

**GEM Terminal Ind. Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report**

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The entities that are required to be included in the combined financial statements of GEM Terminal Ind. Co., Ltd. as of and for the year ended December 31, 2016, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, GEM Terminal Ind. Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

GEM Terminal Ind. Co., Ltd.

By

Su, Chung - Hong
Chairman of the board

March 23, 2017

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
GEM Terminal Ind. Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of GEM Terminal Ind. Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect 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 Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 the consolidated financial statements for the year ended December 31, 2016. 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 matters.

Recoverability of Accounts Receivable

Refer to Note 8 to the consolidated financial statements, as of December 31, 2016, the Group's net consolidated accounts receivable amounted to New Taiwan Dollar (collectively) \$1,119,164 thousand, accounted for 17% of total assets. The Group's net consolidated accounts receivable were from counterparties engaged in the concentrated region and with similar economic conditions. As a result, the recoverability of accounts receivable was deemed to be a key audit matter.

Accounts receivable are assessed for impairment on a collective basis. The Group focused on assessment of delayed collections or irrecoverable receivables individually, then recognized the allowance for doubtful accounts receivable based on aging analysis.

To audit the recoverability of accounts receivable, procedures we performed included:

1. Obtained an understanding of the Group's control activities for monitoring customers' credit lines and the quality management of accounts receivable.
2. Audited the balance of accounts receivable to obtain assurance for its existence, including sampling and sending confirmation letters to the selected customers, examining collections subsequent reporting year, original sales orders, shipping orders, declaration forms and evidence or documentation of goods received.
3. Acquired aging analysis that management compiled, testing the validity of the aging analysis. For accounts receivable that were overdue, evaluated the adequacy of the allowance for doubtful account by understanding and weighing reasons for the overdue and taking historical collectability into consideration.

Impairment of Inventories

Refer to Note 10 to the consolidated financial statements, as of December 31, 2016, the Group's consolidated inventories were \$744,156 thousand, accounted for 12% of total assets. Impairment loss is the amount by which the carrying amount of inventories exceeds their net realizable value. The estimation of net realizable value is based on current market condition and historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value. Due to the estimation involves significant judgement, the impairment of inventories is deemed to be a key audit matter.

We obtained an understanding of control activities regarding inventories, evaluating the estimation and the sources of the data used in determining net realizable value, obtained inventory aging analysis and testing the validity of the aging analysis. We sampled to test the appropriateness of net realizable value the management adopted, and evaluated whether the inventories' carry amount measured fairly.

Other Matter

We have also audited the parent company only financial statements of GEM Terminal Ind. Co., Ltd. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, or other regulations, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 the 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 Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, 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 the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' 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.

The engagement partners on the audit resulting in this independent auditors' report are Chen-Li Chen and Chiu-Yen Wu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 23, 2017

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, consolidated financial performance and consolidated cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2016		December 31, 2015		LIABILITIES AND EQUITY	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,718,386	27	\$ 1,323,316	22	Short-term borrowings (Notes 16 and 25)	\$ 843,215	13	\$ 659,626	11
Available-for-sale financial assets - current (Notes 4 and 7)	-	-	13,173	-	Short-term bills payable (Note 16)	50,000	1	-	-
Notes receivable (Notes 4, 5 and 8)	145,982	2	151,493	3	Notes payable (Note 14)	198,220	3	248,075	4
Accounts receivable, net (Notes 4, 5 and 8)	1,119,164	17	982,557	16	Accounts payable (Note 14)	530,916	8	269,353	5
Other receivables (Note 4)	1,792	-	3,205	-	Other payables (Notes 15 and 17)	193,170	3	225,671	4
Current tax assets (Notes 4 and 20)	294	-	2,239	-	Current tax liabilities (Notes 4 and 20)	13,353	-	15,517	-
Inventories (Notes 4, 5 and 10)	744,156	12	579,481	10	Long-term borrowings - current portion (Notes 16 and 25)	625,036	10	303,425	5
Other financial assets - current (Notes 4, 9 and 25)	313,061	5	500,551	8	Other current liabilities (Note 4)	4,490	-	3,816	-
Other current assets (Notes 13 and 25)	118,808	2	96,164	2	Total current liabilities	2,458,400	38	1,725,483	29
Total current assets	4,161,643	65	3,652,179	61	NONCURRENT LIABILITIES				
NONCURRENT ASSETS					Long-term borrowings (Notes 16 and 25)	1,007,366	16	1,158,750	19
Property, plant and equipment (Notes 4, 12, 25 and 26)	1,988,977	31	2,077,070	34	Deferred income tax liabilities (Notes 4 and 20)	105,086	1	97,977	1
Deferred income tax assets (Notes 4 and 20)	112,739	2	95,441	2	Net defined benefit liabilities (Notes 4 and 17)	44,414	1	45,627	1
Prepayments for equipment (Note 26)	39,540	1	93,749	1	Total noncurrent liabilities	1,156,866	18	1,302,354	21
Other financial assets - noncurrent (Notes 4 and 9)	3,209	-	3,337	-	Total liabilities	3,615,266	56	3,027,837	50
Long-term prepaid rent (Notes 13 and 25)	99,465	1	101,016	2	EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Other non-current assets	7,470	-	7,881	-	(Note 18)				
Total noncurrent assets	2,251,400	35	2,378,494	39	Ordinary shares	1,692,000	26	1,692,000	28
					Capital surplus	271,315	4	271,315	5
					Retained earnings				
					Legal reserve	338,662	6	338,662	5
					Unappropriated earnings	391,565	6	346,487	6
					Total retained earnings	730,227	12	685,149	11
					Other equity	104,235	2	354,372	6
					Total equity	2,797,777	44	3,002,836	50
TOTAL	\$ 6,413,043	100	\$ 6,030,673	100	TOTAL	\$ 6,413,043	100	\$ 6,030,673	100

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

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings (Net Loss) Per Share)

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE, NET (Notes 4 and 29)	\$ 3,639,715	100	\$ 3,728,264	100
OPERATING COSTS (Notes 10, 19 and 24)	<u>3,148,965</u>	<u>87</u>	<u>3,385,665</u>	<u>91</u>
GROSS PROFIT	<u>490,750</u>	<u>13</u>	<u>342,599</u>	<u>9</u>
OPERATING EXPENSES (Notes 19 and 24)				
Marketing	149,783	4	136,032	4
General and administrative	213,527	6	201,617	5
Research and development	<u>33,535</u>	<u>1</u>	<u>42,100</u>	<u>1</u>
Total operating expenses	<u>396,845</u>	<u>11</u>	<u>379,749</u>	<u>10</u>
PROFIT (LOSS) FROM OPERATIONS	<u>93,905</u>	<u>2</u>	<u>(37,150)</u>	<u>(1)</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4 and 19)				
Other income	20,032	-	29,400	1
Other gains and losses	20,044	1	25,750	-
Finance costs	<u>(45,386)</u>	<u>(1)</u>	<u>(46,568)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>(5,310)</u>	<u>-</u>	<u>8,582</u>	<u>-</u>
CONSOLIDATED INCOME (LOSS) BEFORE INCOME TAX	88,595	2	(28,568)	(1)
INCOME TAX EXPENSE (Notes 4 and 20)	<u>43,517</u>	<u>1</u>	<u>12,735</u>	<u>-</u>
CONSOLIDATED NET INCOME (LOSS)	<u>45,078</u>	<u>1</u>	<u>(41,303)</u>	<u>(1)</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 18 and 20)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(633)	-	(905)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	107	-	154	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(252,878)	(7)	(52,495)	(1)

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GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings (Net Loss) Per Share)

	2016		2015	
	Amount	%	Amount	%
Unrealized gain (loss) on available-for-sale financial assets	\$ 288	-	\$ (288)	-
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>2,979</u>	<u>-</u>	<u>8,934</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(250,137)</u>	<u>(7)</u>	<u>(44,600)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ (205,059)</u>	<u>(6)</u>	<u>\$ (85,903)</u>	<u>(2)</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owner of the Company	<u>\$ 45,078</u>	<u>1</u>	<u>\$ (41,303)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owner of the Company	<u>\$ (205,059)</u>	<u>(6)</u>	<u>\$ (85,903)</u>	<u>(2)</u>
EARNINGS (NET LOSS) PER SHARE (Note 21)				
Basic	<u>\$ 0.27</u>		<u>\$ (0.24)</u>	
Diluted	<u>\$ 0.27</u>		<u>\$ (0.24)</u>	

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

(Concluded)

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company						Other Equity					
	Ordinary Shares		Capital Surplus	Legal Reserve	Retained Earnings		Unrealized Gain (Loss) on Available-for-sale Financial Assets	Exchange Differences on Translating Foreign Operations	Remeasurement of Defined Benefit Plans	Total	Treasury Shares	Total Equity
	Shares (In Thousands)	Amount			Unappropriated Earnings	Total						
BALANCE, JANUARY 1, 2015	171,598	\$ 1,715,980	\$ 270,187	\$ 329,878	\$ 430,894	\$ 760,772	\$ -	\$ 390,801	\$ 8,171	\$ 398,972	\$ -	\$ 3,145,911
Appropriation of 2014 earnings (Note 18)												
Legal reserve	-	-	-	8,784	(8,784)	-	-	-	-	-	-	-
Cash dividends to stockholders	-	-	-	-	(34,320)	(34,320)	-	-	-	-	-	(34,320)
Net loss in 2015	-	-	-	-	(41,303)	(41,303)	-	-	-	-	-	(41,303)
Other comprehensive loss in 2015, net of income tax	-	-	-	-	-	-	(278)	(43,571)	(751)	(44,600)	-	(44,600)
Total comprehensive loss in 2015	-	-	-	-	(41,303)	(41,303)	(278)	(43,571)	(751)	(44,600)	-	(85,903)
Buy-back of ordinary shares (Note 18)	-	-	-	-	-	-	-	-	-	-	(22,852)	(22,852)
Cancellation of treasury shares (Note 18)	(2,398)	(23,980)	1,128	-	-	-	-	-	-	-	22,852	-
BALANCE, DECEMBER 31, 2015	169,200	1,692,000	271,315	338,662	346,487	685,149	(278)	347,230	7,420	354,372	-	3,002,836
Net income in 2016	-	-	-	-	45,078	45,078	-	-	-	-	-	45,078
Other comprehensive income (loss) in 2016, net of income tax	-	-	-	-	-	-	278	(249,889)	(526)	(250,137)	-	(250,137)
Total comprehensive income (loss) in 2016	-	-	-	-	45,078	45,078	278	(249,889)	(526)	(250,137)	-	(205,059)
BALANCE, DECEMBER 31, 2016	169,200	\$ 1,692,000	\$ 271,315	\$ 338,662	\$ 391,565	\$ 730,227	\$ -	\$ 97,341	\$ 6,894	\$ 104,235	\$ -	\$ 2,797,777

