

Cyber Power Systems, Inc.

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Cyber Power Systems Inc.

Opinion

We have audited the accompanying financial statements of Cyber Power Systems Inc. (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter of the financial statements for the year ended December 31, 2017 of Cyber Power Systems Inc. is stated as follows:

Assessment of Inventory

As of December 31, 2017, the balance of inventory amounted to \$905,528 thousand. The Company sells its products to the American and European regions with focus on the retail market. The Company gives reasonable credit terms to its customers, thus, the net amount of inventory accounted for 11% of the Company's total asset value. Since the assessment of impairment loss on obsolete stock is subject to management's judgment, it has been identified as the key audit matter for this year.

Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. When the net realizable value is lower than the cost of inventory, the Company recognizes the loss on the write-down; besides, the loss on obsolete inventory is estimated according to the aging and the physical conditions of the inventory.

We paid particular attention to the loss due to RMA (Return Materials Authorization), because it takes a relatively longer time to sell these returned goods.

We assessed the effectiveness of the following internal control operations. We tested:

1. Whether the loss on inventory impairment was recognized regularly according to the Company's policy.
2. Whether the assessment was reviewed by responsible personnel.

We selected samples from the inventory list on the balance sheet date and verified that the stated value does not exceed the net realizable value. We also analyzed the inventory turnover to assess the reasonableness of the policy. Besides, we verified the inventory aging of selected samples and recalculated the estimated amount of impairment.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the 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 financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chin-Yen Wang and Chin-Chuan Shih.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 26, 2018

Notice to Readers

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

For the convenience of readers, the independent 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. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

CYBER POWER SYSTEMS INC.

BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 28)	\$ 1,149,859	14	\$ 1,786,892	32
Notes receivable from unrelated parties (Notes 4, 8 and 28)	3,735	-	1,984	-
Trade receivables from unrelated parties (Notes 4, 8 and 28)	655,368	8	406,261	7
Trade receivables from related parties (Notes 4, 8, 28 and 29)	1,499,802	18	1,509,942	27
Other receivables from unrelated parties (Notes 8 and 28)	4,216	-	1,381	-
Other receivables from related parties (Notes 8, 28 and 29)	100,754	1	127,422	2
Inventories (Notes 4, 5 and 9)	905,528	11	702,256	13
Other current assets (Notes 14 and 29)	45,176	-	48,786	1
Other current financial assets (Notes 28 and 30)	548,920	6	43,000	1
Total current assets	4,913,358	58	4,627,924	83
NON-CURRENT ASSETS				
Debt investments with no active market - non-current (Notes 4 and 7)	243	-	-	-
Investments accounted for using the equity method (Notes 4, 10 and 29)	663,189	8	650,441	12
Property, plant and equipment (Notes 4, 11, 29 and 30)	1,218,144	15	124,333	2
Investment properties (Notes 4, 12 and 30)	1,529,445	18	-	-
Other intangible assets (Notes 4 and 13)	2,800	-	2,800	-
Deferred tax assets (Notes 4 and 22)	116,948	1	169,188	3
Other non-current assets (Notes 8 and 14)	1,073	-	1,152	-
Total non-current assets	3,531,842	42	947,914	17
TOTAL	\$ 8,445,200	100	\$ 5,575,838	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 15, 28 and 30)	\$ 1,660,000	20	\$ -	-
Trade payables to unrelated parties (Notes 16 and 28)	689,013	8	621,543	11
Trade payables to related parties (Notes 16, 28 and 29)	335,522	4	431,323	8
Other payables (Notes 17 and 28)	241,622	3	208,437	4
Current tax liabilities (Notes 4 and 22)	95,343	1	148,431	2
Provisions - current (Notes 4 and 18)	58,335	1	43,117	1
Other current liabilities (Note 17)	5,412	-	7,678	-
Total current liabilities	3,085,247	37	1,460,529	26
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 15, 28 and 30)	1,100,000	13	-	-
Deferred tax liabilities (Notes 4 and 22)	1,709	-	4,231	-
Net defined benefit liabilities - non-current (Notes 4 and 19)	10,479	-	8,738	-
Other non-current liabilities (Notes 17 and 28)	1,809	-	-	-
Total non-current liabilities	1,113,997	13	12,969	-
Total liabilities	4,199,244	50	1,473,498	26
EQUITY (Notes 4 and 20)				
Share capital				
Ordinary shares	809,510	10	809,025	15
Capital collected in advance	-	-	255	-
Capital surplus				
Share premium	1,359,259	16	1,358,307	24
Employee share options	38,983	-	39,370	1
Retained earnings				
Legal reserve	498,751	6	425,803	8
Special reserve	43,440	-	-	-
Unappropriated earnings	1,579,232	19	1,513,020	27
Other equity				
Exchange differences on translating foreign operations	(83,219)	(1)	(43,440)	(1)
Total equity	4,245,956	50	4,102,340	74
TOTAL	\$ 8,445,200	100	\$ 5,575,838	100

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

CYBER POWER SYSTEMS INC.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 29)	\$ 5,873,261	100	\$ 5,316,371	100
OPERATING COSTS (Notes 9, 21 and 29)	<u>4,264,259</u>	<u>73</u>	<u>3,774,995</u>	<u>71</u>
GROSS PROFIT	<u>1,609,002</u>	<u>27</u>	<u>1,541,376</u>	<u>29</u>
UNREALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	(376,374)	(6)	(390,214)	(7)
REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	<u>390,214</u>	<u>7</u>	<u>367,960</u>	<u>7</u>
REALIZED GROSS PROFIT	<u>1,622,842</u>	<u>28</u>	<u>1,519,122</u>	<u>29</u>
OPERATING EXPENSES (Notes 4, 19, 21, 26 and 29)				
Selling and marketing expenses	295,296	5	228,907	4
General and administrative expenses	188,900	3	171,876	3
Research and development expenses	<u>273,168</u>	<u>5</u>	<u>229,818</u>	<u>5</u>
Total operating expenses	<u>757,364</u>	<u>13</u>	<u>630,601</u>	<u>12</u>
PROFIT FROM OPERATIONS	<u>865,478</u>	<u>15</u>	<u>888,521</u>	<u>17</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4, 21 and 29)				
Other income	31,712	1	20,569	-
Other gains and losses	(156,233)	(3)	(24,842)	-
Finance costs	(13,695)	-	(302)	-
Share of profit or loss of subsidiaries, associates and joint ventures	<u>7,418</u>	<u>-</u>	<u>(2,271)</u>	<u>-</u>
Total non-operating income and expenses	<u>(130,798)</u>	<u>(2)</u>	<u>(6,846)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	734,680	13	881,675	17
INCOME TAX EXPENSE (Notes 4 and 22)	<u>(159,423)</u>	<u>(3)</u>	<u>(152,197)</u>	<u>(3)</u>
NET PROFIT	<u>575,257</u>	<u>10</u>	<u>729,478</u>	<u>14</u>

(Continued)

CYBER POWER SYSTEMS INC.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 19)	\$ (1,741)	-	\$ (1,887)	-
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method	(31)	-	(1,158)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 22)	296	-	321	-
	<u>(1,476)</u>	<u>-</u>	<u>(2,724)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>(39,779)</u>	<u>(1)</u>	<u>(52,500)</u>	<u>(1)</u>
	<u>(41,255)</u>	<u>(1)</u>	<u>(55,224)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 534,002</u>	<u>9</u>	<u>\$ 674,254</u>	<u>13</u>
EARNINGS PER SHARE (Note 23)				
From continuing operations				
Basic	<u>\$ 7.11</u>		<u>\$ 9.02</u>	
Diluted	<u>\$ 7.06</u>		<u>\$ 8.95</u>	

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

(Concluded)

CYBER POWER SYSTEMS INC.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)**

	Share Capital		Capital Surplus			Retained Earnings		Unappropriated Earnings	Other Equity Differences on Translating Foreign Operations	Total Equity
	Ordinary Shares	Capital Collected in Advance	Share Premium	Employee Share Options	Legal Reserve	Special Reserve				
BALANCE AT JANUARY 1, 2016	\$ 808,055	\$ 570	\$ 1,355,546	\$ 40,470	\$ 365,817	\$ -	\$ 1,211,168	\$ 9,060	\$ 3,790,686	
Appropriation of 2015 earnings	-	-	-	-	59,986	-	(59,986)	-	-	
Legal reserve	-	-	-	-	-	-	(364,039)	-	(364,039)	
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-	
Actual disposals or acquisitions of interest in subsidiaries	-	-	-	-	-	-	(877)	-	(877)	
Net profit for the year ended December 31, 2016	-	-	-	-	-	-	729,478	-	729,478	
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	-	-	(2,724)	(52,500)	(55,224)	
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	-	726,754	(52,500)	674,254	
Issue of ordinary shares under employee share options	970	(315)	2,761	(1,100)	-	-	-	-	2,316	
BALANCE AT DECEMBER 31, 2016	809,025	255	1,358,307	39,370	425,803	-	1,513,020	(43,440)	4,102,340	
Appropriation of 2016 earnings	-	-	-	-	72,948	-	(72,948)	-	-	
Legal reserve	-	-	-	-	-	-	(43,440)	-	-	
Special reserve	-	-	-	-	-	43,440	(384,517)	-	(384,517)	
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-	
Actual disposals or acquisitions of interests in subsidiaries	-	-	-	-	-	-	(6,664)	-	(6,664)	
Net profit for the year ended December 31, 2017	-	-	-	-	-	-	575,257	-	575,257	
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	-	-	(1,476)	(39,779)	(41,255)	
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	-	573,781	(39,779)	534,002	
Issue of ordinary shares under employee share options	485	(255)	952	(387)	-	-	-	-	795	
BALANCE AT DECEMBER 31, 2017	\$ 809,510	\$ -	\$ 1,359,259	\$ 38,983	\$ 498,751	\$ 43,440	\$ 1,579,232	\$ (83,219)	\$ 4,245,956	

