

LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2017 AND 2016
(Stock code: 2431)

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD.

Opinion

We have audited the accompanying consolidated balance sheets of LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD. and its subsidiaries (the “Group”) as at December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

Inventory valuation losses

Description

Please refer to Note 4(12) for accounting policies on inventory, Note 5(2) for the significant accounting estimates and assumptions applied on inventory, and Note 6(5) for the allowance for inventory valuation.

On December 31, 2017, the balance of inventory was NT\$384,239 thousand (allowance for inventory valuation losses was NT\$47,924 thousand), constituting 16% of the consolidated total assets as of December 31, 2017. The Group is primarily engaged in the manufacture and sale of power supply units which is applicable to display screens. Due to the short life cycle of electronic products, and the reservation of the customizable inventory, there is a risk of incurring inventory valuation losses or having obsolete inventory. Inventories are stated at the lower of cost and net realisable value, as for inventory that is over certain age and individually identified obsolete or slow-moving inventory, the Group would assess such inventories.

The determination of net realisable value for obsolete or slow-moving inventory involves significant judgement and high degree of estimation uncertainty. Considering the Group's inventory and the allowance for inventory valuation losses are material to its financial statements, we identified the valuation of inventory as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Understood the industry characteristics and operating environment of the Group to assess the reasonableness of policies and procedures on allowance for inventory valuation losses, including inventory classification and the reasonableness of the standards for obsolete and slow-moving inventory;
2. Understood the inventory management process, observing annual physical counts to assess the effectiveness of management's classification and controls over obsolete and slow-

moving inventory;

3. Checked whether the rationality of inventory aging report system used by management is appropriate to confirm the information in the report was in agreement with the Group's policy;
4. Reviewed the appropriateness of estimation basis of inventory's realizable value, randomly checked the accuracy of sale and purchase price, and recalculated the allowance of inventory valuation losses and assessed the reasonableness.

Cut-off of sales revenue of distribution warehouse

Description

For the year ended December 31, 2017, operating revenue was NT\$2,303,239 thousand. Please refer to Note 4(26) for accounting policies on revenue recognition.

In line with IAS 18 'Revenue' and relevant interpretations as endorsed by the Financial Supervisory Commission, the Group recognised revenue when the factory directly delivered goods from factory and sales revenue from warehouse when customers accepted goods, and the risks and rewards transferred to the buyer. The Group recognises revenue based on changes in inventory balances as derived from the information or statements provided by the warehouse custodian. As there are many warehouses located in different locations and numerous custodians, the frequency and contents of statements provided by custodians are different, there is a risk of inaccuracy of sales revenue recognition timing.

As the daily sales from warehouses of the Group and the transaction amounts around balance sheet date are both material to the financial statements, thus we consider the cut-off of sales revenue of distribution warehouse a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Inquired with management about the relevant internal controls of periodic reconciliation with distribution warehouse.
2. Understood and assessed the internal controls regulating transactions in the warehouse, including randomly checking whether the details of delivering cargo (including product name, quantity, cash amount and timing) is consistent with the sales document, and validating that the recorded timing of the sales revenue in the distribution warehouse is consistent with that in the accounting system.
3. Assessed and checked the appropriation of cut-off of sales revenue around balance sheet date. Verified the evidence provided by the warehouse custodian and whether the records of changes in inventory balance and the transfer of cost of goods sold have been accounted

in the proper periods.

4. Sent confirmations to warehouses with large inventory balances, and observed physical counts in warehouses and verified balances against inventory records.

Other matter – Parent company only financial statements

We have audited and expressed an unqualified opinion on the parent company only financial statements of LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD. as of and for the years ended December 31, 2017 and 2016.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be

expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant

deficiencies in internal control that we identify during our audit.

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

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

Chih, Ping-Chiun

Wu, Han-Chi

For and on behalf of PricewaterhouseCoopers, Taiwan
March 20, 2018

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS	Notes	December 31, 2017		December 31, 2016	
		Amount	%	Amount	%
Current assets					
Cash and cash equivalents	6(1)	\$ 809,788	34	\$ 994,321	35
Financial assets at fair value through profit or loss - current	6(2)	90,124	4	-	-
Accounts receivable, net	6(4)	367,904	16	607,138	21
Accounts receivable – related parties	7	5,972	-	12,085	-
Other receivables		21,154	1	23,306	1
Inventories, net	6(5)	384,239	16	487,382	17
Prepayments		7,624	-	12,565	1
Other current assets		492	-	616	-
Total current assets		1,687,297	71	2,137,413	75
Non-current assets					
Available-for-sale financial assets – non-current	6(3)	165,270	7	154,339	5
Property, plant and equipment, net	6(6) and 7	300,068	13	329,460	12
Investment property, net	6(7)	166,911	7	169,207	6
Intangible assets		13,402	1	14,587	1
Deferred income tax assets	6(21)	26,882	1	21,342	1
Other non-current assets	6(8)	10,212	-	9,296	-
Total non-current assets		682,745	29	698,231	25
TOTAL ASSETS		\$ 2,370,042	100	\$ 2,835,644	100

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LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

LIABILITIES AND EQUITY	Notes	December 31, 2017		December 31, 2016	
		Amount	%	Amount	%
Current liabilities					
Notes payable		\$ 1,771	-	\$ -	-
Accounts payable		636,608	27	916,404	33
Other payables	6(9)	121,368	5	177,218	6
Current income tax liabilities		2,452	-	7,760	-
Other current liabilities		2,696	-	3,055	-
Total current liabilities		<u>764,895</u>	<u>32</u>	<u>1,104,437</u>	<u>39</u>
Non-current liabilities					
Deferred income tax liabilities	6(21)	18,118	1	18,305	1
Other non-current liabilities	6(10)	29,959	1	29,139	1
Total non-current liabilities		<u>48,077</u>	<u>2</u>	<u>47,444</u>	<u>2</u>
Total Liabilities		<u>812,972</u>	<u>34</u>	<u>1,151,881</u>	<u>41</u>
Equity					
Share capital	6(11)				
Ordinary shares		1,109,270	47	1,109,270	39
Capital surplus	6(12)				
Capital surplus		187,070	8	187,070	6
Retained earnings	6(13)(21)				
Legal reserve		191,368	8	181,784	7
Special reserve		129,285	5	129,285	5
Unappropriated retained earnings					
(accumulated deficit)		(39,125)	(2)	95,843	3
Other equity interest	6(14)				
Other equity interest		(20,798)	-	(19,849)	(1)
Total equity		<u>1,557,070</u>	<u>66</u>	<u>1,683,763</u>	<u>59</u>
Significant contingent liabilities and unrecognised contract commitments	9				
Significant event after the balance sheet date	11				
TOTAL LIABILITIES AND EQUITY		<u>\$ 2,370,042</u>	<u>100</u>	<u>\$ 2,835,644</u>	<u>100</u>

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

LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS (LOSS) PER SHARE)

