

GRANDTECH C.G. SYSTEMS INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2016 AND 2015

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



REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of GrandTech C.G. Systems Inc.

Opinion

We have audited the accompanying consolidated balance sheets of GrandTech C.G. Systems Inc. and its subsidiaries (the “Group”) as at December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants (please refer to Other matter-audits of the other independent accountants section of our report), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

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

Valuation of allowance for uncollectible accounts

Description

Please refer to Note 4(9) for accounting policy on allowance for uncollectible accounts valuation, Note 5(2) for accounting estimates and assumption uncertainty in relation to accounts receivable valuation, and Note 6(5) for description of allowance for uncollectible accounts.

As of December 31, 2016, the Company's accounts receivable and allowance for uncollectible accounts amounted to NT\$907,195 thousand and NT\$21,944 thousand, respectively.

The Group provides allowance for uncollectible accounts in accordance with historical experience, other objective evidences, and management's subjective judgement or the subsequent accounts' recoverability. Considering the Group's allowance for uncollectible accounts is significant to the financial statements, we identified valuation of allowance for uncollectible accounts a key audit matter.

How our audit addressed the matter

We as well as the other independent accountants and we performed the following audit procedures on the above key audit matter regarding consolidated entities:

1. Obtained an understanding of the Group's operations and Credit Quality Control Policy in order to evaluate the reasonableness of the Group's provision policies and procedures on uncollectible accounts.
2. Confirmed whether the provision policies on allowance for uncollectible accounts were adopted consistently for the comparative periods.
3. Assessed the reasonableness of estimated allowance for uncollectible accounts, and obtained supporting documents for allowance for uncollectible accounts which was reversed in the middle of the year and verified its adequacy.
4. Performed subsequent collection test in order to verify the adequacy of allowance provision for uncollectible accounts



Valuation of inventory

Description

Please refer to Note 4(10) for accounting policy on inventory valuation, Note 5(2) for accounting estimates and assumption uncertainty in relation to inventory valuation, and Note 6(6) for description of allowance for inventory valuation losses.

As of December 31, 2016, the Company's inventories and allowance for inventory valuation losses amounted to NT\$479,196 thousand and NT\$42,711 thousand, respectively.

The Group is engaged mainly in the wholesale and retail of computers and related products. Since the product's life cycle is short and affected by market competition, there was higher risk of incurring allowance for inventory valuation losses. The Group's inventories were measured at the lower of cost and net realisable value, and the Group's determination of net realisable value for inventories involves subjective judgement resulting in a high degree of estimation uncertainty. Considering the Group's inventories and the allowance for inventory valuation losses were material to the financial statements, we consider the estimation of the allowance for inventory valuation losses a key audit matter.

How our audit addressed the matter

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

1. Assessed the reasonableness of provision policies and procedures on allowance for inventory valuation losses based on our understanding of the Group's operations and industry.
2. Evaluated the reasonableness of individually identified obsolete or slow-moving inventories and acquired supporting documents, and verified information from observation on physical inventory count.
3. Performed verification of logic used in the calculation of net realisable value, and assessed the reasonableness of the Group's determination of allowance for inventory valuation losses.



Change in the Group's top 10 customers

Description

Please refer to Note 4(24) for accounting policy on revenue recognition.

In 2016, the Group has several new customers comprising the Group's top 10 customers which entailed a more extensive review of transactions. As the Group's top 10 customers were material to the financial statements, we considered the change in the Group's top 10 customers a key audit matter.

How our audit addressed the matter

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

1. Obtained an understanding of related internal control in relation to new top 10 customers, and performed review of related internal control procedures.
2. Obtained sales contract, compared the reasonableness of price lists in force and terms with other customers, and checked whether they were approved properly.
3. Checked sales transactions of the Group's top 10 customers including packing lists to ascertain whether they were approved and signed properly.

Other matter- audits of the other independent accountants

We did not audit the financial statements of a wholly-owned consolidated subsidiary and investments accounted under the equity method that were included in the financial statements. Total assets of the subsidiary (including investments accounted for using equity method) amounted to \$1,212,421 thousand and \$1,248,234, constituting 39% and 44% of consolidated total assets as at December 31, 2016 and 2015, respectively, and operating income of the subsidiary and investment income accounted for under equity method amounted to \$2,099,380 thousand and \$2,077,707 thousand, constituting 39% and 55% of consolidated total operating income for the years ended December 31, 2016 and 2015, respectively. Those financial statements were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.



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Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of GrandTech C.G. Systems Inc. as at and for the years ended December 31, 2016 and 2015.

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

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

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

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

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

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



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

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

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



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

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

PricewaterhouseCoopers

Taipei Taiwan
Republic of China

March 14, 2017

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

GRANDTECH C.G. SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	2016	2015
Current assets			
1100	Cash and cash equivalents 6(1)	\$ 641,413	\$ 625,766
1125	Available-for-sale financial assets 6(2)		
	- current	46,217	44,139
1147	Investment in bonds without 6(3)		
	active markets - current	7,647	15,064
1150	Notes receivable, net 6(4) and 7	97,784	95,909
1170	Accounts receivable, net 6(5) and 7	885,251	747,481
1200	Other receivables	38,208	19,162
130X	Inventory 6(6)	436,485	404,206
1470	Other current assets	21,585	49,979
11XX	Total current assets	<u>2,174,590</u>	<u>2,001,706</u>
Non-current assets			
1543	Financial assets carried at cost - 6(7)		
	non-current	16,656	22,444
1550	Investments accounted for under 6(8)		
	equity method	3,940	1,597
1600	Property, plant and equipment 6(9), 7 and 8	704,766	722,572
1780	Intangible assets	31,229	19,577
1840	Deferred income tax assets 6(25)	10,213	15,636
1900	Other non-current assets 6(15) and 8	167,089	71,941
15XX	Total non-current assets	<u>933,893</u>	<u>853,767</u>
1XXX	Total assets	<u>\$ 3,108,483</u>	<u>\$ 2,855,473</u>

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GRANDTECH C.G. SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	2016	2015
Current liabilities			
2100	Short-term loans	6(10) and 8 \$ 616,000	\$ 655,500
2110	Short-term bills payable	6(11) 99,950	49,992
2120	Financial liabilities at fair value through profit or loss - current	6(12) 267	-
2150	Notes payable	7 15,412	19,073
2170	Accounts payable	7 560,387	467,288
2200	Other payables	6(13) 176,604	140,219
2230	Current income tax liabilities	6(25) 6,430	14,290
2300	Other current liabilities	6(14) and 8 63,947	63,192
21XX	Total current liabilities	<u>1,538,997</u>	<u>1,409,554</u>
Non-current liabilities			
2540	Long-term loans	6(14) and 8 45,751	53,241
2570	Deferred income tax liabilities	6(25) 83	242
2600	Other non-current liabilities	5,870	9,065
25XX	Total non-current liabilities	<u>51,704</u>	<u>62,548</u>
2XXX	Total liabilities	<u>1,590,701</u>	<u>1,472,102</u>
Equity			
Equity attributable to owners of parent			
Capital			
3110	Share capital - common stock	6(17) 551,433	551,433
Capital surplus			
3200	Capital surplus	6(18) 333,727	335,776
Retained earnings			
3310	Legal reserve	6(19) 102,550	90,384
3350	Unappropriated earnings	168,688	120,026
Other equity interest			
3400	Other equity interest	17,790	39,089
3500	Treasury stocks	6(17) (37,092)	(48,414)
31XX	Total equity attributable to owners of the parent	<u>1,137,096</u>	<u>1,088,294</u>
36XX	Non-controlling interest	<u>380,686</u>	<u>295,077</u>
3XXX	Total equity	<u>1,517,782</u>	<u>1,383,371</u>
Significant contingent liabilities and unrecognised contract commitments			
Significant events after the balance sheet date			
3X2X	Total liabilities and equity	<u>\$ 3,108,483</u>	<u>\$ 2,855,473</u>

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

GRANDTECH C.G. SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2106 AND 2015

(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

Items	Notes	2016	2015
4000	Operating revenue	\$ 5,365,888	\$ 3,753,903
5000	Operating costs	(4,345,404)	(2,919,046)
5900	Gross profit	<u>1,020,484</u>	<u>834,857</u>
	Operating expenses		
6100	Selling expenses	(557,488)	(471,919)
6200	General and administrative expenses	(227,179)	(194,982)
6000	Total operating expenses	<u>(784,667)</u>	<u>(666,901)</u>
6900	Operating profit	<u>235,817</u>	<u>167,956</u>
	Non-operating income and expenses		
7010	Other income	7,205	10,285
7020	Other gains and losses	17,095	21,699
7050	Finance costs	(11,644)	(10,860)
7060	Share of loss of associates and joint ventures accounted for under equity method	(691)	(2,228)
7000	Total non-operating income and expenses	<u>11,965</u>	<u>18,896</u>
7900	Profit before income tax	247,782	186,852
7950	Income tax expense	(41,971)	(30,665)
8200	Profit for the year	<u>\$ 205,811</u>	<u>\$ 156,187</u>

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GRANDTECH C.G. SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2106 AND 2015

(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

Items	Notes	2016	2015
Other comprehensive income			
Components of other comprehensive income (loss) that will not be reclassified to profit or loss			
8311		Gain (loss) on remeasurements of defined benefit plans	(\$ 1,264)
8349	6(25)	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	30
8310		Components of other comprehensive (loss) income that will not be reclassified to profit or loss	(1,050)
Components of other comprehensive income that will be reclassified to profit or loss			
8361		Financial statements translation differences of foreign operations	(3,072)
8362	6(2)	Unrealized gain on valuation of available-for-sale financial assets	23,945
8360		Components of other comprehensive (loss) income that will be reclassified to profit or loss	20,873
8300		Other comprehensive (loss) income for the year	\$ 20,725
8500		Total comprehensive income for the year	\$ 176,912
Profit attributable to:			
8610		Owners of the parent	121,661
8620		Non-controlling interest	34,526
		Profit attributable to:	156,187
Comprehensive income attributable to:			
8710		Owners of the parent	142,772
8720		Non-controlling interest	34,140
		Comprehensive income attributable to:	\$ 176,912
Earnings per share			
9750	6(26)	Basic earnings per share	\$ 2.25
9850		Diluted earnings per share	\$ 2.23

