017 and 2016, the Group paid \$36,507 thousand and \$2,416 thousand, \$34,046 thousand and \$8,795 thousand service fees to maintain information system of INFO, 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.
- 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 related parties	42	42
Total	\$7,240	\$6,816

- As at December 31, 2017, the Group 's earned \$3,482 thousand of labour expense for business support to DIAMOND and recognized other income.

### 35. ASSETS PLEDGED AS SECURITY

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

Assets pledged for security	Carrying amount		Secured liabilities details
	Dec. 31, 2017	Dec. 31, 2016	
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—current—time deposits	\$389,832	128,688	Short and long-term borrowings
Other financial assets—current—deposits reserved for repayment	121,128	139,363	Short and long-term borrowings
Investments accounted for using the equity method —ATP	358,667	350,365	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	3,413,398	Short and long-term borrowings
Property, plant and equipment—Leased assets	106,646	546,901	Short and long-term borrowings
Refundable deposits—time deposits	182,572	135,045	Customs export Guarantee or others
Total	<u>\$5,092,288</u>	<u>\$5,774,334</u>	

### 36. COMMITMENTS AND CONTINGENCIES

- (1) Guarantee given by the bank for the payment of input tax imposed for sales from a tax free zone to non-tax free zone amounted to \$200,000 thousand.
- (2) The Company issued promissory notes of \$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.

### 37. LOSSES DUE TO MAJOR DISASTERS

None.

### 38. 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 \$249,258 thousand and \$5,252 thousand, respectively.

### 39. FINANCIAL INSTRUMENTS

#### (1) Categories of financial instruments

<u>Financial assets</u>	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Financial assets at fair value through profit or loss-		
Current	\$30,813	\$35,266
Available-for-sale financial assets -Non current(including \$37,246 reported as financial assets measured at cost in balance sheet)	252,783	274,999
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	1,293,963	991,572
Notes, accounts and other receivable	2,676,397	2,786,186
Long-term receivables-Affiliates	92,384	100,047
Subtotal	4,062,744	3,877,805
Total	<u>\$4,346,340</u>	<u>\$4,188,070</u>
 <u>Financial liabilities</u>	 <u>Dec. 31, 2017</u>	 <u>Dec. 31, 2016</u>
Financial liabilities at amortized cost:		
Short-term borrowings	\$2,192,678	\$1,474,062
Short-term notes payable	398,938	249,131
Notes, accounts and other payable	3,940,831	4,637,381
Long-term loans (including of current portion)	3,757,706	4,068,405
Lease payable (including of current portion)	24,551	181,887
Total	<u>\$10,314,704</u>	<u>\$10,610,866</u>

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

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

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

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group 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 Group.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Group'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 Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans and receivables at variable interest rates, bank borrowings with fixed interest rates and variable interest rates.

The Group 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 Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group'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 Group 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 Group's senior management on a regular basis. The Group'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%	+/- 17,047 thousand
	NTD/JPY Foreign currency +/- 1%	+/- 78 thousand
Interest rate risk	Market rate +/- 10 fundamental proposition	+/- 5,950 thousand
Equity price risk	Market price +/- 10 fundamental proposition	+/- 2,836 thousand



For the year ended December 31, 2016

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency $\pm 1\%$	$\pm 10,459$ thousand
	NTD/JPY Foreign currency $\pm 1\%$	$\pm 3,862$ thousand
Interest rate risk	Market rate $\pm 10$ fundamental proposition	$\pm 5,542$ thousand
Equity price risk	Market price $\pm 10$ fundamental proposition	$\pm 3,103$ thousand

Please refer to Note 39.(7) for sensitivity analysis information of other equity instruments or derivatives that are linked to such equity instruments whose fair value measurement is categorized under Level 3.

#### (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 Group 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 Group'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 Group'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 72.36% and 67.82% of the total accounts receivables of the Group, 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 Group's treasury in accordance with the Group's policy. The Group 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 Group'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 Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	<u>Less than 1 year</u>	<u>2 to 3 years</u>	<u>4 to 5 years</u>	<u>&gt; 5 years</u>	<u>Total</u>
As of Dec. 31, 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	\$2,819,400	\$2,284,290	\$476,417	\$90,785	\$5,670,892
Lease payable	\$161,247	\$24,904	—	—	\$186,151
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 Group 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 39. (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 Group's assets and liabilities:

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

As of December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Stocks	\$30,813	—	—	\$30,813
Available-for-sale financial assets				
equity securities	—	—	\$248,226	\$248,226

As of December. 31, 2016

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

Transfers between Level 1 and Level 2 during the period

During the years ended 31 December 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

	<u>Valuation techniques</u>	<u>Significant unobservable inputs</u>	<u>Quantitative information</u>	<u>Relationship between inputs and fair value</u>	<u>Sensitivity of the input to fair value</u>
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.

C. Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed

2017.12.31

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties	—	—	\$494,849	\$494,849

2016.12.31

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties	—	—	\$709,393	\$709,393

(8) Significant assets and liabilities denominated in foreign currencies

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

	<u>Dec. 31, 2017</u>		
	<u>Foreign currencies</u>	<u>Foreign exchange rate</u>	<u>NTD</u>
Financial assets			
Monetary items:			
USD	\$142,647	29.78	\$4,248,028
JPY	\$443,960	0.2647	\$117,516

Dec. 31, 2017			
	Foreign currencies	Foreign exchange rate	NTD
Financial liabilities			
Monetary items:			
USD	\$85,402	29.78	\$2,543,272
JPY	\$473,334	0.2647	\$125,292
Dec. 31, 2016			
	Foreign currencies	Foreign exchange rate	NTD
Financial assets			
Monetary items:			
USD	\$108,173	32.25	\$3,488,579
Financial liabilities			
Monetary items:			
USD	\$75,744	32.25	\$2,442,744
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 Group'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 \$54,547 thousand and \$77,178 thousand for the year ended December 31, 2017 and 2016, respectively.

#### (9) Capital management

The primary objective of the Group'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 Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

#### 40. SEGMENT INFORMATION

For management purposes, the Company is organized into business units based on its products and services and has two reportable segments as follows:

Semiconductor Group: Mainly provides IC packaging and testing services.

EMS Group: Provides professional electronics manufacturing services.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group finance costs, finance income and income taxes are managed on a group basis and are not allocated to operating segments. The transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

For the year ended Dec. 31, 2017

	Semiconductor Group	EMS Group	Other	Adjustment and Eliminations	Consolidated
Revenue					
External customer	\$8,198,468	\$5,687,844	—	—	\$13,886,312
Inter-Segment	33,715	934,225	—	(\$967,940) (Note1)	—
Total Revenue	\$8,232,183	\$6,622,069	—	(\$967,940) (Note1)	\$13,886,312
				(\$118,264)	
Segment Profit	(\$952,741)	\$284,483	\$34,997	(Note2)	(\$751,525)

(Note 1) : Inter-segment revenues are eliminated on consolidation.

(Note 2) : The profit for each operating segment does not include income tax expense.

For the year ended Dec. 31, 2016

	Semiconductor Group	EMS Group	Other	Adjustment and Eliminations	Consolidated
Revenue					
External customer	\$10,582,014	\$5,204,319	—	—	\$15,786,333
Inter-Segment	50,164	785,740	—	(\$835,904) (Note1)	—
Total Revenue	\$10,632,178	\$5,990,059	—	(\$835,904) (Note1)	\$15,786,333
Segment Profit	\$494,217	\$271,848	(\$152,778)	\$23,366 (Note2)	\$636,653

(Note 1) : Inter-segment revenues are eliminated on consolidation.

(Note 2) : The profit for each operating segment does not include income tax expense.

(1) Geographical information:

A. Sales to other than consolidated entities (Sales are presented by customers' country)

	For the years ended December 31	
	2017	2016
Taiwan	\$5,192,222	\$6,168,741
U.S.A.	4,113,054	4,041,916
China	1,730,753	2,473,703
Others	2,850,283	3,101,973
Total	\$13,886,312	\$15,786,333

B. Non-current assets

	Dec. 31, 2017	Dec. 31, 2016
Taiwan	\$8,234,618	\$9,917,865
Philippines	487,469	574,543
U.S.A.	202,049	168,939
China	63,339	7,686
Total	\$8,987,475	\$10,669,033

(2) Major customers

Sales to customers representing over 10% of the Company's consolidated net sales are as follows:

Customers	For the years ended December 31			
	2017		2016	
	Amounts	%	Amounts	%
A	\$4,141,282	30.75	\$3,380,377	22.34
B	\$2,790,315	20.72	\$3,342,290	20.06
C	—	—	\$1,911,019	12.63
D	—	—	\$1,546,318	10.22