Items	Notes	Year ended December 31, 2017		Year ended December 31, 2016	
		Amount	%	Amount	%
Operating revenue	6(15) and 7	\$ 2,303,239	100	\$ 3,036,281	100
Operating costs	6(5)(18)(19)	(2,063,869)	(90)	(2,638,608)	(87)
Gross profit		<u>239,370</u>	<u>10</u>	<u>397,673</u>	<u>13</u>
Operating expenses	6(18)(19)				
Selling expenses		(135,351)	(6)	(186,677)	(6)
General and administrative expenses		(65,767)	(3)	(85,722)	(3)
Research and development expenses		(83,344)	(3)	(92,424)	(3)
Total operating expenses		<u>(284,462)</u>	<u>(12)</u>	<u>(364,823)</u>	<u>(12)</u>
Operating (loss) profit		<u>(45,092)</u>	<u>(2)</u>	<u>32,850</u>	<u>1</u>
Non-operating income and expenses					
Other income	6(7)(16) and 7	47,810	2	40,182	1
Other gains and losses	6(2)(17)	(43,853)	(2)	32,459	1
Finance costs	6(20)	(2,054)	-	(193)	-
Total non-operating income and expenses		<u>1,903</u>	<u>-</u>	<u>72,448</u>	<u>2</u>
(Loss) profit before income tax		<u>(43,189)</u>	<u>(2)</u>	<u>105,298</u>	<u>3</u>
Income tax benefit (expenses)	6(21)	<u>4,927</u>	<u>-</u>	<u>(8,210)</u>	<u>-</u>
(Loss) profit for the year		<u>(\$ 38,262)</u>	<u>(2)</u>	<u>\$ 97,088</u>	<u>3</u>
Other comprehensive income (loss)					
Components of other comprehensive income (loss) that will not be reclassified to profit or loss					
Remeasurement of defined benefit plan	6(10)	(\$ 2,059)	-	(\$ 2,221)	-
Income tax relating to components of other comprehensive income that will not be reclassified to profit or loss	6(21)	<u>351</u>	<u>-</u>	<u>377</u>	<u>-</u>
Components of other comprehensive income that will not be reclassified to profit or loss		<u>(1,708)</u>	<u>-</u>	<u>(1,844)</u>	<u>-</u>
Components of other comprehensive income that will be reclassified to profit or loss					
Financial statements translation differences of foreign operations	6(14)	(14,746)	(1)	(54,493)	(2)
Unrealized gain on valuation of available-for-sale financial assets	6(3)(14)	10,931	1	7,398	-
Income tax relating to the components of other comprehensive income that will be reclassified to profit or loss	6(14)(21)	<u>2,506</u>	<u>-</u>	<u>9,264</u>	<u>1</u>
Components of other comprehensive income that will be reclassified to profit or loss		<u>(1,309)</u>	<u>-</u>	<u>(37,831)</u>	<u>(1)</u>
Other comprehensive loss for the year		<u>(\$ 3,017)</u>	<u>-</u>	<u>(\$ 39,675)</u>	<u>(1)</u>
Total comprehensive (loss) income for the year		<u>(\$ 41,279)</u>	<u>(2)</u>	<u>\$ 57,413</u>	<u>2</u>
(Loss) profit attributable to:					
Owners of the parent		<u>(\$ 38,262)</u>	<u>(2)</u>	<u>\$ 97,088</u>	<u>3</u>
Comprehensive (loss) income attributable to:					
Owners of the parent		<u>(\$ 41,279)</u>	<u>(2)</u>	<u>\$ 57,413</u>	<u>2</u>
Basic (loss) earnings per share	6(22)	<u>(\$ 0.34)</u>		<u>\$ 0.88</u>	
Diluted (loss) earnings per share	6(22)	<u>(\$ 0.34)</u>		<u>\$ 0.87</u>	

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

LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Notes	Equity attributable to owners of the parent								Total equity
	Capital surplus			Retained earnings			Other equity		
	Ordinary shares	Share premium	Treasury share transaction	Legal reserve	Special reserve	Unappropriated retained earnings (accumulated deficit)	Financial statements translation differences of foreign operations	Unrealized gain on valuation of available-for-sale financial assets	
6(13)	\$ 1,109,270	\$ 121,884	\$ 65,186	\$ 178,390	\$ 129,285	\$ 33,943	(\$ 1,640)	\$ 19,982	\$ 1,656,300
	-	-	-	3,394	-	(3,394)	-	-	-
	-	-	-	-	-	(29,950)	-	-	(29,950)
	-	-	-	-	-	97,088	-	-	97,088
6(14)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,844)</u>	<u>(45,229)</u>	<u>7,398</u>	<u>(39,675)</u>
	<u>\$ 1,109,270</u>	<u>\$ 121,884</u>	<u>\$ 65,186</u>	<u>\$ 181,784</u>	<u>\$ 129,285</u>	<u>\$ 95,843</u>	<u>(\$ 46,869)</u>	<u>\$ 27,380</u>	<u>\$ 1,683,763</u>
6(13)	\$ 1,109,270	\$ 121,884	\$ 65,186	\$ 181,784	\$ 129,285	\$ 95,843	(\$ 46,869)	\$ 27,380	\$ 1,683,763
	-	-	-	9,584	-	(9,584)	-	-	-
	-	-	-	-	-	(85,414)	-	-	(85,414)
	-	-	-	-	-	(38,262)	-	-	(38,262)
6(14)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,708)</u>	<u>(12,240)</u>	<u>10,931</u>	<u>(3,017)</u>
	<u>\$ 1,109,270</u>	<u>\$ 121,884</u>	<u>\$ 65,186</u>	<u>\$ 191,368</u>	<u>\$ 129,285</u>	<u>(\$ 39,125)</u>	<u>(\$ 59,109)</u>	<u>\$ 38,311</u>	<u>\$ 1,557,070</u>

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

LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
(Loss) profit before tax		(\$ 43,189)	\$ 105,298
Adjustments			
Adjustments to reconcile profit (loss)			
(Reversal of) provision for allowance for doubtful accounts	6(4)	(6,279)	8,633
Gain on financial assets at fair value through profit or loss	6(2)(17)	(7,993)	-
(Gain from price recovery) loss on decline in market value of inventory	6(5)	(26,464)	5,606
Amortisation	6(18)	4,099	3,938
Long-term prepaid rents	6(8)	212	230
Depreciation of investment property	6(7)	2,296	2,297
Depreciation	6(6)(18)	34,543	50,329
Losses on disposals of property, plant and equipment	6(17)	503	396
Interest expense	6(20)	2,054	193
Interest income	6(16)	(6,464)	(3,208)
Dividend income	6(16)	(6,651)	(6,470)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		(84,082)	-
Accounts receivable		245,798	(73,590)
Accounts receivable – related parties		6,113	(3,585)
Other receivables		7,575	(5,170)
Inventories		131,195	63,139
Prepayments		5,809	(908)
Other current assets		124	(411)
Changes in operating liabilities			
Notes payable		1,771	(1,317)
Accounts payable		(279,796)	64,974
Other payables		(55,490)	6,608
Other current liabilities		(359)	697
Other non-current liabilities		(1,539)	18,730
Cash (outflow) inflow generated from operations		(76,214)	236,409
Interest received		6,445	3,208
Interest paid		(2,054)	(193)
Income tax paid		(8,753)	(3,189)
Dividends received		6,651	6,470
Net cash (used in) provided by operating activities		(73,925)	242,705

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LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets at fair value through profit or loss		(\$ 449,454)	\$ -
Proceeds from disposal of financial assets at fair value through profit or loss		451,405	-
Acquisition of property, plant and equipment	6(23)	(12,835)	(17,506)
Proceed from disposal of property, plant and equipment		193	1,270
Increase in intangible assets		(3,970)	(8,540)
Increase in refundable deposit		(1,278)	-
Net cash used in investing activities		(15,939)	(24,776)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from short-term borrowings		416,754	-
Repayment of short-term borrowings		(416,754)	-
Increase in guarantee deposits received		300	-
Cash dividends paid	6(13)	(85,414)	(29,950)
Net cash used in financing activities		(85,114)	(29,950)
Effects due to changes in exchange rate		(9,555)	(32,854)
(Decrease) increase in cash and cash equivalents		(184,533)	155,125
Cash and cash equivalents at beginning of year		994,321	839,196
Cash and cash equivalents at end of year		<u>\$ 809,788</u>	<u>\$ 994,321</u>

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

LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANISATION

Lien Chang Electronic Enterprise Co., Ltd. (the “Company”) was established in the Republic of China (R.O.C.). The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in manufacture and trading of power supply units.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on March 20, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’	January 1, 2016
Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint operations’	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Amendments to IAS 1, ‘Disclosure initiative’	January 1, 2016
Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortisation’	January 1, 2016
Amendments to IAS 16 and IAS 41, ‘Agriculture: bearer plants’	January 1, 2016
Amendments to IAS 19, ‘Defined benefit plans: employee contributions’	July 1, 2014
Amendments to IAS 27, ‘Equity method in separate financial statements’	January 1, 2016
Amendments to IAS 36, ‘Recoverable amount disclosures for non-financial assets’	January 1, 2014
Amendments to IAS 39, ‘Novation of derivatives and continuation of hedge accounting’	January 1, 2014

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
IFRIC 21, 'Levies'	January 1, 2014
Annual improvements to IFRSs 2010-2012	July 1, 2014
Annual improvements to IFRSs 2011-2013	July 1, 2014
Annual improvements to IFRSs 2012-2014	January 1, 2016
The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.	

