

GEM Terminal Ind. Co., Ltd.

**Parent Company Only Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying parent company only financial statements of GEM Terminal Ind. Co., Ltd. (the Company), which comprise the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the parent company only Financial Statements section of our report. We are independent of the Company 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 parent company only financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The valuation of investments accounted for using the equity method and its inventories impairment valuation

As discussed in Note 10 and table 5, as of December 31, 2017, the Company's investment made through Global Electronics Terminal (Cayman) Co., Ltd. to invest Suzhou Gem Opto-Electronics Terminal Co., Ltd. (GEM (Suzhou)), amounted New Taiwan Dollars (as collectively) \$2,035,174 thousand, and accounted for 41% of total assets of the Company. As a result, GEM (Suzhou)'s financial performance significantly impacts the Company's share of profits of subsidiaries.

The balance of inventory of GEM (Suzhou) was \$537,651 thousand. The impairment loss was measured as costs of inventories is lower than net realizable value. The estimation of net realizable value was based on current market condition and historical experience of selling products of a similar nature. Due to the estimation involves significant judgement, and it will impact on GEM (Suzhou)'s financial performance, we regard GEM (Suzhou)'s valuation of inventories impairment as key audit matters.

Besides to obtain an understanding of related control activities, we also:

1. Obtained an inventory aging schedule and evaluation analysis document to realize the estimation and information resource of net realizable value.
2. Tested the net realizable value of inventory items on a sample basis and calculated the appropriateness of net realizable value and the carry amount.
3. Participated in stock count in the year-end, obtained an understanding and analyzed the condition of inventory turnover, evaluated the appropriateness of impairment recognized for damage and obsolescence.

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

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and other regulations, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 parent company only 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 parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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 parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the parent company only financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 parent company only financial statements for the year ended December 31, 2017 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, 2018

Notice to Readers

The accompanying parent company only financial statements are intended only to present the parent company only financial position, financial performance and 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 parent company only financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying parent company only 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 parent company only financial statements shall prevail. As stated in Note 4 to parent company only financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

GEM TERMINAL IND. CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2017		December 31, 2016		LIABILITIES AND EQUITY	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 4 and 6)	\$ 794,686	16	\$ 568,208	12	Short-term borrowings (Note 14)	\$ 90,000	2	\$ -	-
Available-for-sale financial assets - current (Notes 4 and 7)	29,730	1	-	-	Short-term bills payable (Note 14)	100,000	2	50,000	1
Notes receivable (Notes 4, 5 and 8)	45,015	1	47,183	1	Notes payable (Note 12)	32,882	1	29,292	1
Accounts receivable, net (Notes 4, 5 and 8)	109,967	2	98,522	2	Accounts payable (Note 12)	45,831	1	27,013	1
Accounts receivable - related parties (Notes 4, 5 and 22)	33,600	1	30,271	1	Accounts payable - related parties (Notes 12 and 22)	77,142	1	64,388	1
Other receivables (Note 4)	93	-	39	-	Other payables (Notes 13 and 15)	37,926	1	48,638	1
Other receivables - related parties (Notes 4 and 22)	69,019	1	43,921	1	Other payables - related parties (Note 22)	16,750	-	17,923	-
Current tax assets (Notes 4 and 18)	74	-	294	-	Current tax liabilities (Notes 4 and 18)	3,729	-	-	-
Inventories (Notes 4 and 9)	87,842	2	65,188	2	Long-term borrowings - current portion (Note 14)	681,167	14	596,667	13
Other current assets	24,554	-	16,801	-	Other current liabilities	613	-	823	-
Total current assets	1,194,580	24	870,427	19	Total current liabilities	1,086,040	22	834,744	18
NONCURRENT ASSETS					NONCURRENT LIABILITIES				
Investments accounted for using the equity method (Notes 4 and 10)	3,324,896	68	3,354,909	72	Long-term borrowings (Note 14)	1,048,917	21	960,083	21
Property, plant and equipment (Notes 4, 11, 22 and 23)	295,452	6	303,289	7	Deferred tax liabilities (Notes 4 and 18)	7,540	-	8,018	-
Deferred tax assets (Notes 4 and 18)	85,788	2	90,513	2	Net defined benefit liabilities (Notes 4 and 15)	37,722	1	44,414	1
Prepayments for equipment (Note 23)	5,885	-	21,566	-	Total noncurrent liabilities	1,094,179	22	1,012,515	22
Other financial assets - noncurrent (Note 4)	170	-	1,640	-	Total liabilities	2,180,219	44	1,847,259	40
Other noncurrent assets	2,232	-	2,692	-	EQUITY (Note 16)				
Total noncurrent assets	3,714,423	76	3,774,609	81	Ordinary shares	1,692,000	34	1,692,000	36
					Capital surplus	271,315	6	271,315	6
					Retained earnings				
					Legal reserve	343,170	7	338,662	7
					Unappropriated earnings	386,197	8	391,565	9
					Total retained earnings	729,367	15	730,227	16
					Other equity	36,102	1	104,235	2
					Total equity	2,728,784	56	2,797,777	60
TOTAL	\$ 4,909,003	100	\$ 4,645,036	100	TOTAL	\$ 4,909,003	100	\$ 4,645,036	100

The accompanying notes are an integral part of the parent company only financial statements.

GEM TERMINAL IND. CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings (Net Loss) Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE, NET (Notes 4 and 22)	\$ 663,466	100	\$ 618,736	100
OPERATING COSTS (Notes 9, 17 and 22)	<u>558,610</u>	<u>84</u>	<u>518,005</u>	<u>84</u>
GROSS PROFIT	<u>104,856</u>	<u>16</u>	<u>100,731</u>	<u>16</u>
UNREALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES (Note 22)	(6,210)	(1)	(7,663)	(1)
REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES (Note 22)	<u>7,663</u>	<u>1</u>	<u>12,869</u>	<u>2</u>
REALIZED GROSS PROFIT	<u>106,309</u>	<u>16</u>	<u>105,937</u>	<u>17</u>
OPERATING EXPENSES (Notes 17 and 22)				
Marketing	16,893	3	17,531	3
General and administrative	68,946	10	74,295	12
Research and development	<u>33,433</u>	<u>5</u>	<u>33,535</u>	<u>5</u>
Total operating expenses	<u>119,272</u>	<u>18</u>	<u>125,361</u>	<u>20</u>
LOSS FROM OPERATIONS	<u>(12,963)</u>	<u>(2)</u>	<u>(19,424)</u>	<u>(3)</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4, 17 and 22)				
Other income	26,095	4	24,065	4
Other gains and losses	(4,878)	(1)	978	-
Finance costs	(28,065)	(4)	(27,304)	(4)
Share of profits of subsidiaries	<u>31,898</u>	<u>5</u>	<u>64,988</u>	<u>10</u>
Total non-operating income and expenses	<u>25,050</u>	<u>4</u>	<u>62,727</u>	<u>10</u>
INCOME BEFORE INCOME TAX	12,087	2	43,303	7
INCOME TAX EXPENSE (BENEFIT) (Notes 4 and 18)	<u>(12,947)</u>	<u>(2)</u>	<u>1,775</u>	<u>-</u>
NET INCOME (LOSS)	<u>(860)</u>	<u>-</u>	<u>45,078</u>	<u>7</u>

(Continued)

GEM TERMINAL IND. CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings (Net Loss) Per Share)

