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Chicony Power Technology Co., Ltd.

2017 Annual Report

Dated by May 7, 2018

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Letter to Shareholders

I. Business performance in Year 2017

(I) Results accomplished with the business operation plan for 2017

Thanks to the remarkable teamwork of the managerial team and entire staff, the Company achieved growth in both sales revenues and profitability compared with 2016. In 2017, the consolidated sales revenues were up to NT\$27,874,928,000, growing by 1.7% over 2016. The net earnings after taxes came to NT\$1,561,602,000, increasing by 16.5% over 2016.

(II) Analyses on financial revenues and expenditures and profitability

1. Financial revenues and expenditures

Unit: NT\$1,000

| Item | 2017 | 2016 | Increase (decrease) % |
|------------------------------------|------------|------------|--------------------------|
| Operating profit | 1,633,641 | 1,437,811 | 13.62% |
| Net earnings after tax | 1,561,602 | 1,340,653 | 16.48% |
| Average total assets | 19,935,264 | 18,848,054 | 5.77% |
| Average total shareholders' equity | 7,302,846 | 6,837,608 | 6.80% |

2. Profitability

| Item | 2017 | 2016 |
|---|-------|------------|
| Average return on assets (%) | 7.99 | 7.28 |
| Average Return on shareholders' equity (%) | 21.38 | 19.61 |
| Operating profit accounting for the ratio of share capital at the end of the period (%) | 42.74 | 38.27 |
| Net profit margin (%) | 5.60 | 4.89 |
| Net income per share | 4.21 | 3.71(Note) |

Remarks: The net income per share of 2016 represents the amount before retrospective adjustment without consideration of converting the earnings into a capital increase.

(III) Performance in research and development

In 2017, the Company has invested a total of NT\$1,480,293,000 in R&D expenses to develop new products, strengthen automated production equipment, improve production process and upgrade R&D technicians' competency. Given the industrial environment, which evolves rapidly and intensive competition, the Company will actively control the development trends in the market and continue to invest fund in innovation of products

and R&D of technology. This is especially so in the new application areas, such as development of products including IoT-related products, smart energy building control systems and environmental sensors, power supply of video games, power supply of gaming computer, LED car headlights, power supply systems of data center and server and etc., in order to keep intensifying the Company's competitiveness in the industry.

II. Business operation plan for Year 2018

(I) Business targets and forecast for Year 2018

In light of global electronic components industry in 2018, although global economic indexes trended gradually towards positive developments, more and more life-orientated intelligent technologies have prospered booming developments of key electronic components in Industry 4.0, Artificial Intelligence (AI), Smart Home, electrical vehicles, autonomous vehicles, block chains, and so on, all of which are closely linked with Big Data. In the future, the 4-in-1 integration of network, software, hardware and data will become an inevitable part of the trend, showing optimal prospects to future evolution of key electronic components in Taiwan. However the emergence of Red Supply Chain of electronic components industry in the Mainland China has continuously formed competing pressures on Taiwan's key components. The advantage of "economics of scale" that Taiwan relied on in the past has now been gradually replaced, and China manufacturers' upgrades in technologies are accelerating, as well as the build-up of industry chains. Applications in Internet of Things (IoT) are versatile and market characteristics are complicated, and therefore future operation of the company will still have to face multiple challenges.

Notwithstanding, the Company's management team will deal with various challenges derived from changes of the global economy and industrial environment carefully, by upholding the optimistic and vigorous visions. The Company will keep dedicated to the R&D and marketing of power supply-related products and also work hard to develop the business about products related to IoT, such as Smart Speakers and other Smart Home Products, High-wattage Power Supply Products necessary for the ever booming gaming industry, block chains and digital currency mining; as well as Power Supply Systems and AI trends for Big Databank Centers and Servers, and the relevant business of products in non-PC Industries. The Company will adhere to the "No Quality, No Sales" policy and strictly control the product quality and continue upgrading the efficiency of customer service to increase the Company's overall operating revenue and earnings. Moreover, it will actively strengthen automated manufacturing to increase production flexibility and efficiency, and improve product quality in response to the increasing demand for manufacturing requirements. We anticipate that within the year, we shall sell an aggregate total of 156 million sets of electronic parts and components products, consumer electronic products, and other related products.

(II) The business operation policies and strategies of future development of the Company

For business operation policies and strategies of future development of the Company, we'd like to focus on marketing, production, research and development, products, human resources and financial standing, as enumerated below:

1. Marketing

- (1) Upgrade the sale proportion of high value-added power supply products to increase the Company's earnings.
- (2) Develop the business for products related to IoT, power supply of video game and power supply of gaming computer, etc. actively.
- (3) Continue to expand the market share of power supply products and develop customers for new products actively.
- (4) Take firm trends of market development and boost customer service efficiency, with continual profound cultivation and contacts with customers to provide customers with services in the most real-time.

2. Production

- (1) Utilize the inter-group co-procurement and actively expand cooperation with suppliers in Mainland China to reduce the procurement cost of raw materials effectively.
- (2) Continually increase automated production ratio, improve production efficiency and strengthen product quality to mitigate the pressure produced by increase in labor cost.
- (3) Continue to research, develop and improve the production process to upgrade the production efficiency and product quality.
- (4) Continually boost the ratio of automated production and continue to develop new manufacturing process to minimize production costs, enhance production efficiency and quality.

3. Research and development

- (1) Continually cooperate with heavyweight manufacturers, customers and suppliers throughout the world, dominate advanced key technology and trends of development in markets to create technology advantage.
- (2) Continue to exert on research & development in innovation and technology of products to upgrade the Company's position levels in the markets and in the know-how.
- (3) Speed up quality certification of various products, domestic and overseas, to upgrade competitiveness of the products in international markets.
- (4) Continue to recruit excellent human resources and enhance employees' professional training to upgrade the Company's strength in R&D.

4. Products

- (1) Take firm trends of market development and boost research & development of power supply products for new domains of application to increase product items

and help the Company gain added profits.