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

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated income (loss) before income tax	\$ 88,595	\$ (28,568)
Adjustments for:		
Depreciation expense	248,118	268,722
Amortization expense	5,256	4,761
Allowance (reversal of allowance) for doubtful accounts	969	(4,113)
Finance costs	45,386	46,568
Interest income	(14,013)	(18,896)
Dividend income	(252)	(952)
Loss on disposal of property, plant and equipment, net	9,862	7,678
Loss (gain) on sale of investments, net	(6,872)	4,609
Write-down of inventories	-	6,613
Other non-cash items	9,553	3,073
Changes in operating assets and liabilities		
Notes receivable	5,511	90,344
Accounts receivable	(136,875)	55,295
Other receivables	414	19,623
Inventories	(162,527)	217,387
Other current assets	(26,839)	(11,506)
Notes payable	(49,855)	34,090
Accounts payable	261,563	(87,773)
Other payables	(5,743)	(14,729)
Other current liabilities	199	662
Net defined benefit liabilities	(30,111)	(27)
Cash generated from operations	242,339	592,861
Interest received	15,012	20,852
Income tax paid	(50,140)	(23,202)
Net cash generated from operating activities	<u>207,211</u>	<u>590,511</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(384,962)	(1,037,926)
Proceeds from disposal of available-for-sale financial assets	404,862	1,019,902
Acquisition of property, plant and equipment	(287,926)	(372,588)
Proceeds from disposal of property, plant and equipment	1,050	169
Decrease (increase) in other financial assets	187,618	(28,386)
Increase in other noncurrent assets	(6,026)	(9,076)
Dividend received	252	952
Net cash used in investing activities	<u>(85,132)</u>	<u>(426,953)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	820,117	1,363,853
Decrease in short-term borrowings	(597,961)	(1,399,410)
Increase in short-term bills payable	70,000	-

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GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	2016	2015
Decrease in short-term bills payable	\$ (20,000)	\$ -
Increase in long-term borrowings	944,160	610,000
Repayment of long-term borrowings	(773,750)	(582,500)
Cash dividend	-	(34,320)
Payments for buy-back of ordinary shares	-	(22,852)
Interest paid	<u>(49,872)</u>	<u>(53,546)</u>
Net cash generated from (used in) financing activities	<u>392,694</u>	<u>(118,775)</u>
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>(119,703)</u>	<u>8,884</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	395,070	53,667
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,323,316</u>	<u>1,269,649</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,718,386</u>	<u>\$ 1,323,316</u>

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

(Concluded)

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

GEM Terminal Ind. Co., Ltd. (the “Company”) was incorporated in July 1993 under the laws of the Republic of China (ROC). The Company mainly manufactures and sells the following products:

- Series terminals, plug inserts, housing and electronic connectors for AC and DC power cords.
- Electric and motor parts terminal.
- Electric and communication terminal.
- Optical communication passive devices.
- Lead frames.

The Company’s shares have been traded on the Taiwan Stock Exchange since September 2001.

The consolidated financial statements are presented in the Company’s functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on, March 23, 2017.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERNATIONS

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the Financial Supervisory Commission (FSC) for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Company and its subsidiaries (collectively, the “Group”) should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)

(Continued)

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

(Concluded)

Note 1: Unless stated otherwise, the above New or amended IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group’s accounting policies, except for the following:

1) Amendment to IFRS 8 “Operating Segments”

IFRS 8 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to require disclosure of the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the Group’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

2) Amendments to IFRS 13 “Fair Value Measurement”

The basis for conclusions of IFRS 13 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to clarify that when the amendment becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial. Otherwise, the material effect of discounting will be adjusted retrospectively.

IFRS 13 was also amended by the Annual Improvements to IFRSs: 2011-2013 Cycle to clarify that the scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

3) Amendment to IAS 24 “Related Party Disclosures”

IAS 24 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments will have on the Group’s financial position and financial performance, and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that amendments to IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of investment property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt

instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

Impairment of financial assets

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, the Group shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 and related amendment are effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

3) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion and interest portion of the lease liability are classified within financing activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

4) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that unless the tax law restricts the utilization of losses to deduction against income of a specific type, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve this, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

5) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after the beginning of the reporting period in which the entity first applies IFRIC 22, or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, other regulations and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values, as explained in the accounting policies below.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement 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.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

See Note 11, table 4 and 5 for the detailed information of subsidiaries (including percentage of ownership and main business).

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the year in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries, in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting year; income and expense items are translated at the average exchange rates for the year. The resulting currency translation differences are recognized in other comprehensive income.

f. Inventories

Inventories consist of raw materials, supplies, work-in-process and finished goods and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

g. Property, plant, and equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting year, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

h. Impairment of tangible assets

At the end of each reporting year, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount deducting depreciation that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

i. Financial instruments

Financial assets and financial liabilities are recognized when an entity in the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

Financial assets are classified into the following categories: Available-for-sale financial assets, and loans and receivables.

i Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

ii Loans and receivables

Loans and receivables (including cash and cash equivalent, notes receivable, accounts receivable, other receivables, and other financial assets) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting year. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as accounts receivable and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables, and other situation.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible accounts receivables and other receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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

2) Equity instruments

Debt and equity instruments issued by the Company entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Company entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

Subsequent measurement

The Group's financial liabilities are measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

j. Provisions

Provisions are measured at the best estimate of discounted cash flow of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract, the present obligations arising under onerous contracts are recognized and measured as provisions.

k. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 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 Group; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

Specifically, sales of goods are recognized when goods are delivered and title has passed.

2) Dividend and interest income

Dividend income from investments is recognized when the stockholders' right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

l. Leasing

When the Group is lessee, the operating lease payments are recognized as an expense on a straight-line basis over the lease term.

m. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the year in which they are incurred.

n. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and net interest on the net defined benefit liability (asset)) are recognized as employee benefits expense in the period they occur. Rereasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Rereasurement recognized in other comprehensive income is reflected immediately in other equity and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

o. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders' approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets 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.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

a. Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. Information for accounts receivable and allowance for doubtful account was described in Note 8.

b. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2016	2015
Cash on hand	\$ 1,500	\$ 2,153
Checking accounts and demand deposits	1,311,602	956,573
Cash equivalent		
Time deposits with original maturities less than 3 months	<u>405,284</u>	<u>364,590</u>
	<u>\$ 1,718,386</u>	<u>\$ 1,323,316</u>

The market interest rates of cash equivalents at the end of the reporting year ranged as follows:

	<u>December 31</u>	
	2016	2015
Time deposits (%)	0.55-1.44	0.77-2.05

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT - ONLY AS DECEMBER 31, 2015

	Amount
Domestic listed shares	\$ 12,612
Foreign listed shares	<u>561</u>
	<u>\$ 13,173</u>

8. NOTES AND ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	2016	2015
<u>Notes receivable</u>		
Notes receivable - operating	<u>\$ 145,982</u>	<u>\$ 151,493</u>
<u>Accounts receivable</u>		
Accounts receivable	\$ 1,132,152	\$ 995,277
Less: Allowance for doubtful accounts	<u>12,988</u>	<u>12,720</u>
	<u>\$ 1,119,164</u>	<u>\$ 982,557</u>

a. Accounts receivable

The average credit period of sales of goods was 30-120 days. The Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting year. The Group recognized an allowance for doubtful accounts of 100% against all receivables over 360 days because historical experience had been that receivables that are past due beyond 360 days were not recoverable. Allowance for doubtful accounts is recognized against trade receivables between 0 days and 360 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial

position.

There were no accounts receivable that were past due and not impaired at the end of the reporting year. Inspection on customers' credit was taken regularly and aging analysis was performed based on the past due date.

Aging analysis of accounts receivable was as follows:

	December 31	
	2016	2015
Not past due	\$ 1,042,293	\$ 907,945
Past due 1-60 days	81,935	82,916
Past due 61-90 days	3,629	1,409
Past due 91-180 days	377	22
Past due over 181 days	<u>3,918</u>	<u>2,985</u>
	<u>\$ 1,132,152</u>	<u>\$ 995,277</u>

Movements of the allowance for doubtful accounts on accounts receivable were as follows:

	Collectively Assessed for Impairment	
	Year Ended December 31	
	2016	2015
Balance, beginning of year	\$ 12,720	\$ 16,817
Allowance (reversal of allowance) for doubtful accounts	969	(4,113)
Effect of foreign currency exchange differences	<u>(701)</u>	<u>16</u>
Balance, end of year	<u>\$ 12,988</u>	<u>\$ 12,720</u>

b. Credit risk of notes and accounts receivable

The Group's receivables are significantly concentrated in certain individuals, most of which have similar business operations and economic features. Credit risk concentration occurs when the counterparties to financial instrument transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

As of December 31, 2016 and 2015, the balances of the notes and accounts receivable from customers with carrying amounts that were 10% or more of the account totals were as follows:

	December 31	
	2016	2015
Group A	<u>\$ 196,144</u>	<u>\$ 214,699</u>

9. OTHER FINANCIAL ASSET

	December 31	
	2016	2015
Time deposits with original maturities more than 3 months	\$ 241,574	\$ 270,358

(Continued)

	December 31	
	2016	2015
Pledge time deposits	\$ 71,353	\$ 230,048
Refundable deposits	<u>3,343</u>	<u>3,482</u>
	<u>\$ 316,270</u>	<u>\$ 503,888</u>
Current	\$ 313,061	\$ 500,551
Non-current	<u>3,209</u>	<u>3,337</u>
	<u>\$ 316,270</u>	<u>\$ 503,888</u>

(Concluded)

The pledge information of other financial assets refer to Note 25.