	2017		2016	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
(Notes 4, 16 and 18)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	\$ (1,034)	-	\$ (633)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	176	-	107	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(270,146)	(41)	(63,517)	(10)
Unrealized gain (loss) on available-for-sale financial assets	(3,166)	-	278	-
Share of other comprehensive income of subsidiaries accounted for using the equity method	201,437	30	(189,361)	(31)
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>4,600</u>	<u>1</u>	<u>2,989</u>	<u>1</u>
Other comprehensive loss for the year, net of income tax	<u>(68,133)</u>	<u>(10)</u>	<u>(250,137)</u>	<u>(40)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (68,993)</u>	<u>(10)</u>	<u>\$ (205,059)</u>	<u>(33)</u>
EARNINGS (NET LOSS) PER SHARE (Note 19)				
Basic	<u>\$ (0.01)</u>		<u>\$ 0.27</u>	
Diluted	<u>\$ (0.01)</u>		<u>\$ 0.27</u>	

The accompanying notes are an integral part of the parent company only financial statements. (Concluded)

GEM TERMINAL IND. CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

	Ordinary Shares	Capital Surplus	Retained Earnings			Other Equity				Total Equity
			Legal Reserve	Unappropriated Earnings	Total	Unrealized Gain (Loss) on Available-for- -sale Financial Assets	Exchange Differences on Translating Foreign Operations	Remesurement of Defined Benefit Plans	Total	
BALANCE, JANUARY 1, 2016	\$ 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 loss in 2016	-	-	-	45,078	45,078	278	(249,889)	(526)	(250,137)	(205,059)
BALANCE, DECEMBER 31, 2016	1,692,000	271,315	338,662	391,565	730,227	-	97,341	6,894	104,235	2,797,777
Appropriation of 2016 earnings (Note 16) Legal reserve	-	-	4,508	(4,508)	-	-	-	-	-	-
Net loss in 2017	-	-	-	(860)	(860)	-	-	-	-	(860)
Other comprehensive loss in 2017, net of income tax	-	-	-	-	-	(3,166)	(64,109)	(858)	(68,133)	(68,133)
Total comprehensive loss in 2017	-	-	-	(860)	(860)	(3,166)	(64,109)	(858)	(68,133)	(68,993)
BALANCE, DECEMBER 31, 2017	\$ 1,692,000	\$ 271,315	\$ 343,170	\$ 386,197	\$ 729,367	\$ (3,166)	\$ 33,232	\$ 6,036	\$ 36,102	\$ 2,728,784

The accompanying notes are an integral part of the parent company only financial statements.

GEM TERMINAL IND. CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 12,087	\$ 43,303
Adjustments for:		
Depreciation expense	24,059	27,417
Amortization expense	1,805	1,518
Reversal of allowance for doubtful accounts	-	(1,448)
Share of profit of subsidiaries	(31,898)	(64,988)
Finance costs	28,065	27,304
Interest income	(3,142)	(3,099)
Dividend income	(5)	(180)
Loss (gain) on disposal of property, plant and equipment, net	(2,428)	1,072
Gain on sale of investments, net	(119)	(39)
Reversal of write-down of inventories	(79)	(3,459)
Unrealized gain on transactions with subsidiaries	6,210	7,663
Realized gain on transactions with subsidiaries	(7,663)	(12,869)
Other non-cash items	(2,853)	2,050
Changes in operating assets and liabilities		
Financial assets held for trading	(199)	-
Notes receivable	2,168	3,285
Accounts receivable	(11,445)	101,541
Accounts receivable - related parties	(3,329)	(24,509)
Other receivables - related parties	2,252	(7,270)
Inventories	(22,575)	(509)
Other current assets	(1,776)	17,932
Financial liabilities held for trading	136	-
Notes payable	3,590	11,182
Accounts payable	18,818	14,173
Accounts payable - related parties	12,754	(93,518)
Other payables	(12,682)	4,089
Other payables - related parties	(1,173)	(6,022)
Other current liabilities	(146)	(118)
Net defined benefit liabilities	(2,953)	(30,111)
Cash generated from operations	7,479	14,390
Interest received	3,088	3,107
Income tax received (paid)	25	(10,410)
Net cash generated from operating activities	<u>10,592</u>	<u>7,087</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(47,860)	(38,681)
Proceeds from disposal of available-for-sale financial assets	15,195	51,580
Acquisition of investments accounted for using the equity method	-	(117,502)
Acquisition of property, plant and equipment	(8,938)	(20,842)
Proceeds from disposal of property, plant and equipment	-	2,084
Decrease in other financial assets	1,470	-
Decrease (increase) in other receivables - related parties	(27,350)	41,341

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GEM TERMINAL IND. CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	2017	2016
Increase in other noncurrent assets	\$ (1,345)	\$ (2,098)
Dividend received	<u>5</u>	<u>180</u>
Net cash used in investing activities	<u>(68,823)</u>	<u>(83,938)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	213,220	-
Decrease in short-term borrowings	(123,220)	-
Increase in commercial paper payable	150,000	50,000
Decrease in commercial paper payable	(100,000)	-
Increase in long-term borrowings	770,000	868,000
Decrease in long-term borrowings	(596,666)	(773,750)
Interest paid	<u>(28,625)</u>	<u>(27,772)</u>
Net cash generated from financing activities	<u>284,709</u>	<u>116,478</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	226,478	39,627
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>568,208</u>	<u>528,581</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 794,686</u>	<u>\$ 568,208</u>

The accompanying notes are an integral part of the parent company only financial statements. (Concluded)

GEM TERMINAL IND. CO., LTD.

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Specified 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 listed on the Taiwan Stock Exchange since September 2001.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The accompanying parent company only financial statements were approved by the board of directors and authorized for issue on March 23, 2018.

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

- a. Initial application of the 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) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC).

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Company’s accounting policies:

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 and issued into effect by the FSC. 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 Company 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 Company has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Company's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions is enhanced. Refer to Note 22 for the related disclosures.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by FSC for application starting from 2018

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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
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
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.

- 1) IFRS 9 "Financial Instruments" and related amendments

Classification, measurement and impairment 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 Company'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 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 Company 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.

The Company analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

Listed shares classified as available-for-sale

Listed shares classified as available-for-sale will be classified as designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The loss allowance is required for financial assets measured at amortized cost, investments in debt instruments 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 Company 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.

The Company has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables. In relation to the debt instrument investments and the financial guarantee contracts, the Company will assess whether there has been a significant increase in the credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for financial assets.

The Company elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Financial assets at fair value through other comprehensive income - current	\$ -	\$ 29,730	\$ 29,730
Available-for-sale financial assets - current	<u>29,730</u>	<u>(29,730)</u>	<u>-</u>
Total effect on assets	<u>\$ 29,730</u>	<u>\$ -</u>	<u>\$ 29,730</u>
Total effect on liabilities	<u>\$ 2,180,219</u>	<u>\$ -</u>	<u>\$ 2,180,219</u>
Total effect on equity	<u>\$ 2,728,784</u>	<u>\$ -</u>	<u>\$ 2,728,784</u>

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

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.

When applying IFRS 15, the Company recognizes revenues 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.

The Company elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in the retained earnings on January 1, 2018.

Retrospectively applying IFRS 15 will not have material impact on the Company’s assets, liabilities and equity of January 1, 2018.

In addition, the Company will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

The Company assesses the application of IFRS 15 will not have the material impact on the Company's financial position and financial performance.