- (2) Continue to develop the power supply products related to smart family and green building to be in line with the global smart energy trend.
 - (3) Augment the power supply solution projects for server and huge information centers to develop upward to high-end products.
 - (4) Continue to research and develop high-power supply products related to video games and gaming computers.
5. Human resources
- (1) Work with colleges and universities and provide scholarship and fellowship to excellent students to recruit professional human resources.
 - (2) Effectively utilize the system targets of all sorts of human resources to help all business divisions accomplish annual targets in profits.
 - (3) Look into and make sure of the trends of human resources relevant policies at home and abroad, and regularly review the relevant practices and systems of the Company, to win over maximum possible benefits in common for both the labor and management sides.
 - (4) Fulfill corporate social responsibility, practice corporate governance and value care for employees to achieve the enterprise's objective for sustainable operation.
6. Financial standing
- (1) Make maximum possible use of the derivative financial instruments and diversified, comprehensive, and multifaceted instruments in the capital markets so as to minimize potential fluctuations in foreign exchange and the risks in rising prices of raw materials.
 - (2) Continually strengthen control over accounts receivable, boost the turnover rate of a variety of assets to effectively control budgeting and implementation process.
 - (3) Devise and work out optimal taxation planning for the Company and the subsidiaries pursuant to the requirements of taxation laws of countries concerned.
 - (4) Continually minimize liability ratios.

(III) Key production and marketing policies

1. Continually team up with internationally renowned giant customers so as to expand the market shares of our products in line with the growth of customers' sales revenues and the rising ratios of our products sold to them.
2. Comprehensively promote the automated production and continually develop new manufacturing process to boost product efficiency and quality.
3. Continually expand the domains of application for new products, raise the proportion of sales turnover of our products with added values to help gain added profits.
4. Continually set up global warehouses for deliveries in real-time to strengthen flexibility of deliveries and enhance the close teamwork ties with customers.
5. Utilize the inter-group co-procurement and marketing strength to reduce the procurement cost of raw materials and increase the sales of products.

6. Enhance the performance of the existing ERP overall information system to boost operating efficiency of all business sectors.

III. The impact among the environments of external competitions, legal ambiance, and environment for overall business operation:

In the business operations here in the Company, we have faithfully complied with the laws and regulations currently prevalent in the home country and the countries while our subsidiaries are in. Our entire managerial team members shall, as always, continually stay watchful about the environmental changes that might have an impact upon our business operation. Meanwhile, we shall implement business policies and strategies in marketing, production, research and development, production, human resources and financial concern to continually boost our overall business performance and to strive for the optimal values to our customers, shareholders and employees.

Chairman: Lin, Mao-Kuei

President: Tseng, Kuo-Hua

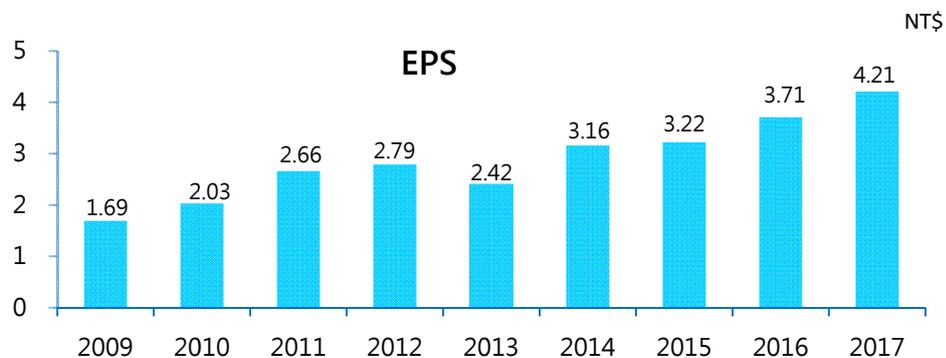
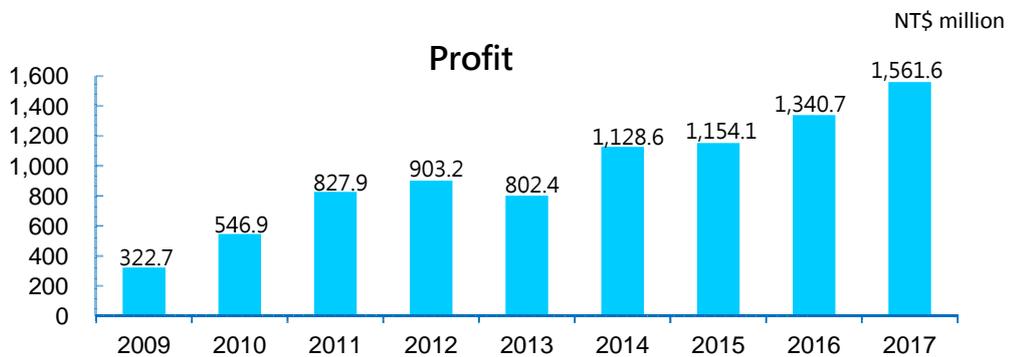
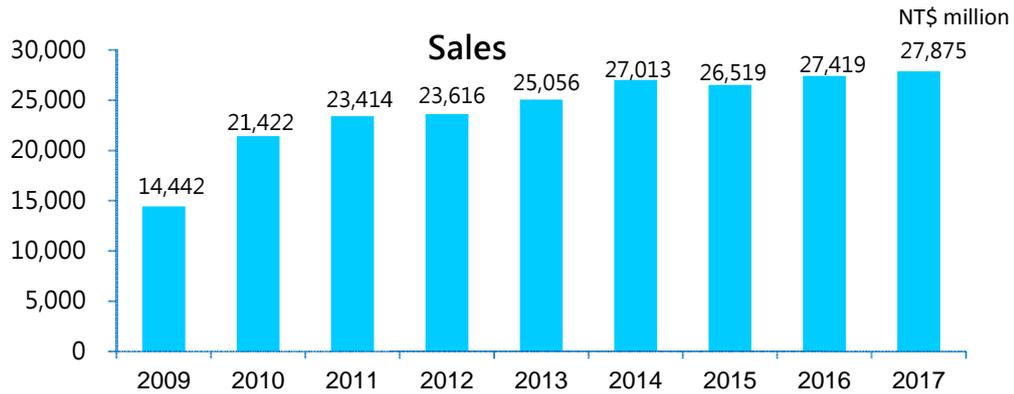
Chief Finance Officer: Chen, Hsueh-Yi