10. INVENTORIES

	December 31	
	2016	2015
Finished goods	\$ 254,907	\$ 295,559
Raw materials	240,218	133,088
Work in process	183,321	91,640
Supplies	<u>65,710</u>	<u>59,194</u>
	<u>\$ 744,156</u>	<u>\$ 579,481</u>

The cost of inventories recognized as costs of goods sold were \$3,148,965 thousand and \$3,385,665 thousand in 2016 and 2015, respectively, which included the following items:

	For the Year Ended December 31	
	2016	2015
Write-down (reversal of write-down)	\$ (1,704)	\$ 6,613
Others	<u>667</u>	<u>441</u>
	<u>\$ (1,037)</u>	<u>\$ 7,054</u>

11. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements were as follows:

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership	
			December 31, 2016	December 31, 2015
The Company	Global Electronics Terminal (Cayman) Co., Ltd. (Global Cayman)	Note 1	100	100
	Genius Terminal Co., Ltd. (Genius Terminal)	Notes 1 and 2	100	100

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership	
			December 31, 2016	December 31, 2015
	GEM Terminal (Cayman) Co., Ltd. (GEM Terminal (Cayman))	Note 1	100	100
Global (Cayman)	Vibo Gem International Co., Ltd. (Vibo)	Notes 1 and 2	100	100
	Global Electronics Terminal (HK) Co., Ltd. (Global (HK))	Note 2	100	100
Genius Terminal	Genius Terminal (HK) Ltd. (Genius (HK))	Note 2	100	100
GEM Terminal (Cayman)	Vietnam Gem Electronic and Metal Co., Ltd (GEM (VN))	Note 3	100	100
Vibo	Suzhou Gem Opto-Electronics Terminal Co., Ltd. (GEM (Suzhou))	Note 3	100	100
	Dongguan Gem Electronics & Metal Co., Ltd. (GEM (Dongguan))	Note 3	100	100

(Concluded)

Note 1: International investment.

Note 2: International trading

Note 3: Production of hardware; machine processing; electroplating for metal processing; production and processing of molds and related accessories; plastic products and related plastic accessory production.

12. PROPERTY, PLANT, AND EQUIPMENT

The Company purchased land of \$7,908 thousand for the purpose of a resort constructed for the employees. However, a part of the land is agricultural land that cannot be transferred to the Company because of statutory limitations; thus, the Company registered the property rights in the name of an individual temporarily, in December 2014, its registration is transferred to chairman's name. The land is mortgaged to the Company and the agreement stipulated unconditional conveyance of the land to the Company.

a. Movements of cost and accumulated depreciation were as follows:

For the Year ended December 31, 2016

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Others	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>							
Balance at January 1, 2016	\$ 146,218	\$ 805,786	\$ 1,801,237	\$ 59,910	\$ 669,520	\$ 398,523	\$ 3,881,194
Additions	-	47,204	25,067	1,473	48,953	225,756	348,453
Disposal	-	(8,680)	(66,413)	(1,178)	(5,888)	-	(82,159)
Reclassification	-	255,960	118,701	-	80,720	(465,356)	(9,975)
Effect of foreign currency exchange differences	-	(51,065)	(201,956)	(3,670)	(61,897)	(21,915)	(340,503)
Balance at December 31, 2016	<u>\$ 146,218</u>	<u>\$ 1,049,205</u>	<u>\$ 1,676,636</u>	<u>\$ 56,535</u>	<u>\$ 731,408</u>	<u>\$ 137,008</u>	<u>\$ 3,797,010</u>

(Continued)

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Others	Construction in Progress and Equipment to be Inspected	Total
<u>Accumulated depreciation</u>							
Balance at January 1, 2016	\$ -	\$ (396,915)	\$ (988,068)	\$ (47,383)	\$ (371,758)	\$ -	\$ (1,804,124)
Depreciation expenses	-	(38,637)	(131,232)	(3,654)	(74,595)	-	(248,118)
Disposal	-	8,255	57,795	82	5,115	-	71,247
Effect of foreign currency exchange differences	-	21,824	104,604	3,016	43,518	-	172,962
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ (405,473)</u>	<u>\$ (956,901)</u>	<u>\$ (47,939)</u>	<u>\$ (397,720)</u>	<u>\$ -</u>	<u>\$ (1,808,033)</u>
Carrying amounts at December 31, 2016	<u>\$ 146,218</u>	<u>\$ 643,732</u>	<u>\$ 719,735</u>	<u>\$ 8,596</u>	<u>\$ 333,688</u>	<u>\$ 137,008</u>	<u>\$ 1,988,977</u>

(Concluded)

For the Year ended December 31, 2015

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Others	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>							
Balance at January 1, 2015	\$ 146,218	\$ 815,421	\$ 1,808,955	\$ 60,349	\$ 572,592	\$ 348,780	\$ 3,752,315
Additions	-	4,416	37,720	331	12,602	264,183	319,252
Disposal	-	(3,891)	(56,713)	(981)	(6,845)	-	(68,430)
Reclassification	-	1,569	115,756	1,140	104,376	(222,462)	379
Effect of foreign currency exchange differences	-	(11,729)	(104,481)	(929)	(13,205)	8,022	(122,322)
Balance at December 31, 2015	<u>\$ 146,218</u>	<u>\$ 805,786</u>	<u>\$ 1,801,237</u>	<u>\$ 59,910</u>	<u>\$ 669,520</u>	<u>\$ 398,523</u>	<u>\$ 3,881,194</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2015	\$ -	\$ (363,984)	\$ (933,576)	\$ (44,764)	\$ (319,957)	\$ -	\$ (1,662,281)
Depreciation expenses	-	(40,925)	(154,088)	(4,206)	(69,503)	-	(268,722)
Disposal	-	3,365	50,897	902	5,419	-	60,583
Effect of foreign currency exchange differences	-	4,629	48,699	685	12,283	-	66,296
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ (396,915)</u>	<u>\$ (988,068)</u>	<u>\$ (47,383)</u>	<u>\$ (371,758)</u>	<u>\$ -</u>	<u>\$ (1,804,124)</u>
Carrying amounts at December 31, 2015	<u>\$ 146,218</u>	<u>\$ 408,871</u>	<u>\$ 813,169</u>	<u>\$ 12,527</u>	<u>\$ 297,762</u>	<u>\$ 398,523</u>	<u>\$ 2,077,070</u>

b. Estimated useful lives

The above items of property, plant and equipment were depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	
Factory	10-50 years
Main building	10-25 years
The major component part of the factory	10-20 years
The major component part of the office	10-55 years
Machinery and equipment	4.67-15 years
Transportation equipment	3-12 years
Others	3-20 years

Refer to Note 25 for the carrying amount of property, plant and equipment that had been pledged by the Group to secure borrowing/general facilities granted to the Group.

c. Investing Activities Affecting Both Cash And Non - Cash Items

	For the Year Ended December 31	
	2016	2015
Acquisition of in property, plant and equipment	\$ 348,453	\$ 319,252
Capitalized interest	(5,221)	(7,095)
Increase (decrease) in prepayments for equipment	(54,209)	62,047
Increase in payable for purchase of equipment	<u>(1,097)</u>	<u>(1,616)</u>
Cash paid for acquisition of property, plant and equipment	<u>\$ 287,926</u>	<u>\$ 372,588</u>

13. LONG-TERM PREPAID RENT

	December 31	
	2016	2015
Current (included in other current assets)	\$ 1,983	\$ 2,053
Noncurrent (included in long-term prepaid rent)	<u>99,465</u>	<u>101,016</u>
	<u>\$ 101,448</u>	<u>\$ 103,069</u>

As of December 31, 2016 and 2015, prepayments for lease are for land use rights and property use rights in Mainland China and Vietnam, the remaining amortization year of land use rights for those located in Mainland China is 30-45 years, the remaining amortization year of land use rights and property use rights for those located in Vietnam is 38-48 years. Long-term prepaid rent with carrying amount of RMB 1,200 thousand is in the process of obtaining the land use right certificate.

Refer to Note 25 for the carrying amount of prepayments for lease that had been pledged by the Group to secure borrowings/general banking facilities granted to the Group.

14. NOTES PAYABLE AND ACCOUNTS PAYABLE

The Group's notes payable and accounts payable were from operating activities and were not secured by collaterals.

The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms, therefore, no interest was charged on the outstanding trade payables.

15. OTHER PAYABLES

	December 31	
	2016	2015
Payable for purchase of equipment	\$ 63,329	\$ 62,232
Payable for salaries or bonus	47,771	41,609
Payable for utilities expense	7,440	9,070
Payable for professional service fees	6,035	3,644
Payable for employee welfare	4,892	6,321
Payable for annual leave	4,544	4,757

(Continued)

	<u>December 31</u>	
	2016	2015
Payable for tax	\$ 4,287	\$ 9,031
Payable for employees' compensation and remuneration of directors and supervisors	3,504	-
Payable for pension	3,110	31,369
Others	<u>48,258</u>	<u>57,638</u>
	<u>\$ 193,170</u>	<u>\$ 225,671</u> (Concluded)

Other payables - others were payables for labor and health insurance, rent, and payable for purchase of parts.

16. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	2016	2015
Unsecured borrowings	\$ 436,025	\$ 316,918
Secured borrowings	<u>407,190</u>	<u>342,708</u>
	<u>\$ 843,215</u>	<u>\$ 659,626</u>

Interest rates P.A. on short-term borrowings were as follows:

	<u>December 31</u>	
	2016	2015
Unsecured borrowings (%)	1.26-4.35	1.25-5.35
Secured borrowings (%)	3.92-4.35	3.92-5.35

b. Short - term bills payable - only as of December 31, 2016

The commercial paper of \$50,000 thousand with annual interest rate at 1.15% and one year revolving credit facilities was issued and granted by DAH CHUNG Bills Finance Corporation.

c. Long-term borrowings

	<u>December 31</u>	
	2016	2015
Unsecured borrowings	\$ 1,556,750	\$ 1,262,500
Secured borrowings	75,652	-
Commercial paper payable	<u>-</u>	<u>199,675</u>
	1,632,402	1,462,175
Less: Current portion	<u>625,036</u>	<u>303,425</u>
	<u>\$ 1,007,366</u>	<u>\$ 1,158,750</u>

Interest rates P.A. on long term borrowings were as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Unsecured borrowings (%)	1.49-2.09	1.76-2.10
Secured borrowings (%)	2.70-2.93	-

The commercial paper with annual interest rate at 1.20%, was issued by International Bill Finance Corporation (credit lines was granted by TC bank) as of December 31, 2015. It was repaid a lump sum in February, 2016.