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

Pa7A7GRANDTECH C.G. SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent							Retained Earnings			Other Equity Interest					
		Share capital - common stock	Total capital surplus, additional paid-in capital	Legal reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations			Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total	Non-controlling interest	Total equity				
2015																	
	Balance at January 1, 2015	\$ 565,183	\$ 341,306	\$ 81,078	\$ 116,223	\$ 18,495	(\$ 240)	(\$ 48,168)	\$ 1,073,877	\$ 248,215	\$ 1,322,092						
	Appropriations of 2014 earnings:																
	Legal reserve	-	-	9,306	(9,306)	-	-	-	-	-	-	-	-	-	-	-	-
	Cash dividends	-	-	-	(82,714)	-	-	-	(82,714)	-	(82,714)	-	-	-	-	-	-
	Other changes in capital surplus	-	1,940	-	-	-	-	-	1,940	-	1,940	-	-	-	-	-	1,940
	Reorganization	-	(157)	-	-	-	-	-	(157)	-	(157)	-	-	-	-	-	(157)
	Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Retirement of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Treasury shares transferred to employees	-	(8,303)	-	(26,115)	-	-	-	(69,800)	-	(69,800)	-	-	-	-	-	(69,800)
	Change in equity of subsidiaries	-	990	-	-	-	-	-	21,386	-	22,376	-	-	-	-	-	22,376
	Net income for 2015	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,722
	Other comprehensive income (loss) for 2015	-	-	-	277	(3,111)	23,945	-	21,111	-	(386)	-	-	-	-	-	-
	Balance at December 31, 2015	<u>\$ 551,433</u>	<u>\$ 335,776</u>	<u>\$ 90,384</u>	<u>\$ 120,026</u>	<u>\$ 15,384</u>	<u>\$ 23,705</u>	<u>(\$ 48,414)</u>	<u>\$ 1,088,294</u>	<u>\$ 295,077</u>	<u>\$ 1,383,371</u>						
	2016																
	Balance at January 1, 2016	\$ 551,433	\$ 335,776	\$ 90,384	\$ 120,026	\$ 15,384	\$ 23,705	(\$ 48,414)	\$ 1,088,294	\$ 295,077	\$ 1,383,371						
	Appropriations of 2015 earnings:																
	Legal reserve	-	-	12,166	(12,166)	-	-	-	-	-	-	-	-	-	-	-	-
	Cash dividends	-	-	-	(107,858)	-	-	-	(107,858)	-	(107,858)	-	-	-	-	-	(107,858)
	Cash distributed from capital surplus	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Treasury shares transferred to employees	-	(3,829)	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,829)
	Change in equity of subsidiaries	-	3,088	-	-	-	-	-	11,322	-	14,410	-	-	-	-	-	14,410
	Net income for 2016	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	47,434
	Other comprehensive income (loss) for 2016	-	-	-	168,252	-	-	-	168,252	-	168,252	-	-	-	-	-	37,559
	Balance at December 31, 2016	<u>\$ 551,433</u>	<u>\$ 333,727</u>	<u>\$ 102,550</u>	<u>\$ 168,688</u>	<u>(\$ 10,234)</u>	<u>\$ 28,024</u>	<u>(\$ 37,092)</u>	<u>\$ 1,137,096</u>	<u>\$ 380,686</u>	<u>\$ 1,517,782</u>						

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

GRANDTECH C.G. SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

	Notes	2016	2015
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 247,782	\$ 186,852
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(9)(24)	149,772	154,152
Amortization	6(24)	4,976	3,479
Provision (reversal of provision) for bad debts	6(4)(5)	3,018 (	916)
Financial liabilities at fair value through profit or loss	6(12)(22)	(1,397)	-
Interest expense	6(23)	11,644	10,860
Interest income	6(21)	(4,621 ) (	7,569)
Dividend income	6(21)	(240 ) (	386)
Share-based payments	6(16)	3,123	1,054
Share of loss of associates accounted for using equity method	6(8)	691	2,228
Loss (gain) on disposal of property, plant and equipment	6(22)	260 (	592)
Gain on disposal of investments	6(22)	(15,993 ) (	16,924)
Impairment loss	6(7)(8)(22)	-	9,419
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		(1,901)	21,313
Accounts receivable, net		(26,373)	43,557
Other receivables		(18,601)	2,432
Inventories		(30,060 ) (	9,972)
Other current assets		(2,995 ) (	14,781)
Other non-current assets		-	8,298
Changes in operating liabilities			
Notes payable		(3,661 ) (	15,496)
Accounts payable		(11,316 ) (	70,602)
Other payables		30,126 (	44,288)
Other current liabilities		1,854	28,170
Other non-current liabilities		(7,194 ) (	1,618)
Cash inflow generated from operations		328,894	288,670
Interest received		4,621	7,569
Dividends received		240	386
Interest paid		(11,789 ) (	10,634)
Income tax paid		(49,899) (31,662)
Net cash flows from operating activities		<u>272,067</u>	<u>254,329</u>

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GRANDTECH C.G. SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

	Notes	2016	2015
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in other current assets		(\$ 23)	(\$ 346)
Proceeds from disposal of available-for-sale financial assets		6,024	9,679
Decrease in investment in bonds without active markets - current		7,417	19,334
Acquisition of financial assets at cost		(3,000)	(10,054)
Proceeds from disposal of financial assets at cost		21,049	17,426
Acquisition of investments accounted for using equity method	6(8)	(4,121)	-
Net cash outflow from business combination	6(28)	(41,627)	(25,881)
Acquisition of property, plant and equipment	6(9)	(89,178)	(179,761)
Proceeds from disposal of property, plant and equipment		2,747	3,466
Acquisition of intangible assets		(63)	(95)
(Increase) decrease in other non-current assets		(14,609)	6,363
Net cash flows used in investing activities		(115,384)	(159,869)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease (increase) in short-term loans		(39,500)	93,000
Increase in short-term bills payable		50,000	-
Repayment of long-term debt		(8,589)	(8,428)
Decrease in other non-current liabilities		(729)	(1,636)
Cash dividends paid	6(18)(19)	(111,681)	(82,714)
Cash dividends paid by subsidiaries		(10,780)	(26,950)
Acquisition of treasury shares	6(17)	-	(69,800)
Treasury shares sold to employees		11,287	21,322
(Increase) decrease in non-controlling interests		(1,308)	2,134
Net cash flows used in financing activities		(111,300)	(73,072)
Effect of foreign exchange rate		(29,736)	(7,187)
Net increase in cash and cash equivalents		15,647	14,201
Cash and cash equivalents at beginning of year	6(1)	625,766	611,565
Cash and cash equivalents at end of year	6(1)	\$ 641,413	\$ 625,766

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

GRANDTECH C.G. SYSTEMS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION AND SCOPE OF BUSINESS

GrandTech C.G. Systems Inc. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in publishing and sales of popular books, magazines and computer software, as well as design and programming of user friendly functional programs and providing data processing services. The Company was listed in the R.O.C. Over-The-Counter Securities Exchange on January 23, 2002.

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

These consolidated financial statements were authorised for issuance by the Board of Directors on March 13, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

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

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

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9, 'Financial instruments' with IFRS 4, 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

A. Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'

The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. The amendment also clarifies the accounting for modifications that change an award from cash-settled to equity-settled. Besides, the amendment introduces an exception that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

B. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

C. Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'

The amendments resolve a current inconsistency between IFRS 10 and IAS 28. The gain or loss resulting from a transaction that involves sales or contribution of assets between an investor and its associates or joint ventures is recognized either in full or partially depending on the nature of the assets sold or contributed:

- (a) If sales or contributions of assets constitute a 'business', the full gain or loss is recognized;
- (b) If sales or contributions of assets do not constitute a 'business', the partial gain or loss is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

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

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

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

Step 1: Identify contracts with customer

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

Step 3: Determine the transaction price

Step 4: Allocate the transaction price

Step 5: Recognise revenue when the performance obligation is satisfied

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

E. Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from Contracts with Customers’

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

F. IFRS 16, ‘Leases’

IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a ‘right-of-use asset’ and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

G. Amendments to IAS 7, ‘Disclosure initiative’

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

- (b) Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2016	December 31, 2015	
The Company	GrandTech (B.V.I.) Inc. (Grand Tech (B.V.I.))	Holding company	100	100	-
The Company	GrandTech (Cayman) Inc. (Grand Tech (B.V.I.))	Holding company	100	100	-
The Company	Grand Holding Inc. (Grand Holding)	Holding company	-	100	Note 2
The Company	DeepStone Digital Technology Co. Ltd. (DeepStone)	Publishing of popular books, etc.	81	81	Note 7
The Company	Ability International Co., Ltd. (Ability International)	Sale, rent and maintenance of office machines and furniture	100	80	Note 5
The Company	Abico Digital Imaging Inc. (Abico Digital)	Sales of computers and optical products	100	100	-
The Company	Honlynn Inc. (Honlynn)	Sale, rent and maintenance of office machines and furniture	51	51	-
The Company	Netcore Network Communication Technology Corp. (Netcore)	Internet related computer software	58.44	58.44	-
The Company	GrandTech Systems Sdn. Bhd. (Grand Tech Systems Sdn.)	Drawing agency, multimedia, internet and others related to computer software and peripherals	100	100	-
The Company	Cogate Co., Ltd. (Cogate)	Sales of various microcomputer, business computer, industrial computer and computer software	51	51	Note 3
The Company	Senco-Masslink Technology Limited (Senco)	Sales agency of hardware and software from Apple, Adobe and Symantec and peripheral equipment	55	-	Note 3