3) 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, 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 Company's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company will achieve this, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

In assessing deferred tax asset, the Company currently assumes it will recover the asset at its carrying amount when estimating probable future taxable profit; the amendment will be applied retrospectively in 2018.

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

c. The IFRSs issued by IASB but not yet endorsed and issued into effect by FSC

New IFRSs	Effective Date Issued by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
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 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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 FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019

1) 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 Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the parent company only balance sheets except for low-value and short-term leases. The Company 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 parent company only statements of comprehensive income, the Company 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 parent company only statements of cash flows, cash payments for the principal portion of the lease liability and the interest portion are classified within financing activities.

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

When IFRS 16 becomes effective, the Company 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.

2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Company shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

3) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The amendment shall be applied prospectively.

Except for the aforementioned impact, as of the date the accompanying parent company only financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’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 parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of Preparation

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value and net defined liabilities which are measured at the present value of the defined benefit obligation less fair value of plan assets, 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, 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.

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries. In order for the amount of net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between parent company only basis and consolidated basis were made to investments accounted for using equity method, share of profit or loss of subsidiaries, share of other comprehensive income of subsidiaries in the parent company only financial statements.

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 Company does not have an unconditional right to defer settlement for at least 12 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. Foreign currencies

In preparing the parent company only financial statements, transactions in currencies other than the Company'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 period 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 purpose of presenting parent company only financial statements, the functional currencies of the Company foreign operations (including 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.

e. Inventories

Inventories consist of merchandise, 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 adjust to approximate weighted-average cost on the balance sheet date.

f. Investments in subsidiaries

Investments in subsidiaries are accounted for by the equity method. Subsidiaries are the entities controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of profit or loss, other comprehensive income of the subsidiary, and attributable distribution received. The Company also recognized its share in the changes in the equity of subsidiaries.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

Profits or losses resulting from downstream transactions are eliminated in full in the parent company only financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized in the parent company only financial statements only to the extent

of interests in the subsidiaries that are not related to the Company.

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 period, 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 Company 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 Company 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 the Company becomes a party to the contractual provisions of the instruments.

Financial assets and 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 Company right to receive the dividends is established.

ii Loans and receivables

Loans and receivables (including cash and cash equivalent, notes receivable, accounts receivable (including those from related parties), other receivables (including those from related parties), 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 period. 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 Company'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 Company 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 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 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 Company'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. 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 reliably 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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Company 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 Company; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company 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.

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 Company 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 Company 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.

k. Leasing

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

l. 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.

m. 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 remeasurement) 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. Remeasurement, 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. Remeasurement 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 Company'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.

n. 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 parent company only 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 Company 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 Company 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 Company 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. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value was based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

b. Income tax

The realizability of deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2017	2016
Cash on hand	\$ 401	\$ 354
Checking accounts and demand deposits	384,685	267,954
Cash equivalents		
Time deposits with original maturities less than 3 months	<u>409,600</u>	<u>299,900</u>
	<u>\$ 794,686</u>	<u>\$ 568,208</u>

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

	<u>December 31</u>	
	2017	2016
Time deposits (%)	0.55-1.9	0.55-0.66

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT - ONLY DECEMBER 31, 2017

	Amount
Domestic listed shares	<u>\$ 29,730</u>

8. NOTES AND ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	2017	2016
<u>Notes receivable</u>		
Notes receivable - operating	<u>\$ 45,015</u>	<u>\$ 47,183</u>
<u>Accounts receivable</u>		
Accounts receivable (non-related parties)	\$ 110,577	\$ 99,132
Less: Allowance for doubtful accounts	<u>610</u>	<u>610</u>
	<u>\$ 109,967</u>	<u>\$ 98,522</u>

a. Accounts receivable

The average credit period of sales of goods was 30-120 days. The Company considered any change in the credit quality of the accounts receivable since the date credit was initially granted to the end of the reporting year. The Company 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	
	2017	2016
Not past due	\$ 105,455	\$ 91,871
Past due 1-60 days	5,085	7,220
Past due 61-90 days	37	40
Past due 91-180 days	<u>-</u>	<u>1</u>
	<u>\$ 110,577</u>	<u>\$ 99,132</u>

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

	Collectively Assessed for Impairment	
	Year Ended December 31	
	2017	2016
Balance, beginning of year	\$ 610	\$ 2,058
Reversal of allowance for doubtful accounts	<u>-</u>	<u>(1,448)</u>
Balance, end of year	<u>\$ 610</u>	<u>\$ 610</u>

b. Credit risk of notes and accounts receivable

The Company 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, 2017 and 2016, 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	
	2017	2016
Group A	\$ 24,913	\$ 16,260
Group B	11,952	13,419
Group C	<u>8,832</u>	<u>9,992</u>
	<u>\$ 45,697</u>	<u>\$ 39,671</u>

9. INVENTORIES

	December 31	
	2017	2016
Merchandise	\$ 36,287	\$ 26,479
Raw materials	17,700	14,993
Supplies	19,731	11,202
Finished goods	7,985	6,440
Work in process	<u>6,139</u>	<u>6,074</u>
	<u>\$ 87,842</u>	<u>\$ 65,188</u>

The cost of inventories recognized as costs of goods sold were \$558,610 thousand in 2017 and \$518,005 thousand in 2016, respectively, which included reversal of write-down of inventories of \$79 thousand in 2017 and \$3,459 thousand in 2016.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31			
	2017		2016	
	Amount	% of Owner - ship	Amount	% of Owner - ship
<u>Investments in subsidiaries</u>				
Unlisted companies				
Global Electronics Terminal (Cayman) Co., Ltd. (Global (Cayman))	\$ 2,910,178	100	\$ 2,923,999	100
GEM Terminal (Cayman) Co., Ltd. (GEM (Cayman))	339,142	100	358,049	100
Genius Terminal Co., Ltd. (Genius)	<u>75,576</u>	100	<u>72,861</u>	100
	<u>\$ 3,324,896</u>		<u>\$ 3,354,909</u>	

The Company increased its investment in GEM (Cayman) for a total of \$117,502 thousand (US\$3,600 thousand) to re-invest Vietnam Gem Electronic and Metal Co., Ltd. in 2016.

The Company's share of profit or loss and other comprehensive income of subsidiaries for the years ended December 31, 2017 and 2016 were based on the subsidiaries' audited financial statements.

See Table 4 and 5 for the information on investees and investments in mainland China.