Under the loan agreements with partial bank, the Group should maintain certain financial ratios based on reviewed semiannual and audited annual consolidated financial statements. As of December 31, 2016 and 2015, the Group was in compliance with the above mentioned financial ratio requirements stated in the loan agreements with the banks.

The Group had sufficient long term credit facility obtained before December 31, 2015 to refinance a portion of the loans on a long-term basis. Therefore, \$450,000 thousand was not classified as current portion of long-term borrowings as of December 31, 2015.

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages. Except the foreign subsidiaries: GEM (Dongguan), GEM (Suzhou) and GEM (Vietnam) of the Group make contributions in accordance with the local regulations, which is a defined contribution plan; the other subsidiaries of the Group do not have retirement regulations.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 4% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Company has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Company’s defined benefit plans were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	\$ 88,340	\$ 93,117
Fair value of plan assets	<u>(41,609)</u>	<u>(16,908)</u>
Deficit	46,731	76,209
Classified under other payables	<u>(2,317)</u>	<u>(30,582)</u>
Net defined benefit liability	<u>\$ 44,414</u>	<u>\$ 45,627</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2015	<u>\$ 94,962</u>	<u>\$ (19,631)</u>	<u>\$ 75,331</u>
Service cost			
Current service cost	1,251	-	1,251
Net interest expense (income)	<u>1,187</u>	<u>(257)</u>	<u>930</u>
Recognized in profit or loss	<u>2,438</u>	<u>(257)</u>	<u>2,181</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(263)	(263)
Actuarial loss - experience adjustments	<u>1,168</u>	<u>-</u>	<u>1,168</u>
Recognized in other comprehensive income	<u>1,168</u>	<u>(263)</u>	<u>905</u>
Contributions from the employer	<u>-</u>	<u>(2,208)</u>	<u>(2,208)</u>
Benefits paid	<u>(5,451)</u>	<u>5,451</u>	<u>-</u>
Balance at December 31, 2015	<u>93,117</u>	<u>(16,908)</u>	<u>76,209</u>
Service cost			
Current service cost	1,042	-	1,042
Net interest expense (income)	<u>1,164</u>	<u>(222)</u>	<u>942</u>
Recognized in profit or loss	<u>2,206</u>	<u>(222)</u>	<u>1,984</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(33)	(33)
Actuarial loss - experience adjustments	1,787	-	1,787
Actuarial gain - changes in financial assumptions	<u>(1,121)</u>	<u>-</u>	<u>(1,121)</u>
Recognized in other comprehensive income	<u>666</u>	<u>(33)</u>	<u>633</u>
Contributions from the employer	<u>-</u>	<u>(32,095)</u>	<u>(32,095)</u>
Benefits paid	<u>(7,649)</u>	<u>7,649</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 88,340</u>	<u>\$ (41,609)</u>	<u>\$ 46,731</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk

The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	2016	2015
Discount rate (%)	1.40	1.25
Expected rate of salary increase (%)	1.20	1.20

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase / decrease as follows:

	<u>December 31</u>	
	2016	2015
Discount rate		
0.25% increase	<u>\$ (1,809)</u>	<u>\$ (2,049)</u>
0.25% decrease	<u>\$ 1,883</u>	<u>\$ 2,132</u>
Expected rate of salary increase		
1% increase	<u>\$ 7,947</u>	<u>\$ 9,032</u>
1% decrease	<u>\$ (6,904)</u>	<u>\$ (7,785)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2016	2015
The expected contributions to the plan for the next year	<u>\$ 4,094</u>	<u>\$ 32,334</u>

(Continued)

	<u>December 31</u>	
	2016	2015
The average duration of the defined benefit obligation	13 years	13 years (Concluded)

18. EQUITY

a. Share capital

	<u>December 31</u>	
	2016	2015
Number of shares authorized (in thousands)	<u>221,000</u>	<u>221,000</u>
Shares authorized	<u>\$ 2,210,000</u>	<u>\$ 2,210,000</u>
Number of shares issued and fully paid (in thousands)	<u>169,200</u>	<u>169,200</u>
Shares issued	<u>\$ 1,692,000</u>	<u>\$ 1,692,000</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

b. Capital Surplus

	<u>December 31</u>	
	2016	2015
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>		
Arising from issuance of common shares	\$ 266,411	\$ 266,411
Arising from treasury share transactions	<u>4,904</u>	<u>4,904</u>
	<u>\$ 271,315</u>	<u>\$ 271,315</u>

The capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

c. Appropriation of Earnings and Dividend Policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to stockholders and do not include employees. The stockholders held their regular meeting on June 22, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a

distribution plan, which should be resolved in the stockholders' meeting for distribution of dividends and bonus to stockholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after amendment, please refer to (e) Employee benefits expense in Note 19.

The Company's dividend policy is in line with the Company's operating scale and research and development needs as well as the status of the economy and industry in order to maintain sound management and promote stockholders' long-term interests. Thus, the Company adopted Residual dividend policy as its stockholders dividends' policy. Company's profits may be distributed in the form of cash and/or stock. However, distribution of profits should preferably be in the form of cash dividend. Cash dividends should be at least 10% of total dividends. But if a cash dividend is less than NT\$0.2, the Company may choose to appropriate stock dividends instead.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve.

Except for non-ROC resident stockholders all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The deficit compensation for 2015 and the appropriations of earnings for 2014 had been approved in the stockholders' meeting on June 22, 2016 and June 15, 2015, respectively. The appropriations of earnings for 2014 were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 8,784	
Cash dividends	<u>34,320</u>	\$ 0.2
	<u>\$ 43,104</u>	

On March 23, 2017 board of directors' meeting, taking industry economic uncertainty into account, the Company's board of directors resolved not to distribute 2016 earnings to stockholders yet still appropriate earnings to legal reserve. The appropriations were as follows:

	Appropriation of Earnings
Legal reserve	<u>\$ 4,508</u>

The appropriations of earnings for 2016 are subject to the resolution of the stockholders' meeting to be held on June 14, 2017.

d. Other Equity Items

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ 347,230	\$ 390,801
Exchange differences arising on translating the financial statements of foreign operations, net	(252,878)	(52,495)
Related income tax	<u>2,989</u>	<u>8,924</u>
Balance at December 31	<u>\$ 97,341</u>	<u>\$ 347,230</u>

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ (278)	\$ -
Unrealized gain (loss) arising on revaluation of available-for-sale financial assets	7,160	(4,897)
Related income tax	(1,621)	10
Cumulative loss (gain) reclassified to profit or loss on sale of available-for-sale financial assets	(6,872)	4,609
Related income tax	<u>1,611</u>	<u>-</u>
Balance at December 31	<u>\$ -</u>	<u>\$ (278)</u>

3) Remeasurement of defined benefit plans

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ 7,420	\$ 8,171
Remeasurement of defined benefit plans	(633)	(905)
Related income tax	<u>107</u>	<u>154</u>
Balance at December 31	<u>\$ 6,894</u>	<u>\$ 7,420</u>

e. Treasury Shares - Only 2015

In 2015, the Company bought back and cancelled treasury shares of 2,398 thousand shares with \$22,852 thousand, and generated capital surplus of \$4,904 thousand.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

19. CONSOLIDATED INCOME (LOSS) BEFORE INCOME TAX

Consolidated income (loss) before income tax was attributed to as follows:

a. Other income

	For the Year Ended December 31	
	2016	2015
Interest income	\$ 14,013	\$ 18,896
Dividend income	252	952
Others	<u>5,767</u>	<u>9,552</u>
	<u>\$ 20,032</u>	<u>\$ 29,400</u>

b. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Foreign exchange gains, net	\$ 24,408	\$ 39,766
Loss on disposal of property, plant and equipment, net	(9,862)	(7,678)
Gain (loss) on disposal of investments, net	6,872	(4,609)
Others	<u>(1,374)</u>	<u>(1,729)</u>
	<u>\$ 20,044</u>	<u>\$ 25,750</u>

c. Finance costs

	For the Year Ended December 31	
	2016	2015
Interest expense of borrowings	\$ 50,607	\$ 53,663
Less: Amounts included in the cost of qualifying assets	<u>5,221</u>	<u>7,095</u>
	<u>\$ 45,386</u>	<u>\$ 46,568</u>

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2016	2015
Capitalized interest (classified under property, plant and equipment and prepayments for equipment)	\$ 5,221	\$ 7,095
Capitalization rate (%)	1.72-5.19	1.82-5.23

d. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	\$ 248,118	\$ 268,722
Prepayments for lease (current/noncurrent)	2,521	2,425
Other assets	<u>2,735</u>	<u>2,336</u>
	<u>\$ 253,374</u>	<u>\$ 273,483</u>

Other assets were long-term prepayments for computer software and etc.

	For the Year Ended December 31	
	2016	2015
Analysis of depreciation by function		
Operating costs	\$ 207,242	\$ 227,236
Operating expenses	<u>40,876</u>	<u>41,486</u>
	<u>\$ 248,118</u>	<u>\$ 268,722</u>
Analysis of amortization by function		
Operating costs	\$ 378	\$ 327
Operating expenses	<u>4,878</u>	<u>4,434</u>
	<u>\$ 5,256</u>	<u>\$ 4,761</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits		
Salary	\$ 517,497	\$ 486,028
Labor and health insurance	25,573	24,875
Others	<u>28,353</u>	<u>25,899</u>
	<u>571,423</u>	<u>536,802</u>
Post-employment benefits		
Defined contribution plans	36,866	35,742
Defined benefit plans	<u>1,984</u>	<u>2,181</u>
	<u>38,850</u>	<u>37,923</u>
	<u>\$ 610,273</u>	<u>\$ 574,725</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 462,289	\$ 445,409
Operating expenses	<u>147,984</u>	<u>129,316</u>
	<u>\$ 610,273</u>	<u>\$ 574,725</u>

With the amended Articles of Incorporation of the Company approved by the stockholders in their meeting in June, 2016, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates no less than 3% and no higher than \$4,000 thousand, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the year ended December 31, 2016 were accrued by 3% and the estimated distribution, respectively, of net profit before income tax. The employees' compensation and remuneration of directors and supervisors for the year ended December 31, 2016 which had been approved by the Company's board of directors on March 23, 2017, were \$1,404 thousand and \$2,100 thousand, respectively.