Consolidated Financial Highlights

(Expressed in millions of NTD, except as otherwise indicated)

NT\$ million

| | 2017 | 2016 |
|-----------------------------|----------------|----------------|
| Sales | 27,874.9 | 27,419.5 |
| Net operating margin | 4,790.4 | 4,578.3 |
| Net operating margin % | 17.2% | 16.7% |
| Operating Profit | 1,633.6 | 1,437.8 |
| Operating Profit % | 5.9% | 5.2% |
| Profit | 1,561.6 | 1,340.7 |
| Profit % | 5.6% | 4.9% |
| EPS(NT\$) | 4.21 | 3.71 |
| Capital | 3,822.7 | 3,757.4 |
| ROE% | 21.4% | 19.6% |



* 2009~2011 financials are based on R.O.C. GAAP

2012~2017 financials are based on IFRS

**CHICONY POWER TECHNOLOGY CO., LTD
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2017 AND 2016**

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

PWCR17000353

To the Board of Directors and Shareholders of Chicony Power Technology Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of Chicony Power Technology Co., Ltd. and its subsidiaries (the “Group”) as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other independent accountants (please refer to “other matter”), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the

context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

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

Appropriateness of Warehouse Operating Revenue Cut-off

Description

For policies on revenue recognitions, please refer to Note 4(28).

The Group has two types of sales delivery forms: Factory direct shipment and Warehouse sales. Warehouse sales revenue is recognized when the goods are dispatched from the warehouses (transfer of significant risk and rewards of ownership) and is based on the reports and other relevant information provided by the warehouse custodians.

The Group's warehouses are located in multiple countries, and the revenue recognition process involves several manual operations. Thus, we determine the warehouse sales income cut-off as one of the key areas of focus for this fiscal year's audit.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. We evaluated the internal controls for regular reconciliation between the Group and its warehouse custodians.
2. We performed the revenue recognition cut-off tests, including obtaining of sufficient appropriate audit evidences from the warehouse custodians and reviewing the reconciliations of the Group's accounting records.
3. We conducted warehouse inventory audit by using physical counts or using confirmation letters to validate inventory balances with the warehouse custodians.

Assessment of Allowance for Inventory Valuation Losses

Description

Please refer to Notes 4(12), 5(2) and 6(5) for inventory accounting policy, accounting estimates, assumption, and details of allowance for inventory valuation losses. As of December 31, 2017, the balances of inventory and allowance for inventory valuation losses were NT\$ 5,809,478 thousand and NT\$ 336,501 thousand, respectively.



The Group was primarily engaged in manufacturing and sales of switching power supply, electronic components, and LED lighting equipment. As electronic products' life cycles are short and the market is highly competitive, there is a higher risk of incurring inventory valuation losses or obsolescence. The Group's inventories are stated at the lower of cost and net realisable value. For inventories that are over a certain age, there are risks of obsolescence.

The determination of net realisable value for obsolete or slow-moving inventory are subject to management's judgement. Considering that the Group's inventory balance and the allowance for inventory valuation losses are material to its financial statements, we consider the assessment of the allowance for inventory valuation losses as one of the key audit matters.

How our audit addressed the matter

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

1. We obtained an understanding of the Group's nature of business and industry and its warehousing control procedures to assess whether the provision policies and procedures were adopted reasonably and consistent with historical trends.
2. We reviewed the Group's annual physical inventory count plan and attended the annual inventory counting in order to assess the effectiveness of the Group's internal controls for obsolete inventory.
3. We obtained and recalculated the inventory aging report to ensure whether the document is appropriate.
4. We performed net realisable value test, selected samples of key parameters and traced the sales price or purchase invoice and other data, and recalculated the allowance for inventory valuation losses of certain inventory.

Other matter-Scope of the Audit

We did not audit the financial statements of a wholly-owned consolidated subsidiary with total assets of NT\$418,302 thousand and NT\$ 338,136 thousand as at December 31, 2017 and 2016, constituting 2.05% and 1.74% of consolidated total assets. Additionally, the subsidiary had sales revenue amounting to NT\$802,940 thousand and NT\$ 684,710 thousand, for the years ended December 31, 2017 and 2016, constituting 2.88% and 2.50% of consolidated total sales revenue, respectively. Those financial statements and information disclosed in Note 13 were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the 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 Chicony Power Technology Co., Ltd. as at and for the years ended December 31, 2017 and 2016.

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

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

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

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and



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obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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



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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.


Lin, Chun-Yao


Weng, Shih-Jung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 6, 2018

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

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of New Taiwan dollars)