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2016	December 31, 2015	
GrandTech (B.V.I.) Inc. and GrandTech (Cayman) Inc.	GrandTech Systems Limited (GrandTech Systems)	Drawing agency, multimedia, internet and others related to computer software and peripherals	100	100	-
GrandTech (B.V.I.) and GrandTech (Cayman)	GrandTech Limited (china) (GrandTech (China))	Drawing agency, multimedia, internet and others related to computer software and peripherals	100	100	-
GrandTech B.V.I.	GrandTech India Private Limited	Drawing agency, multimedia, internet and others related to computer software and peripherals	100	100	-
GrandTech B.V.I.	Abilty International Holding Ltd.	Holding company	100	-	Note 8
GrandTech B.V.I.	GrandTech Korea Inc.	Drawing agency, multimedia, internet and others related to computer software and peripherals	-	100	Note 9
GrandTech (Cayman)	GrandTech Systems Pte Limited (GrandTech Systems Pte)	Drawing agency, multimedia, internet and others related to computer software and peripherals	100	90	Note 6
Grand Holding	Infolead Technology Limited (Infolead)	Holding company	-	100	Note 2
Grand Holding Inc.	Bestware International Limited (Bestware)	Holding company	100	100	Note 2
GrandTech (China) Limited	GrandTech Subsidiary in Guangzhou	Data processing and services rendering	100	100	-
GrandTech (China)	GrandTech International (Shanghai) Ltd. (GrandTech International (Shanghai))	Warehousing, wholesale and international trade	100	100	-
GrandTech Systems Pte	PT. GrandTech Systems Indonesia	Drawing agency, multimedia, internet and others related to computer software and peripherals	100	100	-

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2016	December 31, 2015	
Honlynn Inc.	Ability International Co., Ltd.	Sale, rent and maintenance of office machines and furniture	-	20	Note 5
Ability International	Taiwan Imaging System Inc. (Taiwan Imaging)	Sale and maintenance of products of information miniature and expendables, and sale, maintenance and rent of office automatic equipment, optical disc system products and expendables	100	100	-
Ability International	Ability International Holding Ltd.	Holding company	-	100	Note 8
Ability International	Jing-nen Co., Ltd.	Sale, rent and maintenance of office machines and furniture	52.99	52.99	Note 3
Ability International Holding Ltd.	Ji Lu Shu Ma Technology (Shanghai) Ltd.	Warehousing, wholesale and international trade	100	100	-
Ability International Holding Ltd.	Ji Lu Shu Ma Technology (Shenzhen) Ltd.	Warehousing, wholesale and international trade	100	100	-
DeepStone Digital Technology Co. Ltd.	Topteam Information Co., Ltd.	Distribution of information software and book publishing industry	98.5	98.5	-
GrandTech Systems Sdn.	DPI Technology Sdn. Bhd.	Trading of various computer and related electronic products	52	52	Note 3
GrandTech Systems Sdn.	GTMY Sdn. Bhd. (GTMY)	Drawing agency others related to computer software and peripherals	100	33.33	Note 4
DPI Technology Sdn. Bhd.	DPI International Ltd.	Trading of various computer and related electronic products	100	100	-
DPI Technology Sdn. Bhd.	Techsign Pte. Ltd.	Trading of various computer and related electronic products	100	100	-

Note 1: For the year ended December 31, 2016 and 2015, the financial statements of GrandTech (B.V.I.), GrandTech (Cayman), Ability International, Abico Digital, GrandTech Systems, and GrandTech (China) were audited by accountants assigned by the Company. For the year ended December 31, 2016, the financial statements of GrandTech International (Shanghai) was audited by the accountants assigned by the Company. Other companies except for those mentioned above prepared their financial statements audited by other accountants.

Note 2: In March 2016, the Group completed liquidation of Grand Holding, Infolead and Besware and hence recognised loss at \$96 under the account of ‘other gains and losses’.

Note 3: Details of related information are provided in Note 6(28).

Note 4: On March 25, 2016, under the resolution of the Board of Directors, the Group invested RM799,999 (approximately NT\$6,570 thousand) through GrandTech Systems Sdn. and hence held 100% shares of the investee.

Note 5: Details of related information are provided in Note 6(27).

Note 6: On April 18, 2016 and May 10, 2016, under the resolution of the Board of Directors, the Group invested in GrandTech Systems Pte for US\$151 thousand (approximately NT\$4,886 thousand) through GrandTech (Cayman) and hence held 100% shares of the investee.

Note 7: The Company’s original name was GrandTech Information Co., Ltd. and renamed Deepstone Digital Technology Co. Ltd. on October 5, 2016.

Note 8: On December 8, 2016, the Group authorised the chairperson to make resolution of investing Ability International Holding Ltd. through GrandTech (B.V.I.) out of the consideration in overall business operation. The Group hence held 100% of the investee.

Note 9: In October 2016, the Group completed the liquidation of GrandTech Korea Inc. and recognised profit under ‘other gains and losses’ at \$257.

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

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

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

As of December 31, 2016 and 2015, the non-controlling interest amounted to \$380,686 and \$295,077, respectively. The information on non-controlling interest and respective subsidiary is as follows:

Name of subsidiary	Principal place of business	December 31, 2016		December 31, 2015	
		Amount	Ownership %	Amount	Ownership %
Honlynn	Taiwan	\$ 209,228	49	\$ 202,238	49%

Summarised financial information of the subsidiary:

Balance sheets

	<u>Honlynn Inc.</u>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current assets	\$ 443,908	\$ 502,376
Non-current assets	259,441	295,628
Current liabilities	(339,271)	(439,780)
Non-current liabilities	(48,956)	(57,583)
Total net assets	<u>\$ 315,122</u>	<u>\$ 300,641</u>

Statements of comprehensive income

	<u>Honlynn Inc.</u>	
	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Revenue	\$ 1,315,314	\$ 1,368,889
Profit before income tax	37,817	58,472
Income tax expense	(5,646)	(10,043)
Profit for the year	<u>\$ 32,171</u>	<u>\$ 48,429</u>
Other comprehensive income (loss), net of tax	1,206	(862)
Total comprehensive income for the year	<u>\$ 33,377</u>	<u>\$ 47,567</u>
Comprehensive income attributable to non-controlling interest	<u>\$ 16,355</u>	<u>\$ 21,702</u>
Dividends paid to non-controlling interest	<u>\$ 10,780</u>	<u>\$ 26,950</u>

Statements of cash flows

	<u>Honlynn Inc.</u>	
	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Net cash provided by operating activities	\$ 38,450	\$ 42,233
Net cash provided by (used in) investing activities	31,469	(68,205)
Net cash used in financing activities	(120,000)	(13,307)
(Decrease) in cash and cash equivalents	(50,081)	(39,279)
Cash and cash equivalents, beginning of year	106,614	145,893
Cash and cash equivalents, end of year	<u>\$ 56,533</u>	<u>\$ 106,614</u>

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

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

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even the Group still retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.
- (c) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(5) Classification of current and non-current items

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

classified as non-current assets:

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

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

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

(7) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(8) Loans and receivables

A. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised

cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

B. Investments in debt instrument without active market

Investments in debt instrument without active market held by the Group are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

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

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

(a) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(c) Available-for-sale financial assets

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

(10) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The individual item approach is used in the comparison of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(11) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 per cent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or

exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

- C. When changes in an associate's equity are not recognised in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss.
- F. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, then the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(12) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and

Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	15 ~ 50 years
Leasehold equipments	2 ~ 5 years
Other equipment	2 ~ 5 years

(13) Intangible assets

A. Trademarks

Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks has a finite useful life and are amortised on a straight-line basis over their estimated useful life of 5 years.

B. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 5 years.

C. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

(14) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.
- B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(15) Loans

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

(16) Notes and accounts payable

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

(17) Financial liabilities at fair value through profit or loss

- A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.
- B. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(18) Derecognition of financial liabilities

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

(19) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in

respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The Group uses interest rates of government bonds at the balance sheet date.

- ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

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

Employees' compensation, directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(20) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(21) Income tax

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

consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(22) Share capital

Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(23) Dividends

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

(24) Revenue recognition

A. Sales of goods

- (a) The Group manufactures and sells software and hardware on behalf of original manufacturers. Revenue is measured at the fair value of the consideration received or receivable taking into account business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer,

the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

- (b) The Group offers customers volume discounts and right of return for defective products. The Group estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognised. The volume discounts are estimated based on the anticipated annual sales quantities.

B. Sales of services

The Group provides computer information management and business machine maintenance services. Revenue from delivering services is recognised under the percentage-of-completion method when the outcome of services provided can be estimated reliably. The stage of completion of a service contract is measured by the percentage of the actual services performed as of the financial reporting date to the total services to be performed. If the outcome of a service contract cannot be estimated reliably, contract revenue is recognised only to the extent that contract costs incurred are likely to be recoverable.

(25) Business combinations

- A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.
- B. If the total of the fair values of the consideration of acquisition and any non-controlling interest in the acquiree as well as the acquisition-date fair value of any previous equity interest in the acquiree is higher than the fair value of the Group's share of the identifiable net assets acquired, the difference is recorded as goodwill; if less than the fair value of the Group's share of the identifiable net assets acquired (bargain purchase), the difference is recognised directly in profit or loss.

(26) Operating segments

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

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

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

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

Financial assets—impairment of equity investments

The Group follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(2) Critical accounting estimates and assumptions

A. Impairment assessment of accounts receivable

The impairment assessment relies on the Group's judgement and assumptions about the recoverability of the accounts receivable in the future, taking into accounts various factors such as client's financial status, the Group's internal credit rating, transaction history, subsequent collection, current economic condition and others which might affect the client's repayment ability. Where there is doubt on the recoverability, the Group needs to individually assess the possible recoverability and recognise reasonable allowance. The assessment of impairment depends on reasonable expectation about future events on the basis of the conditions existing at the balance sheet date. The estimation may differ from the actual result and may lead to significant changes.