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

CYBER POWER SYSTEMS INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 734,680	\$ 881,675
Adjustments to:		
Depreciation expenses	24,914	20,967
Impairment loss (reversed)/recognized on trade receivables	(89)	283
Finance costs	13,695	302
Interest income	(13,838)	(4,395)
Share of (profit)/loss of subsidiaries, associates and joint ventures	(7,418)	2,271
Loss on disposal of property, plant and equipment	6	10
Recognition of provisions	15,218	26,190
Write-down of inventories	-	32,693
Reversal of write-down of inventories	(26,838)	-
Unrealized gain on transactions with subsidiaries, associates and joint ventures	376,374	390,214
Realized gain on transactions with subsidiaries, associates and joint ventures	(390,214)	(367,960)
Net loss on foreign currency exchange	62,084	1,678
Changes in operating assets and liabilities		
Notes receivable	(1,751)	983
Trade receivables	(206,000)	110,231
Other receivables	22,795	(16,826)
Inventories	(176,434)	(45,385)
Other current assets	3,969	670
Other items of operating activities	252	51
Trade payables	(34,457)	104,805
Other payables	30,732	27,279
Other current liabilities	(2,378)	4,241
Net defined benefit liabilities - non-current	-	3
Cash generated from operations	425,302	1,169,980
Interest received	13,827	4,023
Interest paid	(12,390)	(302)
Income tax paid	(162,497)	(204,582)
Net cash generated from operating activities	<u>264,242</u>	<u>969,119</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of debt investments with no active market	(243)	-
Payments for property, plant and equipment	(2,648,176)	(11,147)
Decrease in refundable deposits	46	40
Net cash outflow on acquisition of subsidiaries	(37,964)	(18,297)
Increase in other financial assets	(505,920)	-
Net cash used in investing activities	<u>(3,192,257)</u>	<u>(29,404)</u>

(Continued)

CYBER POWER SYSTEMS INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	\$ 1,660,000	\$ -
Proceeds from long-term borrowings	1,100,000	-
Proceeds from guarantee deposits received	1,809	-
Dividends paid to owners of the Company	(384,517)	(364,039)
Proceeds from employee share options	<u>795</u>	<u>2,316</u>
Net cash generated from/(used in) financing activities	<u>2,378,087</u>	<u>(361,723)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(87,105)</u>	<u>(26,531)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(637,033)	551,461
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,786,892</u>	<u>1,235,431</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,149,859</u>	<u>\$ 1,786,892</u>

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

(Concluded)

CYBER POWER SYSTEMS INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Cyber Power Systems Inc. (the “Company”) was established in the Republic of China (ROC) in 1997. The Company mainly manufactures and sells uninterruptible power systems (UPS).

The Company’s shares have been listed on the Taiwan Stock Exchange (“TWSE”) since December 2009. The financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors and authorized for issue on March 26, 2018.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

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

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

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

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

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 29 for the related disclosures.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed by the FSC for application starting from 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

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

1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

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

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

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

method, and other gains or losses are recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

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

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

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

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

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Financial assets measured at amortized cost - non-current	\$ -	\$ 243	\$ 243
Debt investments with no active market - non-current	<u>243</u>	<u>(243)</u>	<u>-</u>
Total effect on assets	<u>\$ 243</u>	<u>\$ -</u>	<u>\$ 243</u>

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

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

When applying IFRS 15, the Company recognizes revenue by applying the following steps:

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

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Currently, receivables are recognized or deferred revenue is reduced when revenue is recognized for contracts under IAS 18.

For a sale with a right of return, the Company will recognize a refund liability (other liability) and a right to recover a product (other asset) when recognizing revenue. Currently, return provisions and inventories-return receivables are recognized when recognizing revenue.

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

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

The anticipated impact on assets, liabilities and equity when retrospectively applying IFRS 15 on January 1, 2018 would not be material.

Except for the above impact, as of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact of the application of other standards and interpretations; the anticipated impact would not be material to the Company’s financial position and financial performance.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 16 “Leases”	January 1, 2019 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 4)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

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

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

IFRS 16 “Leases”

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The Company’s financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

Other than financial assets measured at fair value, the Company’s financial statements have been prepared on the historical cost basis.

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

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

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

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

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

For the purpose of presenting the Company's financial statements, the functional currencies of the Company's foreign operations (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

Inventories consist of raw materials, supplies, semi-finished goods, finished goods and work in process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity (including structured entities) that is controlled by the Company.

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

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

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the financial statements of the invested company as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company only financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company only financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Property, plant and equipment

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

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

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

h. Investment properties

Investment properties are properties held to earn rental and/or for capital appreciation.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

i. Intangible assets

Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

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

k. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

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

1) Financial assets

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

a) Measurement category

Financial assets are classified as loans and receivables.

Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments with no active market and other financial assets) are measured using the effective interest method at amortized cost, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

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

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

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

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

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

Except the following situations, all financial liabilities are carried at amortized cost using the effective interest method:

Financial guarantee contracts

Financial guarantee contracts issued by the Company are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of the best estimate of the obligation under the contract or the amount initially recognized less cumulative amortization recognized.

b) Derecognition of financial liabilities

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

l. Provisions

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

m. Revenue recognition

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

1) Sale of goods

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

- a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Company; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

2) Dividend and interest income

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

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

n. Leasing

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

1) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Company as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

o. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

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

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Employee share options

Employee share options are granted to employees who are qualified under the Company's criteria.

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

r. Taxation

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

1) Current tax

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

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Write-down of inventories

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

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2017	2016
Cash on hand	\$ 982	\$ 873
Checking accounts and demand deposits	613,197	1,572,226
Cash equivalents (investments with original maturities of less than 3 months)		
Time deposits	<u>535,680</u>	<u>213,793</u>
	<u>\$ 1,149,859</u>	<u>\$ 1,786,892</u>

The market rate intervals of bank deposits at the end of the reporting period were as follows:

	<u>December 31</u>	
	2017	2016
Time deposits	1.68%-2.30%	0.64%-5.00%

As of December 31, 2017, time deposits of \$243 thousand that have original maturities of more than three months were classified as debt investments with no active market (Refer to Note 7 for the details).

7. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<u>December 31</u>	
	2017	2016
<u>Non-current</u>		
Time deposits with original maturities of more than 3 months	<u>\$ 243</u>	<u>\$ -</u>

The market interest rate of time deposits with original maturities of more than 3 months was 1.09% as of December 31, 2017.

8. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	2017	2016
<u>Notes receivable</u>		
Notes receivable - operating	\$ 3,735	\$ 1,984
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 3,735</u>	<u>\$ 1,984</u>
<u>Trade receivables</u>		
Trade receivables	\$ 655,734	\$ 406,716
Trade receivables from related parties	1,499,802	1,509,942
Less: Allowance for impairment loss	<u>(366)</u>	<u>(455)</u>
	<u>\$ 2,155,170</u>	<u>\$ 1,916,203</u>
<u>Other receivables</u>		
Loan receivables - floating rate	\$ 100,248	\$ 126,521
Tax refund receivables	3,036	1,060
Others	<u>1,686</u>	<u>1,222</u>
	<u>\$ 104,970</u>	<u>\$ 128,803</u>

a. Trade receivables

The Company's sales agreements typically provide payment terms. No interest was charged on trade receivables. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Company recognized an allowance for impairment loss of 100% against all receivables past due over 1 year because historical experience was that receivables that were past due beyond 1 year were not recoverable. Allowance for impairment loss was recognized against trade receivables past due less than 1 year based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For some of the trade receivable balances that were past due at the end of the reporting period, the Company did not recognize an allowance for impairment loss, because there was no significant change in credit quality and the amounts were still considered recoverable. The Company did not hold any collateral or other credit enhancements over these balances nor did it have a legal right to offset against any amounts owed by the Company to the counterparty.

The aging of receivables was as follows:

	<u>December 31</u>	
	2017	2016
Less than 90 days	\$ 1,489,575	\$ 1,104,587
91-180 days	660,993	797,083
181-360 days	4,968	14,988
Over 360 days	<u>-</u>	<u>-</u>
	<u>\$ 2,155,536</u>	<u>\$ 1,916,658</u>

The above aging schedule was based on the invoice date.

The aging of receivables that were past due but not impaired was as follows:

	<u>December 31</u>	
	2017	2016
Less than 90 days	\$ 21,989	\$ 13,452
91-180 days	84,591	14,108
181-360 days	5	-
Over 360 days	<u>-</u>	<u>-</u>
	<u>\$ 106,585</u>	<u>\$ 27,560</u>

The above aging schedule was based on the invoice date.

The movements of the allowance for doubtful trade receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	\$ -	\$ 172	\$ 172
Add: Impairment losses	<u>-</u>	<u>283</u>	<u>283</u>
Balance at December 31, 2016	-	455	455
Less: Impairment losses reversed	<u>-</u>	<u>(89)</u>	<u>(89)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 366</u>	<u>\$ 366</u>

The movements of the allowance for overdue receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	\$ 2,888	\$ -	\$ 2,888
Less: Foreign exchange translation gains	<u>(51)</u>	<u>-</u>	<u>(51)</u>
Balance at December 31, 2016	2,837	-	2,837
Less: Foreign exchange translation gains	<u>(219)</u>	<u>-</u>	<u>(219)</u>
Balance at December 31, 2017	<u>\$ 2,618</u>	<u>\$ -</u>	<u>\$ 2,618</u>

The Company recognized the accumulated impairment loss on trade receivables amounting to \$2,618 thousand and \$2,837 thousand as of December 31, 2017 and 2016, respectively. These amounts were mainly related to customers that were experiencing severe financial difficulties. The Company did not hold any collateral over these balances.

b. Other receivables

Loans receivable - floating rate comprised of short-term financing provided to Best Top (Shenzhen), Inc., CyberPower Systems (India) Pvt. Ltd., CyberPower Systems GmbH and Cyber Power Systems S.A. DE C.V., refer to Note 29 for the details.

9. INVENTORIES

	<u>December 31</u>	
	2017	2016
Finished goods	\$ 526,164	\$ 404,155
Semi-finished goods	59,768	48,545
Work in process	1,771	-
Raw materials	<u>317,825</u>	<u>249,596</u>
	<u>\$ 905,528</u>	<u>\$ 702,256</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 were \$4,264,259 thousand and \$3,774,995 thousand, respectively.