11. 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 chairman. 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, 2017

	Land	Buildings	Machinery and Equipment	Others	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>						
Balance at January 1, 2017	\$ 146,218	\$ 160,326	\$ 196,136	\$ 40,304	\$ 18,137	\$ 561,121
Additions	-	333	8,588	2,454	11,001	22,376
Disposal	-	(840)	(1,408)	(393)	-	(2,641)
Reclassification	-	90	2,055	6,677	(14,799)	(5,977)
Balance at December 31, 2017	<u>\$ 146,218</u>	<u>\$ 159,909</u>	<u>\$ 205,371</u>	<u>\$ 49,042</u>	<u>\$ 14,339</u>	<u>\$ 574,879</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2017	\$ -	\$ (124,325)	\$ (114,488)	\$ (19,019)	\$ -	\$ (257,832)
Depreciation expenses	-	(2,968)	(17,701)	(3,390)	-	(24,059)
Disposal	-	764	1,327	373	-	2,464
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ (126,529)</u>	<u>\$ (130,862)</u>	<u>\$ (22,036)</u>	<u>\$ -</u>	<u>\$ (279,427)</u>
Carrying amounts at December 31, 2017	<u>\$ 146,218</u>	<u>\$ 33,380</u>	<u>\$ 74,509</u>	<u>\$ 27,006</u>	<u>\$ 14,339</u>	<u>\$ 295,452</u>

For the year ended December 31, 2016

	Land	Buildings	Machinery and Equipment	Others	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>						
Balance at January 1, 2016	\$ 146,218	\$ 166,573	\$ 229,795	\$ 26,008	\$ 36,120	\$ 604,714
Additions	-	88	6,229	3,842	6,559	16,718
Disposal	-	(6,335)	(40,608)	(414)	-	(47,357)
Reclassification	-	-	720	10,868	(24,542)	(12,954)
Balance at December 31, 2016	<u>\$ 146,218</u>	<u>\$ 160,326</u>	<u>\$ 196,136</u>	<u>\$ 40,304</u>	<u>\$ 18,137</u>	<u>\$ 561,121</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2016	\$ -	\$ (126,967)	\$ (128,497)	\$ (16,633)	\$ -	\$ (272,097)
Depreciation expenses	-	(3,296)	(21,349)	(2,772)	-	(27,417)
Disposal	-	5,938	35,358	386	-	41,682
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ (124,325)</u>	<u>\$ (114,488)</u>	<u>\$ (19,019)</u>	<u>\$ -</u>	<u>\$ (257,832)</u>
Carrying amounts at December 31, 2016	<u>\$ 146,218</u>	<u>\$ 36,001</u>	<u>\$ 81,648</u>	<u>\$ 21,285</u>	<u>\$ 18,137</u>	<u>\$ 303,289</u>

b. Estimated useful lives

Depreciation is provided on a straight-line basis over estimated useful lives as follows:

Buildings	
Factory	10 years
Main building	5-10 years
The major component part of the factory	19-20 years
The major component part of the office	50-55 years
Machinery and equipment	5-15 years
Others	5-15 years

c. Investing activities affecting both cash and non-cash items

	For the Year Ended December 31	
	2017	2016
Investing activities affecting both cash and non-cash items		
Acquisition of in property, plant and equipment	\$ 22,376	\$ 16,718
Capitalized interest	(560)	(875)
Decrease in prepayments for equipment	(15,681)	(2,088)
Decrease in payable for purchased equipment	<u>2,803</u>	<u>7,087</u>
Cash paid for acquisition of property, plant and equipment	<u>\$ 8,938</u>	<u>\$ 20,842</u>

12. NOTES PAYABLE AND ACCOUNTS PAYABLE

The Company's notes payable and accounts payable (including those to related parties) were from operating activities and were not secured by collaterals.

The Company 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.

13. OTHER PAYABLES

	December 31	
	2017	2016
Payable for salaries and bonus	\$ 10,346	\$ 13,682
Payable for pension	7,906	3,110
Payable for professional service fees	3,170	2,625
Payable for purchase on subsidiaries' behalf	1,523	10,077
Payable for purchase of equipment	1,342	4,145
Payable for compensation to employees and remuneration to directors and supervisors	2,539	3,504
Others	<u>11,100</u>	<u>11,495</u>
	<u>\$ 37,926</u>	<u>\$ 48,638</u>

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

14. BORROWINGS

a. short-term borrowing - only December 31, 2017

	Amount
Unsecured borrowings (interest rate P.A. 1.23%-1.35%)	<u>\$ 90,000</u>

b. Short-term bills payable

	December 31	
	2017	2016
Short-term bills payable	\$ 100,000	\$ 50,000
Less: Unamortized discounts on bills payable	<u>-</u>	<u>-</u>
	<u>\$ 100,000</u>	<u>\$ 50,000</u>

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

	December 31	
	2017	2016
Short-term bills payable (%)	1.10-1.16	1.15

As of December 31, 2017, commercial paper of \$50,000 thousand were issued and granted by China Bills Finance Corporation and International Bills Corporation, respectively. The commercial paper as of December 31, 2016 was issued and granted by DAH CHUNG Bills Finance Corporation. The commercial papers above were issued with one year revolving credit facilities.

c. Long-term borrowings

	December 31	
	2017	2016
Unsecured borrowings	\$ 1,730,084	\$ 1,556,750
Less: Current portion	<u>681,167</u>	<u>596,667</u>
	<u>\$ 1,048,917</u>	<u>\$ 960,083</u>
Interest rate P.A (%)	1.49-2.09	1.49-2.09

Under the loan agreements with partial bank, the Company should maintain certain financial ratios based on reviewed semiannual and audited annual consolidated financial statements. As of December 31, 2017 and 2016, the Company was in compliance with the above mentioned financial ratio requirements stated in the loan agreements with the banks.

15. 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.

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 Company 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 parent company only balance sheets in respect of the Company’s defined benefit plans were as follows:

	December 31	
	2017	2016
Present value of defined benefit obligation	\$ 87,089	\$ 88,340
Fair value of plan assets	<u>(42,277)</u>	<u>(41,609)</u>
Deficit	44,812	46,731
Classified under other payables	<u>(7,090)</u>	<u>(2,317)</u>
Net defined benefit liability	<u>\$ 37,722</u>	<u>\$ 44,414</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, 2016	<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>
Service cost			
Current service cost	859	-	859
Net interest expense (income)	<u>1,237</u>	<u>(612)</u>	<u>625</u>
Recognized in profit or loss	<u>2,096</u>	<u>(612)</u>	<u>1,484</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ 229	\$ 229
Actuarial loss - experience adjustments	(476)	-	(476)
Actuarial gain - changes in financial assumptions	<u>1,281</u>	<u>-</u>	<u>1,281</u>
Recognized in other comprehensive income	<u>805</u>	<u>229</u>	<u>1,034</u>
Contributions from the employer	<u>-</u>	<u>(4,437)</u>	<u>(4,437)</u>
Benefits paid	<u>(4,152)</u>	<u>4,152</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 87,089</u>	<u>\$ (42,277)</u>	<u>\$ 44,812</u> (Concluded)

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:

	December 31	
	2017	2016
Discount rate (%)	1.2	1.4
Expected rate of salary increase (%)	1.2	1.2

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:

	December 31	
	2017	2016
Discount rate		
0.25% increase	<u>\$ (1,596)</u>	<u>\$ (1,809)</u>
0.25% decrease	<u>\$ 1,657</u>	<u>\$ 1,883</u>
Expected rate of salary increase		
1% increase	<u>\$ 6,946</u>	<u>\$ 7,947</u>
1% decrease	<u>\$ (6,103)</u>	<u>\$ (6,904)</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.

	December 31	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 8,841</u>	<u>\$ 4,094</u>
The average duration of the defined benefit obligation	11 years	13 years

16. EQUITY

a. Capital Stock

	December 31	
	2017	2016
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

	December 31	
	2017	2016
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital		
Issuance of common shares	\$ 266,411	\$ 266,411
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 shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after amendment, please refer to (f) Employees' compensation and remuneration of directors and supervisors in Note 17.