As of December 31, 2016, the carrying amount of the Company's accounts receivable was \$885,251.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory

consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2016, the carrying amount of inventories was \$436, 485.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash on hand and revolving funds	\$ 3,124	\$ 2,417
Checking accounts and demand deposits	425,285	483,908
Time deposits	<u>213,004</u>	<u>139,441</u>
	<u>\$ 641,413</u>	<u>\$ 625,766</u>

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

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

(2) Available-for-sale financial assets-current

<u>Items</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Listed stocks	\$ 18,193	\$ 20,434
Valuation adjustment	<u>28,024</u>	<u>23,705</u>
	<u>\$ 46,217</u>	<u>\$ 44,139</u>

A. The Group recognised gain of \$4,319 and \$23,945 in other comprehensive income for fair value change for the years ended December 31, 2016 and 2015, respectively.

B. As of December 31, 2016 and 2015, no available-for-sale financial assets held by the Group were pledged to others.

(3) Investments in debt instruments without active markets – current

<u>Items</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Time deposits maturing over three months	<u>\$ 7,647</u>	<u>\$ 15,064</u>

As of December 31, 2016 and 2015, no investments in debt instruments without active markets held by the Group were pledged to others.

(4) Notes receivable

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Notes receivable	\$ 98,375	\$ 96,469
Notes receivable - related parties (Note)	-	5
Less: Allowance for doubtful accounts	<u>(591)</u>	<u>(565)</u>
	<u>\$ 97,784</u>	<u>\$ 95,909</u>

Note: Details of notes receivable - related parties are provided in Note 7.

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

	<u>2016</u>	<u>2015</u>
At January 1	\$ 565	\$ 669
Acquired from business combinations	-	10
Provision for (reversal of) impairment	11 (	114)
Write-offs during the year	<u>15</u>	<u>-</u>
At December 31	<u>\$ 591</u>	<u>\$ 565</u>

(5) Accounts receivable, net

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accounts receivable	\$ 907,169	\$ 766,663
Accounts receivable - related parties (Note)	26	11
Less: Allowance for doubtful accounts	(21,944)	(19,193)
	<u>\$ 885,251</u>	<u>\$ 747,481</u>

Note: Details of accounts receivable - related parties are provided in Note 7.

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Group A	<u>\$ 213,684</u>	<u>\$ 122,748</u>

Group A: Companies listed in Taiwan Stock Exchange and the Taiwan Over-The-Counter Securities Exchange and subsidiaries that are operating normally and with no deficit or based on the Company's evaluation had a score of above 90 points and other factors.

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

(a) As of December 31, 2016 and 2015, the Group's accounts receivable that were impaired amounted to \$693,511 and \$643,926, respectively.

(b) Movements on the Group's provision for impairment of accounts receivable are as follows:

	<u>2016</u>	<u>2015</u>
At January 1	\$ 19,193	\$ 19,285
Acquired from business combinations	909	1,108
Provision for (reversal of) impairment	3,007 (	802)
Write-offs during the year	(463)	(260)
Effects of foreign exchange	(702)	(138)
At December 31	<u>\$ 21,944</u>	<u>\$ 19,193</u>

(c) The Group does not hold any collateral as security.

(6) Inventories

	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Hardware and software	\$ 195,895	(\$ 11,789)	\$ 184,106
Machines, expendables and accessories	244,333	(26,167)	218,166
Book inventory	38,968	(4,755)	34,213
	<u>\$ 479,196</u>	<u>(\$ 42,711)</u>	<u>\$ 436,485</u>

	December 31, 2015		
	Cost	Allowance for valuation loss	Book value
Hardware and software	\$ 156,848	(\$ 12,735)	\$ 144,113
Machines, expendables and accessories	245,464	(26,644)	218,820
Book inventory	46,484	(5,211)	41,273
	<u>\$ 448,796</u>	<u>(\$ 44,590)</u>	<u>\$ 404,206</u>

Expenses and losses incurred on inventories for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Cost of inventories sold	\$ 4,069,453	\$ 2,739,864
Service cost	272,786	166,201
Loss on inventory value decline	809	10,882
Others (Note)	2,356	2,099
	<u>\$ 4,345,404</u>	<u>\$ 2,919,046</u>

Note: Includes other operating costs, gain or loss on inventory inspection and income from sale of scrapped materials.

(7) Financial assets measured at cost - non-current

Items	December 31, 2016	December 31, 2015
Unlisted stocks	\$ 32,071	\$ 56,020
Less: impairment loss	(15,415)	(33,576)
	<u>\$ 16,656</u>	<u>\$ 22,444</u>

A. According to the Group's intention, its investment in unlisted stocks should be classified as 'available-for-sale financial assets'. However, as unlisted stocks are not traded in active market, and there is no sufficient industry information of companies similar to those unlisted companies or the unlisted companies' financial information cannot be obtained, the fair value of the investment in unlisted stocks cannot be measured reliably. Accordingly, the Group classified those stocks as 'financial assets measured at cost'.

- B. The Board of Directors has resolved to invest in VHQ Media Holding (Cayman) in February 2014. The investment amount is US\$500 thousand and the shareholding ratio is 1.12%. The Company's shares have been trading at the Taipei Exchange since December 2015. Since there is a quoted price in an active market and the fair value can be reasonably measured, the Group has classified the investment based on the purpose of holding the investment to 'available-for-sale financial assets – current'.
- C. The Board of Directors during its meeting in November 2014 has adopted a resolution to invest in ABICO Asia Capital Corporation in January 2015. The investment was \$10 million for a shareholding ratio of 1%.
- D. The Group's investee, 寶淇科技股份有限公司, has completed liquidation and dissolution. Hence, the Group derecognised the original investment cost and accumulated impairment of \$18,000.
- E. The Group has recognised impairment loss of \$0 and \$8,887 on its financial assets measured at cost for the years ended December 31, 2016 and 2015, respectively.
- F. For the years ended December 31, 2016 and 2015, no financial assets measured at cost held by the Group were pledged to others.

(8) Investments accounted for using equity method

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Associates:		
Enertec Corporation	\$ 3,444	\$ -
Wecan Technology Co., Ltd.	496	620
Shanghai LDP International Co., Ltd.	-	977
Softmagic (B.V.I.) Inc.	-	-
GTMY Sdn. Bhd.	-	-
	<u>\$ 3,940</u>	<u>\$ 1,597</u>

- A. The carrying amount of the Group's interests in all individually immaterial joint ventures and the Group's share of the operating results are summarised below:

As of December 31, 2016 and 2015, the carrying amount of the Group's individually immaterial joint ventures amounted to \$3,940 and \$1,597, respectively.

	<u>2016</u>	<u>2015</u>
Loss for the year from continuing operations	(\$ 3,920)	(\$ 13,849)
Other comprehensive income-net of tax	-	139
Total comprehensive loss	<u>(\$ 3,920)</u>	<u>(\$ 13,710)</u>

- B. The Group has recognised loss on investment accounted for using equity method of \$691 and \$2,228 for the years ended December 31, 2016 and 2015, respectively.
- C. The Group recognised impairment losses of \$0 and of \$532 on investments accounted for using equity method for the years ended December 31, 2016 and 2015, respectively.

D. The Board of Directors during its meeting has adopted a resolution to invest in Enertec Corporation on May 10, 2016. The investment amount is US\$128 thousand which represented a shareholding ratio of 37.5%.

(9) Property, plant and equipment

	<u>Land</u>	<u>Buildings and structures</u>	<u>Leasehold equipment</u>	<u>Others</u>	<u>Total</u>
<u>January 1, 2016</u>					
Cost	\$ 268,255	\$ 123,424	\$ 723,029	\$ 152,887	\$ 1,267,595
Accumulated depreciation	-	(32,536)	(403,784)	(108,703)	(545,023)
	<u>\$ 268,255</u>	<u>\$ 90,888</u>	<u>\$ 319,245</u>	<u>\$ 44,184</u>	<u>\$ 722,572</u>
<u>2016</u>					
Opening net book amount	\$ 268,255	\$ 90,888	\$ 319,245	\$ 44,184	\$ 722,572
Additions	-	-	77,930	11,248	89,178
Acquired from business combinations	-	4,919	-	3,611	8,530
Disposals, net	-	-	(2,131)	(876)	(3,007)
Reclassification	-	-	39,552	298	39,850
Depreciation charge	-	(2,695)	(129,662)	(17,415)	(149,772)
Net exchange differences	-	(1,114)	(867)	(604)	(2,585)
Closing net book amount	<u>\$ 268,255</u>	<u>\$ 91,998</u>	<u>\$ 304,067</u>	<u>\$ 40,446</u>	<u>\$ 704,766</u>
<u>December 31, 2016</u>					
Cost	\$ 268,255	\$ 127,240	\$ 733,964	\$ 164,008	\$ 1,293,467
Accumulated depreciation	-	(35,242)	(429,897)	(123,562)	(588,701)
	<u>\$ 268,255</u>	<u>\$ 91,998</u>	<u>\$ 304,067</u>	<u>\$ 40,446</u>	<u>\$ 704,766</u>