The Articles before the amendment stipulated to distribute bonus to employees and remuneration of directors and supervisors at the rates no less than 3% and quota assignment, respectively, of net income (net of the bonus and remuneration). For the year ended December 31, 2015, the Company had incurred net loss, hence, no bonus to employees and remuneration of directors and supervisors were accrued for the year. The amendment of the Articles was approved on March 25, 2016 in the meeting of board of directors.

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

The bonuses to employees and remuneration to directors and supervisors for 2014 which had been approved in the stockholders' meeting on June 15, 2015, was as follows:

	For the Year Ended December 31, 2014
Bonus to employees (distributed in cash)	\$ 3,580
Remuneration of directors and supervisors	2,100

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meetings and the amounts recognized in the consolidated financial statements for the years ended December 31, 2014.

Information on the bonus to employees, directors and supervisors resolved by the stockholders' meeting are available on the Market Observation Post System website of the Taiwan Stock Exchange.

f. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2016	2015
Foreign exchange gains	\$ 63,806	\$ 79,872
Foreign exchange losses	<u>(39,398)</u>	<u>(40,106)</u>
Net gain	<u>\$ 24,408</u>	<u>\$ 39,766</u>

20. INCOME TAX

a. The major components of income tax recognized in profit or loss

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	\$ 36,470	\$ 23,647
Income tax on unappropriated earnings	-	344
Adjustments for prior years	<u>13,451</u>	<u>482</u>
	<u>49,921</u>	<u>24,473</u>
Deferred tax		
In respect of the current year	(7,103)	(8,891)
Exchange rate influence	<u>699</u>	<u>(2,847)</u>
	<u>(6,404)</u>	<u>(11,738)</u>
Income tax expense recognized in profit or loss	<u>\$ 43,517</u>	<u>\$ 12,735</u>

A reconciliation of accounting profit and income tax expense and the applicable tax rate was as follows:

	For the Year Ended December 31	
	2016	2015
Profit (loss) before income tax	\$ <u>88,595</u>	\$ <u>(28,568)</u>
Income tax expense calculated at the statutory rate	\$ 31,100	\$ 12,087
Nondeductible expenses in determining taxable income	127	585
Temporary differences	(1,860)	2,084
Income tax on unappropriated earnings	-	344
In respect of the prior years	13,451	482
Exchange rate influence	<u>699</u>	<u>(2,847)</u>
Income tax expense	<u>\$ 43,517</u>	<u>\$ 12,735</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Company in ROC, while the applicable tax rate used by the subsidiaries in China is 25% and the applicable tax rate used by subsidiaries in Vietnam is 22%. Under the laws of the British Virgin Islands, the income of Genius, Global (Cayman) and GEM (Cayman) is exempt from income tax. The subsidiaries in Hong Kong - Genius (HK), Vibo and Global (HK) have no operations on local area, these subsidiaries are also exempt from income tax in accordance with Hong Kong's laws. If these subsidiaries have any separate tax on interest income or withholding tax on dividends, the amount of this tax is recorded as the current year's tax provision.

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 2016 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
<u>Deferred tax</u>		
In respect of the current year		
Translation of foreign operations	\$ 2,989	\$ 8,924
Remeasurement on defined benefit plan	107	154
Unrealized gain or loss of available-for-sale financial assets	<u>(10)</u>	<u>10</u>
Total income tax recognized in other comprehensive income	<u>\$ 3,086</u>	<u>\$ 9,088</u>

c. Current tax assets and liabilities

	December 31	
	2016	2015
Current tax assets		
Tax refund receivable	<u>\$ 294</u>	<u>\$ 2,239</u>
Current tax liabilities		
Income tax payable	<u>\$ 13,353</u>	<u>\$ 15,517</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the Year ended December 31, 2016

	Balance, Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance, End of Year
<u>Deferred Tax Assets</u>				
Temporary differences				
Unrealized deferred profit	\$ 31,344	\$ (1,958)	\$ -	\$ 29,386
Defined benefit obligation	12,957	(5,120)	107	7,944
Foreign operation exchange difference and investment losses	19,140	11,798	2,989	33,927
Financial and taxation differences on property, plant and equipment	8,105	830	-	8,935
Unrealized loss on inventories	7,526	(712)	-	6,814
Others	<u>3,827</u>	<u>349</u>	<u>(10)</u>	<u>4,166</u>
	82,899	5,187	3,086	91,172
Loss carryforwards	<u>12,542</u>	<u>9,025</u>	<u>-</u>	<u>21,567</u>
	<u>\$ 95,441</u>	<u>\$ 14,212</u>	<u>\$ 3,086</u>	<u>\$ 112,739</u>
<u>Deferred Tax liabilities</u>				
Temporary differences				
Foreign investment gains	\$ 82,522	\$ 6,806	\$ -	\$ 89,328
Land value increment tax	7,398	-	-	7,398
Others	<u>8,057</u>	<u>303</u>	<u>-</u>	<u>8,360</u>
	<u>\$ 97,977</u>	<u>\$ 7,109</u>	<u>\$ -</u>	<u>\$ 105,086</u>

For the Year ended December 31, 2015

	Balance, Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance, End of Year
<u>Deferred Tax Assets</u>				
Temporary differences				
Unrealized deferred profit	\$ 30,356	\$ 988	\$ -	\$ 31,344
Defined benefit obligation	12,807	(4)	154	12,957
Foreign operation exchange difference and investment losses	3,941	6,275	8,924	19,140
Financial and taxation differences on property, plant and equipment	6,634	1,471	-	8,105
Unrealized loss on inventories	6,189	1,337	-	7,526
Others	<u>4,142</u>	<u>(325)</u>	<u>10</u>	<u>3,827</u>
	64,069	9,742	9,088	82,899
Loss carryforwards	<u>3,662</u>	<u>8,880</u>	<u>-</u>	<u>12,542</u>
	<u>\$ 67,731</u>	<u>\$ 18,622</u>	<u>\$ 9,088</u>	<u>\$ 95,441</u>

(Continued)

	Balance, Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance, End of Year
<u>Deferred Tax liabilities</u>				
Temporary differences				
Foreign investment gains	\$ 74,906	\$ 7,616	\$ -	\$ 82,522
Land value increment tax	7,398	-	-	7,398
Others	<u>5,942</u>	<u>2,115</u>	<u>-</u>	<u>8,057</u>
	<u>\$ 88,246</u>	<u>\$ 9,731</u>	<u>\$ -</u>	<u>\$ 97,977</u> (Concluded)

e. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2016 comprised of:

Unused Amount	Expiry Year
\$ 10,471	2024
55,604	2025
<u>60,789</u>	2026
<u>\$ 126,864</u>	

f. The aggregate amount of temporary difference associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2016 and 2015, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were \$120,517 thousand and \$112,482 thousand, respectively.

g. Integrated income tax

	<u>December 31</u>	
	2016	2015
Unappropriated earnings		
Unappropriated earnings generated before January 1, 1998	\$ 6,684	\$ 6,684
Unappropriated earnings generated on and after January 1, 1998	<u>384,881</u>	<u>339,803</u>
	<u>\$ 391,565</u>	<u>\$ 346,487</u>
Imputation credits accounts	<u>\$ 37,780</u>	<u>\$ 25,301</u>

The Company incurred net loss for 2015, according to the resolution approved in the stockholders' meeting on June 22, 2016, hence, the cumulative earnings were not appropriated. The creditable ratio for the distribution of earning for 2015 was 9.81% (estimated).

h. Income tax assessments

The tax returns of the Company as of 2014 have been assessed by the tax authorities, and the assessment differences for 2012 and 2013 have been adjusted to tax expense in 2016.

GEM (Dongguan) and GEM (Suzhou) had completed the filing of their income tax returns through 2015 with the tax authorities.

21. EARNINGS (NET LOSS) PER SHARE (EPS)

There's no diluted effect for the year ended December 31, 2015 for net loss incurred in the reporting year.

The net profit (loss) and weighted average number of ordinary shares outstanding in the computation of basic EPS / net loss per share were as follows:

Net profit (loss) for the year ended

	<u>For the Year Ended December 31</u>	
	2016	2015
Net profit (loss) used in the computation of basic / diluted earnings (net loss) per share	<u>\$ 45,078</u>	<u>\$ (41,303)</u>

Weighted average number of ordinary shares outstanding (in thousand shares)

	<u>For the Year Ended December 31</u>	
	2016	2015
Weighted average number of ordinary shares in computation of basic EPS / net loss per share	169,200	170,949
Effect of diluted potential ordinary shares		
Employees' compensation	<u>135</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted EPS / net loss per share	<u>169,335</u>	<u>170,949</u>

If the Company offered to settle compensation paid to employees in cash or shares, the Group assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

22. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt and equity of the Group. The Group is not subject to any externally imposed capital requirements, except to maintain certain financial ratios specified under loan agreements. (Refer to Note 16)

Key management personnel of the Group review the capital structure on a quarterly basis. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of liabilities paid and current assets management to balance its entire capital structure.

23. FINANCIAL INSTRUMENTS

- a. Fair value of financial instruments are not measured at fair value

The management considers that the carrying amounts of financial assets and financial liabilities recognized in the condensed consolidated financial statements approximate their fair values.

- b. Fair value of financial instruments that are measured at fair value on a recurring basis

December 31, 2016 : None

December 31, 2015

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Domestic listed shares	\$ 12,612	\$ -	\$ -	\$ 12,612
Overseas listed shares	<u>561</u>	<u>-</u>	<u>-</u>	<u>561</u>
	<u>\$ 13,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,173</u>

There were no transfers between Level 1 and Level 2 in 2016 and 2015.

- c. Categories of financial instruments

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Financial assets</u>		
Loans and receivables (Note 1)	\$ 3,301,594	\$ 2,961,668
Available-for-sale financial assets	-	13,173
<u>Financial liabilities</u>		
Measured at amortized cost (Note 2)	3,447,923	2,864,900

Note 1: The balances included in loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable, other receivables, other financial assets-current and non-current.

Note 2: The balances included in financial liabilities measured at amortized cost, which comprise short-term borrowing, short-term bills payable, notes payable, accounts payable, other payables, and long-term borrowings (including current portion).