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 shareholders' long-term interests. Thus, the Company adopted Residual dividend policy as its shareholder 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 when the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items refer to 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 stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2016 and the deficit compensation for 2015 had been approved in the stockholders' meeting on June 14, 2017 and June 22, 2016, respectively. The appropriations of earnings for 2016 were as follows:

	Amount
Legal reserve	\$ 4,508

The deficit compensation for 2017 are subject to the resolution of the stockholders' meeting to be held on June 13, 2018.

d. Other Equity Items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ 97,341	\$ 347,230
Exchange differences arising on translating the foreign operations	(270,146)	(63,517)
Share of other comprehensive income of subsidiaries accounted for using the equity method	201,437	(189,361)
Related income tax	<u>4,600</u>	<u>2,989</u>
Balance at December 31	<u>\$ 33,232</u>	<u>\$ 97,341</u>

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

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ -	\$ (278)
Unrealized gain (loss) arising on revaluation of available-for-sale financial assets	(2,935)	287
Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets	(119)	(39)
Share of unrealized gain on revaluation of available-for-sale financial assets of subsidiaries accounted for using the equity method	<u>(112)</u>	<u>30</u>
Balance at December 31	<u>\$ (3,166)</u>	<u>\$ -</u>

3) Remeasurement of defined benefit plans

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ 6,894	\$ 7,420
Remeasurement of defined benefit plans	(1,034)	(633)
Related income tax	<u>176</u>	<u>107</u>
Balance at December 31	<u>\$ 6,036</u>	<u>\$ 6,894</u>

17. INCOME BEFORE INCOME TAX

Income before income tax was attributed to as follows:

a. Other income

	For the Year Ended December 31	
	2017	2016
Interest income	\$ 3,142	\$ 3,099
Dividend income	5	180

(Continued)

	For the Year Ended December 31	
	2017	2016
Proceeds from procurement service	\$ 20,429	\$ 18,628
Others	<u>2,519</u>	<u>2,158</u>
	<u>\$ 26,095</u>	<u>\$ 24,065</u>

(Concluded)

b. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Foreign exchange gains (losses), net	\$ (7,488)	\$ 2,011
Gain on disposal of investments, net	119	39
Gain (loss) on disposal of property, plant and equipment, net	2,428	(1,072)
Others	<u>63</u>	<u>-</u>
	<u>\$ (4,878)</u>	<u>\$ 978</u>

c. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest expense of borrowings	\$ 28,625	\$ 28,179
Less: Amounts included in the cost of qualifying assets	<u>560</u>	<u>875</u>
	<u>\$ 28,065</u>	<u>\$ 27,304</u>

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2017	2016
Capitalized interest (classified under property, plant and equipment and prepayments for equipment)	\$ 560	\$ 875
Capitalization rate (%)	1.63-1.83	1.72-2.00

d. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	\$ 24,059	\$ 27,417
Other assets	<u>1,805</u>	<u>1,518</u>
	<u>\$ 25,864</u>	<u>\$ 28,935</u>

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

	For the Year Ended December 31	
	2017	2016
Analysis of depreciation by function		
Operating costs	\$ 9,033	\$ 8,543
Operating expenses	<u>15,026</u>	<u>18,874</u>
	<u>\$ 24,059</u>	<u>\$ 27,417</u>
Analysis of amortization by function		
Operating costs	\$ 8	\$ 4
General and administration expenses	654	531
Research and development expenses	<u>1,143</u>	<u>983</u>
	<u>\$ 1,805</u>	<u>\$ 1,518</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits		
Salary	\$ 80,114	\$ 82,036
Labor and health insurance	8,564	8,095
Others	<u>5,272</u>	<u>5,203</u>
	<u>93,950</u>	<u>95,334</u>
Post-employment benefits		
Defined contribution plans	3,272	3,131
Defined benefit plans (Note 15)	<u>1,484</u>	<u>1,984</u>
	<u>4,756</u>	<u>5,115</u>
	<u>\$ 98,706</u>	<u>\$ 100,449</u>
Analysis of employee benefits expense by function		
Operating costs	\$ 25,339	\$ 28,318
Operating expenses	<u>73,367</u>	<u>72,131</u>
	<u>\$ 98,706</u>	<u>\$ 100,449</u>

As of December 31, 2017 and 2016, the Company had 159 and 156 employees, respectively.

f. Employees' compensation and remuneration of directors and supervisors

In compliance with the amended Articles as amended in June 2016, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates no less than 3% and no higher \$4,000 thousand, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The stockholders held their meeting and resolved amendments to the Company's Articles in June 2017 again; the amendments stipulate distribution of employees' compensation and remuneration of directors and supervisors at the rates no less than 3% and \$2,100 thousand, respectively, of the 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, 2017 and 2016 which had been approved in the board of directors meeting on March 23, 2018 and March 23, 2017, respectively were as follows.

Accrual rate and amount

	For the Year Ended December 31	
	2017	2016
Employees' compensation	3%	3%
Remuneration of directors and supervisors	2,100	2,100

Amount

	Cash Dividends For the Year Ended December 31	
	2017	2016
Employees' compensation	\$ 439	\$ 1,404
Remuneration of directors and supervisors	2,100	2,100

If there is a change in the proposed amounts after the annual parent company only financial statements are authorized for issue, the differences are recorded as a change in accounting estimate.

Since the Company had incurred net loss for 2015, no compensation to employees and remuneration to directors and supervisors were distributed, which was approved in the board of directors' meeting on March 25, 2016.

There was no difference between the actual amounts of employees' compensation and the remuneration of directors and supervisors paid and the amounts recognized in the parent company only financial statements for the year ended December 31, 2016.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2018 and 2017 is available at 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	
	2017	2016
Foreign exchange gains	\$ 7,387	\$ 16,555
Foreign exchange losses	<u>(14,875)</u>	<u>(14,544)</u>
Foreign exchange gains (losses), net	<u>\$ (7,488)</u>	<u>\$ 2,011</u>

18. INCOME TAX

a. The major components of income tax expense (benefit) recognized in profit or loss

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	\$ 30	\$ -
Income tax on unappropriated earnings	3,841	-

(Continued)

	For the Year Ended December 31	
	2017	2016
Adjustments for prior years	\$ <u>53</u>	\$ <u>12,355</u>
	<u>3,924</u>	<u>12,355</u>
Deferred tax		
In respect of the current year	<u>9,023</u>	<u>(14,130)</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 12,947</u>	<u>\$ (1,775)</u>
		(Concluded)

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

	For the Year Ended December 31	
	2017	2016
Profit before income tax	\$ <u>12,087</u>	\$ <u>43,303</u>
Income tax expense calculated at the statutory rate	\$ 2,055	\$ 7,362
Tax-exempt income in determining taxable income	(15)	(37)
Unrecognized loss carry forwards / deductible temporary differences	6,984	(21,455)
Income tax on unappropriated earnings	3,841	-
Adjustments for prior years	53	12,355
Others	<u>29</u>	<u>-</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 12,947</u>	<u>\$ (1,775)</u>

The applicable corporate income tax rate used above is 17%.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by \$15,139 thousand and \$25 thousand, respectively, in 2018.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
Deferred tax		
<hr/>		
In respect of the current year		
Translation of foreign operations and other comprehensive income	\$ 4,600	\$ 2,989
Remeasurement on defined benefit plan	<u>176</u>	<u>107</u>
Total income tax recognized in other comprehensive income	<u>\$ 4,776</u>	<u>\$ 3,096</u>

c. Current tax assets and liabilities

	December 31	
	2017	2016
Current tax assets		
Tax refund receivable	\$ <u>74</u>	\$ <u>294</u>
Current tax liabilities		
Income tax payable	\$ <u>3,729</u>	\$ <u>-</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, 2017