	<u>Land</u>	<u>Buildings</u>	<u>Leasehold equipment</u>	<u>Others</u>	<u>Total</u>
<u>January 1, 2015</u>					
Cost	\$ 268,255	\$ 114,258	\$ 612,241	\$ 139,529	\$ 1,134,283
Accumulated depreciation and impairment	-	(29,790)	(323,637)	(99,983)	(453,410)
	<u>\$ 268,255</u>	<u>\$ 84,468</u>	<u>\$ 288,604</u>	<u>\$ 39,546</u>	<u>\$ 680,873</u>
<u>2015</u>					
Opening net book amount	\$ 268,255	\$ 84,468	\$ 288,604	\$ 39,546	\$ 680,873
Additions	-	9,980	153,501	16,280	179,761
Acquired from business combinations	-	-	13,793	7,834	21,627
Disposals	-	-	(1,081)	(1,793)	(2,874)
Transfer	-	-	(1,460)	543	(917)
Depreciation charge	-	(2,751)	(133,836)	(17,565)	(154,152)
Net exchange differences	-	(809)	(276)	(661)	(1,746)
Closing net book amount	<u>\$ 268,255</u>	<u>\$ 90,888</u>	<u>\$ 319,245</u>	<u>\$ 44,184</u>	<u>\$ 722,572</u>
<u>December 31, 2015</u>					
Cost	\$ 268,255	\$ 123,424	\$ 723,029	\$ 152,887	\$ 1,267,595
Accumulated depreciation and impairment	-	(32,536)	(403,784)	(108,703)	(545,023)
	<u>\$ 268,255</u>	<u>\$ 90,888</u>	<u>\$ 319,245</u>	<u>\$ 44,184</u>	<u>\$ 722,572</u>

A. The significant components and estimated useful lives of property, plant and equipment are as follows :

<u>Items</u>	<u>Significant components</u>	<u>Useful lives</u>
Buildings and structures	Buildings, etc.	15 ~50 years
Leasehold equipment	Demonstrative machine, etc.	2 years
Others	Transportation vehicles, etc.	2 ~5 years

B. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(10) Short-term loans

<u>Type of loans</u>	<u>December 31, 2016</u>	<u>Interest rate range</u>	<u>Collateral</u>
Secured loans	\$ 240,000	1.00%~1.07%	Please refer to Note 8
Unsecured loans	376,000	1.00%~1.43%	-
	<u>\$ 616,000</u>		

Type of loans	December 31, 2015	Interest rate range	Collateral
Secured loans	\$ 250,000	1.19%~1.28%	Please refer to Note 8
Unsecured loans	405,500	1.19%~1.71%	-
	<u>\$ 655,500</u>		

(11) Short-term notes and bills payable

	December 31, 2016	December 31, 2015
Commercial paper	\$ 100,000	\$ 50,000
Less: Unamortized discount on bills payable	(50)	(8)
	<u>\$ 99,950</u>	<u>\$ 49,992</u>
Interest rate range	<u>0.918%~0.938%</u>	<u>1.118%</u>

(12) Financial liabilities at fair value through profit or loss

Items	December 31, 2016
Current items:	
Financial liabilities held for trading	
Non-hedging derivatives	<u>\$ 267</u>

The non-hedging derivative instruments transaction and contract information are as follows:

Derivative financial liabilities	December 31, 2016	
	Contract amount (Notional principal) (Thousand dollars)	Contract period
Current items:		
Option trading contracts		
- Buy basket option	<u>USD 500</u>	2016.7~2017.7

The Group recognised net gain of \$1,397 and \$0 for the years ended December 31, 2016 and 2015, respectively, shown as 'Other gains and losses'.

(13) Other payables

	December 31, 2016	December 31, 2015
Employees' salary and compensation payable	\$ 91,065	\$ 78,567
Employees' compensation and directors' and supervisors' remuneration payable	19,623	16,415
Other accrued expenses	56,907	34,199
Other payables	9,009	11,038
	<u>\$ 176,604</u>	<u>\$ 140,219</u>

(14) Long-term loans

Type of loans	Loan period and repayment term	Interest rate range	Collateral	December 31, 2016
Taiwan Cooperative Bank secured loans	From October 5, 2005 to October 5, 2025; interest is payable monthly for the first 2 years; starting from the 3rd year, principal and interest are payable monthly based on annuity method	1.2683%~ 1.2727%	Note 8	\$ 53,441
Less: current portion (shown as 'Other current liabilities')				(7,690)
				<u>\$ 45,751</u>

Type of loans	Loan period and repayment term	Interest rate	Collateral	December 31, 2015
Taiwan Cooperative Bank secured loans	From October 5, 2005 to October 5, 2025; interest is payable monthly for the first 2 years; starting from the 3rd year, principal and interest are payable monthly based on annuity method	1.3197%	Note 8	\$ 62,030
Less: current portion (shown as 'Other current liabilities')				(8,789)
				<u>\$ 53,241</u>

A. The Group has the following undrawn loan facilities:

	December 31, 2016	December 31, 2015
Floating rate		
Expiring within one year	<u>\$ 1,349,000</u>	<u>\$ 1,124,500</u>

B. The facilities expiring within one year are annual facilities subject to review at various dates during 2017.

(15) Pensions

A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic

subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contribution for the deficit by next March.

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligations	(\$ 7,965)	(\$ 8,987)
Fair value of plan assets	<u>11,182</u>	<u>10,934</u>
Net defined benefit asset	<u>\$ 3,217</u>	<u>\$ 1,947</u>
Shown as 'Other non-current assets'	<u>\$ 5,657</u>	<u>\$ 5,743</u>
Shown as 'Other non-current liabilities'	<u>\$ 2,440</u>	<u>\$ 3,796</u>

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

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>Year ended December 31, 2016</u>			
Balance at January 1	(\$ 8,987)	\$ 10,934	\$ 1,947
Interest (expense) income	<u>(150)</u>	<u>178</u>	<u>28</u>
	<u>(9,137)</u>	<u>11,112</u>	<u>1,975</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)			
Change in demographic assumptions	(\$ 30)	-	(\$ 30)
Change in financial assumptions	88	-	88
Experience adjustments	<u>1,114</u>	<u>(105)</u>	<u>1,009</u>
	<u>1,172</u>	<u>(105)</u>	<u>1,067</u>
Pension fund contribution	<u>-</u>	<u>175</u>	<u>175</u>
Balance at December 31	<u>(\$ 7,965)</u>	<u>\$ 11,182</u>	<u>\$ 3,217</u>

	Present value of defined <u>benefit obligations</u>	Fair value of <u>plan assets</u>	Net defined <u>benefit liability</u>
<u>Year ended December 31, 2015</u>			
Balance at January 1	(\$ 8,567)	\$ 10,508	\$ 1,941
Interest (expense) income	(190)	209	19
	<u>(8,757)</u>	<u>10,717</u>	<u>1,960</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)			
Change in demographic assumptions	(21)	-	(21)
Change in financial assumptions	(1,064)	-	(1,064)
Experience adjustments	855	52	907
	<u>(230)</u>	<u>52</u>	<u>(178)</u>
Pension fund contribution	-	165	165
Balance at December 31	<u>(\$ 8,987)</u>	<u>\$ 10,934</u>	<u>\$ 1,947</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company and domestic subsidiaries have no right to participate in managing and operating that fund and hence the Company and domestic subsidiaries are unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	<u>2016</u>	<u>2015</u>
Discount rate	<u>1.38%~1.9%</u>	<u>1.70%~1.75%</u>
Future salary increases	<u>2.00%~2.50%</u>	<u>2.00%~2.50%</u>

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

Assumptions regarding future mortality experience are set based on the statistics and experience in the 5th Taiwan Standard Ordinary Experience Mortality Table.

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

	<u>Discount rate</u>		<u>Future salary increases</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
<u>December 31, 2016</u>				
Effect on present value of defined benefit liability (\$	<u>977)</u>	<u>\$ 1,255</u>	<u>\$ 1,170</u>	<u>(\$ 940)</u>
<u>December 31, 2015</u>				
Effect on present value of defined benefit liability (\$	<u>1,273)</u>	<u>\$ 1,646</u>	<u>\$ 1,535</u>	<u>(\$ 1,225)</u>

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

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

(f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2017 are \$175.

(g) As of December 31, 2016, the weighted average duration of that retirement plan is 16~22 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	-
1-2 year(s)		-
2-5 years		70
Over 5 years		<u>3,133</u>
	<u>\$</u>	<u>3,203</u>

B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2016 and 2015 were \$22,611 and \$15,874, respectively.

(b) Overseas subsidiaries have defined contribution plans. For the years ended December 31, 2016 and 2015, the amount of pension expense was \$8,809 and \$5,591, respectively.

(16) Share-based payment

A. For the years ended December 31, 2016 and 2015, the Group’s share-based payment arrangements were as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted (thousand shares)</u>	<u>Contract period</u>	<u>Vesting conditions</u>
Treasury stock transferred to employees	April 7, 2016	450	NA	Vested immediately
Treasury stock transferred to employees	November 10, 2015	850	NA	Vested immediately

The above share-based payment arrangements are settled by equity.

B. The fair value of treasury stock transferred to employees is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Stock price (in dollars)</u>	<u>Exercise price (in dollars)</u>	<u>Expected price volatility (Note)</u>	<u>Expected option life</u>	<u>Expected dividends</u>	<u>Risk-free interest rate</u>	<u>Fair value per unit (in dollars)</u>
Treasury stock transferred to employees	April 7, 2016	\$ 32.10	\$ 25.16	42.729%	0.01 year	0%	0.67%	\$ 6.94
Treasury stock transferred to employees	November 10, 2015	26	25.16	52.36%	0.02 year	0%	0.19%	1.24

Note: Expected price volatility rate was estimated by using the stock prices of the most recent period with length of this period approximate to the length of the stock options’ expected life, and the standard deviation of return on the stock during this period.