| Assets | Notes | December 31, 2017 | | December 31, 2016 | | |
|---------------------------|-------------------------------------|-------------------|----------------------|-------------------|----------------------|------------|
| | | AMOUNT | % | AMOUNT | % | |
| CURRENT ASSETS | | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | \$ 958,789 | 5 | \$ 911,718 | 5 |
| 1110 | Financial assets at fair value | 6(2) | | | | |
| | through profit or loss - current | | 59,086 | - | 36,811 | - |
| 1125 | Available-for-sale financial assets | 6(3) | | | | |
| | - current | | 1,643,440 | 8 | 1,306,785 | 7 |
| 1150 | Notes receivable, net | | 83,529 | - | 28,987 | - |
| 1170 | Accounts receivable, net | 6(4) | 6,069,546 | 30 | 7,217,924 | 37 |
| 1180 | Accounts receivable - related | 7 | | | | |
| | parties | | 1,432,367 | 7 | 1,423,006 | 7 |
| 1200 | Other receivables | | 243,518 | 1 | 258,847 | 2 |
| 1210 | Other receivables - related parties | 7 | 1,396 | - | 793 | - |
| 130X | Inventories, net | 6(5) | 5,472,977 | 27 | 4,067,376 | 21 |
| 1410 | Prepayments | | 567,114 | 3 | 607,783 | 3 |
| 1470 | Other current assets | 8 | 28,722 | - | 23,178 | - |
| 11XX | CURRENT ASSETS | | <u>16,560,484</u> | <u>81</u> | <u>15,883,208</u> | <u>82</u> |
| NON-CURRENT ASSETS | | | | | | |
| 1523 | Available-for-sale financial assets | 6(3) | | | | |
| | - non-current | | 62,884 | - | 73,323 | - |
| 1543 | Financial assets carried at cost - | 6(6) | | | | |
| | non-current | | 506,256 | 2 | 186,393 | 1 |
| 1550 | Investments accounted for under | 6(7) | | | | |
| | equity method | | - | - | 280,824 | 1 |
| 1600 | Property, plant and equipment, | 6(8) | | | | |
| | net | | 2,377,050 | 12 | 2,335,096 | 12 |
| 1780 | Intangible assets | 6(9) | 205,587 | 1 | 210,488 | 1 |
| 1840 | Deferred income tax assets | 6(25) | 105,606 | 1 | 91,177 | 1 |
| 1900 | Other non-current assets | 6(10) and 8 | 589,225 | 3 | 402,926 | 2 |
| 15XX | NON-CURRENT ASSETS | | <u>3,846,608</u> | <u>19</u> | <u>3,580,227</u> | <u>18</u> |
| 1XXX | TOTAL ASSETS | | <u>\$ 20,407,092</u> | <u>100</u> | <u>\$ 19,463,435</u> | <u>100</u> |

(Continued)

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of New Taiwan dollars)

| Liabilities and Equity | Notes | December 31, 2017 | | December 31, 2016 | | |
|---|--|-------------------|----------------------|-------------------|----------------------|------------|
| | | AMOUNT | % | AMOUNT | % | |
| CURRENT LIABILITIES | | | | | | |
| 2120 | Financial liabilities at fair value through profit or loss - current | 6(2) | \$ 1,755 | - | \$ 30,368 | - |
| 2150 | Notes payable | | 153 | - | 430 | - |
| 2170 | Accounts payable | 6(11) | 9,620,143 | 47 | 9,644,094 | 50 |
| 2200 | Other payables | 6(12) | 2,531,546 | 12 | 2,008,667 | 10 |
| 2220 | Other payables - related parties | 7 | 8,895 | - | 7,673 | - |
| 2230 | Current income tax liabilities | | 343,213 | 2 | 297,480 | 1 |
| 2300 | Other current liabilities | | 174,256 | 1 | 147,126 | 1 |
| 21XX | CURRENT LIABILITIES | | <u>12,679,961</u> | <u>62</u> | <u>12,135,838</u> | <u>62</u> |
| NON-CURRENT LIABILITIES | | | | | | |
| 2540 | Long-term borrowings | 6(13) | 100,000 | 1 | 100,000 | 1 |
| 2600 | Other non-current liabilities | | 80,650 | - | 75,769 | - |
| 25XX | NON-CURRENT LIABILITIES | | <u>180,650</u> | <u>1</u> | <u>175,769</u> | <u>1</u> |
| 2XXX | TOTAL LIABILITIES | | <u>12,860,611</u> | <u>63</u> | <u>12,311,607</u> | <u>63</u> |
| EQUITY ATTRIBUTABLE TO OWNERS OF PARENT | | | | | | |
| SHARE CAPITAL | | | | | | |
| 3110 | Share capital - common stock | 6(16) | 3,822,723 | 19 | 3,757,446 | 19 |
| CAPITAL SURPLUS | | | | | | |
| 3200 | Capital surplus | 6(17) | 1,696,317 | 9 | 1,489,983 | 8 |
| RETAINED EARNINGS | | | | | | |
| 3310 | Legal reserve | 6(18) | 691,510 | 3 | 557,445 | 3 |
| 3320 | Special reserve | | 483,361 | 2 | 399,950 | 2 |
| 3350 | Unappropriated retained earnings | 6(26) | 2,215,562 | 11 | 1,918,591 | 10 |
| OTHER EQUITY INTEREST | | | | | | |
| 3400 | Other equity interest | 6(19) | (1,043,408) | (5) | (504,174) | (2) |
| 3500 | TREASURY STOCKS | 6(16) | (365,665) | (2) | (513,950) | (3) |
| 31XX | EQUITY ATTRIBUTABLE TO OWNERS OF PARENT | | <u>7,500,400</u> | <u>37</u> | <u>7,105,291</u> | <u>37</u> |
| 36XX | NON-CONTROLLING INTEREST | | <u>46,081</u> | <u>-</u> | <u>46,537</u> | <u>-</u> |
| 3XXX | TOTAL EQUITY | | <u>7,546,481</u> | <u>37</u> | <u>7,151,828</u> | <u>37</u> |
| SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS | | | | | | |
| SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE | | | | | | |
| 3X2X | TOTAL LIABILITIES AND EQUITY | | <u>\$ 20,407,092</u> | <u>100</u> | <u>\$ 19,463,435</u> | <u>100</u> |

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

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands of New Taiwan dollars, except earnings per share amounts)