The cost of goods sold included the reversal of inventory write-downs of \$26,838 thousand and an obsolescence loss of \$32,693 thousand for the years ended December 31, 2017 and 2016. Previous write-downs were reversed as a result of increased selling prices in certain markets.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of Subsidiaries	<u>December 31</u>	
	2017	2016
Unlisted companies		
CyberPower Systems (USA), Inc.	\$ 91,454	\$ 125,721
Broad Win International Investment Co., Ltd.	452,637	437,289
Fast Wind International Limited	118,189	82,989
Cliquefie Co., Ltd.	<u>909</u>	<u>4,442</u>
	<u>\$ 663,189</u>	<u>\$ 650,441</u>

As the end of the reporting period, the proportion of ownership and voting rights in subsidiaries held by the Company were as follows:

Name of Subsidiaries	<u>December 31</u>	
	2017	2016
CyberPower Systems (USA), Inc.	100%	100%
Broad Win International Investment Co., Ltd.	100%	100%
Fast Wind International Limited	100%	100%
Cliquefie Co., Ltd.	95%	95%

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2017 and 2016 were based on the subsidiaries' financial statements audited by the auditors for the same years.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Construction-in-progress and Ready for inspection	Total
Cost									
Balance at January 1, 2017	\$ 79,636	\$ 47,857	\$ 42,809	\$ 672	\$ 46,628	\$ 6,375	\$ 155,069	\$ -	\$ 379,046
Additions	-	230	2,117	-	4,451	471	4,304	36,531	48,104
Disposals	-	-	(3,915)	-	(792)	-	-	-	(4,707)
Reclassification	697,273	367,763	-	-	-	-	-	-	1,065,036
Balance at December 31, 2017	\$ 776,909	\$ 415,850	\$ 41,011	\$ 672	\$ 50,287	\$ 6,846	\$ 159,373	\$ 36,531	\$ 1,487,479
Accumulated depreciation									
Balance at January 1, 2017	\$ -	\$ 27,135	\$ 38,430	\$ 670	\$ 38,426	\$ 3,938	\$ 146,114	\$ -	\$ 254,713
Depreciation expense	-	5,287	2,041	2	4,559	1,341	6,093	-	19,323
Disposals	-	-	(3,915)	-	(786)	-	-	-	(4,701)
Balance at December 31, 2017	\$ -	\$ 32,422	\$ 36,556	\$ 672	\$ 42,199	\$ 5,279	\$ 152,207	\$ -	\$ 269,335
Carrying amounts at December 31, 2017	\$ 776,909	\$ 383,428	\$ 4,455	\$ -	\$ 8,088	\$ 1,567	\$ 7,166	\$ 36,531	\$ 1,218,144
Cost									
Balance at January 1, 2016	\$ 79,636	\$ 47,708	\$ 44,013	\$ 672	\$ 43,713	\$ 6,270	\$ 150,138	\$ -	\$ 372,150
Additions	-	108	2,074	-	3,451	105	5,368	-	11,106
Disposals	-	-	(3,278)	-	(536)	-	(437)	-	(4,251)
Reclassification	-	41	-	-	-	-	-	-	41
Balance at December 31, 2016	\$ 79,636	\$ 47,857	\$ 42,809	\$ 672	\$ 46,628	\$ 6,375	\$ 155,069	\$ -	\$ 379,046
Accumulated depreciation									
Balance at January 1, 2016	\$ -	\$ 25,354	\$ 38,412	\$ 660	\$ 33,460	\$ 2,512	\$ 137,589	\$ -	\$ 237,987
Depreciation expense	-	1,781	3,296	10	5,492	1,426	8,962	-	20,967
Disposals	-	-	(3,278)	-	(526)	-	(437)	-	(4,241)
Balance at December 31, 2016	\$ -	\$ 27,135	\$ 38,430	\$ 670	\$ 38,426	\$ 3,938	\$ 146,114	\$ -	\$ 254,713
Carrying amounts at December 31, 2016	\$ 79,636	\$ 20,722	\$ 4,379	\$ 2	\$ 8,202	\$ 2,437	\$ 8,955	\$ -	\$ 124,333

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

Buildings	3-47 years
Machinery equipment	3-4 years
Transportation equipment	3 years
Office equipment	2-6 years
Leasehold improvements	2-5 years
Other equipment	3 years

The material components of buildings primarily include office and interior construction which are depreciated on a straight-line basis over their estimated useful lives of 11-47 years.

All of the Company's property, plant and equipment are held under freehold interests. Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 30.

12. INVESTMENT PROPERTIES

	Completed Investment Properties
<u>Cost</u>	
Balance at January 1, 2017	\$ -
Additions	332
Reclassification	<u>1,534,704</u>
Balance at December 31, 2017	<u>\$ 1,535,036</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2017	\$ -
Depreciation expenses	<u>(5,591)</u>
Balance at December 31, 2017	<u>\$ (5,591)</u>
Carrying amount at December 31, 2017	<u>\$ 1,529,445</u>

The investment properties held by the Company are depreciated using the straight line method over their estimated useful lives of 47 years.

The fair value of the Company's investment properties as of December 31, 2017 was \$1,663,111 thousand. Management of the Company used the valuation model that market participants would use in determining the fair value. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Company's investment properties are held under freehold interests. The investment properties pledged as collateral for bank borrowings are set out in Note 30.

13. OTHER INTANGIBLE ASSETS

	Amount
<u>Cost</u>	
Balance at January 1, 2016	\$ 2,800
Additions	<u>-</u>
Balance at December 31, 2016	2,800
Additions	<u>-</u>
Balance at December 31, 2017	<u>\$ 2,800</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2016	\$ -
Amortization expense	<u>-</u>
Balance at December 31, 2016	-
Amortization expense	<u>-</u>
Balance at December 31, 2017	<u>\$ -</u>

Other intangible assets are considered to have an indefinite useful life. The domain name use right will not be amortized until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

14. OTHER ASSETS

	<u>December 31</u>	
	2017	2016
<u>Current</u>		
Prepayments	\$ 25,947	\$ 27,594
Others	<u>19,229</u>	<u>21,192</u>
	<u>\$ 45,176</u>	<u>\$ 48,786</u>
<u>Non-current</u>		
Overdue receivables	\$ 2,618	\$ 2,837
Allowance for impairment loss - overdue receivables	(2,618)	(2,837)
Refundable deposits	1,073	1,119
Prepayments for equipment	<u>-</u>	<u>33</u>
	<u>\$ 1,073</u>	<u>\$ 1,152</u>

15. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	2017	2016
<u>Unsecured borrowings</u>		
Line of credit borrowings	\$ 1,200,000	\$ -
<u>Secured borrowings</u>		
Bank loans (Note 30)	<u>460,000</u>	<u>-</u>
	<u>\$ 1,660,000</u>	<u>\$ -</u>

The range of weighted average effective interest rates on bank loans was 0.80%-1% per annum as of December 31, 2017.

b. Long-term borrowings

	<u>December 31</u>	
	2017	2016
<u>Secured borrowings (Note 30)</u>		
Fubon Bank (1)	\$ 800,000	\$ -
<u>Unsecured borrowings</u>		
KGI Bank (2)	<u>300,000</u>	<u>-</u>
	<u>\$ 1,100,000</u>	<u>\$ -</u>

- 1) As of December 31, 2017, the weighted average effective interest rate of the bank borrowings secured by the Company's freehold land and buildings (see Note 30) was 1.2% per annum. The Company acquired new bank borrowing facilities in the amount of \$800,000 thousand, with a floating rate of 1.2%, repayable in the next 8 years. The purpose of these bank borrowing facilities was for the acquisition of land, plant, equipment and investment properties.
- 2) The Company acquired new bank borrowing facilities in the amount of \$300,000 thousand, with a floating rate of 1.04% per annum. Interest is paid monthly, and the principal will be repayable by October 2019.

16. TRADE PAYABLES

	<u>December 31</u>	
	2017	2016
<u>Trade payables</u>		
Operating	<u>\$ 1,024,535</u>	<u>\$ 1,052,866</u>

The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

17. OTHER LIABILITIES

	<u>December 31</u>	
	2017	2016
<u>Current</u>		
<u>Other payables</u>		
Payables for employees' compensation and remuneration of directors and supervisors	\$ 49,253	\$ 56,810
Payables for salaries or bonuses	65,608	63,868
Payables for export (import) fees and freight	51,591	39,677
Others	<u>75,170</u>	<u>48,082</u>
	<u>\$ 241,622</u>	<u>\$ 208,437</u>

(Continued)

	<u>December 31</u>	
	2017	2016
Other liabilities		
Advance receipts	\$ 3,336	\$ 5,844
Receipts under custody	<u>2,076</u>	<u>1,834</u>
	<u>\$ 5,412</u>	<u>\$ 7,678</u>
<u>Non-current</u>		
Other liabilities		
Guarantee deposits received	<u>\$ 1,809</u>	<u>\$ -</u> (Concluded)

18. PROVISIONS

	<u>December 31</u>		
	2017	2016	
<u>Current</u>			
Warranties	\$ 54,692	\$ 20,694	
Customer returns and rebates	<u>3,643</u>	<u>22,423</u>	
	<u>\$ 58,335</u>	<u>\$ 43,117</u>	
		Customer Returns and Rebates	Total
	Warranties		
Balance at January 1, 2016	\$ 16,927	\$ -	\$ 16,927
Additional provisions recognized	<u>3,767</u>	<u>22,423</u>	<u>26,190</u>
Balance at December 31, 2016	20,694	22,423	43,117
Additional provisions recognized (reversed)	<u>37,641</u>	<u>(22,423)</u>	<u>15,218</u>
Balance at December 31, 2017	<u>\$ 58,335</u>	<u>\$ -</u>	<u>\$ 58,335</u>

- a. The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties under the legislation on the local sale of goods. The estimate had been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.
- b. The provision for customer returns and rebates was based on historical experience, management's judgments and other known reasons for which estimated product returns and rebates may occur in the year. The provision was recognized as a reduction of operating income in the periods the related goods were sold.