C. Expenses incurred on share-based payment transactions are shown below:

	<u>Years ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Equity-settled	<u>\$ 3,123</u>	<u>\$ 1,054</u>

(17) Share capital

A. As of December 31, 2016, the Company's authorized capital was \$1,050,000, consisting of 105 million shares of ordinary stock, and the paid-in capital was \$551,433 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows (shares in thousands):

	Years ended December 31,	
	2016	2015
At January 1	53,184	55,143
Treasury shares retired	- (	2,809)
Treasury share transferred to employees	450	850
At December 31	<u>53,634</u>	<u>53,184</u>

B. Treasury shares

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows (in thousands of shares):

Reason for reacquisition	Year ended December 31, 2016			
	Beginning	Additions	Disposal	Ending
To be reissued to employees	<u>1,959</u>	- (	<u>450</u>)	<u>1,509</u>

Reason for reacquisition	Year ended December 31, 2015			
	Beginning	Additions	Disposal	Ending
To be reissued to employees	<u>1,375</u>	<u>2,809</u>	(<u>2,225</u>)	<u>1,959</u>

(b) Pursuant to the R.O.C. Securities and Exchange Law, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus. The Company has bought back treasury shares of 1,375 thousand during November to December 2011. As the reacquired shares were not reissued within the three-year period, the Board of Directors during its meeting on January 20, 2015 has resolved to retire all the shares. The amount of capital reduction was \$13,750. On June 10, 2015 and August 25, 2015, the Board of Directors has resolved to reacquire shares to transfer to employees. The Company has reacquired treasury shares of 2,809 thousand amounting to \$69,800 during June to October 2015.

(c) In order to improve the employee morale and sense of coherence, on April 7, 2016 and November 10, 2015, the Board of Directors has resolved to transfer treasury shares of 450 thousand shares and 850 thousand shares to employees, respectively. Details are provided in Note 6(16).

(d) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.

(e) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

(18) Capital surplus

- A. Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.
- B. On June 23, 2016, the shareholders during their meeting resolved to use the additional paid-in capital surplus to distribute cash dividends amounting to \$3,829 (NT\$0.072 per share). On March 13, 2017, the Board of Directors proposed to use the additional paid-in capital surplus to distribute cash amounting to \$9,654 (NT\$0.18 per share).

Reason for reacquisition	Year ended December 31, 2016			
	Share premium	Treasury share transactions	Change in ownership interest in subsidiaries	Total
January 1, 2016	\$ 332,846	\$ 990	\$ 1,940	\$ 335,776
Capital surplus used to issue cash to shareholders	(3,829)	-	-	(3,829)
Share-based payment	-	3,088	-	3,088
Change in ownership interests in subsidiaries	-	-	(1,308)	(1,308)
December 31, 2016	<u>\$ 329,017</u>	<u>\$ 4,078</u>	<u>\$ 632</u>	<u>\$ 333,727</u>

Reason for reacquisition	Year ended December 31, 2015			
	Share premium	Treasury share transactions	Change in ownership interest in subsidiaries	Total
January 1, 2015	\$ 341,306	\$ -	\$ -	\$ 341,306
Retirement of treasury shares	(8,303)	-	-	(8,303)
Share-based payment	-	990	-	990
Change in ownership interests in subsidiaries	-	-	1,940	1,940
Reorganisation	(157)	-	-	(157)
December 31, 2015	<u>\$ 332,846</u>	<u>\$ 990</u>	<u>\$ 1,940</u>	<u>\$ 335,776</u>

(19) Retained earnings

- A. Under the amended Articles of Incorporation as resolved by the shareholders during their meeting on June 23, 2016, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve, until the legal reserve equals to the total paid-in capital. Special reserve is set aside or reversed, if necessary, in accordance with regulations or as required by the securities and exchange regulations. The remainder, if any, along with the current beginning unappropriated earnings, shall be proposed by the Board of Directors to be either retained or distributed as shareholders' dividends, taking into account capital position and economic development. The proposal will be reported to the shareholders for a resolution.
- B. The Company's dividend policy is adopted taking into consideration the Company's financial structure, future capital expenditures, future cash flows and assurance of the Company's competitiveness in the market. In accordance with the dividend policy, cash dividends shall account for at least 10% of the total dividends distributed.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid in capital.
- D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- E. The Company recognised dividends distributed to owners amounting to NT\$107,858 (\$2.028 (in dollars) per share) and NT\$82,714 (\$1.5 (in dollars) per share) for the years ended December 31, 2016 and 2015, respectively. On March 13, 2017, the Board of Directors proposed for the distribution of dividends from the 2016 earnings in the amount of \$151,249 at \$2.82 (including stock dividends of NT\$0.5) per share.
- F. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(24).

(20) Operating revenue

	Years ended December 31,	
	2016	2015
Sales revenue	\$ 4,800,822	\$ 3,284,396
Service revenue	565,066	469,507
	<u>\$ 5,365,888</u>	<u>\$ 3,753,903</u>

(21) Other income

	Years ended December 31,	
	2016	2015
Interest income	\$ 4,621	\$ 7,569
Rental revenue	2,344	2,330
Dividend income	240	386
	<u>\$ 7,205</u>	<u>\$ 10,285</u>

(22) Other gains and losses

	Years ended December 31,	
	2016	2015
Net gain on financial liabilities at fair value through profit or loss	\$ 1,397	\$ -
Net currency exchange loss	(182)	(3,994)
(Loss) gain on disposal of property, plant and equipment	(260)	592
Gain on disposal of investments	15,993	16,924
Impairment loss	-	(9,419)
Miscellaneous income	147	17,596
	<u>\$ 17,095</u>	<u>\$ 21,699</u>

(23) Finance costs

	Years ended December 31,	
	2016	2015
Interest expense:		
Bank loans	<u>\$ 11,644</u>	<u>\$ 10,860</u>

(24) Employee benefits expense, depreciation and amortization

	Year ended December 31, 2016		
	Recognised in operating costs	Recognised in operating expenses	Total
Employee benefit expense:			
Wages and salaries	\$ 7,119	\$ 460,179	\$ 467,298
Labor and health insurance fees	463	31,046	31,509
Pension costs	203	31,189	31,392
Other personnel expenses	171	17,785	17,956
Depreciation	118,792	30,980	149,772
Amortisation	-	4,976	4,976

	Year ended December 31, 2015		
	Recognised in operating costs	Recognised in operating expenses	Total
Employee benefit expense:			
Wages and salaries	\$ 5,272	\$ 397,412	\$ 402,684
Labor and health insurance fees	323	32,093	32,416
Pension costs	147	21,299	21,446
Other personnel expenses	-	13,377	13,377
Depreciation	127,031	27,121	154,152
Amortisation	200	3,279	3,479

A. Under the amended Articles of Incorporation as resolved by the shareholders during their meeting on June 23, 2016, when distributing earnings, the Company shall distribute bonus to the employees (the Company's employees and employees of subsidiaries of the Company meeting certain specific requirements, which are set by the Board of Directors) that account for 8%~15% and pay remuneration to the directors and supervisors that is not higher than 3% of the total distributed amount.

B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at \$15,955 and \$11,777, respectively; while directors' and supervisors' remuneration was accrued at \$1,994 and \$2,208, respectively. The aforementioned amounts were recognised in salary expenses.

For the year ended December 31, 2016, the distribution was based on the profit of the year and estimated based on the stipulated percentage in the Company's Articles of Incorporation. The Board of the Directors resolved to distribute \$17,949, and the employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration for 2015 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2015 financial statements.

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

(25) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31,	
	2016	2015
Current tax:		
Current tax on profits for the year	\$ 39,371	\$ 30,577
Additional 10% tax on undistributed earnings	15	78
Adjustments in respect of prior years	(2,465)	1,461
Origination and reversal of temporary differences	5,050	(1,451)
Income tax expense	<u>\$ 41,971</u>	<u>\$ 30,665</u>

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

	Years ended December 31,	
	2016	2015
Remeasurement of defined benefit obligations	(\$ 214)	\$ 30

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2016	2015
Tax calculated based on profit before tax and statutory tax rate	\$ 62,910	\$ 42,626
Tax exempt income by tax regulation	(18,489)	(13,500)
Adjustments in respect of prior years	(2,465)	1,461
Additional 10% tax on undistributed earnings	15	78
Income tax expense	<u>\$ 41,971</u>	<u>\$ 30,665</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences and loss carryforward are as follows:

	Year ended December 31, 2016				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Changes in the consolidated entity	December 31
- Deferred tax assets:					
Allowance for bad debts in excess of tax-deductible limit	\$ 1,515	\$ 437	\$ -	\$ -	\$ 1,952
Inventory valuation loss	4,226	(621)	-	-	3,605
Compensated absences	1,896	(314)	-	-	1,582
Impairment loss	4,145	(3,060)	-	-	1,085
Loss carryforward	2,614	(1,353)	-	-	1,261
Others	1,240	(298)	(214)	-	728
	<u>\$ 15,636</u>	<u>(\$ 5,209)</u>	<u>(\$ 214)</u>	<u>\$ -</u>	<u>\$ 10,213</u>
- Deferred tax liabilities:					
Unrealised exchange gain	<u>(\$ 242)</u>	<u>(\$ 159)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 83)</u>

	Year ended December 31, 2015				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Changes in the consolidated entity	December 31
- Deferred tax assets:					
Allowance for bad debts in excess of tax-deductible limit	\$ 1,495	\$ 20	\$ -	\$ -	\$ 1,515
Inventory valuation loss	3,349	877	-	-	4,226
Compensated absences	1,864	32	-	-	1,896
Impairment loss	4,145	-	-	-	4,145
Loss carryforward	1,983	631	-	-	2,614
Others	1,261	(51)	30	-	1,240
	<u>\$ 14,097</u>	<u>\$ 1,509</u>	<u>\$ 30</u>	<u>\$ -</u>	<u>\$ 15,636</u>
- Deferred tax liabilities:					
Unrealised exchange gain	<u>(\$ 184)</u>	<u>(\$ 58)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 242)</u>

D. The amounts of deductible temporary differences that were not recognised as deferred tax assets are as follows:

	Years ended December 31,	
	2016	2015
Deductible temporary differences	<u>\$ 2,440</u>	<u>\$ 2,440</u>

E. The Company has not recognised taxable temporary differences associated with investment in subsidiaries as deferred tax liabilities. As of December 31, 2016 and 2015, the temporary differences unrecognised as deferred tax liabilities were \$81,514 and \$73,087, respectively.