	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				
Defined benefit obligation	\$ 7,944	\$ (502)	\$ 176	\$ 7,618
Unrealized deferred profit	25,396	(1,006)	-	24,390
Translation of foreign operations and investment loss	33,927	(12,168)	4,600	26,359
Others	<u>1,679</u>	<u>(242)</u>	<u>-</u>	<u>1,437</u>
	68,946	(13,918)	4,776	59,804
Loss carryforwards	<u>21,567</u>	<u>4,417</u>	<u>-</u>	<u>25,984</u>
	<u>\$ 90,513</u>	<u>\$ (9,501)</u>	<u>\$ 4,776</u>	<u>\$ 85,788</u>
<u>Deferred Tax liabilities</u>				
Temporary differences				
Land value increment tax	\$ 7,398	\$ -	\$ -	\$ 7,398
Others	<u>620</u>	<u>(478)</u>	<u>-</u>	<u>142</u>
	<u>\$ 8,018</u>	<u>\$ (478)</u>	<u>\$ -</u>	<u>\$ 7,540</u>

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				
Defined benefit obligation	\$ 12,957	\$ (5,120)	\$ 107	\$ 7,944
Unrealized deferred profit	26,798	(1,402)	-	25,396
Translation of foreign operations and investment loss	19,140	11,798	2,989	33,927
				(Continued)

	Balance, Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance, End of Year
Others	\$ 2,214	\$ (535)	\$ -	\$ 1,679
	61,109	4,741	3,096	68,946
Loss carryforwards	<u>12,542</u>	<u>9,025</u>	<u>-</u>	<u>21,567</u>
	<u>\$ 73,651</u>	<u>\$ 13,766</u>	<u>\$ 3,096</u>	<u>\$ 90,513</u>
<hr/>				
Deferred Tax liabilities				
<hr/>				
Temporary differences				
Land value increment tax	\$ 7,398	\$ -	\$ -	\$ 7,398
Others	<u>984</u>	<u>(364)</u>	<u>-</u>	<u>620</u>
	<u>\$ 8,382</u>	<u>\$ (364)</u>	<u>\$ -</u>	<u>\$ 8,018</u>
				(Concluded)

e. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2017 comprised:

Unused Amount	Expiry Year
\$ 10,471	2024
55,604	2025
60,851	2026
<u>25,922</u>	2027
<u>\$ 152,848</u>	

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

As of December 31, 2017 and 2016, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were \$91,044 thousand and \$120,517 thousand, respectively.

g. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Unappropriated earnings generated before January 1, 1998	\$ -	\$ 6,684
Unappropriated earnings generated on and after January 1, 1998	<u>-</u>	<u>384,881</u>
	<u>\$ - (Note)</u>	<u>\$ 391,565</u>
Imputation credits accounts	<u>\$ - (Note)</u>	<u>\$ 37,779</u>

	<u>For the Year Ended December 31</u>	
	2017	2016
Creditable ratio for distribution of earnings (%)	Note	9.82

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

h. Income tax assessments

The tax returns of the Company through 2015 have been assessed by the tax authorities.

19. EARNINGS (NET LOSS) PER SHARE

There is no diluted effect for the year ended December 31, 2017 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>	
	2017	2016
Net profit (loss) used in the computation of basic / diluted earnings (net loss) per share	\$ <u>(860)</u>	\$ <u>45,078</u>

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

	<u>For the Year Ended December 31</u>	
	2017	2016
Weighted average number of ordinary shares in computation of basic EPS / net loss per share	169,200	169,200
Effect of diluted potential ordinary shares		
Employee's compensation	<u>-</u>	<u>135</u>
Weighted average number of ordinary shares used in the computation of diluted EPS / net loss per share	<u>169,200</u>	<u>169,335</u>

If the Company offered to settle compensation paid to employees in cash or shares, the Company 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.

20. CAPITAL MANAGEMENT

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

Note 14).

Key management of the Company review the capital structure on a quarterly basis the capital structure comprises the consideration of costs and risks. The Company balances its entire capital structure based on recommendations of key management.

21. FINANCIAL INSTRUMENTS

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

The management consider that the carrying amounts of financial assets and financial liabilities recognized in the parent company only financial statements approximate their fair values.

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

December 31, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Domestic listed shares	\$ <u>29,730</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>29,730</u>

December 31, 2016: None.

There were no transfers between Level 1 and Level 2 in 2017 and 2016.

c. Categories of financial instruments

	<u>December 31</u>	
	2017	2016
<u>Financial assets</u>		
Loans and receivables (Note 1)	\$ 1,052,550	\$ 789,784
Available-for-sale financial assets	29,730	-
<u>Financial liabilities</u>		
Measured at amortized cost (Note 2)	2,130,615	1,794,004

Note 1: The balances included in loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable (including those from related parties), other receivables (including those from related parties) and other financial assets.

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

d. Financial risk management objectives and policies

The Company's major financial instruments include equity investments, notes receivable, accounts receivable, other financial assets, borrowings, notes payable and accounts payable. The Company'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 Company 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 Company Treasury function reports monthly to the Company's risk management committee.

1) Market risk

The Company's activities exposed 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 Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk.

The carrying amounts of the Company'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 24.

Sensitivity analysis

The Company was mainly exposed to the risk from the fluctuation of USD.

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

	USD impact	
	For the Year Ended December 31	
	2017	2016
Profit or loss	\$ 2,097	\$ 1,384

b) Interest rate risk

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

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

	December 31	
	2017	2016
Fair value interest rate risk		
Financial assets	\$ 409,600	\$ -
Financial liabilities	918,750	968,750
Cash flow interest rate risk		
Financial assets	384,553	267,851
Financial liabilities	1,001,334	638,000

Sensitivity analysis

The sensitivity analysis below was based on the Company'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 Company's pre-tax profit for the year ended December 31, 2017 and 2016 would have been lower / higher by \$6,168 thousand and \$3,701 thousand, respectively, which was mainly a result of the changes in the floating interest rate bank demand 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 Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to the counterparties' failure to discharge an obligation and because of financial guarantees provided by the Company is the carrying amount of the respective recognized financial assets as stated in the parent company only balance sheets.

The Company 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 Company'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 Company's funding and liquidity management requirements.

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company'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 Company'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 Company 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, 2017</u>					
Fixed interest rate liabilities	1.10-2.09	\$ 191,791	\$ 95,709	\$ 271,742	\$ 375,316
Variable interest rate liabilities	1.35-1.81	36,762	47,554	252,839	691,053
Non-interest bearing	-	<u>81,051</u>	<u>63,192</u>	<u>65,021</u>	<u>-</u>
		<u>\$ 309,604</u>	<u>\$ 206,455</u>	<u>\$ 589,602</u>	<u>\$ 1,066,369</u>
<u>December 31, 2016</u>					
Fixed interest rate liabilities	1.15-2.09	\$ 89,691	\$ 121,195	\$ 292,113	\$ 483,572
Variable interest rate liabilities	1.49-1.81	18,751	26,680	120,922	488,904
Non-interest bearing	-	<u>44,565</u>	<u>94,926</u>	<u>46,621</u>	<u>-</u>
		<u>\$ 153,007</u>	<u>\$ 242,801</u>	<u>\$ 459,656</u>	<u>\$ 972,476</u>

Taking into account the Company'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.

22. TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its related parties were as follows:

a. Related party name and its relationship with the Company

<u>Related Party Name</u>	<u>Relationship with the Company</u>
GEM (Suzhou)	Subsidiaries
Dongguan Gem Electronics & Metal Co., Ltd. (GEM (Dongguan))	Subsidiaries
Vietnam Gem Electronic and Metal Co., Ltd (GEM (VN))	Subsidiaries
Global Electronics Terminal (HK) Co., Ltd. (Global (HK))	Subsidiaries
Genius Terminal (HK) Ltd. (Genius (HK))	Subsidiaries
Su, Chung-Hong	The Company's chairman
Su, Tun-Li	Second-degree relatives of the Company's Chairman
Su, Tun-Jen	General manager
Su, Tun-Yi	Second-degree relatives of the Company's Chairman

b. Sales of goods

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2017	2016
Sales	Subsidiaries		
	GEM (Suzhou)	\$ 78,918	\$ 72,804
	Others	<u>74,455</u>	<u>53,025</u>
		<u>\$ 153,373</u>	<u>\$ 125,829</u>

Accumulated unrealized gains on the transactions with the subsidiaries as of December 31, 2017 and 2016, were \$6,210 thousand and \$7,663 thousand, respectively.

The goods sold to related parties listed above were mainly raw materials and semi-finished goods. The payment collection term period was about 4 months. The terms for the sales to related parties were not comparable with those for third parties.

c. Purchases of goods

Related Party Category/Name	For the Year Ended December 31	
	2017	2016
Subsidiaries		
Genius (HK)	\$ 220,621	\$ 209,854
Global (HK)	112,769	122,217
Others	<u>33,149</u>	<u>10,614</u>
	<u>\$ 366,539</u>	<u>\$ 342,685</u>

The goods purchased were mainly semi-finished goods, finished goods and merchandise, which were different from those sold to the related parties by the Company. The payment period was about 4 months or earlier depending on the related parties' working capital. The terms of the purchases from related parties were not comparable with those for third parties.

d. Receivables from related parties

Line Item	Related Party Category/Name	December 31	
		2017	2016
Accounts receivable - related parties	Subsidiaries		
	GEM (VN)	\$ 28,473	\$ 9,444
	GEM (Suzhou)	3,749	18,187
	Others	<u>1,378</u>	<u>2,640</u>
		<u>\$ 33,600</u>	<u>\$ 30,271</u>

No expense was recognized for the years ended December 31, 2017 and 2016 for allowance for impaired receivables with respect to the amounts owed by related parties.

e. Payables to related parties

Line Item	Related Party Category/Name	December 31	
		2017	2016
Accounts payable - related parties	Subsidiaries		
	Genius (HK)	\$ 46,975	\$ 46,637
	GEM (Suzhou)	16,392	13
	Global (HK)	9,941	17,730
	Others	<u>3,834</u>	<u>8</u>
		<u>\$ 77,142</u>	<u>\$ 64,388</u>

The outstanding trade payables from related parties are unsecured.

f. Other payables to related parties

Line Item	Related Party Category/Name	December 31	
		2017	2016
Other payables - related parties	Subsidiaries		
	Genius (HK)	\$ 16,466	\$ 17,734
	Others	<u>284</u>	<u>189</u>
		<u>\$ 16,750</u>	<u>\$ 17,923</u>

The other payables to subsidiaries was due to agency receipt of trade receivable.

g. Property, plant and equipment acquired

In addition to those disclosed in Note 11, property, plant and equipment acquired from subsidiaries were as follows:

Related Parties Category	Price	
	For the Year Ended December 31	
	2017	2016
Subsidiaries		
Genius (HK)	\$ 5,151	\$ -
GEM (Suzhou)	2,993	-
Others	<u>331</u>	<u>730</u>
	<u>\$ 8,475</u>	<u>\$ 730</u>

The payment collection term period was about 4 months. Since there was no similar transaction with third parties, the terms of the acquisition were not comparable with those for third parties.

h. Property disposed

1) Property, plant and equipment

	For the Year Ended December 31			
	2017		2016	
	Price	Gain on Disposal	Price	Gain on Disposal
Subsidiaries	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,084</u>	<u>\$ 472</u>

As of December 31, 2017 and 2016, the accumulated unrealized gains on the intercompany property transactions by selling to subsidiaries amounted to \$9,630 thousand and \$12,235 thousand, respectively, which were recorded as reduction of investment accounted for using the equity method. The unrealized gains on disposal of assets are amortized by the straight-line method over 10 years and recognized under gain on disposal of property, plant and equipment.

2) Patents and franchise

As of December 31, 2016, the Company had sold franchise to subsidiaries, and the related accumulated unrealized gains from the company's sale of its franchise to subsidiaries amounted to \$215 thousand.

3) Other receivables - related parties (excluding loans to related parties)

Related Parties Category	December 31	
	2017	2016
Subsidiaries		
GEM (Suzhou)	\$ 4,600	\$ 8,477
Global (HK)	3,990	3,015
Others	<u>596</u>	<u>95</u>
	<u>\$ 9,186</u>	<u>\$ 11,587</u>

i. Loans to related parties

As of December 31, 2017 and 2016, the loans (which were unsecured) to subsidiaries with annual interest rate at 2.10%, which approximated market interest rate, amounted to \$59,600 thousand (US\$2,000 thousand) and \$32,250 thousand (US\$1,000 thousand) (both classified under other receivables - related parties), respectively. Interest receivable were \$233 thousand (US\$8 thousand) and \$84 thousand (US\$3 thousand) as of December 31, 2017 and 2016, respectively. Interest income were \$744 thousand (US\$25 thousand) and \$739 thousand (US\$23 thousand).

j. Other equipment disposed

Related Party Category/Name	Line Items	For the year ended December 31			
		2017		2016	
		Price	Gain on Disposal	Price	Gain on Disposal
Subsidiaries					
GEM (Suzhou)	Equipment purchased on behalf of subsidiaries	\$ 31,544	\$ 17,224	\$ 47,088	\$ 18,583
Others	Equipment purchased on behalf of subsidiaries	11,146	353	17,842	1,900
		<u>\$ 42,690</u>	<u>\$ 17,577</u>	<u>\$ 64,930</u>	<u>\$ 20,483</u>

The payment collection term was about 4 months. Since there was no similar transaction with third parties, the terms of the purchase from related parties were not comparable with those to third parties.

As of December 31, 2017 and 2016, the accumulative unrealized gains on the intercompany property transactions by purchasing on behalf of subsidiaries amounted to \$126,014 thousand and \$128,866 thousand, respectively, which were recorded as reduction of investment accounted for using the equity method. The unrealized gains on disposal of assets amortized by the straight-line method over 10 years and recognized under other income.

k. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term benefits	\$ 4,854	\$ 5,268
Post-employment benefits	<u>272</u>	<u>276</u>
	<u>\$ 5,126</u>	<u>\$ 5,544</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.

l. Property lease

The Company leased its Taipei office, factories and storehouse from general manager Su, Tun-Jen, Su, Tun-Li (second-degree relatives of the Company's chairman) and Su, Tun-Yi (second-degree relatives of the Company's chairman). The rentals for the years ended December 31, 2017 and 2016 were both \$1,658 thousand, 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.

m. Guarantees

The Company's chairman Su, Chung-Hong and Su, Tun-Li (second-degree relatives of the Company's chairman) jointly provided the guarantee for the loans of the Company.

23. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant contingent liabilities and unrecognized commitments, as of December 31, 2017 were as follows:

- a. The amounts of contracts for the Company purchases of properties and materials were \$22,414 thousand, of which \$19,344 thousand had not been paid.
- b. Unused letters of credit for purchases of raw materials and equipment amounted to \$24,049 thousand.

24. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount (In Thousands)
<u>December 31, 2017</u>				
Financial assets				
Monetary items				
USD	\$ 8,068	29.8	(USD:NTD)	\$ 240,433
HKD	7,350	3.815	(HKD:NTD)	<u>28,041</u>
				<u>\$ 268,474</u>
Non-monetary items				
Investment subsidiaries accounted for using equity method				
USD	111,165	29.8	(USD:NTD)	<u>\$ 3,312,708</u>
Financial liabilities				
Monetary items				
USD	1,032	29.8	(USD:NTD)	\$ 30,750
HKD	16,550	3.815	(HKD:NTD)	<u>63,137</u>
				<u>\$ 93,887</u>
<u>December 31, 2016</u>				
Financial assets				
Monetary items				
USD	4,848	32.25	(USD:NTD)	\$ 156,334
HKD	5,885	4.161	(HKD:NTD)	<u>24,487</u>
				<u>\$ 180,821</u>
Non-monetary items				
Investment subsidiaries accounted for using equity method				
USD	104,028	32.25	(USD:NTD)	<u>\$ 3,354,909</u>

(Continued)

	Foreign Currencies	Exchange Rate		Carrying Amount
Financial liabilities				
Monetary items				
USD	\$ 556	32.25	(USD:NTD)	\$ 17,933
HKD	15,472	4.161	(HKD:NTD)	<u>64,379</u>
				<u>\$ 82,312</u>
				(Concluded)

The significant unrealized foreign exchange gains (losses) were as follows:

For the Year Ended December 31				
2017			2016	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)
USD	29.8 (USD:NTD)	\$ (2,127)	32.25 (USD:NTD)	\$ (1,876)
HKD	3.815 (HKD:NTD)	<u>723</u>	4.161 (HKD:NTD)	<u>(227)</u>
		<u>\$ (1,404)</u>		<u>\$ (2,103)</u>

25. 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): Table 2.
- 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 3 (attached).
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- 9) Trading in derivative instruments: None.
- 10) 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 year, 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 year: Table 6 (attached).
- 2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the year: Table 6 (attached).
- 3) The amount of property transactions and the amount of the resultant gains or losses: Table 6 (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 year balance, the interest rates range, and total current year interest with respect to financing of funds: Table 1.
- 6) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receiving of services: Table 6 (attached).

GEM TERMINAL IND. CO., LTD.

FINANCING PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2017

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

No.	Financing Company	Borrowing Company	Financial Statement Account	Related Parties	Highest Balance for the Year	Ending Balance (Note 2)	Actual Borrowing Amount (Note 2)	Interest Rate	Type of Financing	Transaction Amount	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	\$ 91,260	\$ 89,400	\$ 59,600	2.1	Short-term financing	\$ -	Operating capital	\$ -	\$ -	\$ -	\$ 545,757	\$ 1,091,514
0	The Company	GEM (Suzhou)	Other receivables - related parties	Yes	152,100	149,000	-	2.1	Short-term financing	-	Operating capital	-	-	-	545,757	1,091,514

Note 1: Under the Company's "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 stockholders' equity, and individual financing should not exceed 20 percent of the Company's stockholders' equity.

Note 2: The conversion rates on December 29, 2017 were US\$1.00: NT\$29.8.

GEM TERMINAL IND. CO., LTD.

MARKETABLE SECURITIES HELD

DECEMBER 31, 2017

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

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Note
				Shares	Carrying Amount	Percentage of Ownership	Fair Value	
The Company	<u>Stock</u>							
	ESON Precision Engineering Co., Ltd.	-	Available-for-sale financial assets - current	84,000	\$ 3,809	-	\$ 3,809	
	Tai Tung Communication Co., Ltd	-	Available-for-sale financial assets - current	405,000	7,857	-	7,857	
	Innolux Corporation	-	Available-for-sale financial assets - current	800,000	9,920	-	9,920	
	Microelectronics Technology Inc.	-	Available-for-sale financial assets - current	271,000	<u>8,144</u>	-	<u>8,144</u>	
					<u>\$ 29,730</u>		<u>\$ 29,730</u>	

GEM TERMINAL IND. CO., LTD.

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, 2017

(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 Terms	Ending Balance		% to Total
The Company	Global (HK)	Subsidiary	Purchases	\$ (112,769) (US\$3,700 thousand)	(22)	120 days after monthly closing	No comparable transactions with those in the market	No comparable transactions with those in the market	\$ (9,941) (US\$334 thousand)	(6)	
	Genius (HK)	Subsidiary	Purchases	(220,621) (HK\$56,520 thousand and US\$12 thousand)	(42)	120 days after monthly closing	No comparable transactions with those in the market	No comparable transactions with those in the market	(46,975) (HK\$12,233 thousand and US\$10 thousand)	(30)	

GEM TERMINAL IND. CO., LTD.

**INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance As of December 31, 2017			Net Income (Loss) of the Investee	Share of Profit(Loss)	Note
				December 31, 2017	December 31, 2016	Shares/Units	Percentage of Ownership	Carrying Amount			
The Company	Global (Cayman)	Grand Cayman, Cayman Islands	International investment	\$ 1,295,208	\$ 1,295,208	40,137,184	100	\$ 2,910,178	\$ 16,959	\$ 16,425	
The Company	GEM (Cayman)	Grand Cayman, Cayman Islands	International investment	392,669	392,669	12,598,333	100	339,142	8,250	8,236	
The Company	Genius	British Virgin Islands	International investment and trading, etc.	23,282	23,282	750,000	100	<u>75,576</u>	7,237	<u>7,237</u>	
								<u>\$ 3,324,896</u>		<u>\$ 31,898</u>	

GEM TERMINAL IND. CO., LTD.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017

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

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% of Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 1)	Carrying Amount as of December 31, 2017 (Notes 1)	Accumulated Repatriation of Investment Income as of December 31, 2017
					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.	\$ 774,801	The investment was made through a corporation established in a third country to invest in companies located in Mainland China.	\$ 452,130	\$ -	\$ -	\$ 452,130	\$ (13,069)	100.00	\$ (11,127)	\$ 883,347	\$ -
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.	1,146,103	The investment was made through a corporation established in a third country to invest in companies located in Mainland China.	741,320	-	-	741,320	15,315	100.00	17,631	2,035,174	-

Investor Company	Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 2)
The Company	\$ 1,193,450	\$ 1,689,660 (US\$56,700 thousand)	\$ 1,637,270

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.

GEM TERMINAL IND. CO., LTD.

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, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	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	\$ 78,918	120 days after monthly closing	No significant difference with those to third parties	\$ 3,749	2	\$ 5,521	
		Purchase	29,279	120 days after monthly closing	No significant difference with those to third parties	(16,392)	11	-	
		Property, plant, and equipment for sale	31,544	120 days after monthly closing	No comparable transactions with those in the market	4,600	7	16,393	
	GEM (Dongguan)	Sales	1,340	120 days after monthly closing	No significant difference with those to third parties	588	-	333	