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly wages and salaries.

b. Defined benefit plan

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plan were as follows:

	December 31	
	2017	2016
Present value of defined benefit obligation	\$ 16,425	\$ 14,355
Fair value of plan assets	<u>(5,946)</u>	<u>(5,617)</u>
Net defined benefit liabilities	<u>\$ 10,479</u>	<u>\$ 8,738</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2016	\$ 12,171	\$ (5,323)	\$ 6,848
Service cost			
Current service cost	157	-	157
Interest expense (income)	<u>183</u>	<u>(82)</u>	<u>101</u>
Recognized in profit or loss	<u>340</u>	<u>(82)</u>	<u>258</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	43	43
Actuarial (gain) loss			
Changes in demographic assumptions	843	-	843
Changes in financial assumptions	406	-	406
Experience adjustments	<u>595</u>	<u>-</u>	<u>595</u>
Recognized in other comprehensive income	<u>1,844</u>	<u>43</u>	<u>1,887</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Contributions from the employer	\$ -	\$ (255)	\$ (255)
Balance at December 31, 2016	<u>14,355</u>	<u>(5,617)</u>	<u>8,738</u>
Service cost			
Current service cost	164	-	164
Interest expense (income)	<u>179</u>	<u>(72)</u>	<u>107</u>
Recognized in profit or loss	<u>343</u>	<u>(72)</u>	<u>271</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	14	14
Actuarial (gain) loss			
Changes in demographic assumptions	988	-	998
Changes in financial assumptions	-	-	-
Experience adjustments	<u>729</u>	<u>-</u>	<u>729</u>
Recognized in other comprehensive income	<u>1,727</u>	<u>14</u>	<u>1,741</u>
Contributions from the employer	<u>-</u>	<u>(271)</u>	<u>(271)</u>
Balance at December 31, 2017	<u>\$ 16,425</u>	<u>\$ (5,946)</u>	<u>\$ 10,479</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plan is as follows:

	For the Year Ended December 31	
	2017	2016
Selling and marketing expenses	\$ 36	\$ 37
General and administrative expenses	33	32
Research and development expenses	<u>202</u>	<u>189</u>
	<u>\$ 271</u>	<u>\$ 258</u>

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

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salaries of the plan participants will increase the present value of the defined benefit obligation.

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

	<u>December 31</u>	
	2017	2016
Discount rate(s)	1.25%	1.25%
Expected rate(s) of salary increase	3.50%	3.50%

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

	<u>December 31</u>	
	2017	2016
Discount rate(s)		
0.25% increase	<u>\$ (484)</u>	<u>\$ (433)</u>
0.25% decrease	<u>\$ 507</u>	<u>\$ 455</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 489</u>	<u>\$ 439</u>
0.25% decrease	<u>\$ (469)</u>	<u>\$ (420)</u>

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

	<u>December 31</u>	
	2017	2016
Expected contributions to the plan for the next year	<u>\$ 281</u>	<u>\$ 266</u>
Average duration of the defined benefit obligation	11.9 years	12.1 years

20. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	2017	2016
Shares authorized (in thousands of shares)	<u>360,000</u>	<u>360,000</u>
Shares authorized (in thousands of dollars)	<u>\$ 3,600,000</u>	<u>\$ 3,600,000</u>
Shares issued and fully paid (in thousands of shares)	<u>80,951</u>	<u>80,903</u>
Shares issued and fully paid (in thousands of dollars)	<u>\$ 809,510</u>	<u>\$ 809,025</u>

The authorized shares include 20,000 thousand shares allocated for the exercise of employee stock options.

Changes to the Company's issued shares was mainly resultant from the implementation of employee stock options.

b. Capital surplus

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*</u>		
Issuance of ordinary shares	\$ 1,330,733	\$ 1,330,167
<u>May be used to offset a deficit only</u>		
Issuance of ordinary shares (reclassified by capital surplus - employee share options)	28,526	28,140
<u>May not be used for any purpose</u>		
Employee share options	<u>38,983</u>	<u>39,370</u>
	<u>\$ 1,398,242</u>	<u>\$ 1,397,677</u>

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

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 8, 2016 and, in that meeting, resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to Employee benefits expense in Note 21-6.

The Company's Articles also stipulate a dividend policy whereby the total cash dividends distributed should not be lower than 10% of the total shareholders' bonuses.

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

Items referred to under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

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

The appropriations of earnings for 2016 and 2015 approved in the shareholders' meetings on June 20, 2017 and June 8, 2016, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Legal reserve	\$ 72,948	\$ 59,986	\$ -	\$ -
Special reserve	43,440	-	-	-
Cash dividends	384,517	364,039	4.75	4.5

The appropriation of earnings for 2017 had been proposed by the Company's board of directors on March 23, 2018. The appropriation of earnings and dividends per share were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividends Per Share (NT\$)</u>
Legal reserve	\$ 57,526	\$ -
Special reserve	39,779	-
Cash dividends	404,755	5.0

The appropriation of earnings for 2017 was resolved in the shareholders' meeting held on June 12, 2018.

d. Special reserve

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Balance at January 1	\$ -	\$ -
Appropriation in respect of:		
Debit to other equity items	<u>43,440</u>	<u>-</u>
Balance at December 31	<u>\$ 43,440</u>	<u>\$ -</u>

21. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS

a. Other income

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Rental income		
Operating lease rental income		
Investment property	\$ 823	\$ -
Interest income		
Bank deposits	12,828	2,800
Financing to related parties	1,002	1,590
Imputed interest on deposits	<u>8</u>	<u>5</u>
	13,838	4,395
Others	<u>17,051</u>	<u>16,174</u>
	<u>\$ 31,712</u>	<u>\$ 20,569</u>

b. Other gains and losses

	<u>For the Year Ended December 31</u>	
	2017	2016
Loss on disposal of property, plant and equipment	\$ (6)	\$ (10)
Net foreign exchange losses	(155,348)	(24,831)
Others	<u>(879)</u>	<u>(1)</u>
	<u>\$ (156,233)</u>	<u>\$ (24,842)</u>

c. Finance costs

	<u>For the Year Ended December 31</u>	
	2017	2016
Interest on bank loans	\$ 20,397	\$ 302
Less: Amounts included in the cost of qualifying assets	<u>(6,702)</u>	<u>-</u>
	<u>\$ 13,695</u>	<u>\$ 302</u>

Information about capitalized interest was as follows:

	<u>For the Year Ended December 31</u>	
	2017	2016
Capitalized interest amount	\$ 6,702	\$ -
Capitalization rate	0.80%	-

d. Depreciation and amortization

	<u>For the Year Ended December 31</u>	
	2017	2016
Property, plant and equipment	\$ 19,323	\$ 20,967
Investment property	<u>5,591</u>	<u>-</u>
	<u>\$ 24,914</u>	<u>\$ 20,967</u>
An analysis of depreciation by function		
Operating costs	\$ 6,095	\$ 8,960
Operating expenses	<u>18,819</u>	<u>12,007</u>
	<u>\$ 24,914</u>	<u>\$ 20,967</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Post-employment benefits (Note 19)		
Defined contribution plans	\$ 13,362	\$ 11,363
Defined benefit plans	<u>271</u>	<u>258</u>
	13,633	11,621
Short-term benefits	<u>371,655</u>	<u>362,330</u>
Total employee benefits expense	<u>\$ 385,288</u>	<u>\$ 373,951</u>
An analysis of employee benefits expense by function		
Operating expenses	<u>\$ 385,288</u>	<u>\$ 373,951</u>

f. Employees' compensation and remuneration to directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 2% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016 which have been approved by the Company's board of directors on March 23, 2018 and March 30, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	2016
Employees' compensation	5.5%	5.5%
Remuneration of directors and supervisors	0.8%	0.5%

Amount

	For the Year Ended December 31	
	2017	2016
	Cash	Cash
Employees' compensation	\$ 42,070	\$ 49,200
Remuneration of directors and supervisors	6,000	5,000

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

The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on March 30, 2017 and April 14, 2016, respectively, were as follows:

	For the Year Ended December 31			
	2016		2015	
	Cash	Share	Cash	Share
Employees' compensation	\$ 49,200	\$ -	\$ 42,013	\$ -
Remuneration of directors and supervisors	5,000	-	4,971	-

The actual amounts of employees' compensation and remuneration of directors and supervisors that were paid for 2016 and 2015 and recognized in the financial statements were as follows:

	For the Year Ended December 31			
	2016		2015	
	Employees' Compensation	Remuneration of Directors and Supervisors	Employees' Compensation	Remuneration of Directors and Supervisors
Amounts approved in the board of directors' meeting	\$ 49,200	\$ 5,000	\$ 42,013	\$ 4,971
Amounts recognized in the annual financial statements	51,090	5,109	37,482	4,735

The differences were adjusted to profit and loss for the years ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

- g. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2017	2016
Foreign exchange gains	\$ 53,461	\$ 88,134
Foreign exchange losses	<u>(208,809)</u>	<u>(112,965)</u>
	<u>\$ (155,348)</u>	<u>\$ (24,831)</u>

22. INCOME TAXES RELATING TO CONTINUING OPERATIONS

- a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	\$ 126,876	\$ 161,183
Income tax on unappropriated earnings	22,497	17,401
Adjustments for prior years	<u>(39,964)</u>	<u>(8)</u>
	<u>109,409</u>	<u>178,576</u>
Deferred tax		
In respect of the current year	<u>50,014</u>	<u>(26,379)</u>
Income tax expense recognized in profit or loss	<u>\$ 159,423</u>	<u>\$ 152,197</u>

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2017	2016
Profit before tax from continuing operations	<u>\$ 734,680</u>	<u>\$ 881,675</u>
Income tax expense calculated at the statutory rate	\$ 124,896	\$ 149,885
Permanent differences	1,199	303
Income tax on unappropriated earnings	22,497	17,401
Unrecognized loss carryforwards/deductible temporary differences	843	(15,384)
Effect of tax rate changes	49,952	-
Adjustments for prior years' tax	<u>(39,964)</u>	<u>(8)</u>
Income tax expense recognized in profit or loss	<u>\$ 159,423</u>	<u>\$ 152,197</u>

The applicable corporate income tax rate used by the Company in the ROC is 17%.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets recognized as at December 31, 2017 are expected to be adjusted and would increase by \$3,140 thousand in 2018.