| Items | Notes | Years ended December 31 | | | | |
|-------|--|-------------------------|---------------|--------|---------------|-------|
| | | 2017 | | 2016 | | |
| | | AMOUNT | % | AMOUNT | % | |
| 4000 | SALES REVENUE | 7 | \$ 27,874,928 | 100 | \$ 27,419,463 | 100 |
| 5000 | OPERATING COSTS | 6(5)(23)(24) and 7 | (23,084,538) | (83) | (22,841,190) | (83) |
| 5900 | GROSS PROFIT | | 4,790,390 | 17 | 4,578,273 | 17 |
| | OPERATING EXPENSES | 6(23)(24) and 7 | | | | |
| 6100 | Selling expenses | | (935,281) | (3) | (1,057,513) | (4) |
| 6200 | General & administrative expenses | | (741,175) | (3) | (738,446) | (3) |
| 6300 | Research and development expenses | | (1,480,293) | (5) | (1,344,503) | (5) |
| 6000 | TOTAL OPERATING EXPENSES | | (3,156,749) | (11) | (3,140,462) | (12) |
| 6900 | OPERATING PROFIT | | 1,633,641 | 6 | 1,437,811 | 5 |
| | NON-OPERATING INCOME AND EXPENSES | | | | | |
| 7010 | Other income | 6(20) | 161,415 | - | 133,286 | - |
| 7020 | Other gains and losses | 6(21) | 210,581 | 1 | 192,679 | 1 |
| 7050 | Finance costs | 6(22) | (37,759) | - | (38,001) | - |
| 7060 | Share of loss of associates and joint ventures accounted for under equity method | | (33,187) | - | (14,763) | - |
| 7000 | TOTAL NON-OPERATING INCOME AND EXPENSES | | 301,050 | 1 | 273,201 | 1 |
| 7900 | PROFIT BEFORE INCOME TAX | | 1,934,691 | 7 | 1,711,012 | 6 |
| 7950 | Income tax expense | 6(25) | (372,453) | (1) | (373,981) | (1) |
| 8200 | PROFIT FOR THE YEAR | | \$ 1,562,238 | 6 | \$ 1,337,031 | 5 |
| | OTHER COMPREHENSIVE INCOME COMPONENTS OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS | | | | | |
| 8311 | Actuarial loss on defined benefit plan | 6(14) | (\$ 6,220) | - | (\$ 6,561) | - |
| | COMPONENTS OF OTHER COMPREHENSIVE INCOME THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS | | | | | |
| 8361 | Financial statement translation differences of foreign operations | | (38,153) | - | (259,078) | (1) |
| 8362 | Unrealized (loss) gain on valuation of available-for-sale financial assets | 6(19) | (525,874) | (2) | 174,624 | 1 |
| 8370 | Share of other comprehensive income of associates and joint ventures accounted for under equity method | 6(19) | 2,888 | - | (3,336) | - |
| 8300 | TOTAL OTHER COMPREHENSIVE LOSS FOR THE YEAR | | (\$ 567,359) | (2) | (\$ 94,351) | - |
| 8500 | TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | \$ 994,879 | 4 | \$ 1,242,680 | 5 |
| | PROFIT (LOSS), ATTRIBUTABLE TO: | | | | | |
| 8610 | Owners of the parent | | \$ 1,561,602 | 6 | \$ 1,340,653 | 5 |
| 8620 | Non-controlling interest | | \$ 636 | - | (\$ 3,622) | - |
| | COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | | |
| 8710 | Owners of the parent | | \$ 995,335 | 4 | \$ 1,250,681 | 5 |
| 8720 | Non-controlling interest | | (\$ 456) | - | (\$ 8,001) | - |
| | EARNINGS PER SHARE(NT\$) | 6(26) | | | | |
| 9750 | BASIC EARNINGS PER SHARE | | \$ 4.21 | | \$ 3.69 | |
| 9850 | DILUTED EARNINGS PER SHARE | | \$ 4.15 | | \$ 3.62 | |

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

HICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands of New Taiwan dollars)

| Notes | Equity attributable to owners of the parent | | | | | | | | | | | Total Equity | |
|-------------------------------------|---|---------------------|---------------------|--------------------|--|---|--|-----------------------------|---------------------|----------------------|---------------------------------|------------------|---------------------|
| | Share Capital - Common Stock | Capital Surplus | Retained Earnings | | | Other equity interest | | | | Total | Non- Controlling Interest | | |
| | | | Legal Reserve | Special Reserve | Unappropriated Retained Earnings | Financial Statements Translation Differences of Foreign Operations | Unrealized Gain or Loss on Available- for-sale Financial Assets | Other Equity - Others | Treasury Stocks | | | | |
| Year ended December 31, 2016 | | | | | | | | | | | | | |
| | BALANCE AT JANUARY 1, 2016 | \$ 3,683,191 | \$ 1,332,487 | \$ 442,031 | \$ 263,095 | \$ 1,701,538 | \$ 55,483 | (\$ 455,433) | (\$ 62,643) | (\$ 389,825) | \$ 6,569,924 | \$ 54,538 | \$ 6,624,462 |
| | Distribution of 2015 earnings | | | | | | | | | | | | |
| | Legal reserve | - | - | 115,414 | - | (115,414) | - | - | - | - | - | - | - |
| | Special reserve | - | - | - | 136,855 | (136,855) | - | - | - | - | - | - | - |
| | Cash dividends | - | - | - | - | (846,754) | - | - | - | (846,754) | - | - | (846,754) |
| | Stock dividends | 6(17) | 18,016 | - | - | (18,016) | - | - | - | - | - | - | - |
| | Stock for employee compensation | 6(16)(17) | 39,415 | 109,770 | - | - | - | - | - | - | 149,185 | - | 149,185 |
| | Profit (loss) for the year | | - | - | - | 1,340,653 | - | - | - | - | 1,340,653 | (3,622) | 1,337,031 |
| | Restricted employee stock options | 6(16)(17) | 19,099 | 53,189 | - | - | - | - | 34,092 | - | 106,380 | - | 106,380 |
| | Retirement of restricted employee stock options | 6(16)(17)(19) | (2,275) | (5,463) | - | - | - | - | 7,738 | - | - | - | - |
| | Other comprehensive income (loss) for the year | 6(14)(19) | - | - | - | (6,561) | (258,035) | 174,624 | - | - | (89,972) | (4,379) | (94,351) |
| | Acquisition of treasury stock | | - | - | - | - | - | - | - | (124,125) | (124,125) | - | (124,125) |
| | BALANCE AT DECEMBER 31, 2016 | \$ 3,757,446 | \$ 1,489,983 | \$ 557,445 | \$ 399,950 | \$ 1,918,591 | (\$ 202,552) | (\$ 280,809) | (\$ 20,813) | (\$ 513,950) | \$ 7,105,291 | \$ 46,537 | \$ 7,151,828 |
| Year ended December 31, 2017 | | | | | | | | | | | | | |
| | BALANCE AT JANUARY 1, 2017 | \$ 3,757,446 | \$ 1,489,983 | \$ 557,445 | \$ 399,950 | \$ 1,918,591 | (\$ 202,552) | (\$ 280,809) | (\$ 20,813) | (\$ 513,950) | \$ 7,105,291 | \$ 46,537 | \$ 7,151,828 |
| | Distribution of 2016 earnings | | | | | | | | | | | | |
| | Legal reserve | - | - | 134,065 | - | (134,065) | - | - | - | - | - | - | - |
| | Special reserve | - | - | - | 83,411 | (83,411) | - | - | - | - | - | - | - |
| | Cash dividends | - | - | - | - | (1,022,347) | - | - | - | (1,022,347) | - | - | (1,022,347) |
| | Stock dividends | | 18,588 | - | - | (18,588) | - | - | - | - | - | - | - |
| | Stock for employee compensation | 6(16)(17) | 47,216 | 181,784 | - | - | - | - | - | - | 229,000 | - | 229,000 |
| | Profit for the year | | - | - | - | 1,561,602 | - | - | - | - | 1,561,602 | 636 | 1,562,238 |
| | Restricted employee stock options | 6(19) | - | - | - | - | - | - | 18,964 | - | 18,964 | - | 18,964 |
| | Retirement of restricted employee stock options | 6(16)(17)(19) | (527) | (1,322) | - | - | - | - | 1,849 | - | - | - | - |
| | Transfer of treasure stock to employees | 6(17) | - | 25,872 | - | - | - | - | - | 148,285 | 174,157 | - | 174,157 |
| | Other comprehensive loss for the year | 6(14)(19) | - | - | - | (6,220) | (34,173) | (525,874) | - | - | (566,267) | (1,092) | (567,359) |
| | BALANCE AT DECEMBER 31, 2017 | \$ 3,822,723 | \$ 1,696,317 | \$ 691,510 | \$ 483,361 | \$ 2,215,562 | (\$ 236,725) | (\$ 806,683) | \$ - | (\$ 365,665) | \$ 7,500,400 | \$ 46,081 | \$ 7,546,481 |