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised 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
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

B. IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

C. Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

D. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. Further, the Group expects to adopt IFRS 15 using the modified retrospective approach. The significant effects of applying the new standards as of January 1, 2018 are summarised below:

In accordance with IFRS 9, the Group expects to reclassify financial assets at available-for-sale financial assets – non-current in the amount of \$165,270, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing retained earnings and decreasing other equity interest in the amounts of \$66,000, and \$66,000, respectively.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
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 International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
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
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019
Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.	
IFRS 16, 'Leases'	
IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.	

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(2) Basis of preparation

- A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
 - (a) Financial assets and financial liabilities at fair value through profit or loss.
 - (b) Available-for-sale financial assets measured at fair value.
 - (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

- A. Basis for preparation of consolidated financial statements:
 - (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
 - (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

B. Subsidiaries included in the consolidated financial statements:

<u>Name of investor</u>	<u>Name of subsidiary</u>	<u>Main business activities</u>	<u>Ownership (%)</u>	
			<u>December 31, 2017</u>	<u>December 31, 2016</u>
The Company	Kenmao Investment Corp.	Holding company	100%	100%
The Company	Kenmao International (Pte.) Ltd.	Holding company	84.97%	84.97%
Kenmao Investment Corp.	Kenmao International (Pte.) Ltd.	Holding company	15.03%	15.03%
Kenmao International (Pte.) Ltd.	Genmao Electronics (Suzhao) Co., Ltd.	Manufacturing and sales of power supply unit	100%	100%

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognised in other comprehensive income.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be settle within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settle within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:
- (a) Hybrid (combined) contracts; or
 - (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
 - (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- C. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(8) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income.

(9) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are recognised initially at fair value and subsequently measured at amortised cost less impairment using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (e) The disappearance of an active market for that financial asset because of financial difficulties;
 - (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
 - (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
 - (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

- C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss.

Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(12) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The differences would be amortised into cost of goods sold and inventories at the end of every month to reflect actual cost. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	5 ~ 20 years
Machinery and equipment	2 ~ 10 years
Transportation equipment	5 years
Office equipment	3 ~ 10 years
Leasehold improvements	3 ~ 5 years
Other equipment	2 ~ 8 years

(14) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 15 ~ 45 years.

(15) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 10 years.

(16) Long-term prepaid rents

The Group entered into a lease contract with local government for land use right in mainland China, and recognised as long-term prepaid rents. The land is amortised using straight-line method for 50 years as contracted.

(17) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(18) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(19) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(20) Derecognition of financial liabilities

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

(21) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(22) Employee benefits

A. Salaries and other short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is the interest rates of government bonds at the balance sheet date.
- ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognised immediately in profit or loss.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(23) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(24) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(25) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(26) Revenue recognition

The Group manufactures and sells power supply unit products. Revenue is measured at the fair value of the consideration received or receivable taking into account of value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(27) Leases (lessor)

If the lessor retains significant risks and rewards of ownership, the Group accounts as operating lease (net of any incentives given to the lessee) and is recognised in profit or loss on a straight-line basis over the lease term.

(28) Leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(29) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

A. As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

B. As of December 31, 2017, the carrying amount of inventories was \$384,239.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand	\$ 361	\$ 206
Checking accounts and demand deposits	496,703	994,115
Time deposits	267,840	-
Repo bills	44,884	-
Total	<u>\$ 809,788</u>	<u>\$ 994,321</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

(2) Financial assets at fair value through profit or loss

<u>Items</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current items:		
Financial assets held for trading		
Open-end funds	\$ 90,012	\$ -
Valuation adjustment	112	-
	<u>\$ 90,124</u>	<u>\$ -</u>

A. The Group recognised net gain of \$6,042 and \$0 on financial assets held for trading for the years ended December 31, 2017 and 2016, respectively, and recognised net gain of \$1,951 and \$0 on financial assets designated as at fair value through profit or loss for the years ended December 31, 2017 and 2016, respectively.

B. The Group has no financial assets at fair value through profit or loss pledged to others.

(3) Available-for-sale financial assets

<u>Items</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Non-current items:		
Listed and OTC stocks	\$ 125,870	\$ 125,870
Other unlisted stocks without active market	<u>67,090</u>	<u>67,090</u>
Subtotal	192,960	192,960
Valuation adjustment of available-for-sale financial assets	38,310	27,379
Accumulated impairment, available-for-sale financial assets	(<u>66,000</u>)	(<u>66,000</u>)
Total	<u>\$ 165,270</u>	<u>\$ 154,339</u>

- A. The Group recognised \$10,931 and \$7,398 in other comprehensive income for fair value change for the years ended December 31, 2017 and 2016, respectively.
- B. The Group has no available-for-sale financial assets pledged to others.

(4) Accounts receivable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 371,242	\$ 617,040
Less: Allowance for bad debts	(<u>3,338</u>)	(<u>9,902</u>)
	<u>\$ 367,904</u>	<u>\$ 607,138</u>

- A. The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Group 1	\$ 365,625	\$ 598,853
Group 2	625	-
Group 3	796	-
Group 4	-	-
	<u>\$ 367,046</u>	<u>\$ 598,853</u>

Note:

- Group 1 : After the assessment of credit evaluation, capital, reputation, payment performance and other factors, classified as Level A.
- Group 2 : After the assessment of credit evaluation, capital, reputation, payment performance and other factors, classified as Level B.
- Group 3 : After the assessment of credit evaluation, capital, reputation, payment performance and other factors, classified as Level C.
- Group 4 : After the assessment of credit evaluation, capital, reputation, payment performance and other factors, classified as Level D.

B. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Up to 30 days	\$ 849	\$ 8,240
31 to 90 days	9	45
	<u>\$ 858</u>	<u>\$ 8,285</u>

The above ageing analysis was based on past due date.

C. Movement analysis of financial assets that were impaired is as follows:

(a) As of December 31, 2017 and 2016, the Group's accounts receivable that were impaired amounted to \$3,338 and \$9,902, respectively.

(b) Movements in the provision for impairment of accounts receivable are as follows:

	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ -	\$ 9,902	\$ 9,902
Reversal of impairment	-	(6,279)	(6,279)
Net exchange differences	-	(285)	(285)
At December 31	<u>\$ -</u>	<u>\$ 3,338</u>	<u>\$ 3,338</u>

	<u>2016</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ -	\$ 1,793	\$ 1,793
Provision for impairment	-	8,633	8,633
Net exchange differences	-	(524)	(524)
At December 31	<u>\$ -</u>	<u>\$ 9,902</u>	<u>\$ 9,902</u>

D. The Group does not hold any collateral as security.

(5) Inventories

	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 172,467	(\$ 21,448)	\$ 151,019
Work in progress	33,987	(487)	33,500
Finished goods	225,709	(25,989)	199,720
Total	<u>\$ 432,163</u>	<u>(\$ 47,924)</u>	<u>\$ 384,239</u>

	<u>December 31, 2016</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 186,774	(\$ 26,190)	\$ 160,584
Work in progress	56,529	(12,119)	44,410
Finished goods	320,055	(37,667)	282,388
Total	<u>\$ 563,358</u>	<u>(\$ 75,976)</u>	<u>\$ 487,382</u>

The cost of inventories recognised as expense for the year:

	Years ended December 31,	
	2017	2016
Cost of goods sold	\$ 2,090,333	\$ 2,633,002
(Gain from price recovery) loss on decline in market value of inventory	(26,464)	5,606
	<u>\$ 2,063,869</u>	<u>\$ 2,638,608</u>

The Group reversed a previous inventory write-down and accounted for as reduction of cost of goods sold because of the disposal of obsolete inventories.