As the status of 2018 appropriation of earnings is uncertain, the potential income tax consequences of the 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
<u>Deferred tax</u>		
In respect of the current year		
Remeasurement on defined benefit plan	<u>\$ 296</u>	<u>\$ 321</u>

c. Current tax assets and liabilities

	December 31	
	2017	2016
Current tax liabilities		
Income tax payable	<u>\$ 95,343</u>	<u>\$ 148,431</u>

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized loss from subsidiaries	\$ 149,780	\$ (52,056)	\$ -	\$ 97,724
Defined benefit obligation	1,344	-	296	1,640
Unrealized loss on write-down of inventories	14,784	(4,562)	-	10,222
Provision for sales returns and discounts	852	(852)	-	-
Share of losses from subsidiaries	860	5,579	-	6,439
Unrealized exchange loss	-	923	-	923
Expense	<u>1,568</u>	<u>(1,568)</u>	<u>-</u>	<u>-</u>
	<u>\$ 169,188</u>	<u>\$ (52,536)</u>	<u>\$ 296</u>	<u>\$ 116,948</u>

Deferred tax liabilities

Temporary differences				
Unrealized profit from subsidiaries	\$ -	\$ 1,709	\$ -	\$ 1,709
Unrealized exchange gain	<u>4,231</u>	<u>(4,231)</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,231</u>	<u>\$ (2,522)</u>	<u>\$ -</u>	<u>\$ 1,709</u>

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized loss from subsidiaries	\$ 130,614	\$ 19,166	\$ -	\$ 149,780
Defined benefit obligation	1,023	-	321	1,344
Unrealized loss on write-down of inventories	9,226	5,558	-	14,784

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Closing Balance
Provision for sales returns and discounts	\$ -	\$ 852	\$ -	\$ 852
Share of losses from subsidiaries	777	83	-	860
Expenses	<u>1,568</u>	<u>-</u>	<u>-</u>	<u>1,568</u>
	<u>\$ 143,208</u>	<u>\$ 25,659</u>	<u>\$ 321</u>	<u>\$ 169,188</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized exchange gain	<u>\$ 4,951</u>	<u>\$ (720)</u>	<u>\$ -</u>	<u>\$ 4,231</u> (Concluded)

- e. Aggregate amount of temporary differences associated with investments for which deferred tax liabilities have not been recognized

No deferred tax liabilities were recognized as the share of profit associated with investments in subsidiaries were not distributed.

- f. Integrated income tax

	<u>December 31</u>	
	2017	2016
Unappropriated earnings		
Generated on and after January 1, 1998	(Note)	<u>\$ 1,513,020</u>
Shareholder - imputed credits account	(Note)	<u>\$ 274,062</u>
	<u>For the Year Ended December 31</u>	
	2017	2016(Actual)
Creditable ratio for distribution of earnings	(Note)	24.36%

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

- g. Income tax assessments

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

23. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Basic earnings per share	<u>\$ 7.11</u>	<u>\$ 9.02</u>
Diluted earnings per share	<u>\$ 7.06</u>	<u>\$ 8.95</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Profit for the period attributable to owners of the Company	<u>\$ 575,257</u>	<u>\$ 729,478</u>
Earnings used in the computation of basic earnings per share	<u>\$ 575,257</u>	<u>\$ 729,478</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 575,257</u>	<u>\$ 729,478</u>

Weighted Average Number of Ordinary Shares Outstanding

Unit: In Thousand Shares

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Weighted average number of ordinary shares used in the computation of basic earnings per share	80,937	80,876
Effect of potentially dilutive ordinary shares:		
Employee share options	-	15
Employees' bonuses in shares issued	<u>542</u>	<u>651</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>81,479</u>	<u>81,542</u>

If the Company will use cash or shares to settle compensation or bonuses paid to employees, the Company assumed the entire compensation or bonus will be settled in shares. If the effect of the resulting potential shares is dilutive, these shares will be included in the weighted average number of shares outstanding used in the computation of diluted earnings per share. This dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

24. SHARE-BASED PAYMENT ARRANGEMENTS

The Company did not issue any new employee share options during 2017 and 2016.

Information on employee share options was as follows:

	The Plan of December 2012			
	2017		2016	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance at January 1	23.0	\$ 34.6	88.5	\$ 36
Options granted	-	-	-	-
Options forfeited	-	-	-	-
Options exercised	(23.0)	34.6	(65.5)	35.35
Options expired	-	-	-	-
Balance at December 31	<u>-</u>	-	<u>23.0</u>	34.6
Options exercisable, end of year	<u>-</u>	-	<u>23.0</u>	-
Weighted-average fair value of options granted (\$)	<u>\$ -</u>		<u>\$ -</u>	

The weighted-average share prices at the date of exercise of share options for the years ended December 31, 2017 and 2016 were \$101.79 and \$99.21, respectively.

Information about outstanding options as of December 31, 2017 and 2016 was as follows:

	December 31	
	2017	2016
Range of exercise price (NT\$)	\$-	\$34.6-\$36.0
Weighted-average remaining contractual life (in years)	-	0.13 years

Options granted in 2012 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	After 2 Years from the Grant Date	After 3 Years from the Grant Date
Grant-date share price (NT\$)	\$47.3	\$47.3
Exercise price (NT\$)	\$47.3	\$47.3
Expected volatility	34.36%	34.85%
Expected life (in years)	3.5	4.0
Expected dividend yield	-	-
Risk-free interest rate	0.97%	0.99%

Compensation cost recognized was both \$0 for the years ended December 31, 2017 and 2016.

In the shareholders' meeting held on June 20, 2017, the shareholders approved a restricted share plan for employees with a total amount of \$6,000 thousand, consisting of 600 thousand shares. The restrictions on the rights of the employees who acquire the restricted shares but have not met the vesting conditions are as follows:

- a. The employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares.
- b. The rights of the restricted share plan for employees, including but not limited to, dividends, bonuses, the distribution rights of capital surplus, the right to subscription of new shares and voting rights etc., are the same as the ordinary shares issued by the Company.
- c. The employees shall entrust the handling or execution of the related proposals, speech, voting rights and other equity-related matters in the shareholders' meeting to the acting trust custody agency.

If an employee fails to meet the vesting conditions, the Company will recall or buy back and cancel his/her restricted shares.

25. PARTIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES - WITHOUT LOSS OF CONTROL

In June 2017, the subsidiary of the Company - Broad Win International Investment Co., Ltd., subscribed for additional new shares of its second-tier subsidiary - Portal Star Co., Ltd. at a percentage different from its existing ownership percentage, increasing its continuing interest from 87.32% to 89.48%. In December 2017, the subsidiary subscribed for additional new shares of Portal Star Co., Ltd., increasing its continuing interest from 89.48% to 100%.

On March 2016, the subsidiary of the Company - Broad Win International Investment Co., Ltd., subscribed for additional new shares of its grandson organization - Portal Star Co., Ltd., at a percentage different from its existing ownership percentage, increasing its continuing interest from 85% to 87.32%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over these subsidiaries. Refer to Note 27 of the consolidated financial statements for the year ended December 31, 2017 for the details.

26. OPERATING LEASE ARRANGEMENTS

Operating leases relate to leases of office space, buildings, warehouses, and equipment with lease terms between 1 and 10 years.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	December 31	
	2017	2016
Not later than 1 year	\$ 6,114	\$ 7,863
Later than 1 year and not later than 5 years	8,411	8,039
Later than 5 years	-	-
	<u>\$ 14,525</u>	<u>\$ 15,902</u>

The lease payments recognized in profit or loss for the current period were as follows:

	<u>For the Year Ended December 31</u>	
	2017	2016
Minimum lease payments	<u>\$ 13,018</u>	<u>\$ 9,870</u>

27. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity attributable to owners of the Company (comprising issued capital, reserves, retained earnings and other equity).

The Company is not subject to any externally imposed capital requirements.

28. FINANCIAL INSTRUMENTS

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

Management believes the carrying amounts of financial assets and financial liabilities recognized in the financial statements which are not measured at fair value approximate their fair values.

b. Categories of financial instruments

	<u>December 31</u>	
	2017	2016
<u>Financial assets</u>		
Loans and receivables (1)	\$ 3,959,861	\$ 3,875,822
<u>Financial liabilities</u>		
Amortized cost (2)	3,913,105	1,140,625

1) The balances included loans and receivables measured at amortized cost, which comprised cash and cash equivalents, debt investments with no active market, notes and trade receivables, and other financial assets.

2) The balances included financial liabilities measured at amortized cost, which comprised short-term borrowings, notes and trade payables, other payables, long-term loans and guarantee deposits received.

c. Financial risk management objectives and policies

The Company's major financial instruments included trade receivables, trade payables and borrowings. The Company's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Company through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Company sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Company's policies approved by the board of directors, which provided written principles on foreign currency risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below). The Company entered into foreign exchange forward contracts to hedge the exchange rate risk arising on sales to Europe and America.

There has been no change to the Company's exposure to market risk or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts.

The Company uses foreign exchange forward contracts to eliminate currency exposure. It is the Company's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness.

Sensitivity analysis

The Company is mainly exposed to the U.S. dollar and the Chinese Yuan.

The following table details the Company's sensitivity to a 5% increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 5%. A positive (negative) number indicates an increase (decrease) in pre-tax profit associated with the New Taiwan dollar weakening (strengthening) 5% against relevant foreign currencies. Conversely, there would be an equal and opposite impact on pre-tax profit.

	USD Impact		CNY Impact	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2017	2016	2017	2016
Profit or loss	\$ 125,485 (i)	\$ 121,796 (i)	\$ (13,836)(ii)	\$ (11,370)(ii)

i. This was mainly attributable to the exposure on outstanding USD bank deposits, and receivables and payables which were not hedged at the end of the reporting period.

ii. This was mainly attributable to the exposure on outstanding CNY bank deposits and payables which were not hedged at the end of the reporting period.

b) Interest rate risk

The Company was exposed to interest rate risk because the Company borrowed funds at both fixed and floating interest rates. The risk is managed by the Company based on the management's knowledge and insight obtained from the financial markets to maintain an appropriate mix of fixed and floating rate borrowings.

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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Cash flow interest rate risk	\$ 2,050,000	\$ -
Fair value interest rate risk	710,000	-

The Company was also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings.

Sensitivity analysis

The sensitivity analysis below was based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2017 would decrease/increase by \$20,500 thousand, which was mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk, which would cause a financial loss to the Company due to failure of counterparties to discharge an obligation pertaining to financial assets recognized in the balance sheets.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for irrecoverable amounts.

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables. Credit insurance will be purchased if necessary.

The Company's concentration of credit risk of 19% and 22% of total trade receivables (non-related parties) as of December 31, 2017 and 2016, respectively, was related to the Company's largest customer - A.