F. Details of unused loss carryforward are as follows:

(a) Domestic company

December 31, 2016			
Year incurred	Unused amount	Unrecognised deferred tax assets	Usable until year
2013	\$ 36	\$ -	2025

December 31, 2015			
Year incurred	Unused amount	Unrecognised deferred tax assets	Usable until year
2013	\$ 6,474	\$ -	2025

(b) Foreign company

December 31, 2016			
Year incurred	Unused amount	Unrecognised deferred tax assets	Usable until year
2012	\$ 1,481	\$ 1,481	2017
2013	608	608	2018

December 31, 2015			
Year incurred	Unused amount	Unrecognised deferred tax assets	Usable until year
2011	\$ 1,640	\$ 1,640	2016
2012	1,481	1,481	2017
2013	608	608	2018

G. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

H. Unappropriated retained earnings:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Earnings generated in and after 1998	\$ 168,688	\$ 120,026

I. As of December 31, 2016 and 2015, the balance of the imputation tax credit account was \$1,763 and \$14,360, respectively. The creditable tax rate was 20.48% for the year ended December 31, 2015 and is estimated to be 20.48% for the year ended December 31, 2016.

(26) Earnings per share

	<u>Year ended December 31, 2016</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ <u>168,252</u>	<u>53,497</u>	\$ <u>3.15</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	<u>-</u>	<u>499</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>168,252</u>	<u>53,996</u>	\$ <u>3.12</u>

	<u>Year ended December 31, 2015</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ <u>121,661</u>	<u>54,122</u>	\$ <u>2.25</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Convertible bonds			
Employees' bonus	<u>-</u>	<u>505</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>121,661</u>	<u>54,627</u>	\$ <u>2.23</u>

(27) Transactions with non-controlling interest

A. Disposal of equity interest in a subsidiary (that did not result in a loss of control) on March 20, 2015, the Board of Directors has resolved to dispose 20% shares of the Group's subsidiary — Ability International Co., Ltd. to another subsidiary—Honlynn for a total cash consideration of \$45,600. This transaction resulted in an increase in the non-controlling interest by \$43,660 and an increase in the equity attributable to owners of the parent by \$1,940.

The effect of changes in interests in Ability International Co., Ltd. on the equity attributable to owners of the parent for the year ended December 31, 2015 is shown below:

B. Acquisition of additional equity interest in a subsidiary

On August 31, 2016, the Group acquired additional 20% shares of its subsidiary—Ability International Co., Ltd. for a total cash consideration of \$45,600. This transaction resulted in a decrease in the non-controlling interest by \$42,419 and a decrease in the equity attributable to owners of the parent by \$1,940.

(28) Business combinations

A. Business combinations-Senco-Masslink Technology Limited

- (a) On January 1, 2016, the Group used \$90,429 to acquire 55% equity interest of Senco-Masslink Technology Limited and obtained control over Senco-Masslink Technology Limited, which is a company engaged in trading of professional hardware and software and Apple's products in Hong Kong. As a result of the acquisition, the Group is expected to increase its presence in these markets, lower the costs through the economies of scale, jointly expand the economic circle encompassing Guangdong, Hong Kong and Macau and increase the coverage ratio in corporations and educational users market.
- (b) The following table summarises the consideration paid for Senco-Masslink Technology Limited and the fair values of the assets acquired and liabilities assumed at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in Senco-Masslink Technology Limited:

	<u>January 1, 2016</u>	
Purchase consideration		
Cash	\$	90,429
Non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets		<u>65,104</u>
		<u>155,533</u>
Fair value of the identifiable assets acquired and liabilities assumed		
Cash		48,706
Accounts receivable		114,328
Inventories		41,550
Other current assets		445
Property, plant and equipment		3,611
Other non-current assets		49,465
Accounts payable	(	104,415)
Other current liabilities	(	14,177)
Trademarks		<u>5,162</u>
Total identifiable net assets		<u>144,675</u>
Goodwill	\$	<u>10,858</u>

A. Business combinations-DPI Technology Sdn. Bhd.

- (a) On March 1, 2015, the Group acquired 52% equity interest in DPI Technology Sdn. Bhd. for a cash consideration of \$54,705 and obtained control over DPI Technology Sdn. Bhd., a company engaged in trading of various computer and related electronic products in Malaysia. As a result of the acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economies of scale.
- (b) The following table summarises the consideration paid for DPI Technology Sdn. Bhd. and the fair values of the assets acquired and liabilities assumed at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in DPI Technology Sdn. Bhd.:

	<u>March 1, 2015</u>
Purchase consideration	
Cash	\$ 54,705
Non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets	<u>37,813</u>
	<u>92,518</u>
Fair value of the identifiable assets acquired and liabilities assumed	
Cash	26,831
Accounts receivable	38,912
Inventories	19,819
Other current assets	5,870
Property, plant and equipment	7,604
Other non-current assets	5,865
Accounts payable	(14,441)
Other current liabilities	<u>(11,683)</u>
Total identifiable net assets	<u>78,777</u>
Goodwill	<u>\$ 13,741</u>

C. Business combination-Jing-nen Co., Ltd.

- (a) On March 19, 2015, the Group acquired additional 33.07% shares of Jeng-nen Co., Ltd. for a total cash consideration of \$7,600. Along with 19.92% shares originally held, the Group now holds a total of 52.99% shares and obtained control of Jeng-nen Co., Ltd., which is mainly engaged in the distribution of computer expendables. The main revenue types of Jeng-nen Co., Ltd. are distribution of computer peripheral expendables, repair of printers for all brands and installment and repair of computers. The Group expects that complete distribution development on enterprise platform after acquisition will expand service platform and operating domain of printing business.

(b) The following table summarises the consideration paid for Jing-nen Co., Ltd. and the fair values of the assets acquired and liabilities assumed at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in Jing-nen Co., Ltd.:

	<u>March 19, 2015</u>
Purchase consideration	
Cash	\$ 7,600
Fair value of equity interest in Jing-nen Co., Ltd. held before the business combination	2,561
Non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets	<u>7,688</u>
	<u>17,849</u>
Fair value of the identifiable assets acquired and liabilities assumed	
Cash	9,593
Notes receivable	888
Accounts receivable	3,385
Inventories	4,958
Other current assets	627
Property, plant and equipment	14,023
Other non-current assets	1,683
Notes payable	(2,827)
Accounts payable	(2,076)
Other current liabilities	(11,157)
Other non-current liabilities	(2,743)
Total identifiable net assets	<u>16,354</u>
Goodwill	<u>\$ 1,495</u>

D. The operating revenue included in the consolidated statement of comprehensive income since March 1, 2015 contributed by DPI Technology Sdn. Bhd. was \$128,674. DPI Technology Sdn. Bhd. also contributed profit before income tax of \$12,584 over the same period. Furthermore, the operating revenue included in the consolidated statement of comprehensive income since March 19, 2015 which was contributed by Jing-nen Co., Ltd. was \$19,214. Jing-nen Co., Ltd. also contributed profit before income tax of \$772 over the same period. Had DPI Technology Sdn. Bhd. and Jing-nen Co., Ltd. been consolidated from January 1, 2015, the consolidated statement of comprehensive income would show operating revenue of \$2,690,961 and profit before income tax of \$116,425.

E. The Company has acquired 50.5% share interest of Cogate Co., Ltd. from the subsidiary, Ability International Co., Ltd., in April and November 2015. The transactions were for reorganisation. The Company decreased capital surplus by \$157 for the difference between the carrying amount of Cogate Co., Ltd. originally held by Ability International Co., Ltd. and the consideration of transactions.

7. RELATED PARTY TRANSACTIONS

(1) Significant related party transactions

A. Operating revenue:

	<u>2016</u>	<u>2015</u>
Sales of goods and provision of services:		
-- Other associates	\$ <u>2,655</u>	\$ <u>1,588</u>

Goods are sold based on the price lists in force and terms that would be available to third parties. Provision of services are negotiated with related parties on a cost-plus basis, allowing a margin ranging from 3% to 10%.

B. Purchases of goods:

	<u>2016</u>	<u>2015</u>
Purchases of goods:		
— Other associates	\$ <u>11,656</u>	\$ <u>15,311</u>

Goods are purchased from other associates on normal commercial terms and conditions.

C. Receivables from related parties:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Notes and accounts receivable:		
— Other associates	\$ <u>26</u>	\$ <u>16</u>

The receivables from related parties arise mainly from sale of software and hardware and provision of management and consultancy services. The receivables are due three months after the date of sale, unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

D. Payables from related parties:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Notes and accounts payable:		
— Other associates	\$ <u>1,883</u>	\$ <u>1,698</u>

The payables to related parties arise mainly from purchase transactions and are due two months after the date of purchase. The payables bear no interest.