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

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of New Taiwan dollars)

| | Notes | Years ended December 31 | |
|---|-----------|-------------------------|--------------|
| | | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Consolidated profit before tax for the year | | \$ 1,934,691 | \$ 1,711,012 |
| Adjustments to reconcile profit before tax to net cash provided by operating activities | | | |
| Income and expenses having no effect on cash flows | | | |
| Depreciation expense | 6(8)(23) | 540,504 | 537,522 |
| Amortization expense | 6(9)(23) | 52,656 | 44,418 |
| Other non-current assets recognised as expenses | 6(23) | 56,895 | 92,252 |
| Long-term prepaid rents recognised as expenses | 6(10)(23) | 3,047 | 3,199 |
| Reversal of provision for bad debt expense | 6(21) | (1,365) | (4,401) |
| Share-based payments | 6(15) | 51,951 | 106,379 |
| Interest income | 6(20) | (6,872) | (6,719) |
| Dividend income | 6(20) | (51,620) | (32,838) |
| Interest expense | 6(22) | 37,759 | 38,001 |
| Loss on disposal of property, plant and equipment | 6(21) | 6,009 | 2,159 |
| Gain on disposal of investments | 6(21) | (329,959) | (659,659) |
| Impairment loss | 6(3)(21) | - | 546,906 |
| Net (income) loss on financial assets or liabilities at fair value through profit or loss | 6(2)(21) | (153,380) | 16,494 |
| Share of loss of associates and joint ventures accounted for using equity method | | 33,187 | 14,763 |
| Changes in assets/liabilities relating to operating activities | | | |
| Net changes in assets relating to operating activities | | | |
| Financial assets or liabilities at fair value through profit or loss - current | | 103,018 | (7,504) |
| Notes receivable, net | | (54,542) | (24,040) |
| Accounts receivable, net | | 1,149,743 | (53,853) |
| Accounts receivable - related parties | | (9,361) | (202,508) |
| Other receivables | | 33,263 | (110,055) |
| Other receivables - related parties | | (603) | (426) |
| Inventories | | (1,405,601) | (855,999) |
| Prepayments | | 40,669 | (256,743) |
| Other current assets | | (300) | (11) |
| Net changes in liabilities relating to operating activities | | | |
| Notes payable | | (277) | (1,388) |
| Accounts payable | | (23,951) | 1,161,025 |
| Other payables | | 751,879 | 547,416 |
| Other payables - related parties | | 1,222 | 5,788 |
| Other current liabilities | | 27,130 | 63,433 |
| Accrued pension liabilities | | 832 | 818 |
| Cash generated from operations | | 2,786,624 | 2,675,441 |
| Interest received | | 6,872 | 6,834 |
| Dividends received | | 51,620 | 33,932 |
| Interest paid | | (37,759) | (39,080) |
| Income tax paid | | (341,149) | (241,911) |
| Net cash generated by operating activities | | 2,466,208 | 2,435,216 |

(Continued)

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of New Taiwan dollars)

| | Notes | Years ended December 31 | |
|--|-------|-------------------------|------------------|
| | | 2017 | 2016 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of available-for-sale financial assets - current | | (\$ 1,460,690) | (\$ 1,194,482) |
| Proceeds from disposal of available-for-sale financial assets - current | | 1,325,637 | 818,949 |
| Proceeds from disposal of financial assets at cost - current | | - | 2,543 |
| Increase in other current assets | | (5,244) | (23,094) |
| Acquisition of available-for-sale financial assets – noncurrent | | - | (210,854) |
| Proceeds from disposal of available-for-sale financial assets - noncurrent | | - | 959,938 |
| Acquisition of financial assets at cost – noncurrent | | (340,423) | (34,978) |
| Acquisition of investments accounted for using equity method | | (279,814) | - |
| Proceeds from disposal of investments accounted for using equity method | | 120,454 | - |
| Acquisition of government subsidies(shown as deduction to land) | | - | 11,695 |
| Acquisition of property, plant and equipment | 6(8) | (591,521) | (335,234) |
| Proceeds from disposal of property, plant and equipment | | 18,745 | 16,155 |
| Acquisition of intangible assets | 6(9) | (52,485) | (30,651) |
| Increase in prepayments for business facilities | | (303,225) | (85,503) |
| Decrease in other non-current assets | | 10,312 | 25,843 |
| Net cash used in investing activities | | (1,558,254) | (79,673) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Decrease in short-term borrowings | | - | (1,210,316) |
| Proceeds from long-term debt | | - | 100,000 |
| Decrease in other non-current liabilities | | (2,171) | (1,842) |
| Cash dividends paid | 6(18) | (1,022,347) | (846,754) |
| Payments to acquire treasury shares | | - | (124,125) |
| Transfer of treasury stock to employee | | 141,171 | - |
| Net cash used in financing activities | | (883,347) | (2,083,037) |
| Effect of exchange rate changes on cash and cash equivalents | | 22,464 | (73,669) |
| Net increase in cash and cash equivalents | | 47,071 | 198,837 |
| Cash and cash equivalents at beginning of year | 6(1) | 911,718 | 712,881 |
| Cash and cash equivalents at end of year | 6(1) | \$ 958,789 | \$ 911,718 |