3) Liquidity risk

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

a) Liquidity and interest rate risk table for non-derivative financial liabilities

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

To the extent that interest flows are at floating rates, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2017

	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years	Total
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	\$ 1,153,105	\$ -	\$ -	\$ -	\$ 1,153,105
Variable interest rate liabilities	1,250,000	266,667	480,000	53,333	2,050,000
Fixed interest rate liabilities	<u>410,000</u>	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>710,000</u>
	<u>\$ 2,813,105</u>	<u>\$ 566,667</u>	<u>\$ 480,000</u>	<u>\$ 53,333</u>	<u>\$ 3,913,105</u>

December 31, 2016

	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years	Total
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	\$ 1,140,625	\$ -	\$ -	\$ -	\$ 1,140,625
Variable interest rate liabilities	-	-	-	-	-
Fixed interest rate liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,140,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,140,625</u>

b) Financing facilities

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Unsecured bank loan facilities		
Amount used	\$ 1,500,000	\$ -
Amount unused	<u>1,077,296</u>	<u>2,741,525</u>
	<u>\$ 2,577,296</u>	<u>\$ 2,741,525</u>
Secured bank loan facilities		
Amount used	\$ 1,260,000	\$ -
Amount unused	<u>-</u>	<u>-</u>
	<u>\$ 1,260,000</u>	<u>\$ -</u>

29. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Company and other related parties are disclosed below.

a. Related party name and category

<u>Related Party Name</u>	<u>Related Party Category</u>
Cyber Power Systems (USA), Inc.	Subsidiary
Cyber Power Systems B.V.	Subsidiary
Nitram SAS	Subsidiary
Cyber Power Systems S.A. DE C.V.	Subsidiary
Cyber Power Systems (India) Pvt, Ltd.	Subsidiary
Cyber Power Systems K. K.	Subsidiary
Cyber Power Technology (Shenzhen) Inc.	Subsidiary
Cyber Power Systems (HK) Limited	Subsidiary
Cyber Power (Shenzhen), Inc.	Subsidiary
Best Top (Shenzhen), Inc.	Substantive related party
Cyber Energy Co., Ltd.	Substantive related party

b. Sales of goods

<u>Line Items</u>	<u>Related Party Category/Name</u>	<u>For the Year Ended December 31</u>	
		<u>2017</u>	<u>2016</u>
Sales	Subsidiary/Cyber Power Systems (USA), Inc.	\$ 3,051,298	\$ 2,847,539
	Subsidiary/others	<u>440,426</u>	<u>401,200</u>
		<u>\$ 3,491,724</u>	<u>\$ 3,248,739</u>

The pricing strategy of the Company for the sales to related parties varies according to the size and competitiveness of the market. The period of collection of trade receivables between the related parties is 120-180 days. The use of funds by enterprises is included in the grace period during the collection period, while the collection period for third parties is 30 to 90 days.

c. Purchases of goods

Related Party Category/Name	For the Year Ended December 31	
	2017	2016
Subsidiary/Cyber Power Systems (HK) Limited	\$ 549,247	\$ 488,421
Subsidiary/others	-	508
Substantive related parties/others	<u>10,609</u>	<u>19,326</u>
	<u>\$ 559,856</u>	<u>\$ 508,255</u>

Subsidiary: After referring to market practices, the payment term is 60 days.

Substantive related party: After referring to market practices, prepayment of the current estimated merchandise cost is made at the beginning of each month, and then the amount is offset against the actual processing cost at the end of each month.

d. Operating costs

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2017	2016
Processing cost	Subsidiary/Cyber Power (Shenzhen), Inc.	\$ 590,822	\$ 515,719
	Substantive related party/others	<u>76,636</u>	<u>70,685</u>
		<u>\$ 667,458</u>	<u>\$ 586,404</u>

Subsidiary: Managed by the cost-plus method, and the estimated processing cost is prepaid at the beginning of each month, and offset against the actual processing cost at the end of month.

Substantive related party: After referencing the market price, the Company will follow the contract specifications set by both parties, and prepay the current estimated processing amount at the beginning of each month, and then offset against the actual processing cost at the end of month.

e. Other operating costs

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2017	2016
Inventory processing cost	Subsidiary/Cyber Power (Shenzhen), Inc.	\$ 24,651	\$ 24,533
	Substantive related party/others	<u>2,083</u>	<u>1,750</u>
		<u>\$ 26,734</u>	<u>\$ 26,283</u>

The price is set according to the contract. The Company prepays the estimated amount at the beginning of every month, and then offset against the actual processing cost at the end of every month.

f. Other income

Related Party Category/Name	For the Year Ended December 31	
	2017	2016
Subsidiary/Cyber Power Systems B.V.	\$ 9,616	\$ 4,365
Subsidiary/Nitram SAS	-	3,139
Subsidiary/others	<u>1,829</u>	<u>1,081</u>
	<u>\$ 11,445</u>	<u>\$ 8,585</u>

g. Receivables from related parties (excluding loans to related parties)

Line Item	Related Party Category/Name	December 31	
		2017	2016
Trade receivables	Subsidiary/Cyber Power Systems (USA), Inc.	\$ 1,356,700	\$ 1,330,494
	Subsidiary/others	<u>143,102</u>	<u>179,448</u>
		<u>\$ 1,499,802</u>	<u>\$ 1,509,942</u>

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2017 and 2016, no impairment loss was recognized on trade receivables from related parties.

Line Item	Related Party Category/Name	December 31	
		2017	2016
Other receivables	Substantive related party/others	<u>\$ 506</u>	<u>\$ -</u>

h. Payables to related parties (excluding borrowings from related parties)

Line Item	Related Party Category/Name	December 31	
		2017	2016
Trade payables	Subsidiary/Cyber Power (Shenzhen), Inc.	\$ 265,010	\$ 283,878
	Subsidiary/Cyber Power Systems (HK) Limited	70,512	144,809
	Subsidiary/others	<u>-</u>	<u>2,636</u>
		<u>\$ 335,522</u>	<u>\$ 431,323</u>

The outstanding trade payables to related parties are unsecured.

i. Prepayments

Related Party Category/Name	For the Year Ended December 31	
	2017	2016
Substantive related party/Best Top (Shenzhen), Inc.	<u>\$ 16,968</u>	<u>\$ 18,934</u>

j. Loans to related parties

Related Party Category/Name	December 31	
	2017	2016
Other receivables (including principal and interest)		
Subsidiary/Cyber Power Systems (India) Pvt. Ltd.	\$ 55,767	\$ 73,670
Subsidiary/Cyber Power Systems GmbH	27,659	27,246
Subsidiary/Cyber Power Systems S.A. DE C.V.	7,110	16,002
Substantive related party/others	<u>9,712</u>	<u>10,504</u>
	<u>\$ 100,248</u>	<u>\$ 127,422</u>

Related Party Category/Name	For the Year Ended December 31	
	2017	2016
Interest revenue		
Subsidiary/Cyber Power Systems (India) Pvt. Ltd.	\$ 546	\$ 864
Subsidiary/others	407	583
Substantive related party/others	<u>49</u>	<u>143</u>
	<u>\$ 1,002</u>	<u>\$ 1,590</u>

For the years ended December 31, 2017 and 2016, the Company provided financing to CyberPower Systems GmbH, Cyber Power Systems (India) Pvt. Ltd., and Best Top (Shenzhen), Inc. at interest rates of 0.9135% and 1.25%, respectively.

The Company reclassified trade receivables aged over 90 days and with normal credit terms from Cyber Power Systems S.A. DE C.V. and Cyber Power Systems (India) Pvt. Ltd. to other receivables, and imputed interest based on an interest rate of 0.9135%.

k. Acquisitions of property, plant and equipment

Related Party Category	Purchase Price	
	For the Year Ended December 31	
	2017	2016
Subsidiary	\$ -	\$ 341
Substantive related party	<u>1,820</u>	<u>5,166</u>
	<u>\$ 1,820</u>	<u>\$ 5,507</u>

l. Acquisition of additional interest in related parties

In March 2016, the Company acquired 100% of the newly issued shares of Broad Win International Investment Co., Ltd. for \$18,297 thousand, and the ownership percentage remained at 100%.

In June and December 2017, the Company acquired 100% of the newly issued shares of Broad Win International Investment Co., Ltd. for \$22,355 thousand and \$13,709 thousand, respectively, and the ownership percentage remained at 100%.

In November 2017, the Company acquired newly issued shares of Cliquefie Co., Ltd. for \$1,900 thousand, and the ownership percentage remained at 95%.

m. Endorsements and guarantees

Endorsements and guarantees provided by the Company

Related Party Category/Name	December 31	
	2017	2016
Subsidiary	US\$ 21,900	US\$ 21,900
	EUR 150	EUR 150
	INR 300,000	INR 400,000

n. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	<u>\$ 20,824</u>	<u>\$ 22,517</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

	December 31	
	2017	2016
Pledged time deposits (other financial assets - current)	\$ 548,920	\$ 43,000
Property, plant and equipment and investment properties	<u>1,110,551</u>	<u>-</u>
	<u>\$ 1,659,471</u>	<u>\$ 43,000</u>

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

- a. The Company had purchased inventories from Well Shin Technology Co., Ltd. ("Well Shin") and suspended payments due to commodity defects. However, Well Shin initiated a civil procedure to request for the payments, which is now reviewed by the Taiwan Civilian Court of the Shilin District Court. After prudent evaluation, the Company believes that those inventories from Well Shin were indeed defective and the claims for payment of trade payables to Well Shin have a high probability of being denied.

- b. The Company's client, Arris Group, Inc. ("Arris Group"), has sued Cyber Power Systems (USA) and the Company for violating the contract, claiming that the product's specifications failed to meet the requirements and did not fulfill the warranty obligations. After careful evaluation, it was found that both the use and design of commodities produced by the Company met the required regulations, and Arris Group's consent was obtained before production. In addition, since the installation environment was unpredictable, the wear and tear of the commodities was considered within the normal range. Furthermore, to date Arris Group was unable to prove that there were abnormalities in the functionality or performance of the Company's commodities within the warranty period. Based on the case, Arris Group demanded US\$12,500 thousand as compensation. The maximum risk of litigation is compensation in full upon losing the case. Based on the warranty regulations indicated in the Illinois Law and Uniform Commercial Code (UCC), if the buyer did not file a lawsuit within four years after the merchandise was delivered, the warranty shall have expired. The Company would then propose the following arguments to the court:
- 1) The litigation that implicates Cyber Power Systems (USA) should be dismissed due to no cause of action.
 - 2) Since the Company did not sign any contract and has no direct business activities in the Illinois state, the court has no jurisdiction to rule on the prosecution towards the Company. The lawyer is currently unable to assess the possibility of winning the case.
- c. The Company issued checks as guarantees for loan commitments; the amounts as of December 31, 2017 and 2016 were as follows:

	<u>December 31</u>	
	2017	2016
Financial guarantees to banks		
USD	\$ 24,300	\$ 2,000
NTD	2,183,000	3,000

32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2017

	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 106,836	29.76	\$ 3,179,452
EUR	3,716	35.57	132,186
HKD	1,147	3.807	4,425
CNY	517	4.565	2,360
			(Continued)

	Foreign Currency	Exchange Rate	Carrying Amount
Non-monetary items			
Investments accounted for using the equity method			
USD	\$ 3,073	29.76	\$ 91,454
EUR	3,323	35.57	118,189
CNY	99,154	4.565	452,637
<u>Financial liabilities</u>			
Monetary items			
USD	22,505	29.76	669,753
EUR	-	35.57	-
HKD	39,719	3.807	151,209
CNY	61,136	4.565	279,087
			(Concluded)

December 31, 2016

	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 94,837	32.25	\$ 3,058,477
EUR	7,520	33.9	254,925
HKD	350	4.158	751
CNY	14,999	4.617	69,250
Non-monetary items			
USD	3,898	32.25	125,721
EUR	2,448	33.9	82,989
CNY	94,713	4.617	437,289
<u>Financial liabilities</u>			
Monetary items			
USD	19,305	32.25	622,000
EUR	4	33.9	138
HKD	42,708	4.158	177,582
CNY	64,252	4.617	296,653

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange losses were \$(155,348) thousand and \$(24,831) thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies.

33. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others: Table 1 (attached)

- 2) Endorsements/guarantees provided: Table 2 (attached)
 - 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures):
None
 - 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: Table 3 (attached)
 - 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital:
None
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached)
 - 9) Trading in derivative instruments: None
 - 10) Information on investees: Tables 6 to 11 (attached)
- b. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Table 12 (attached)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: Table 13 (attached)
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period
 - c) The amount of property transactions and the amount of the resultant gains or losses
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to the financing of funds
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services

CYBER POWER SYSTEMS INC.

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2017

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

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit	Note
													Item	Value			
0	Cyber Power Systems Inc.	Best Top (Shenzhen), Inc.	Other receivables from related parties	Yes	\$ 10,504	\$ 9,712	\$ 9,712	0.9135	Business relationship	Purchases of goods \$10,609 Processing cost \$76,636 Inventory processing cost \$2,083 Manufacturing expense \$358 Research expense \$6,161 Purchases of molds \$1,820	-	\$ -	-	Note A	Note C		
		Cyber Power Systems GmbH	Other receivables from related parties	Yes	53,835	53,355	27,659	0.9135	Short-term financing	-	Operating capital	-	-	Note B	Note D		
		Cyber Power Systems (India) Pvt. Ltd.	Other receivables from related parties	Yes	70,950	-	-	0.9135	Short-term financing	-	Operating capital	-	-	Note B	Note D		
		Cyber Power Systems (India) Pvt. Ltd.	Other receivables from related parties	Yes	73,670	55,767	55,767	0.9135	Business relationship	Sales of goods \$50,730	-	-	-	Note A	Note C		
		Cyber Power Technology (Shenzhen) Inc.	Other receivables from related parties	Yes	1,551	-	-	0.9135	Business relationship	Sales of goods \$60	-	-	-	Note A	Note C		
		Cyber Power Systems S.A. DE C.V.	Other receivables from related parties	Yes	25,920	7,110	7,110	0.9135	Business relationship	Sales of goods \$51,312	-	-	-	Note A	Note C		

Note A: The limit is the business transaction amount for the previous year.

Note B: The business transaction amount for Best Top (Shenzhen), Inc. for the previous year comprises purchases of goods of \$19,326 thousand, processing cost of \$70,685 thousand, inventory processing cost of \$1,750 thousand, manufacturing expense of \$2,307 thousand, research expense of \$5,391 thousand and purchases of molds of \$5,166 thousand.

Note C: The business transaction amount for Cyber Power Technology (Shenzhen) Inc. for the previous year comprises purchases of goods of \$1,701 thousand.

Note D: The business transaction amount for Cyber Power Systems (India) Pvt. Ltd. for the previous year comprises sales of goods of \$57,404 thousand.

Note E: The business transaction amount for Cyber Power Systems S.A. DE C.V. for the previous year comprises sales of goods of \$51,088 thousand.

Note F: Financing limit for each borrower is 10% of the net value of the financing company = \$4,245,956*10% = \$424,596.

Note G: Aggregate financing limits is 20% of the net value of the financing company = \$4,245,956*20% = \$849,191.

Note H: Aggregate financing limits is 40% of the net value of the financing company = \$4,245,956*40% = \$1,698,382.

CYBER POWER SYSTEMS INC.

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017

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

No.	Endorser/Guarantor	Endorsee/Guaranteee		Limits on Endorsement/ Guarantee Given on Behalf of Each Party	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China	Note
		Name	Relationship											
0	Cyber Power Systems Inc.	Cyber Power Systems (USA), Inc.	2	The limit is 30% of the net value of the financing company based on the latest audited financial statements.	\$ 464,400 (US\$ 14,400 thousand)	\$ 428,544 (US\$ 14,400 thousand) Note B	\$ -	\$ -	10.09	Note A	Y	N	N	
		Cyber Power Systems (India) Pvt. Ltd.	2	The limit is 30% of the net value of the financing company based on the latest audited financial statements.	415,590 (US\$ 7,000 thousand and INR 400 million)	347,970 (US\$ 7,000 thousand and INR 300 million) Note B	31,935	-	8.20	Note A	Y	N	N	
		Cyber Power Systems GmbH	2	The limit is 30% of the net value of the financing company based on the latest audited financial statements.	21,210 (US\$ 500 thousand and Euro 150 thousand)	20,216 (US\$ 500 thousand and Euro 150 thousand) Note B	-	-	0.48	Note A	Y	N	N	

Note A: Aggregate endorsement/guarantee limit is 50% of the net value of the financing company = \$4,245,956*50% = \$2,122,978.

Note B: The calculation of the maximum amount endorsed/guaranteed during the period and outstanding endorsement/guarantee at the end of the period was based on the average buy/sell closing exchange rate for the year ended December 31, 2017.

CYBER POWER SYSTEMS INC.

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NIS300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty is a Related Party			Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date			
Cyber Power Systems Inc.	Office building	February 21, 2017	\$ 2,600,000	\$ 2,600,000	Prince Housing & Development Corporation.	-	-	-	\$ -	Professional valuation reports and bargaining	Business operation	-

CYBER POWER SYSTEMS INC.

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Related Party	Relationship	Transaction Details			Abnormal Transaction			Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Cyber Power Systems Inc.	Cyber Power Systems (USA), Inc.	Subsidiary	Sale	\$ (3,051,298)	(52)	Note	Note	Note	Accounts receivable \$1,356,700	63	
	Cyber Power Systems B.V.	Third-tier subsidiary	Sale	(149,752)	(3)	Note	Note	Note	Accounts receivable \$53,621	2	
	Nitram SAS	Third-tier subsidiary	Sale	(140,050)	(2)	Note	Note	Note	Accounts receivable \$31,803	1	
	Cyber Power Systems (HK) Limited	Third-tier subsidiary	Purchase	549,247	15	Note	Note	Note	Accounts payable \$(70,512)	(7)	
	Cyber Power (Shenzhen), Inc.	Third-tier subsidiary	Processing cost	590,822	14	Note	Note	Note	Accounts payable - processing cost \$(236,664)	(23)	

Note: Terms of the transactions are as follows:

- Purchases of goods

Cyber Power Systems (HK) Limited

Cyber Power Systems (HK) Limited: After referring to market practices, the payment term is 60 days.

- Processing cost

Cyber Power (Shenzhen), Inc.

Cyber Power (Shenzhen), Inc.: Managed by the cost-plus method. The estimated processing cost is prepaid at the beginning of each month, and offset against the actual processing cost at the end of month.

- Sales of goods

Cyber Power Systems (USA), Inc.

Cyber Power Systems B.V.

Nitram SAS

The pricing strategy of the Company for the sales to related parties varies according to the size and competitiveness of the market. The period of collection of trade receivables between the related parties is 90 to 180 days. The use of funds by enterprises is included in the grace period during the collection period, while the collection period for third parties is 30 to 90 days.

CYBER POWER SYSTEMS INC.

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 DECEMBER 31, 2017
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Amount	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
						Amount	Actions Taken		
Cyber Power Systems Inc.	Cyber Power Systems (USA), Inc.	Subsidiary	\$ 1,356,700	2.27	\$ -	-	-	\$ 446,617	\$ -

CYBER POWER SYSTEMS INC.

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2017		Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2017	December 31, 2016	Number of Shares	%			
Cyber Power Systems Inc.	Broad Win International Investment Co., Ltd.	Samoa	Investment	\$ 413,441	\$ 377,377	13,495,329	100	\$ (8,916)	(8,916)	Subsidiary
	Cyber Power Systems (USA), Inc.	U.S.A.	Selling of uninterruptible power systems	412,870	412,870	13,000,000	100	(13,791)	(13,791)	Subsidiary
	Fast Wind International Limited	Mauritius	Investment	165,900	165,900	4,438,245	100	35,558	35,558	Subsidiary
	Clique Co., Ltd.	Taiwan	Selling of uninterruptible power systems	11,400	9,500	1,140,000	95	(5,718)	(5,433)	Subsidiary
Broad Win International Investment Co., Ltd.	Planet Technology Limited	Samoa	Investment	24,638	24,638	1,000,000	100	58,917	58,917	Second-tier subsidiary
	Join Master Co., Ltd.	British Virgin Islands	Investment	13,235	13,235	3,944	100	962	962	Second-tier subsidiary
	Portal Star Co., Ltd.	Mauritius	Investment	130,735	94,671	4,338,000	100	(38,383)	(38,383)	Second-tier subsidiary
	Cyber Power Systems (HK) Limited	Hong Kong	Selling of uninterruptible power systems	373	373	100,000	100	16,472	16,472	Second-tier subsidiary
Shining Pearl Co., Ltd.	Shining Pearl Co., Ltd.	Mauritius	Investment	244,460	244,460	8,000,000	100	(52,113)	(37,878)	Second-tier subsidiary
	Cyber Power Systems K.K.	Japan	Selling of uninterruptible power systems	13,235	13,235	3,800	100	962	962	Third-tier subsidiary
Shining Pearl Co., Ltd.	Cyber Power Systems (India) Pvt. Ltd.	India	Selling of uninterruptible power systems	244,460	244,460	48,767,742	100	(52,113)	(37,878)	Third-tier subsidiary
	Global Way Co., Ltd.	Mauritius	Investment	20,674	20,674	430,000	100	13,993	13,993	Second-tier subsidiary
Fast Wind International Limited	Full Star Co., Ltd.	Mauritius	Investment	80,747	80,747	1,870,400	100	4,024	4,024	Second-tier subsidiary
	Grown Tech Co., Ltd.	Mauritius	Investment	1,058	1,058	25,000	100	1,957	1,957	Second-tier subsidiary
	Global Win Co., Ltd.	Belize City	Investment	63,421	63,421	1,700,831	100	15,584	15,584	Second-tier subsidiary
	Cyber Power Systems B.V.	Netherlands	Selling of uninterruptible power systems	20,674	20,674	7,000	100	13,993	13,993	Third-tier subsidiary
Global Way Co., Ltd.	Nitram SAS	France	80,747	80,747	1,819	100	4,024	4,024	Third-tier subsidiary	
Grown Tech Co., Ltd.	CyberPower Systems GmbH	Germany	1,058	1,058	1	100	1,957	1,957	Third-tier subsidiary	
Global Win Co., Ltd.	Cyber Power Systems S.A. DE C.V.	Mexico	63,421	63,421	1,700,831	100	15,584	15,584	Third-tier subsidiary	

CYBER POWER SYSTEMS INC.