- d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, notes receivable, accounts receivable, other financial assets, borrowings, notes payable and accounts payable. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Treasury function reports monthly to the Group's risk management committee.

1) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts (including the denominated monetary items in consolidated financial statements which were eliminated) of the Group's foreign currency denominated monetary assets and monetary liabilities exposing to foreign currency risk at the end of the reporting period are set out in Note 27.

Sensitivity analysis

The Group was mainly exposed to the risk from the fluctuation of USD and HKD.

The following table details the sensitivity to a 1% increase and decrease in the functional currency rate against the relevant foreign currencies of the Group's outstanding foreign currency denominated monetary items at the end of the reporting period. A positive (negative) number below indicates an increase (decrease) in pre-tax profit associated with the functional currency.

	<u>USD impact</u>		<u>HKD impact</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Profit or loss	\$ 2,466	\$ 4,974	\$ 791	\$ 241

b) Interest rate risk

The Group was exposed to interest rate risk because the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting year were as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Fair value interest rate risk		
Financial liabilities	\$ 478,750	\$ 568,750
Cash flow interest rate risk		
Financial assets	1,311,499	956,470
Financial liabilities	841,349	300,000

Sensitivity analysis

The sensitivity analysis below was based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting year. For floating rate assets and liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting year was outstanding for the whole year.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the year ended December 31, 2016 and 2015 would have been higher/lower by \$4,702 thousand and \$6,565 thousand, respectively, which was mainly a result of the changes in the floating interest rate bank deposits and borrowings.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the counterparties' failure to discharge an obligation and because of financial guarantees provided by the Group is the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group's receivables are significantly concentrated in certain individuals, most of which have similar business operations and economic features. Credit risk concentration occurs when the counterparties to financial instrument transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Accounts receivable from customers with carrying amounts that were 10% or more of the account total are disclosed in Note 8.

3) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's funding and liquidity management requirements.

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

Liquidity and interest risk rate tables for non-derivative financial liabilities

The following table details contractual maturity of the Group's remaining non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment date.

The maturity dates for non-derivative financial liabilities based on the agreed repayment dates were as follows:

	Weighted Average Effective Interest Rate (%)	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
<u>December 31, 2016</u>					
Fixed interest rate liabilities	1.15-4.35	\$ 415,640	\$ 160,586	\$ 650,880	\$ 483,572
Variable interest rate liabilities	1.49-2.93	19,159	27,161	280,035	537,204
Non-interest bearing		<u>486,469</u>	<u>366,826</u>	<u>66,840</u>	<u>-</u>
		<u>\$ 921,268</u>	<u>\$ 554,573</u>	<u>\$ 997,755</u>	<u>\$ 1,020,776</u>
<u>December 31, 2015</u>					
Fixed interest rate liabilities	1.25-5.35	\$ 142,652	\$ 135,453	\$ 611,758	\$ 966,990
Variable interest rate liabilities	1.76-2.10	781	831	102,828	201,734
Non-interest bearing		<u>395,332</u>	<u>288,352</u>	<u>57,654</u>	<u>-</u>
		<u>\$ 538,765</u>	<u>\$ 424,636</u>	<u>\$ 772,240</u>	<u>\$ 1,168,724</u>

Taking into account the Group's financial position, management does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. Management believes that such bank loans will be repaid in one year after the end of reporting period in accordance with the scheduled repayment dates set out in the loan agreements.

The amounts included above for variable interest rate non-derivative financial liabilities were subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting year.

24. TRANSACTIONS WITH RELATED PARTIES

Balances, transactions and revenues and expenses among the Company and its subsidiaries, which are related parties of the Company have been eliminated on consolidation, so the information is not disclosed in this note. Transactions of the consolidated companies and other related parties were as follows:

a. Compensation of key management personnel

	<u>For the Year Ended December 31</u>	
	2016	2015
Short-term benefits	\$ 9,479	\$ 11,920
Post-employment benefits	<u>276</u>	<u>424</u>
	<u>\$ 9,755</u>	<u>\$ 12,344</u>

The remuneration of directors and other key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

b. Property lease

The Company leased its Taipei office, factories and storehouse from general manager, Su, Tun-Jen, Su, Tun-Li, second immediate family of the company's chairman, Su, Tun-Yi, under one-year operating lease contracts. The rentals for the years ended December 31, 2016 and 2015 were both \$1,658 thousand, respectively, and were recorded as operating expenses and manufacturing cost.

The rental terms were determined by negotiation. The rental rates were similar to the local market rate and the payment terms were at arm's length.

c. Guarantees

The Company's chairman, Su, Chung-Hong, and Su, Tun-Li jointly provided the guarantee for the loans of GEM and GEM (Cayman). The Company's chairman, Su Chung-Hong, provided the guarantee for the loans of Genius (HK), Su, Tun-Li provided the guarantee for the loans of Global (HK) and GEM (VN).

25. ASSETS PLEDGED AS COLLATERAL FOR SECURITY

The Group provided the following assets as collateral for the borrowings:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Property, plant and equipment	\$ 418,103	\$ 344,881
Deposit account (under other financial assets- current)	71,353	230,048
Prepaid rent (including those classified under other current assets)	<u>36,141</u>	<u>40,205</u>
	<u>\$ 525,597</u>	<u>\$ 615,134</u>

26. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The Group's significant commitments and contingencies as of December 31, 2016 were as follows:

- a. The amounts of contracts for the Group's purchases of properties and materials were \$427,155 thousand, of which \$109,831 thousand had not been paid.
- b. Under unused letters of credit for the Company's purchasing equipment and materials amounted to \$9,636 thousand.

27. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

	Foreign Currencies	Exchange Rate		Carrying Amount
<u>December 31, 2016</u>				
Financial assets				
Monetary items				
USD	\$ 4,848	32.250	(USD:NTD)	\$ 156,334
USD	7,322	6.984	(USD:RMB)	236,147
USD	12,325	7.751	(USD:HKD)	397,469
USD	2,445	22,743	(USD:VND)	78,841
HKD	5,885	4.161	(HKD:NTD)	24,487
HKD	27,986	0.901	(HKD:RMB)	116,452
HKD	944	0.129	(HKD:USD)	<u>3,928</u>
				<u>\$ 1,013,658</u>

(Continued)

	Foreign Currencies	Exchange Rate		Carrying Amount
Financial liabilities				
Monetary items				
USD	\$ 556	32.250	(USD:NTD)	\$ 17,933
USD	6,121	6.984	(USD:RMB)	197,404
USD	4,945	7.751	(USD:HKD)	159,462
USD	7,673	22,743	(USD:VND)	247,440
HKD	15,472	4.161	(HKD:NTD)	64,379
HKD	332	0.901	(HKD:RMB)	<u>1,382</u>
				<u>\$ 688,000</u>
<hr/> December 31, 2015 <hr/>				
Financial assets				
Monetary items				
USD	7,823	32.830	(USD:NTD)	\$ 256,818
USD	6,205	6.572	(USD:RMB)	203,726
USD	10,178	7.745	(USD:HKD)	334,145
USD	663	22,456	(USD:VND)	21,754
HKD	9,625	4.238	(HKD:NTD)	40,790
HKD	37,483	0.848	(HKD:RMB)	158,852
HKD	939	0.129	(HKD:USD)	<u>3,977</u>
				<u>\$ 1,020,062</u>
Financial liabilities				
Monetary items				
USD	126	32.830	(USD:NTD)	\$ 4,143
USD	1,105	6.573	(USD:RMB)	36,284
USD	4,955	7.745	(USD:HKD)	162,663
USD	3,531	22,456	(USD:VND)	115,921
HKD	41,932	4.238	(HKD:NTD)	177,709
HKD	421	0.848	(HKD:RMB)	<u>1,783</u>
				<u>\$ 498,503</u>
				(Concluded)

For the year ended December 31, 2016 and 2015, realized and unrealized net foreign exchange gains were \$24,408 thousand and \$39,766 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign transactions and functional currencies of the Group's entities.

28. ADDITIONAL DISCLOSURES

a. Information about significant transactions and investees

- 1) Financing provided: Table 1 (attached).
- 2) Endorsement/guarantee provided: None.
- 3) Marketable securities held (excluding investment in subsidiaries): None.

- 4) Marketable securities acquired and disposed at cost or price at least NT\$300 million or 20% of the paid-in capital: None.
- 5) Acquisition of individual real estate at cost of at least NT\$300 million or 20% of the paid-in capital: None.
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None.
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 2 (attached).
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached).
- 9) Trading in derivative instruments: None.
- 10) Inter - Company business relationship and material transactions and its amount: Table 7 (attached).
- 11) Information on investees: Table 4 (attached).

b. Information on investments in Mainland China

Information on any investee company in Mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the Mainland China areas: Table 5 (attached).

Any of the following significant transactions with investee companies in Mainland China, either directly or indirectly through a third area, and their prices, payment terms, and unrealized gains or losses:

- 1) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period: Table 2 and 6 (attached).
- 2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: Table 2 and 6 (attached).
- 3) The amount of property transactions and the amount of the resultant gains or losses: Table 7 (attached).
- 4) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: None.
- 5) The highest balance, the end of period balance, the interest rates range, and total current period interest with respect to financing of funds: Table 1 (attached).
- 6) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services: Table 6 and 7 (attached).