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

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

Chicony Power Technology Co., Ltd. (the “Company”) was incorporated in 2008 as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company became listed on the Taiwan Stock Exchange (TWSE) in November, 2013. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in developing, manufacturing and sales of switching power supplies, electronic components and LED lighting equipment, and smart building solutions. Chicony Electronics Co., Ltd. is the Group’s ultimate parent company. As of December 31, 2017, Chicony Electronics Co., Ltd. holds 47.85% equity interest in the Company.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 6, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective Date by International Accounting Standards Board</u> |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 28, 'Investment entities: applying the consolidation exception' | January 1, 2016 |
| Amendments to IFRS 11, 'Accounting for acquisition of interests in joint operations' | January 1, 2016 |
| IFRS 14, 'Regulatory deferral accounts' | January 1, 2016 |
| Amendments to IAS 1, 'Disclosure initiative' | January 1, 2016 |
| Amendments to IAS 16 and IAS 38, 'Clarification of acceptable methods of depreciation and amortisation' | January 1, 2016 |
| Amendments to IAS 16 and IAS 41, 'Agriculture: bearer plants' | January 1, 2016 |
| Amendments to IAS 19, 'Defined benefit plans: employee contributions' | July 1, 2014 |
| Amendments to IAS 27, 'Equity method in separate financial statements' | January 1, 2016 |

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
|--|--|
| Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets' | January 1, 2014 |
| Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting' | January 1, 2014 |
| IFRIC 21, 'Levies' | January 1, 2014 |
| Annual improvements to IFRSs 2010-2012 cycle | July 1, 2014 |
| Annual improvements to IFRSs 2011-2013 cycle | July 1, 2014 |
| Annual improvements to IFRSs 2012-2014 cycle | January 1, 2016 |

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

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

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

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
|---|--|
| Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions' | January 1, 2018 |
| Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts' | January 1, 2018 |
| IFRS 9, 'Financial instruments' | January 1, 2018 |
| IFRS 15, 'Revenue from contracts with customers' | January 1, 2018 |
| Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers' | January 1, 2018 |
| Amendments to IAS 7, 'Disclosure initiative' | January 1, 2017 |
| Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses' | January 1, 2017 |
| Amendments to IAS 40, 'Transfers of investment property' | January 1, 2018 |
| IFRIC 22, 'Foreign currency transactions and advance consideration' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of in 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 financial performance based on the Group's assessment.

IFRS 9, 'Financial instruments'

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

When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the standard as of January 1, 2018 are summarised below.

| Consolidated balance sheet <u>Affected items</u> | 2017 version <u>IFRSs amount</u> | Effect of adoption of new standards | 2018 version <u>IFRSs amount</u> | <u>Remark</u> |
|---|-------------------------------------|---|-------------------------------------|---------------|
| <u>January 1, 2018</u> | | | | |
| Financial assets at fair value through profit or loss - current | \$ 59,086 | \$ 1,008,061 | \$ 1,067,147 | (b) |
| Financial assets at fair value through other comprehensive income - current | - | 635,379 | 635,379 | (a) |
| Available-for-sale financial assets - current | 1,643,440 | (1,643,440) | - | (a)(b) |
| Financial assets at fair value through profit or loss - non-current | - | 517,579 | 517,579 | (b) |
| Financial assets at fair value through other comprehensive income - non-current | - | 34,898 | 34,898 | (a) |
| Available-for-sale financial assets - non-current | 62,884 | (62,884) | - | (a)(b) |
| Financial assets carried at cost - non-current | 506,256 | (506,256) | - | (a)(b) |
| Total affected assets | <u>\$ 2,271,666</u> | <u>(\$ 16,663)</u> | <u>\$ 2,255,003</u> | |

| Consolidated balance sheet <u>Affected items</u> | Effect of | | | Remark |
|---|------------------------------|------------------------------|------------------------------|--------|
| | 2017 version IFRSs amount | adoption of new standards | 2018 version IFRSs amount | |
| Retained earnings | \$ 3,390,433 | \$ 310,594 | \$ 3,701,027 | (a)(b) |
| Other equity interest | (1,043,408) | (327,257) | (1,370,665) | (a)(b) |
| Total affected equity | <u>\$ 2,347,025</u> | <u>(\$ 16,663)</u> | <u>\$ 2,330,362</u> | |

Explanation:

- (a) In accordance with IFRS 9, the Group expects to reclassify available-for-sale financial assets – current, available-for-sale financial assets – non-current and financial assets carried at cost – non-current in the amounts of \$635,379, \$20,584 and \$15,000, respectively, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income – current, financial assets at fair value through other comprehensive income – non-current, retained earnings and decreasing other equity interest in the amounts of \$635,379, \$34,898, \$508,504 and \$509,190, respectively.
- (b) In accordance with IFRS 9, the Group expects to reclassify available-for-sale financial assets – current, available-for-sale financial assets – non-current and financial assets carried at cost in the amounts of \$1,008,061, \$42,300 and \$491,256, respectively, by increasing financial assets at fair value through profit or loss - current, financial assets at fair value through profit or loss - non-current, decreasing retained earnings and increasing other equity interest in the amounts of \$1,008,061, \$517,579, \$197,910 and \$181,933, respectively.