(6) Property, plant and equipment

	January 1, 2017		December 31, 2017	
	Cost	Accumulated depreciation and impairment	Cost	Accumulated depreciation and impairment
Buildings and structures	\$ 264,072	(\$ 107,786)	\$ 258,704	(\$ 117,295)
Machinery and equipment	426,032	(277,111)	414,529	(279,629)
Transportation equipment	6,460	(5,321)	6,394	(5,507)
Office equipment	7,182	(4,862)	13,329	(5,864)
Leasehold improvements	13,985	(8,071)	13,985	(11,619)
Others	72,826	(57,946)	67,328	(56,185)
Unfinished construction and equipment under acceptance	-	-	1,898	-
Total	<u>\$ 790,557</u>	<u>(\$ 461,097)</u>	<u>\$ 776,167</u>	<u>(\$ 476,099)</u>

	January 1, 2017	Additions	Disposals	Depreciation charge	Net exchange differences	December 31, 2017
Buildings and structures	\$ 156,286	\$ -	\$ -	(\$ 11,546)	(\$ 3,331)	\$ 141,409
Machinery and equipment	148,921	3,570	(657)	(13,816)	(3,118)	134,900
Transportation equipment	1,139	-	(6)	(226)	(20)	887
Office equipment	2,320	6,591	(15)	(1,447)	16	7,465
Leasehold improvements	5,914	-	-	(3,548)	-	2,366
Others	14,880	441	(18)	(3,960)	(200)	11,143
Unfinished construction and equipment under acceptance	-	1,873	-	-	25	1,898
Total	<u>\$ 329,460</u>	<u>\$ 12,475</u>	<u>(\$ 696)</u>	<u>(\$ 34,543)</u>	<u>(\$ 6,628)</u>	<u>\$ 300,068</u>

	January 1, 2016		December 31, 2016	
	Cost	Accumulated depreciation and impairment	Cost	Accumulated depreciation and impairment
Buildings and structures	\$ 272,876	(\$ 103,181)	\$ 264,072	(\$ 107,786)
Machinery and equipment	451,910	(270,323)	426,032	(277,111)
Transportation equipment	7,608	(6,904)	6,460	(5,321)
Office equipment	7,566	(4,499)	7,182	(4,862)
Leasehold improvements	13,458	(4,752)	13,985	(8,071)
Others	73,715	(53,748)	72,826	(57,946)
Unfinished construction and equipment under acceptance	5,928	-	-	-
Total	<u>\$ 833,061</u>	<u>(\$ 443,407)</u>	<u>\$ 790,557</u>	<u>(\$ 461,097)</u>

	January 1, 2016	Additions	Disposals	Depreciation charge	Reclassifications	Net exchange differences	December 31, 2016
Buildings and structures	\$ 169,695	\$ -	\$ -	(\$ 12,323)	\$ 10,588	(\$ 11,674)	\$ 156,286
Machinery and equipment	181,587	4,264	(1,444)	(25,635)	1,705	(11,556)	148,921
Transportation equipment	704	1,028	(166)	(364)	-	(63)	1,139
Office equipment	3,067	58	(6)	(680)	-	(119)	2,320
Leasehold improvements	8,706	526	-	(3,319)	-	1	5,914
Others	19,967	3,730	(50)	(8,008)	-	(759)	14,880
Unfinished construction and equipment under acceptance	5,928	8,414	-	-	(14,199)	(143)	-
Total	<u>\$ 389,654</u>	<u>\$ 18,020</u>	<u>(\$ 1,666)</u>	<u>(\$ 50,329)</u>	<u>(\$ 1,906)</u>	<u>(\$ 24,313)</u>	<u>\$ 329,460</u>

The significant components of buildings include elevators, electric power system, and structures which are depreciated over 5 to 20 years.

(7) Investment property

	Land	Buildings and structures	Total
At January 1, 2017			
Cost	\$ 103,511	\$ 93,480	\$ 196,991
Accumulated depreciation	-	(27,784)	(27,784)
	<u>\$ 103,511</u>	<u>\$ 65,696</u>	<u>\$ 169,207</u>
2017			
At January 1	\$ 103,511	\$ 65,696	\$ 169,207
Depreciation charge	-	(2,296)	(2,296)
At December 31	<u>\$ 103,511</u>	<u>\$ 63,400</u>	<u>\$ 166,911</u>
At December 31, 2017			
Cost	\$ 103,511	\$ 93,480	\$ 196,991
Accumulated depreciation	-	(30,080)	(30,080)
	<u>\$ 103,511</u>	<u>\$ 63,400</u>	<u>\$ 166,911</u>

	<u>Land</u>	<u>Buildings and structures</u>	<u>Total</u>
At January 1, 2016			
Cost	\$ 103,511	\$ 93,480	\$ 196,991
Accumulated depreciation	-	(25,487)	(25,487)
	<u>\$ 103,511</u>	<u>\$ 67,993</u>	<u>\$ 171,504</u>
<u>2016</u>			
At January 1	\$ 103,511	\$ 67,993	\$ 171,504
Depreciation charge	-	(2,297)	(2,297)
At December 31	<u>\$ 103,511</u>	<u>\$ 65,696</u>	<u>\$ 169,207</u>
At December 31, 2016			
Cost	\$ 103,511	\$ 93,480	\$ 196,991
Accumulated depreciation	-	(27,784)	(27,784)
	<u>\$ 103,511</u>	<u>\$ 65,696</u>	<u>\$ 169,207</u>

A. Rental income from investment property and direct operating expenses arising from investment property are shown below:

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Rental income from investment property	<u>\$ 13,865</u>	<u>\$ 13,518</u>
Direct operating expenses arising from the investment property that generated rental income during the year	<u>\$ 3,567</u>	<u>\$ 3,578</u>

B. The fair value of the investment property held by the Group were measured using the cost basis were \$647,383 and \$647,383 as at December 31, 2017 and 2016, respectively. The fair value was reference to the market quoted value of nearby area.

(8) Other non-current assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Long-term prepaid rents-land use right	\$ 6,884	\$ 7,246
Refundable deposits	<u>3,328</u>	<u>2,050</u>
	<u>\$ 10,212</u>	<u>\$ 9,296</u>

A. In November 1999, the Group signed a land use right contract for the use of the land in Wujiang city, Jiangsu Province of Mainland China with a term of 50 years. All rentals had been paid on the contract date. The Group recognised rental expenses of \$212 and \$230 for the years ended December 31, 2017 and 2016, respectively.

(9) Other payables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accrued expenses	\$ 104,715	\$ 155,024
Payable on equipment	154	514
Other payables	16,499	21,680
	<u>\$ 121,368</u>	<u>\$ 177,218</u>

(10) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 6% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions for the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	\$ 21,184	\$ 21,305
Fair value of plan assets	(12,517)	(14,477)
Net defined benefit liability	<u>\$ 8,667</u>	<u>\$ 6,828</u>

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>For the year ended December 31, 2017</u>			
Balance at January 1	\$ 21,305	(\$ 14,477)	\$ 6,828
Current service cost	354	-	354
Interest expense (income)	266	(186)	80
Past service cost	<u>1,204</u>	<u>-</u>	<u>1,204</u>
	<u>23,129</u>	<u>(14,663)</u>	<u>8,466</u>
Remeasurements:			
Return on plan asset (Note 1)	-	55	55
Change in demographic assumptions	317	-	317
Change in financial assumptions	542	-	542
Experience adjustments	<u>1,145</u>	<u>-</u>	<u>1,145</u>
	<u>2,004</u>	<u>55</u>	<u>2,059</u>
Pension fund contribution	(2,745)	(654)	(3,399)
Paid pension	<u>(1,204)</u>	<u>2,745</u>	<u>1,541</u>
	<u>(3,949)</u>	<u>2,091</u>	<u>(1,858)</u>
Balance at December 31	<u>\$ 21,184</u>	<u>(\$ 12,517)</u>	<u>\$ 8,667</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>For the year ended December 31, 2016</u>			
Balance at January 1	\$ 18,588	(\$ 13,715)	\$ 4,873
Current service cost	334	-	334
Interest expense (revenue)	<u>256</u>	<u>(193)</u>	<u>63</u>
	<u>19,178</u>	<u>(13,908)</u>	<u>5,270</u>
Remeasurements:			
Return on plan asset (Note 1)	-	94	94
Change in demographic assumptions	1,037	-	1,037
Change in financial assumptions	268	-	268
Experience adjustments	<u>822</u>	<u>-</u>	<u>822</u>
	<u>2,127</u>	<u>94</u>	<u>2,221</u>
Pension fund contribution	-	(663)	(663)
Paid pension	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>(663)</u>	<u>(663)</u>
Balance at December 31	<u>\$ 21,305</u>	<u>(\$ 14,477)</u>	<u>\$ 6,828</u>

Note 1: Excluding interest income or expense.