29. SEGMENT INFORMATION

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on type of goods or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

- GEM Terminal
- GEM (Dongguan) and Genius (HK) consolidated information
- GEM (Suzhou) and Global (HK) consolidated information
- Others

a. Segment revenues and results

The following was an analysis of the Group's revenue, results from operations, segment assets and segment liabilities by reportable segment:

	GEM Terminal	GEM (Dongguan)& Genius (HK)	GEM (Suzhou)& Global (HK)	Others	Adjustment and Elimination	Consolidated Amount
<u>For the Year ended December 31, 2016</u>						
Revenues from external customers	\$ 492,907	\$ 1,529,198	\$ 1,617,606	\$ 4	\$ -	\$ 3,639,715
Inter-segment revenues	<u>125,829</u>	<u>400,525</u>	<u>1,422,567</u>	<u>162,211</u>	<u>(2,111,132)</u>	<u>-</u>
Segment revenues	<u>\$ 618,736</u>	<u>\$ 1,929,723</u>	<u>\$ 3,040,173</u>	<u>\$ 162,215</u>	<u>\$ (2,111,132)</u>	<u>\$ 3,639,715</u>
Segment income (loss)	<u>\$ (19,424)</u>	<u>\$ (8,493)</u>	<u>\$ 104,963</u>	<u>\$ (5,535)</u>	<u>\$ 22,394</u>	\$ 93,905
Other income						20,032
Other gains and losses						20,044
Finance costs						<u>(45,386)</u>
Consolidated profit before income tax						88,595
Income tax						<u>(43,517)</u>
Consolidated net income						<u>\$ 45,078</u>
<u>December 31, 2016</u>						
Total segment assets	<u>\$ 4,645,036</u>	<u>\$ 2,067,279</u>	<u>\$ 3,186,512</u>	<u>\$ 827,240</u>	<u>\$ (4,313,024)</u>	<u>\$ 6,413,043</u>
Total segment liabilities	<u>\$ 1,847,259</u>	<u>\$ 1,028,240</u>	<u>\$ 1,129,681</u>	<u>\$ 367,453</u>	<u>\$ (757,367)</u>	<u>\$ 3,615,266</u>
<u>For the Year ended December 31, 2015</u>						
Revenues from external customers	\$ 695,138	\$ 1,382,393	\$ 1,650,733	\$ -	\$ -	\$ 3,728,264
Inter-segment revenues	<u>65,650</u>	<u>541,858</u>	<u>679,703</u>	<u>-</u>	<u>(1,287,211)</u>	<u>-</u>
Segment revenues	<u>\$ 760,788</u>	<u>\$ 1,924,251</u>	<u>\$ 2,330,436</u>	<u>\$ -</u>	<u>\$ (1,287,211)</u>	<u>\$ 3,728,264</u>
Segment income (loss)	<u>\$ (73,149)</u>	<u>\$ (14,317)</u>	<u>\$ 27,924</u>	<u>\$ (5,387)</u>	<u>\$ 27,779</u>	\$ (37,150)
Other income						29,400
Other gains and losses						25,750
Finance costs						<u>(46,568)</u>
Consolidated loss before income tax						(28,568)
Income tax						<u>(12,735)</u>
Consolidated net loss						<u>\$ (41,303)</u>
<u>December 31, 2015</u>						
Total segment assets	<u>\$ 4,812,474</u>	<u>\$ 2,154,393</u>	<u>\$ 2,837,801</u>	<u>\$ 480,430</u>	<u>\$ (4,254,425)</u>	<u>\$ 6,030,673</u>
Total segment liabilities	<u>\$ 1,809,638</u>	<u>\$ 916,294</u>	<u>\$ 699,144</u>	<u>\$ 243,447</u>	<u>\$ (640,686)</u>	<u>\$ 3,027,837</u>

b. Revenue from major products

The following is an analysis of the Group's revenue from its major products.

	For the Year Ended December 31	
	2016	2015
Terminals	\$ 3,628,245	\$ 3,718,986
Others	<u>11,470</u>	<u>9,278</u>
	<u>\$ 3,639,715</u>	<u>\$ 3,728,264</u>

c. Geographical information

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2016	2015	2016	2015
Taiwan	\$ 206,748	\$ 218,037	\$ 341,147	\$ 384,607
China	3,325,120	3,409,787	1,325,629	1,558,885
Vietnam	7,568	9,605	468,676	336,224
Others	<u>100,279</u>	<u>90,835</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,639,715</u>	<u>\$ 3,728,264</u>	<u>\$ 2,135,452</u>	<u>\$ 2,279,716</u>

Non-current assets exclude financial assets-non current and deferred income tax assets.

d. Information about major customers

For 2016 and 2015, the customer from which sales revenue accounted for over 10% of the Group's consolidated operating revenue is shown below:

	For the Year Ended December 31			
	2016		2015	
	Amount	% to Operating Revenue, Net	Amount	% to Operating Revenue, Net
Group A	<u>\$ 385,557</u>	<u>11</u>	<u>\$ 425,695</u>	<u>11</u>

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Financing Company	Borrowing Company	Financial Statement Account	Related Parties	Highest Balance for the Period	Ending Balance (Note 2)	Actual Borrowing Amount (Notes 2 and 3)	Interest Rate	Type of Financing	Reason for Short-term Financing	Allowance for Bad Debt	Collateral		Financing Limit for Each Borrowing Company	Financing Company's Financing Amount Limit
												Item	Value		
0	The Company	GEM (VN)	Other receivables - related parties	Yes	\$ 97,845	\$ 96,750	\$ 32,250	2.10	Short-term financing	Operating capital	-	\$ -	\$ -	\$ 559,555 (Note 1)	\$ 1,119,111 (Note 1)
1	Vibo	GEM (Dongguan)	Other receivables - related parties	Yes	32,615	32,250	32,250	2.00	Short-term financing	Operating capital	-	-	-	604,090 (Note 1)	1,208,181 (Note 1)
2	Global (Cayman)	Global (HK)	Other receivables - related parties	Yes	13,046	12,900	12,900	2.00	Short-term financing	Operating capital	-	-	-	608,966 (Note 1)	1,217,933 (Note 1)
3	GEM (Cayman)	GEM (VN)	Other receivables - related parties	Yes	33,420	32,250	-	2.10	Short-term financing	Operating capital	-	-	-	72,313 (Note 1)	144,626 (Note 1)
		GEM (VN)	Other receivables - related parties	Yes	32,250	32,250	32,250	2.10	Short-term financing	Operating capital	-	-	-	72,313 (Note 1)	144,626 (Note 1)

Note 1: Under the Company's and the subsidiaries' "Operational Procedures for Loaning Funds to Others," if short-term financing is needed, total amounts of these financings should not exceed 40 percent of the Company's and the subsidiaries' stockholders' equity, and individual financing should not exceed 20 percent of the Company's and the subsidiaries' stockholders' equity.

Note 2: The conversion rate on December 31, 2016 was US\$1: NT\$32.25.

Note 3: It was eliminated on consolidation.

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Related Party	Relationship	Transaction Details				Non-arm's Length Transaction		Notes/Accounts (Payable) or Receivable		Note
			Purchases/Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Term	Ending Balance	% to Total	
GEM (Dongguan)	Genius (HK)	Affiliate	Sales	\$ 783,943 (HK\$171,663 thousand and US\$2,396 thousand)	42	120 days after monthly closing	Note 2	Note 3	\$ 66,995 (HK\$15,054 thousand and US\$150 thousand)	14	Note 1
GEM (Dongguan)	GEM (Suzhou)	Affiliate	Sales	139,174 (RMB\$28,824 thousand)	7	120 days after monthly closing	Note 2	Note 3	30,927 (RMB\$6,697 thousand)	6	Note 1
GEM (Suzhou)	GEM (Dongguan)	Affiliate	Sales	1,159,334 (RMB\$241,286 thousand)	38	120 days after monthly closing	Note 2	Note 3	271,444 (RMB\$58,781 thousand)	32	Note 1
GEM (Suzhou)	Global (HK)	Affiliate	Sales	419,058 (HK\$15,725 thousand and US\$11,115 thousand)	14	120 days after monthly closing	Note 2	Note 3	94,770 (HK\$4,828 thousand and US\$2,336 thousand)	11	Note 1
Genius (HK)	The Company	Subsidiary	Sales	205,854 (HK\$50,402 thousand)	21	120 days after monthly closing	Note 2	Note 3	46,637 (HK\$11,208 thousand)	18	Note 1
Genius (HK)	GEM (Dongguan)	Affiliate	Sales	172,569 (HK\$41,924 thousand)	17	120 days after monthly closing	Note 2	Note 3	32,645 (HK\$332 thousand and US\$969 thousand)	12	Note 1
Global (HK)	The Company	Subsidiary	Sales	122,217 (US\$3,800 thousand)	27	120 days after monthly closing	Note 2	Note 3	17,920 (US\$556 thousand)	12	Note 1
Global (HK)	GEM (VN)	Affiliate	Sales	131,397 (US\$4,104 thousand)	29	120 days after monthly closing	No comparable transactions with those in the market	No comparable transactions with those in the market	61,872 (US\$1,919 thousand)	41	Note 1
GEM (VN)	Genius (HK)	Affiliate	Sales	162,211 (US\$5,100 thousand)	100	120 days after monthly closing	Note 2	Note 3	22,653 (US\$702 thousand)	100	Note 1

Note 1: It was eliminated on consolidation.

Note 2: The sales price of finished goods was not significantly different from those to third parties, except for the stated sales price of finished goods, there was no comparable transactions with those in the market.

Note 3: There were no significant difference in the sales payment terms of intercompany sales with those to third parties.

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Year	Allowance for Impairment Loss
					Amount	Actions Taken		
GEM (Suzhou)	GEM (Dongguan)	Affiliate	\$ 271,444 (RMB\$ 58,781 thousand)	4.48	\$ -	-	\$ 271,444	\$ -

Note : It was eliminated on consolidation.

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2016			Net Income (Loss) of the Investee	Share of profit (Loss)	Earnings Appropriation		Note
				December 31, 2016	December 31, 2015	Shares / Units	%	Carrying Amount			Stock	Cash	
The Company	Global (Cayman)	Grand Cayman, Cayman Islands	International investment	\$ 1,295,208	\$ 1,295,208	40,137,184	100	\$ 2,923,999	\$ 78,516	\$ 77,889	\$ -	\$ -	Notes 1 and 2
	GEM Terminal (Cayman)	Grand Cayman, Cayman Islands	International investment	392,669	275,167	12,598,333	100	358,049	(12,576)	(12,909)	-	-	Notes 1 and 2
	Genius Terminal	British Virgin Islands	International investment and trading, etc.	23,282	23,282	750,000	100	72,861	8	8	-	-	Note 1
Genius Terminal	Genius (HK)	Hong Kong	International trading	90,134	90,134	21,999,998	100	79,648	2	(31)	-	-	Notes 1 and 2
Global (Cayman)	Vibo	Hong Kong	Investment and trading	1,541,063	1,541,063	359,972,616	100	3,020,468	78,786	78,786	-	-	Note 1
	Global (HK)	Hong Kong	International trading	3,747	3,747	1,000,000	100	8,245	(1,691)	(362)	-	-	Notes 1 and 2
GEM Terminal (Cayman)	GEM (VN)	Vietnam	Production of hardware; machine processing; electroplating for hardware processing; production and processing of molds and related accessories; plastic products and related plastic accessory production;	386,780	269,278	386,780	100	357,916	(11,408)	(12,492)	-	-	Notes 1 and 2

Note 1: It was eliminated on consolidation.