E. Property transactions:

(2) Property transaction of related party acquired by the Group

	<u>2016</u>	<u>2015</u>
Acquisition of property, plant and equipment:		
— Associates	\$ 300	\$ -
— Other associates	46	655
	<u>\$ 346</u>	<u>\$ 655</u>

(3) Key management compensation

	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$ 21,004	\$ 22,362
Post-employment benefits	75	135
Share-based payments	3,123	1,054
	<u>\$ 24,202</u>	<u>\$ 23,551</u>

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

<u>Item</u>	<u>Book Value</u>		<u>Purpose</u>
	<u>December 31, 2016</u>	<u>December 31, 2015</u>	
Bank loans-restricted (shown as other non-current assets)	\$ 31,068	\$ 17,732	Secured bank loans and original purchase guarantee
Property, plant and equipment			
Land	147,063	147,063	Secured bank loans
Buildings	61,327	63,320	Secured bank loans
	<u>\$ 239,458</u>	<u>\$ 228,115</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

A. As of December 31, 2016, the Group issued guarantee notes for bank loans amounting to \$1,785,000.

B. Endorsements and guarantees provided

As of December 31, 2016, the Group has provided endorsements and guarantees for the loans of related parties as follows:

	<u>December 31, 2016</u>
Netcore	\$ 48,375
GrandTech Systems	9,675
The Company	280

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- (1) On March 13, 2017, the Board of Directors proposed the distribution of earnings and cash distributed from capital surplus for 2016. Details are provided in Notes 6(18) and 6(19).
- (2) On February 10, 2017, under the resolution of the Board of Directors, the Company disposed 12 million shares of Ability International for a total price of \$214,200 and recognised the loss on disposal at \$2,270 in line with the operating needs of the Group.
- (3) On February 18, 2017, under the resolution of the Board of Directors, the Company disposed 8 million shares of Honlynn for a total price of \$120,000 and recognised the loss on disposal at \$19,757 in response to the Group's reinvestment strategy.
- (4) On February 24, 2017, the Company's chairman Chang Hsiao-Chi resigned from the position for personal career development. Under the resolution of the Board of Directors, the successor was Hsu Cheng-Chiang, who was then vice chairman.
- (5) In February 2017, Ability Investment Co., Ltd. (incorporated in R.O.C). disposed all of the Company's shares in line with the Group's reinvestment strategy.

12. OTHERS

(1) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans (including 'current and non-current loans' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Total loans	\$ 769,391	\$ 767,522
Less: cash and cash equivalents	(641,413)	(625,766)
Net debt	<u>\$ 127,978</u>	<u>\$ 141,756</u>
Total equity	<u>\$ 1,517,782</u>	<u>\$ 1,383,371</u>
Gearing ratio	8%	10%

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, investments in debt instrument without active markets-current, notes receivable, accounts receivable, other receivables, restricted time deposits, guarantee deposits paid, short-term loans, short-term notes and bills payable, notes payable, accounts payable, other payables, long-term borrowings (including long-term borrowings, current portion) and guarantee deposits received) approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.

(b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, HKD, MYR and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.
- iii. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

iv. The Group's businesses involve some non-functional currency operations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2016						
Foreign Currency	Amount (In Thousands)	Exchange Rate	Book Value (NTD)	Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 773	32.250	\$ 24,929	1%	\$ 249	\$ -
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	\$ 2,777	32.250	\$ 89,558	1%	\$ 896	\$ -
December 31, 2015						
Foreign Currency	Amount (In Thousands)	Exchange Rate	Book Value (NTD)	Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 2,964	32.825	\$ 97,293	1%	\$ 973	\$ -
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	\$ 1,879	32.825	\$ 61,678	1%	\$ 617	\$ -

v. Total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2016 and 2015 amounted to \$182 and \$3,994, respectively.

Price risk

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

- ii. The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased /decreased by 10% with all other variables held constant, other components of equity for the years ended December 31, 2016 and 2015 would have increased/decreased by \$4,622 and \$4,414, respectively, as a result of gains on equity securities classified as available-for-sale.

Interest rate risk

- i. The Group's interest rate risk arises from long-term loans. Loans issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates.
- ii. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.
- iii. At December 31, 2016 and 2015, if interest rates on NTD-denominated loans had been 1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2016 and 2015 would have been \$6,386 and \$5,148 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board of directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and promised transactions.
- ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial assets in Note 6.

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed loan facilities (Note 6(14)) at all times so that the Group does not breach loan limits or covenants (where applicable) on any of its loan facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.
- ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts.
- iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities

<u>December 31, 2016</u>	<u>Less than 1 year</u>	<u>Over 1 year</u>
Short-term loans	\$ 623,143	\$ -
Short-term notes and bills payable	100,000	-
Notes payable	15,412	-
Accounts payable	560,387	-
Other payables	176,604	-
Long-term loans	7,788	46,333
Guarantee deposits	-	4,062
Financial guarantee deposits	58,330	-

Derivative financial liabilities

<u>December 31, 2016</u>	<u>Less than 1 year</u>	<u>Over 1 year</u>
Combined options	\$ 267	\$ -

<u>December 31, 2015</u>	<u>Less than 1 year</u>	<u>Over 1 year</u>
Short-term loans	\$ 663,868	\$ -
Short-term notes and bills payable	50,000	-
Notes payable	19,073	-
Accounts payable	467,288	-
Other payables	140,219	-
Long-term loans	8,905	59,943
Guarantee deposits	-	5,263
Financial guarantee deposits	59,366	-

The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A.

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in bank debentures is included in Level 2.

Level 3: Unobservable inputs for the asset or liability.

C. The related information on financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2016 and 2015 is as follows:

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	\$ 46,217	\$ -	\$ -	\$ 46,217
Liabilities:				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Combined options	\$ -	\$ 267	\$ -	\$ 267

<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	\$ 44,139	\$ -	\$ -	\$ 44,139

D. The methods and assumptions the Group used to measure fair value are as follows:

(a). The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>
Market quoted price	Closing price

(b). The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.

E. For the year ended December 31, 2016 and 2015, there was no transfer into or out from Level 3.

13. SEGMENT INFORMATION

(1) General information

The Company manages business and sets up policies from a geographic sales perspective, thus, management identifies reportable operating segment using the same method.

The businesses of the Company are mainly divided into two parts: Taiwan region and Greater China region. Taiwan region includes Taipei and Kaohsiung and Greater China region includes Hong Kong and Shanghai in Mainland China. The main business each region is mainly engaged in is the distribution of business machine equipment, and the distribution and retail of information software.

(2) Information about segment profit or loss and assets

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

	Year ended December 31, 2016				
	Taiwan Region	Greater China Region	Other Regions	Reconciliation	Total
Revenue from external customers	\$ 2,916,920	\$ 2,109,877	\$ 339,091	\$ -	\$ 5,365,888
Revenue from parent company and consolidated subsidiaries	77,978	80,019	1,130	(159,127)	-
	<u>\$ 2,994,898</u>	<u>\$ 2,189,896</u>	<u>\$ 340,221</u>	<u>(\$ 159,127)</u>	<u>\$ 5,365,888</u>
Segment income	<u>\$ 257,439</u>	<u>\$ 69,655</u>	<u>\$ 76,902</u>	<u>(\$ 156,214)</u>	<u>\$ 247,782</u>
Segment income (loss):					
Depreciation and amortization	<u>\$ 141,383</u>	<u>\$ 6,912</u>	<u>\$ 2,511</u>	<u>\$ 3,942</u>	<u>\$ 154,748</u>
Interest income	<u>\$ 3,716</u>	<u>\$ 2,590</u>	<u>\$ 1,051</u>	<u>(\$ 2,736)</u>	<u>\$ 4,621</u>
Interest expense	<u>\$ 11,253</u>	<u>\$ 2,806</u>	<u>\$ 2,956</u>	<u>(\$ 5,371)</u>	<u>\$ 11,644</u>
Income tax expense	<u>\$ 23,114</u>	<u>\$ 12,265</u>	<u>\$ 6,592</u>	<u>\$ -</u>	<u>\$ 41,971</u>
Total segment assets	<u>\$ 3,267,605</u>	<u>\$ 800,224</u>	<u>\$ 735,026</u>	<u>(\$ 1,694,372)</u>	<u>\$ 3,108,483</u>

Year ended December 31, 2015

	Taiwan Region	Greater China Region	Other Regions	Reconciliation	Total
Revenue from external customers	\$ 2,955,839	\$ 515,298	\$ 282,766	\$ -	\$ 3,753,903
Revenue from parent company and consolidated subsidiaries	88,004	48,958	2,651	(139,613)	-
	<u>\$ 3,043,843</u>	<u>\$ 564,256</u>	<u>\$ 285,417</u>	<u>(\$ 139,613)</u>	<u>\$ 3,753,903</u>
Segment income	<u>\$ 237,217</u>	<u>\$ 21,414</u>	<u>\$ 30,124</u>	<u>(\$ 101,903)</u>	<u>\$ 186,852</u>
Segment income (loss):					
Depreciation and amortization	<u>\$ 149,681</u>	<u>\$ 5,533</u>	<u>\$ 2,150</u>	<u>\$ 267</u>	<u>\$ 157,631</u>
Interest income	<u>\$ 1,748</u>	<u>\$ 5,986</u>	<u>\$ 999</u>	<u>(\$ 1,164)</u>	<u>\$ 7,569</u>
Interest expense	<u>\$ 10,499</u>	<u>\$ 158</u>	<u>\$ 1,367</u>	<u>(\$ 1,164)</u>	<u>\$ 10,860</u>
Income tax expense	<u>\$ 26,640</u>	<u>\$ 420</u>	<u>\$ 3,605</u>	<u>\$ -</u>	<u>\$ 30,665</u>
Total segment assets	<u>\$ 3,192,403</u>	<u>\$ 724,148</u>	<u>\$ 698,829</u>	<u>(\$ 1,759,907)</u>	<u>\$ 2,855,473</u>

(4) Information on product and service

Revenue from external customers is mainly from distributing business machine equipment, and distributing and retail of information software. Details of revenue are provided in Note 6(20).

(5) Geographical information

Region	Years ended December 31,			
	2016		2015	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 2,916,920	\$ 767,832	\$ 2,955,839	\$ 762,198
Hong Kong	2,067,888	77,193	436,556	17,144
China	41,989	20,152	78,742	17,527
Others	339,091	32,745	282,766	17,221
	<u>\$ 5,365,888</u>	<u>\$ 897,922</u>	<u>\$ 3,753,903</u>	<u>\$ 814,090</u>

(6) Major customers' financial information

For the years ended December 31, 2016 and 2015, no customer accounted for more than 10% of the sales revenue in the consolidated statements of comprehensive income.