FINANCING PROVIDED TO OTHERS

FOR THE YEAR ENDED DECEMBER 31, 2017

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

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit	Note
													Item	Value			
1	Cyber Power (Shenzhen), Inc. Cyber Power Systems (USA), Inc. Cyber Power Systems (HK) Limited	Ning Yuan Xian CyberPower, Inc. Cyber Power Systems S.A. DE C.V. Cyber Power Technology (Shenzhen) Inc.	Other receivables from related parties Other receivables from related parties Other receivables from related parties	Yes Yes Yes	\$ 27,489 13,137 2,878	\$ - 835 513	\$ - 835 513	0.9135 0.9135 0.9135	Business relationship Business relationship Business relationship	Processing cost \$163,785 Sales \$21,588 Sales \$1,163	- - -	\$ - - -	- - -	(Note A) (Note A) (Note A)	(Note B) (Note C) (Note D)		

Note A: The limit is the business transaction amount for the previous year.

The business transaction amount between Cyber Power (Shenzhen), Inc. and Ning Yuan Xian CyberPower, Inc. for the previous year comprises processing cost of \$136,801 thousand.
The business transaction amount between Cyber Power Systems (USA), Inc. and Cyber Power Systems S.A. DE C.V. for the previous year comprises sales of goods \$30,493 thousand.
The business transaction amount between Cyber Power Systems (HK) Limited and Cyber Power Technology (Shenzhen) Inc. for the previous year comprises sales of goods \$1,071 thousand.

Note B: Financing limit is 20% of the net value of Cyber Power (Shenzhen), Inc. (based on the average buy/sell CNY closing exchange rate) = \$343,660*20% = \$68,732.

Note C: Financing Limits is 20% of the net value of Cyber Power Systems (USA), Inc. (based on the average of buy/sell USD closing exchange rate) = \$419,338*20% = \$83,868.

Note D: Financing Limits is 20% of the net value of Cyber Power Systems (HK) Limited (based on the average of buy/sell HKD closing exchange rate) = \$48,446*20% = \$9,689.

CYBER POWER SYSTEMS INC.

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NTS300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal		Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Cyber Power (Shenzhen), Inc.	Capital increase by cash	Investment accounted for using the equity method	Ning Yuan Xian CyberPower, Inc.	Subsidiary								

CYBER POWER SYSTEMS INC.

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NTS300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty is a Related Party			Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date			
Ning Yuan Xian CyberPower, Inc.	Land and building located in Ning Yuan Xian, China	June 28, 2017	\$ 185,613	\$ 185,613	Ning Yuan Xian C&D Industrial Co., Ltd.	-	-	-	\$ -	Bidding	Production	-

CYBER POWER SYSTEMS INC.

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Related Party	Relationship	Transaction Details			Abnormal Transaction			Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Cyber Power Systems (USA), Inc.	Cyber Power Systems Inc.	Investments accounted for using the equity method	Purchase	\$ 3,051,298	95	Note A	Note A	Note A	Accounts payable \$(1,356,700)	(99)	
Cyber Power Systems B.V.	Cyber Power Systems Inc.	Investments accounted for using the equity method	Purchase	149,752	99	Note A	Note A	Note A	Accounts payable \$(33,621)	(100)	
Nitram SAS	Cyber Power Systems Inc.	Investments accounted for using the equity method	Purchase	140,050	93	Note A	Note A	Note A	Accounts payable \$(31,803)	(86)	
Cyber Power (Shenzhen), Inc.	Cyber Power Systems Inc.	Investments accounted for using the equity method	Processing revenue	(590,822)	(96)	Note A	Note A	Note A	Accounts receivable \$236,664	100	
Cyber Power Systems (HK) Limited	Cyber Power Systems Inc.	Investments accounted for using the equity method	Sale	(549,247)	(93)	Note A	Note A	Note A	Accounts receivable \$70,512	60	
Ning Yuan Xian CyberPower, Inc.	Cyber Energy (Shenzhen), Inc.	The same parent company	Purchase	531,029	84	Note B	Note B	Note B	Accounts payable \$(52,416)	(72)	
	Cyber Power (Shenzhen), Inc.	The same parent company	Sale	(163,785)	(99)	Note B	Note B	Note B	Accounts receivable \$16,922	91	

Note A: Refer to Table 4.

Note B: Refer to Table 14.

CYBER POWER SYSTEMS INC.

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 DECEMBER 31, 2017
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Amount	Overdue		Allowance for Impairment Loss
						Actions Taken	Amounts Received in Subsequent Period	
Cyber Power (Shenzhen), Inc.	Cyber Power Systems Inc.	Investments accounted for using the equity method	Accounts receivable - processing cost \$236,664	5.16	\$ -	-	\$ 236,664	\$ -

CYBER POWER SYSTEMS INC.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outward Remittance for Investments from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note E)	Carrying Amount as of December 31, 2017	Accumulated Repatriation of Investment Income as of December 31, 2017	Note
					Outflow	Inflow							
Cyber Power (Shenzhen), Inc.	Production of uninterruptible power systems	\$ 34,025 (US\$ 1,000)	Note A	\$ 24,638 (US\$ 750)	\$ -	\$ -	\$ 24,638 (US\$ 750)	\$ 58,917	100.00	\$ 58,917	\$ 343,660	\$ -	
Cyber Energy (Shenzhen), Inc.	Production of uninterruptible power systems	58,248 (US\$ 2,000)	Note B	49,281 (US\$ 1,700)	-	-	49,281 (US\$ 1,700)	(28,975)	100.00	(25,347)	57,203	-	
Ning Yuan Xian CyberPower, Inc.	Production of uninterruptible power systems	286,619 (CNY 62,000)	Note C	-	-	-	-	29,652	100.00	29,652	289,700	-	
Cyber Power Technology (Shenzhen) Inc.	Selling of uninterruptible power systems	72,526 (US\$ 2,338)	Note D	45,390 (US\$ 1,444)	22,355 (US\$ 738)	-	67,745 (US\$ 2,182)	(9,408)	100.00	(7,809)	24,581	-	

Note A: Parent company: Cyber Power Systems Inc.; subsidiary: Broad Win International Investment Co., Ltd.; second-tier subsidiary: Planet Technology Limited; third-tier subsidiary: Cyber Power (Shenzhen), Inc.

Note B: Parent company: Cyber Power Systems Inc.; subsidiary: Broad Win International Investment Co., Ltd.; second-tier subsidiary: Portal Star Co., Ltd.; third-tier subsidiary: Cyber Energy (Shenzhen), Inc.

Note C: The investment was made directly from Cyber Power (Shenzhen), Inc.

Note D: Parent company: Cyber Power Systems Inc.; subsidiary: Broad Win International Investment Co., Ltd.; second-tier subsidiary: Portal Star Co., Ltd.; third-tier subsidiary: Cyber Power Technology (Shenzhen) Inc.

Note E: Financial statements of these companies, which were audited by the accounting firm of the parent company.

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2017	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by the Investment Commission, MOEA
\$141,664 (US\$4,632)	\$141,664 (US\$4,632)	\$2,547,574

CYBER POWER SYSTEMS INC.

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES

FOR THE YEAR ENDED DECEMBER 31, 2017

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

Investee Company	Relationship	Transaction Type	Amount	Transaction Details			Notes/Accounts Receivable (Payable)		Unrealized (Gain) Loss	Note
				Price	Payment Terms	Comparison with Normal Transactions	Ending Balance	%		
Cyber Power (Shenzhen), Inc.	Third-tier subsidiary	Processing cost	\$ 590,822	Note A	Note A	Note A	Accounts payable-processing cost \$(236,664)	(18)	\$ -	
		Other operating costs	24,651	Note A	Note A	Note A	Accounts payable \$(28,346)	-	-	
The transactions between Cyber Power Systems (HK) Limited and Cyber Energy(Shenzhen), Inc.	Second-tier subsidiary (Cyber Power Systems (HK) Limited)	Sales of goods	40,480	Note C	Note C	Note C	Accounts receivable \$44,801	38	-	
		Purchases of goods	531,029	Note C	Note C	Note C	Accounts payable \$(52,416)	(72)	-	
The transactions between Cyber Power Systems (HK) Limited and Cyber Power Technology (Shenzhen) Inc.	Second-tier subsidiary(Cyber Power Systems (HK) Limited)	Sales of goods	1,163	Note D	Note D	Note D	Accounts receivable \$572	-	-	
The transactions between Cyber Power (Shenzhen), Inc. and Ning Yuan Xian CyberPower, Inc.	Third-tier subsidiary	Processing cost	163,785	Note A	Note A	Note A	Accounts payable - processing cost \$(16,922)	(91)	-	

Note A: Processing cost: managed by the cost-plus method, and the estimated processing cost is prepaid at the beginning of each month, and offset against the actual processing cost at the end of month.

Inventory processing cost: according to the specifications set by both parties in the contract, the current estimated processing amount is prepaid at the beginning of each month, and then offset against the actual processing cost at the end of month.

Note B: The payment term is 60 days, according to the specifications set by both parties in the contract.

Note C: The payment term is 60 days, the collection term is 90 days, according to the specifications set by both parties in the contract.

Note D: The payment term is 120 days, according to the specifications set by both parties in the contract.

Note E: Endorsements/guarantees or collateral provided to an investee company in Mainland China, either directly or indirectly through a third party: None.

Note F: Financing provided to an investee company in Mainland China, either directly or indirectly through a third party: Tables 1 and 8.