Note 2: Net of unrealized profits.

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (RMB in Thousands) (Note 1)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee	% of Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Notes 1 and 3)	Carrying Amount as of December 31, 2016 (Notes 1 and 3)	Accumulated Repatriation of Investment Income as of December 31, 2016
					Outward	Inward						
GEM (Dongguan)	Production of hardware; machine processing; electroplating for metal processing; production and processing of molds and related accessories; plastic products and related plastic accessory production.	\$ 782,599	The investment was made through a corporation established in a third country to invest in companies located in Mainland China.	\$ 452,130	\$ -	\$ -	\$ 452,130	\$ 17,085	100	\$ 3,508	\$ 899,955	\$ -
GEM (Suzhou)	Production of hardware; machine processing; electroplating for metal processing; production and processing of molds and related accessories; plastic products and related plastic accessory production.	1,157,636	The investment was made through a corporation established in a third country to invest in companies located in Mainland China.	741,320	-	-	741,320	85,489	100	83,849	2,036,935	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 2)
\$1,193,450	\$1,828,575	\$1,678,666

Note 1: Amount was recognized based on the audited financial statement.

Note 2: Under the "Principles Governing the Review of Investments or Technical Cooperation in Mainland China" issued by the Investment Commission on August 29, 2008, the maximum amount that can be invested in companies located in mainland China is 60% of the Company's net value.

Note 3: It was eliminated on consolidation.

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Counterparty	Transaction Type	Price	Transaction Details		Notes/Accounts Receivable (Payable)		Unrealized (Gain) Loss	Note
				Payment Term	Comparison with Normal Transaction	Ending Balance	%		
The Company	GEM (Suzhou)	Sales	\$ 72,804	120 days after monthly closing	No significant difference with those to third parties	\$ 18,187	10	\$ 7,246	
		Purchase	9,619	120 days after monthly closing	No significant difference with those to third parties	(13)	-	-	
		Property, plant, and equipment for sale	47,088	120 days after monthly closing	No comparable transactions with those in the market	8,477	5	15,857	
	GEM (Dongguan)	Sales	966	120 days after monthly closing	No significant difference with those to third parties	-	-	140	
		Purchase	20	120 days after monthly closing	No comparable transactions with those in the market	(8)	-	-	
GEM (VN)	GEM (Dongguan)	Purchase	258	120 days after monthly closing	No comparable transactions with those in the market	-	-	-	
Genius (HK)	GEM (Dongguan)	Sales	172,569	120 days after monthly closing	No significant difference with those to third parties	32,645	12	-	
		Purchase	783,943	120 days after monthly closing	No comparable transactions with those in the market	(74,352)	74	159	
Global (HK)	GEM (Suzhou)	Sales	25,754	120 days after monthly closing	No significant difference with those to third parties	9,567	6	-	
		Purchase	419,058	120 days after monthly closing	No comparable transactions with those in the market	(95,366)	100	609	

GEM TERMINAL IND. CO., LTD. AND SUBSIDIARIES

INTERCOMPANY BUSINESS RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS

FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

No.	Investee Company	Counterparty	Nature of Relationship (Note 2)	Intercompany Transactions			Percentage of Consolidated Total Gross Sales or Total Assets	Note
				Financial Statement Item	Amount	Terms		
0	GEM Terminal	Genius (HK)	1	Sales	\$ 8,968	Payment terms are four months	-	Note 1
		Genius (HK)	1	Accounts receivable	2,640	Payment terms are four months	-	Note 1
		Genius (HK)	1	Property, plant and equipment for sale - current	20	Payment terms are four months	-	Note 1
		Genius (HK)	1	Other receivables	20	Payment terms are four months	-	Note 1
		GEM (Suzhou)	1	Sales	72,804	Payment terms are four months	2.00	Note 1
		GEM (Suzhou)	1	Accounts receivable	18,187	Payment terms are four months	-	Note 1
		GEM (Suzhou)	1	Property, plant and equipment for sale - current	47,088	Payment terms are four months	1.00	Note 1
		GEM (Suzhou)	1	Other receivables	8,477	Payment terms are four months	-	Note 1
		GEM (Suzhou)	1	Other income	215	Payment terms are four months	-	Note 1
		GEM (Dongguan)	1	Sales	966	Payment terms are four months	-	Note 1
		GEM (VN)	1	Sales	26,570	Payment terms are four months	1.00	Note 1
		GEM (VN)	1	Accounts receivable	9,444	Payment terms are four months	-	Note 1
		GEM (VN)	1	Property, plant and equipment for sale - current	10,580	Payment terms are four months	-	Note 1
		GEM (VN)	1	Other receivables	74	According to working, capital conditions to change payment deeding	-	Note 1
		GEM (VN)	1	Interest income	739	Interest rate P.A. 2.1%	-	Note 1
		GEM (VN)	1	Other receivables	32,334		1.00	Note 1
		Global (HK)	1	Sales	16,521	Payment terms are four months	-	Note 1
Global (HK)	1	Property, plant and equipment for sale - current	9,326	Payment terms are four months	-	Note 1		
Global (HK)	1	Other receivables	3,015	Payment terms are four months	-	Note 1		
1	GEM (Dongguan)	Genius (HK)	3	Sales	783,943	Payment terms are four months	22.00	Note 1
		Genius (HK)	3	Accounts receivable	66,995	Payment terms are four months	1.00	Note 1
		Genius (HK)	3	Property, plant and equipment	46,853	Payment terms are four months	1.00	Note 1
		Genius (HK)	3	Other receivables	7,357	Payment terms are four months	-	Note 1
		GEM (Suzhou)	3	Sales	139,174	Payment terms are four months	4.00	Note 1
		GEM (Suzhou)	3	Accounts receivable	30,927	Payment terms are four months	-	Note 1
		GEM (Suzhou)	3	Property, plant and equipment	80,420	Payment terms are four months	1.00	Note 1
		GEM (Suzhou)	3	Other income	23,634	Payment terms are four months	1.00	Note 1
		GEM (Suzhou)	3	Other receivables	29,353	Payment terms are four months	1.00	Note 1
		GEM Terminal	2	Sales	20	Payment terms are four months	-	Note 1
		GEM Terminal	2	Accounts receivable	8	Payment terms are four months	-	Note 1
		GEM (VN)	3	Sales	258	Payment terms are four months	-	Note 1
2	Genius (HK)	GEM Terminal	2	Sales	209,854	Payment terms are four months	6.00	Note 1
		GEM Terminal	2	Accounts receivable	46,637	Payment terms are four months	1.00	Note 1
		GEM Terminal	2	Other receivables	17,734	Payment terms are four months	-	Note 1
		GEM (Dongguan)	3	Sales	172,569	Payment terms are four months	5.00	Note 1
		GEM (Dongguan)	3	Accounts receivable	32,645	Payment terms are four months	1.00	Note 1
		GEM (Dongguan)	3	Other receivable	455	Payment terms are four months	-	Note 1
		GEM (VN)	3	Sales	51,219	Payment terms are four months	1.00	Note 1
		GEM (VN)	3	Accounts receivable	2,926	Payment terms are four months	-	Note 1

(Continued)

No.	Investee Company	Counterparty	Nature of Relationship (Note 2)	Intercompany Transactions			Percentage of Consolidated Total Gross Sales or Total Assets	Note
				Financial Statement Item	Amount	Terms		
3	Global (HK)	GEM Terminal	2	Sales	\$ 122,217	Payment terms are four months	3.00	Note 1
		GEM Terminal	2	Accounts receivable	17,920	Payment terms are four months	-	Note 1
		GEM (Suzhou)	3	Sales	25,754	Payment terms are four months	1.00	Note 1
		GEM (Suzhou)	3	Accounts receivable	9,567	Payment terms are four months	-	Note 1
		GEM (VN)	3	Sales	131,397	Payment terms are four months	4.00	Note 1
		GEM (VN)	3	Accounts receivable	61,872	Payment terms are four months	1.00	Note 1
4	GEM (Suzhou)	GEM Terminal	2	Sales	9,619	Payment terms are four months	-	Note 1
		GEM Terminal	2	Accounts receivable	13	Payment terms are four months	-	Note 1
		Global (HK)	3	Sales	419,058	Payment terms are four months	12.00	Note 1
		Global (HK)	3	Accounts receivable	94,770	Payment terms are four months	1.00	Note 1
		Global (HK)	3	Property, plant and equipment for sale	4,325	Payment terms are four months	-	Note 1
		Global (HK)	3	Other receivables	596	Payment terms are four months	-	Note 1
		Global (HK)	3	Other income	155	Payment terms are four months	-	Note 1
		GEM (Dongguan)	3	Sales	1,159,334	Payment terms are four months	32.00	Note 1
		GEM (Dongguan)	3	Accounts receivable	271,444	Payment terms are four months	4.00	Note 1
		GEM (Dongguan)	3	Property, plant and equipment	248	Payment terms are four months	-	Note 1
		GEM (Dongguan)	3	Other income	556	Payment terms are four months	-	Note 1
5	Vibo	GEM (Dongguan)	1	Other receivables	32,619	According to working, capital conditions to change payment deeding	1.00	Note 1
		GEM (Dongguan)	1	Interest income	603	Interest rate P.A. 2.0%	-	Note 1
6	Global (Cayman)	Global (HK)	1	Other receivables	13,056	According to working, capital conditions to change payment deeding	-	Note 1
		Global (HK)	1	Interest income	254	Interest rate P.A. 2.0%	-	Note 1
7	GEM (Cayman)	GEM (VN)	1	Other receivables	32,272	According to working, capital conditions to change payment deeding	1.00	Note 1
		GEM (VN)	1	Interest income	625	Interest rate P.A. 2.1%	-	Note 1
8	GEM (VN)	Genius (HK)	3	Sales	162,211	Payment terms are four months	4.00	Note 1
		Genius (HK)	3	Accounts receivables	22,653	Payment terms are four months	-	Note 1

(Concluded)

Note 1: It was eliminated on consolidation.

Note 2: 1) Parent to subsidiary

2) Subsidiary to parent

3) Subsidiary to subsidiary