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	Years ended December 31,	
	2017	2016
Discount rate	1.250%	1.250%
Future salary increases	2.250%	2.000%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2017				
Effect on present value of defined benefit obligation	\$ 20,624	\$ 21,766	\$ 21,750	\$ 20,636
December 31, 2016				
Effect on present value of defined benefit obligation	\$ 20,737	\$ 21,896	\$ 21,882	\$ 20,748

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2018 amount to \$2,689.

(g) As of December 31, 2017, the weighted average duration of the retirement plan is 10.9 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	210
1-2 year(s)		2,072
2-5 years		5,992
Over 5 years		2,110
	\$	<u>10,384</u>

(h) The Company has accrued additional pension costs for the year ended December 31, 2017 in the amount of \$2,042. The related contributions will be made in the following year.

B. (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2017 and 2016 were \$3,675 and \$3,956, respectively.

(b) The Company’s mainland China subsidiaries, Genmao Electronics (Suzhao) Co., has a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees’ monthly salaries and wages. The Group contributed to a fund based on the salary of local workers totaling \$11,281 and \$14,581 for the years ended December 31, 2017 and 2016, respectively. However, the local regulations do not mandatorily require any pension plan. Other than the periodic contribution, the mainland China subsidiaries have no further obligations.

(c) The consolidated subsidiaries Kenmao International (Pte.) Ltd. and Kenmao Investment Corp., do not have any formal employee, thus there was no related pension liabilities and expenses.

(11) Share capital

A. As of December 31, 2017, the Company’s authorised capital was \$1,290,000, consisting of 129,000 thousand shares of ordinary stock, and the paid-in capital was \$1,109,270 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

B. Movements in the number of the Company’s ordinary shares outstanding are as follows:

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
January 1,(As of December 31,)	<u>110,927 thousand shares</u>	<u>110,927 thousand shares</u>

(12) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(13) Retained earnings

A. In accordance with the amended Company Act, the restrictions and orders of retained earnings distribution is following:

- (a) pay all taxes;
- (b) offset prior year's accumulated deficits;
- (c) 10% of the remaining amount shall be set aside as legal reserve;
- (d) set aside or reverse special reserve upon requested by competent authority

The Company operates in a steady growth environment. Since the Company has plans for plant expansion and reinvestment, the current distributable earnings less abovementioned items then plus unappropriated earnings in prior years, shall be appropriated as shareholders' bonus that account for 50% of the amount. Dividends to shareholders in the form of cash shall account for at least 5%. The distribution of retained earnings should be proposed by the Board of Director and resolved by the shareholders' meeting.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

C. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

- D. On June 28, 2017 and June 14, 2016, the shareholders' meeting resolved the appropriations of earnings for the years ended December 31, 2016 and 2015 as follows:

	<u>Year ended December 31, 2016</u>		<u>Year ended December 31, 2015</u>	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Legal reserve appropriated	\$ 9,584		\$ 3,394	
Cash dividends paid	<u>85,414</u>	\$ 0.77	<u>29,950</u>	\$ 0.27
Total	<u>\$ 94,998</u>		<u>\$ 33,344</u>	

- E. For further information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6 (19).

(14) Other equity items

	<u>Available-for-sale investment</u>	<u>Currency translation</u>	<u>Total</u>
At January 1, 2017	\$ 27,380	(\$ 46,869)	(\$ 19,489)
Other equity items			
– Group	10,931	-	10,931
– Tax on Group	-	-	-
Currency translation differences:			
– Group	-	(14,746)	(14,746)
– Tax on Group	-	<u>2,506</u>	<u>2,506</u>
At December 31, 2017	<u>\$ 38,311</u>	<u>(\$ 59,109)</u>	<u>(\$ 20,798)</u>

	<u>Available-for-sale investment</u>	<u>Currency translation</u>	<u>Total</u>
At January 1, 2016	\$ 19,982	(\$ 1,640)	\$ 18,342
Other equity items			
– Group	7,398	-	7,398
– Tax on Group	-	-	-
Currency translation differences:			
– Group	-	(54,493)	(54,493)
– Tax on Group	-	<u>9,264</u>	<u>9,264</u>
At December 31, 2016	<u>\$ 27,380</u>	<u>(\$ 46,869)</u>	<u>(\$ 19,489)</u>

(15) Operating revenue

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Sales revenue	<u>\$ 2,303,239</u>	<u>\$ 3,036,281</u>

(16) Other income

	Years ended December 31,	
	2017	2016
Rental revenue	\$ 15,724	\$ 15,020
Dividend income	6,651	6,470
Directors' and supervisors' remuneration	8,567	7,610
Interest income	6,464	3,208
Government grant revenues	524	1,437
Revenue from sale of scraps	1,683	1,382
Others	8,197	5,055
Total	<u>\$ 47,810</u>	<u>\$ 40,182</u>

(17) Other gains and losses

	Years ended December 31,	
	2017	2016
Net currency exchange (losses) gains	(\$ 48,372)	\$ 36,332
Losses on disposals of property, plant and equipment	(503)	(396)
Net gain on financial assets at fair value through profit or loss	7,993	-
Other losses	(2,971)	(3,477)
Total	<u>(\$ 43,853)</u>	<u>\$ 32,459</u>

(18) Expenses by nature

	Years ended December 31,	
	2017	2016
Employee benefit expense	\$ 299,085	\$ 377,121
Depreciation charges on property, plant and equipment	34,543	50,329
Amortisation charge	4,099	3,938

(19) Employee benefit expense

	Years ended December 31,	
	2017	2016
Wages and salaries	\$ 255,705	\$ 308,852
Labour and health insurance fees	6,899	6,782
Pension costs	18,636	18,934
Other personnel expenses	17,845	42,553
	<u>\$ 299,085</u>	<u>\$ 377,121</u>

A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 5%~15% for employees' compensation and shall not be higher than 5% for directors' and supervisors' remuneration.

B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$0 and \$13,127, respectively; directors' and supervisors' remuneration was accrued at \$0 and \$6,006, respectively. The aforementioned amounts were recognised in salary expenses.

For the year ended December 31, 2017, the Company had incurred losses and an accumulated deficit as at December 31, 2017, thus, there is no employees' compensation and directors' and supervisors' remuneration.

For 2016, the employees' compensation and directors' and supervisors' remuneration resolved at the meeting of Board of Directors amounted to \$8,789 and \$6,006, respectively. The difference has been adjusted in the profit or loss of 2017.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(20) Finance costs

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Interest expense:		
Bank borrowings	\$ <u>2,054</u>	\$ <u>193</u>

(21) Income tax

A. Income tax expense

(a) Components of income tax (benefit) expense:

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Current tax:		
Current tax on profits for the year	\$ 331	\$ 4,652
Prior year income tax (over) under estimation	(<u>2,163</u>)	<u>6,251</u>
Total current tax	(<u>1,832</u>)	<u>10,903</u>
Deferred tax:		
Origination and reversal of temporary differences	(<u>3,095</u>)	(<u>2,693</u>)
Income tax (benefit) expense	(\$ <u>4,927</u>)	\$ <u>8,210</u>

(b) Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2017	2016
Tax calculated based on profit before tax and statutory tax rate (Note)	\$ 7,498	\$ 45,770
Effects from items disallowed by tax regulation	(3,160)	(4,335)
Prior year income tax (over) under estimation	(2,163)	6,251
Income tax on undistributed earnings	25	60
Change in assessment of deferred tax assets	(7,127)	(39,536)
Income tax (benefit) expense	<u>(\$ 4,927)</u>	<u>\$ 8,210</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

(c) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	Years ended December 31,	
	2017	2016
Currency translation differences	(\$ 2,506)	(\$ 9,264)
Remeasurement of defined benefit obligations	(351)	(377)
	<u>(\$ 2,857)</u>	<u>(\$ 9,641)</u>

B. Amounts of deferred tax assets or liabilities as a result of temporary differences, tax losses and investment tax credits are as follows:

	2017				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Translation differences	December 31
Deferred tax assets:					
— Temporary differences:					
Allowance for inventory loss for obsolete and slow-moving inventories	\$ 2,791	\$ 7,633	\$ -	\$ 95	\$ 10,519
Unused compensated absences	145	142	-	-	287
Pension costs	1,477	-	351	-	1,828
Difference of depreciation charges on fixed assets	13,670	(3,338)	-	(320)	10,012
Other	3,259	977	-	-	4,236
	<u>\$ 21,342</u>	<u>\$ 5,414</u>	<u>\$ 351</u>	<u>(\$ 225)</u>	<u>\$ 26,882</u>
Deferred tax liabilities:					
— Temporary differences:					
Unrealised exchange gain	(\$ 2,548)	\$ 1,017	\$ -	\$ -	(\$ 1,531)
Foreign investment income using equity method.	-	(3,336)	-	-	(3,336)
Cumulative translation adjustment of foreign operations	(15,757)	-	2,506	-	(13,251)
	<u>(\$ 18,305)</u>	<u>(\$ 2,319)</u>	<u>\$ 2,506</u>	<u>\$ -</u>	<u>(\$ 18,118)</u>
	<u>\$ 3,037</u>	<u>\$ 3,095</u>	<u>\$ 2,857</u>	<u>(\$ 225)</u>	<u>\$ 8,764</u>

2016					
	<u>January 1</u>	<u>Recognised in profit or loss</u>	<u>Recognised in other comprehensive income</u>	<u>Translation differences</u>	<u>December 31</u>
Deferred tax assets					
— Temporary differences:					
Allowance for inventory loss for obsolete and slow-moving inventories	\$ 2,623	\$ 168	\$ -	\$ -	\$ 2,791
Unused compensated absences	145	-	-	-	145
Pension costs	1,100	-	377	-	1,477
Difference of depreciation charges on fixed assets	15,007	(312)	-	(1,025)	13,670
Other	2,934	325	-	-	3,259
	<u>\$ 21,809</u>	<u>\$ 181</u>	<u>\$ 377</u>	<u>(\$ 1,025)</u>	<u>\$ 21,342</u>
Deferred tax liabilities:					
Unrealised exchange gain	(\$ 5,060)	\$ 2,512	\$ -	\$ -	(\$ 2,548)
Cumulative translation adjustment of foreign operations	(25,021)	-	9,264	-	(15,757)
	<u>(\$ 30,081)</u>	<u>\$ 2,512</u>	<u>\$ 9,264</u>	<u>\$ -</u>	<u>(\$ 18,305)</u>
	<u>(\$ 8,272)</u>	<u>\$ 2,693</u>	<u>\$ 9,641</u>	<u>(\$ 1,025)</u>	<u>\$ 3,037</u>

- C. The amounts of deductible temporary difference that are not recognised as deferred tax assets are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Deductible temporary differences	<u>\$ 23,502</u>	<u>\$ 32,784</u>

- D. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority; Kenmao Investment Corp., the subsidiary's income tax returns through 2016 have been assessed and approved by the Tax Authority; the second-tier company, Genmao Electronics (Suzhao) Co., Ltd.'s income tax returns through 2016 have been assessed and approved by the Tax Authority.
- E. Unappropriated retained earnings(accumulated deficit):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Earnings generated in and after 1998	<u>(\$ 39,125)</u>	<u>\$ 95,843</u>

- F. As of December 31, 2017 and 2016, the balance of the imputation tax credit account was \$440 and \$6,237, respectively. The creditable tax rate was 6.55% for the year ended December 31, 2016. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China at February 7, 2018, the information on the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

(22) Earnings (loss) per share

<u>Year ended December 31, 2017</u>			
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Loss per share (in dollars)</u>
<u>Basic loss per share</u>			
Profit attributable to ordinary shareholders of the parent	(\$ <u>38,262</u>)	<u>110,927</u>	(\$ <u>0.34</u>)

Note : For the year ended December 31, 2017, the Company had net loss, the potential ordinary shares will cause anti-dilution provision, therefore, only basic loss per share is disclosed.

<u>Year ended December 31, 2016</u>			
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ <u>97,088</u>	<u>110,927</u>	\$ <u>0.88</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ <u>97,088</u>	<u>110,927</u>	
Employees' compensation	<u>-</u>	<u>1,058</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>97,088</u>	<u>111,985</u>	\$ <u>0.87</u>

(23) Supplemental cash flow information

Investing activities with partial cash payments

<u>Years ended December 31,</u>		
	<u>2017</u>	<u>2016</u>
Purchase of property, plant and equipment	\$ <u>12,475</u>	\$ <u>18,020</u>
Add: Opening balance of payable on equipment	<u>514</u>	<u>-</u>
Less: Ending balance of payable on equipment	(<u>154</u>)	(<u>514</u>)
Cash paid during the year	\$ <u>12,835</u>	\$ <u>17,506</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
TECO Electric & Machinery Co., LTD.	Investors accounted the Company by using equity method.
TECO Image System Co., LTD.	Same chairman with the Company.
Creative Sensor Inc.	Same chairman with the Company.
Information Technology Total Services.	Related company.
On Real International Holdings Limited	Related company.

(2) Significant related party transactions

A. Operating revenue

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Sales of goods:		
-TECO Electric & Machinery Co., LTD.	\$ 129,764	\$ 65,828
-Other related party	14	204
	<u>\$ 129,778</u>	<u>\$ 66,032</u>

Goods are sold based on the price lists in force and terms that would be available to third parties (market prices).

B. Other income

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
-TECO Electric & Machinery Co., LTD.	\$ 8,567	\$ 7,610
-Other related party	218	120
	<u>\$ 8,785</u>	<u>\$ 7,730</u>

Mainly arose from directors' and supervisors' remuneration and other miscellaneous income.

C. Receivables from related parties

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Accounts receivable		
-TECO Electric & Machinery Co., LTD.	\$ 5,968	\$ 11,898
-Other related party	4	187
Total	<u>\$ 5,972</u>	<u>\$ 12,085</u>

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

D. Property transactions:

(a) Acquisition of property, plant and equipment:

	Years ended December 31,	
	2017	2016
Information Technology Total Services	\$ 2,555	\$ -

E. Lease

The Group leases an office in Nangang Dist., Taipei City to TECO Image System Co, Ltd. and Creative Sensor Inc. under non-cancellable operating lease agreements. The amount of rental is related with certain conditions and terms, and collected quarterly. For the years ended December 31, 2017 and 2016, the rent revenue were \$1,812 and \$1,812, respectively.

(3) Key management compensation

	Years ended December 31,	
	2017	2016
Salaries and other short-term employee benefits	\$ 11,774	\$ 19,066
Post-employment benefits	365	400
Total	\$ 12,139	\$ 19,466

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

The Group leases offices under operating lease agreements. The future lease payments are as follows:

<u>Future periods</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Less than 1 year	\$ 9,933	\$ 13,015
Between 1 and 5 years	-	9,933
	\$ 9,933	\$ 22,948

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate will be raised from 17% to 20 % effective from January 1, 2018. This will increase the Company's deferred tax assets and deferred tax liabilities by \$1,668 and \$3,358, respectively, which will be adjusted in the first quarter of 2018.

12. Other

(1) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. During the year ended December 31, 2017, the Group's strategy, which was unchanged from 2016, was to maintain the gearing ratio within 0% to 30%. The Group had no borrowings as of December 31, 2017 and 2016, the gearing ratio was 0%.

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, accounts receivable, accounts receivable-related parties, other receivables, guarantee deposits paid (shown as other non-current assets), notes payable, accounts payable, other payables and guarantee deposits received (shown as other non-current liabilities) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Group treasury) under approved policies. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Group provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- A. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.
- B. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency.
- C. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- D. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB and SGD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2017			
(Foreign currency: functional currency)	Foreign currency amount		Book value
	(In thousands)	Exchange rate	(NTD)
<u>Financial assets-monetary items</u>			
USD:NTD	\$ 27,826	29.760	\$ 828,115
USD:RMB	21,465	6.534	638,806
<u>Financial liabilities-monetary items</u>			
USD:NTD	22,187	29.760	660,297
USD:RMB	10,960	6.534	326,168
December 31, 2016			
(Foreign currency: functional currency)	Foreign currency amount		Book value
	(In thousands)	Exchange rate	(NTD)
<u>Financial assets-monetary items</u>			
USD:NTD	\$ 44,845	32.250	\$ 1,446,251
USD:RMB	31,521	6.937	1,016,548
<u>Financial liabilities-monetary items</u>			
USD:NTD	32,245	32.250	1,039,901
USD:RMB	15,133	6.937	488,034

E. Please refer to the following table for the details of unrealised exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Group.

<u>Year ended December 31, 2017</u>			
<u>Exchange loss (gain)</u>			
Foreign currency			
	amount		Book value
	(In thousands)	Exchange rate	(NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ -	29.760	\$ 9,553
USD:RMB	2,220	6.534	10,111
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	-	29.760	(\$ 9,013)
USD:RMB	(1,074)	6.534	(4,892)
<u>Year ended December 31, 2016</u>			
<u>Exchange loss (gain)</u>			
Foreign currency			
	amount		Book value
	(In thousands)	Exchange rate	(NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ -	32.250	(\$ 14,967)
USD:RMB	6,691	6.937	(31,106)
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	-	32.250	17,977
USD:RMB	2,690	6.937	12,506

F. Analysis of foreign currency market risk arising from significant foreign exchange variation:

<u>Year ended December 31, 2017</u>			
<u>Sensitivity analysis</u>			
	Degree of variation	Effect on profit or loss	Effect on comprehensive income
<u>Financial assets-monetary items</u>			
USD:NTD	1%	\$ 8,281	\$ -
USD:RMB	1%	6,388	-
<u>Financial liabilities-monetary items</u>			
USD:NTD	1%	6,603	-
USD:RMB	1%	3,262	-

Year ended December 31, 2016			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on comprehensive income
<u>Financial assets-monetary items</u>			
USD:NTD	1%	\$ 14,463	\$ -
USD:RMB	1%	10,165	-
<u>Financial liabilities-monetary items</u>			
USD:NTD	1%	10,399	-
USD:RMB	1%	4,880	-

Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

The Group's investments in money market funds and listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2017 and 2016 would have both increased/decreased by \$0, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have both increased/decreased by \$1,259, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and commitments.

- ii. For the years ended December 31, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The credit quality information of financial assets that are neither past due nor impaired, please refer to Note 6 “financial assets”.
- iv. The ageing analysis of financial assets that were past due but not impaired, please refer to Note 6 “financial assets”.
- v. The individual analysis of financial asset that had been impaired is provided in the statement for each type of financial assets in Note 6.

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group’s liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the financial ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.
- ii. The table below analyses the Group’s non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

Non-derivative financial liabilities:

December 31, 2017	Less than one year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Notes payable	\$ 1,771	\$ -	\$ -	\$ -
Accounts payable	636,608	-	-	-
Other payables	121,368	-	-	-
Other financial liabilities	-	2,495	-	-

Non-derivative financial liabilities:

December 31, 2016	Less than one year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Accounts payable	\$ 916,404	\$ -	\$ -	\$ -
Other payables	177,218	-	-	-
Other financial liabilities	-	2,195	-	-

(3) Fair value information

- A. Details of the fair value of the Group’s financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Group’s investment property measured at cost are provided in Note 6(7)B.

- B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks and open-end funds are included in Level 1.

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

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity securities investment without active market is included in Level 3.

- C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2017 and 2016 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2017				
Assets				
<u>Recurring fair value measurements</u>				
Open-end funds of financial assets at fair value through profit or loss	\$ 90,124	\$ -	\$ -	\$ 90,124
Available-for-sale financial assets				
Equity securities	\$ 160,797	\$ -	\$ 4,473	\$ 165,270
Total	<u>\$ 250,921</u>	<u>\$ -</u>	<u>\$ 4,473</u>	<u>\$ 255,394</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2016				
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	\$ 149,866	\$ -	\$ 4,473	\$ 154,339
Total	<u>\$ 149,866</u>	<u>\$ -</u>	<u>\$ 4,473</u>	<u>\$ 154,339</u>

- D. The methods and assumptions the Group used to measure fair value are as follows:
- (a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Closed-end fund</u>	<u>Open-end fund</u>
Market quoted price	Closing price	Closing price	Net asset value

- (b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).
- (c) When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, interest rate swap contracts, foreign exchange swap contracts and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- E. For the years ended December 31, 2017 and 2016, there was no transfer into or out from Level 1 and 2.
- F. The following chart is the movement of Level 3 for the years ended December 31, 2017 and 2016:

	<u>Equity securities</u>
January 1, 2017	\$ 4,473
(As of December 31, 2017)	

	<u>Equity securities</u>
January 1, 2016	\$ 4,473
(As of December 31, 2016)	

- G. For the years ended December 31, 2017 and 2016, there was no transfer into or out from Level 3.
- H. Financial segment is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

- I. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

		<u>Fair value at December 31, 2017</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:						
Unlisted shares	\$	4,473	Market comparable companies	Discount for lack of marketability	20.10%	The higher the discount for lack of marketability, the lower the fair value.

		<u>Fair value at December 31, 2016</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:						
Unlisted shares	\$	4,473	Market comparable companies	Discount for lack of marketability	20.10%	The higher the discount for lack of marketability, the lower the fair value.

- J. The Group has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in difference measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

		<u>December 31, 2017</u>			
		<u>Recognised in profit or loss</u>		<u>Recognised in other comprehensive income</u>	
		<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
<u>Input</u>	<u>Change</u>				
Financial assets					
Equity instruments	Discount for lack of marketability	+1%	\$ -	\$ -	\$ -
					\$ 11

		<u>December 31, 2016</u>			
		<u>Recognised in profit or loss</u>		<u>Recognised in other comprehensive income</u>	
		<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
<u>Input</u>	<u>Change</u>				
Financial assets					
Equity instruments	Discount for lack of marketability	+1%	\$ -	\$ -	\$ -
					\$ 11

E. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 2.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 3.
- I. Derivative instrument: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 5.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 6.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 7.

F. Operating segment information

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the Chief Operating Decision-Maker that are used to make strategic decisions. The Group considers the business from a geographic perspective, with the sale of power supply units as the main source of revenue. The Group engages in sales business in Taiwan while engaged in manufacturing in mainland China. The operating result of entities in the consolidated report is reviewed by the Chief Operating Decision-Maker, and are used to assess the performance of the segment.

(2) Measurement of segment information

The Chief Operating Decision-Maker evaluates each operating segment by their profit after tax. The profit after tax reported to the Chief Operating Decision-Maker is measured in a manner consistent with revenue and expenses in the statement of comprehensive income. The Group does not provide the total assets and total liabilities amounts to Chief Operating Decision-Maker as basis for making operating decisions. As the amounts in the statement provided to the Chief Operating Decision-Maker for managing the segment are in agreement with the amounts in the statements of segment income, reconciliation is not needed.

(3) Information about segment profit or loss, assets and liabilities

The segment information provided to the Chief Operating Decision-Maker to measure profit or loss of segments is as follows:

Year ended December 31, 2017	<u>Taiwan</u>	<u>China</u>	<u>Other</u>	<u>Adjustment and write-off</u>	<u>Consolidation</u>
Revenue from external customers	\$ 2,088,350	\$ 214,889	\$ -	\$ -	\$ 2,303,239
Inter-segment revenue	-	1,829,751	-	(1,829,751)	-
Total segment revenue	<u>\$ 2,088,350</u>	<u>\$ 2,044,640</u>	<u>\$ -</u>	<u>(\$ 1,829,751)</u>	<u>\$ 2,303,239</u>
Segment loss, including depreciation and amortisation	(\$ 8,666)	(\$ 29,976)	\$ -	\$ -	(\$ 38,642)
Income tax benefit	1,206	3,721	-	-	4,927
Profit or loss of investments accounted for using equity method	38,152	-	-	(38,152)	-
Segment income (loss)	(\$ 38,262)	\$ 56,511	\$ 5,707	(\$ 62,218)	(\$ 38,262)

Year ended December 31, 2016	<u>Taiwan</u>	<u>China</u>	<u>Other</u>	<u>Adjustment and write-off</u>	<u>Consolidation</u>
Revenue from external customers	\$ 2,892,730	\$ 143,551	\$ -	\$ -	\$ 3,036,281
Inter-segment revenue	-	2,518,744	-	(2,518,744)	-
Total segment revenue	<u>\$ 2,892,730</u>	<u>\$ 2,662,295</u>	<u>\$ -</u>	<u>(\$ 2,518,744)</u>	<u>\$ 3,036,281</u>
Segment loss, including depreciation and amortisation	(\$ 7,154)	(\$ 47,113)	\$ -	\$ -	(\$ 54,267)
Income tax expense	(3,902)	(4,308)	-	-	(8,210)
Profit or loss of investments accounted for using equity method	125,513	-	-	(125,513)	-
Segment income (loss)	\$ 97,088	\$ 97,147	\$18,826	(\$ 115,973)	\$ 97,088

(4) Reconciliation for segment income (loss)

As the amounts in the statement provided to the Chief Operating Decision-Maker for managing the segment are in agreement with the amounts in the statements of segment income, reconciliation is not needed.

(5) Information on products and services

Revenue from external customers mainly arose from sale of power supply units and other products, the details of revenue were as follows:

	Years ended December 31,	
	2017	2016
Power supply units	\$ 2,186,829	\$ 2,908,304
Others	116,410	127,977
Total	<u>\$ 2,303,239</u>	<u>\$ 3,036,281</u>

(6) Geographical information

Geographical information for the years ended December 31, 2017 and 2016 is as follows:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 131,580	\$ 180,738	\$ 66,903	\$ 187,576
Asia	1,257,400	306,527	1,397,332	332,925
Europe	521,601	-	811,502	-
America	392,658	-	760,544	-
	<u>\$ 2,303,239</u>	<u>\$ 487,265</u>	<u>\$ 3,036,281</u>	<u>\$ 520,501</u>

Note 1: Revenue is categorised based on the customer's country; Taiwan was not included in Asia.

Note 2: Non-current assets do not include financial instruments and deferred tax assets.

(7) Major customer information

Information about the Group's major customers for the years ended December 31, 2017 and 2016 is as follows:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Revenue	Segment	Revenue	Segment
Customer A	\$ 1,991,965	Taiwan and China	\$ 2,757,811	Taiwan and China

Lien Chang Electronic Enterprise Co., Ltd. and subsidiaries
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
December 31, 2017

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

		As of December 31, 2017								
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares (in thousands)	Book value	Ownership (%)	Fair value		Footnote	
Lien Chang Electronic Enterprise Co., Ltd.	Yuanta Wan Tai Money Market Fund	None	Financial assets at fair value through profit or loss - current	5,983,670	\$ 90,124	-	\$ 90,124			
"	TECO Electric & Machinery Co., Ltd.	Investments accounted for under equity method	Available-for-sale financial assets - noncurrent	4,173,000	118,931	0.21	118,931			
"	TECO Image Systems Co., Ltd.	Associate	"	2,239,477	37,175	1.99	37,175			
"	Tecom Co., Ltd	"	"	195,000	657	0.03	657			
"	Teco Nanotech Co., Ltd.	"	"	17,113	-	-	-		Note	
"	KROM Eletronics Co., Ltd.	None	"	305,276	4,473	0.91	4,473			
"	XinNano Materials, Inc.	"	"	402,090	-	-	-		Note	
Kenmao Investment Corp.	TECO Image Systems Co., Ltd.	Associate	"	243,000	4,034	0.22	4,034			

Note : The Group has provided full provision for impairment.

Lien Chang Electronic Enterprise Co., Ltd. and subsidiaries
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more
Year Ended December 31, 2017

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Lien Chang Electronic Enterprise Co., Ltd.	Genmao Electronics (Suzhao) Co., Ltd.	Second-tier company	Purchases	\$ 1,829,751	99%	Note 1	Note 1	Note 1	(\$ 617,379)	100%	
Genmao Electronics (Suzhao) Co., Ltd.	Teco Electric & Machinery Co., Ltd.	Investments accounted for under equity method	Sales	(129,764)	6%	Note 2	Note 2	Note 2	5,968	1%	

Note 1: Above purchases were the same with third parties, the payment term was 2~3 months.

Note 2: Above sales were the same with third parties, the payment term was 2~3 months.

Lien Chang Electronic Enterprise Co., Ltd. and subsidiaries
Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
December 31, 2017

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2017	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Genmao Electronics (Suzhao) Co., Ltd.	Lien Chang Electronic Enterprise Co., Ltd.	Ultimate parent	\$ 617,379	2.29	\$ -	-	\$ 10,338	\$ -

Lien Chang Electronic Enterprise Co., Ltd. and subsidiaries
Significant inter-company transactions during the reporting periods
Year ended December 31, 2017

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

				Transaction			
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Lien Chang Electronic Enterprise Co., Ltd.	Genmao Electronics (Suzhao) Co., Ltd.	1	Cost of sales	\$ 1,829,751	As conditions negotiated by both parties	79%
0	"	"	1	Accounts payable	617,379	"	26%
0	"	"	1	Other receivables	2,724	"	-

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

- (1) Parent company is '0'.
- (2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Lien Chang Electronic Enterprise Co., Ltd. and subsidiaries

Information on investees

Year ended December 31, 2017

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value			
Lien Chang Electronic Enterprise Co., Ltd.	Kenmao Investment Corp.	Taiwan	Investment business	\$ 92,000	\$ 92,000	11,720,000	100.00	\$ 128,310	\$ 5,943	\$ 5,943	
Lien Chang Electronic Enterprise Co., Ltd.	Kenmao International (Pte.) Ltd.	Singapore	Investment business	582,246	582,246	27,502,354	84.97	679,827	56,274	32,209	Note
Kenmao Investment Corp.	Kenmao International (Pte.) Ltd.	Singapore	Investment business	91,079	91,079	4,866,045	15.03	121,501	56,274	5,697	Note

Note: Investment income recognised by the Group for the year ended December 31, 2016, including write-off, and subsidiaries' realised investment loss and unrealised investment income totalled \$11,889 and \$6,479, respectively.

Lien Chang Electronic Enterprise Co., Ltd. and subsidiaries

Information on investments in Mainland China

Year ended December 31, 2017

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Amount remitted from Taiwan to Mainland China / Amount remitted back to Taiwan for the year ended December 31, 2017		Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Net income of investee for the year ended December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 2)	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
				Remitted to Mainland China	Remitted back to Taiwan								
Genmao Electronics (Suzhao) Co., Ltd.	Manufacture and sale of power supply unit of LCD monitor, LCD television and portable computer	\$ 746,278 (RMB 163,681)	(Note1)	\$ 404,854 (USD 13,625)	\$ -	\$ -	\$ 404,854 (USD 13,625)	\$ 56,511	100%	\$ 56,511	\$ 804,062	\$ -	
Company name		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017		Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)		Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA							
Lien Chang Electronic Enterprise Co., Ltd.		\$ 549,459	(USD \$18,463)	\$ 793,669 (USD \$ 26,669)		\$ 934,242							
Kenmao Investment Corp.		95,292	(USD \$ 3,202)	147,520 (USD \$ 4,957)		76,986							
Total		\$ 644,751	(USD \$21,665)	\$ 941,189 (USD \$ 31,626)									

Note 1: Through investing in Kenmao International (Pte.) in the third area, which then invested in the investee in Mainland China.

Note 2: Investment income recognised by the Group for the year ended December 31, 2017 were based on the financial statements that are audited and attested by R.O.C. parent company's CPA.

Note 3: The numbers in this table are expressed in New Taiwan Dollars. Foreign currency will be translated into NTD at the exchange rate on the balance sheet date (USD 1 : TWD 29.76).

Lien Chang Electronic Enterprise Co., Ltd. and subsidiaries

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

Year ended December 31, 2017

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing					Others receivable (payable)
	Amount	%	Amount	%	Balance at December 31, 2017		Balance at December 31, 2017		Maximum balance during the year ended December 31, 2017	Balance at December 31, 2017		Interest during the year ended December 31, 2017		
								Purpose			Interest rate			
Genmao Electronics (Suzhao) Co., Ltd.	\$ 1,829,751	99%	\$ -	0	(\$ 617,379)	100	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ 2,724