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

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

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective Date by International Accounting Standards Board</u> |
|---|---|
| Amendments to IFRS 9, 'Prepayment features with negative compensation' | January 1, 2019 |
| Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture' | To be determined by International Accounting Standards Board |
| IFRS 16, 'Leases' | January 1, 2019 |
| IFRS 17, 'Insurance contracts' | January 1, 2021 |
| Amendments to IAS 19, 'Plan amendment, curtailment or settlement' | January 1, 2019 |
| Amendments to IAS 28, 'Long-term interests in associates and joint ventures' | January 1, 2019 |
| IFRIC 23, 'Uncertainty over income tax treatments' | January 1, 2019 |
| Annual improvements to IFRSs 2015-2017 cycle | January 1, 2019 |

Except for the following, the above standards and interpretations have no significant impact to the

Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

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

- (a) Financial assets and financial liabilities (including derivative instruments) are measured at fair value through profit or loss.
- (b) Available-for-sale financial assets are measured at fair value.
- (c) Defined benefit liabilities recognized 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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities 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 unrealized 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.

B. Subsidiaries included in the consolidated financial statements:

| Name of Investor | Name of Subsidiary | Main Business Activities | Ownership(%) | |
|-----------------------------------|--|--|-------------------|-------------------|
| | | | December 31, 2017 | December 31, 2016 |
| Chicony Power Technology Co., Ltd | Chicony Power Holdings Inc. (CPH) | Investment holdings | 100% | 100% |
| CPH | Chicony Power International Inc. (CPI) | Sales of switching power supplies and other electronic parts | 100% | 100% |
| CPI | Chicony Power USA, Inc. (CPUS) | Sales of switching power supplies and other electronic parts | 100% | 100% |
| " | Chicony Power Technology Hong Kong Limited (CPHK) | Research and development center and investment holdings | 100% | 100% |
| " | WitsLight Technology Co., Ltd. (WTS) | Design, researching and developing, manufacturing and sales of LED lighting module | 78.125% | 78.125% |
| CPHK | Chicony Power Technology (DongGuan) Co., Ltd. (CPDG) | Manufacturing and sales of switching power supplies and other electronic parts | 100% | 100% |
| " | Chicony Power Technology (Suzhou) Co., Ltd. (CPSZ) | Manufacturing and sales of electronic components and LED lighting equipment | 100% | 100% |

| Name of Investor | Name of Subsidiary | Main Business Activities | Ownership(%) | |
|------------------|--|--|-------------------|-------------------|
| | | | December 31, 2017 | December 31, 2016 |
| CPHK | Quang Sheng Electronics (Nangchang) Co., Ltd. (GSE) | Manufacturing and sales of electronic components and transformers | 100% | 100% |
| " | Chicony Power Technology (Chong Qing) Co., Ltd. (CPCQ) | Manufacturing and sales of electronic components and LED lighting equipment | 100% | 100% |
| " | Chicony Power Technology Trading (Dong Guan) Co., Ltd. (CPDGT) | Importing and exporting of power supplies, LED lighting equipments, and other electronics and smart building system industry | 100% | 100% |
| WTS | WitsLight Technology Co., Ltd. (WT) | Design, researching and developing, manufacturing and sales of LED lighting module | 100% | 100% |
| " | WitsLight Technology (Kunshan) Co., Ltd. (WTK) | Manufacturing and sales of LED lighting module | 100% | 100% |
| " | Carlight Technology Co.,Ltd.(CT) | Design, researching and developing and sales of automotive and motorcycle lamps and other components | 100% | 100% |
| WTK | Zhuzhou Torch Auto Lamp CO., Ltd. | Production and sales of automotive and motorcycle components, electric machine and device, lamps and plastic products | 100% | 100% |
| CPSZ | Chicony Energy Saving Technology (Shanghai) Co., Ltd. (CPSH) | Sales of LED lighting equipment | 100% | 100% |

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

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

E. Significant restrictions: None.

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

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized 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 recognized 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 recognized 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 recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All other 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) 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 realized, 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 realized 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 settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are expected to be settled 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) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.

Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

- (a) Hybrid (combined) contracts; or
- (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
- (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(8) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets are initially recognized 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 recognized 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 carried at cost'.

(9) Accounts receivable

Receivables are non-derivative financial assets originated from the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized 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 effect of discounting is immaterial.

(10) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) 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 reorganization;

- (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 carried at amortized 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 carried 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 amortization) 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 recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) Derecognition of financial assets

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

(12) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Investments accounted for under 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 percent or more of the voting power of the investee. Investments in associates are accounted for under the equity method and are initially recognized at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized 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 recognize 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 that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized 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. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. 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.
- G. When the Group disposes its investment in an associate, if it 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 still 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.
- H. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss. If it retains significant influence over this associate, the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are to be capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized 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 derecognized. 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 are depreciated using the straight-line method to allocate their costs 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 for the plant and buildings are 20 years and for the other fixed assets are 1-10 years.

(15) Operating leases (lessee)

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

(16) Intangible assets

- A. Trademark, right, patent and computer software, are amortized on a straight-line basis over their estimated useful lives of 1-10 years.
- B. Goodwill arises in a business combination accounted for by applying the acquisition method.
- C. Other intangible asset, mainly expertise, is amortized on a straight-line basis over its estimated useful lives of 4-14 years.

(17) 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 shall be evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized 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.

(18) Borrowings

- A. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction

costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

- B. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(19) Notes and accounts payable

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

(20) 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.

Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

- (a) Hybrid (combined) contracts; or
 - (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
 - (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.
- B. Financial liabilities at fair value through profit or loss are initially recognized 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 recognized in profit or loss.

(21) Derecognition of financial liabilities

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

(22) Offsetting financial instruments

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

(23) 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 recognized 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 defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.
- ii. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognised immediately in profit or loss.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees', directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation 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 distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(24) Employee share-based payment

- A. 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 recognized 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.
- B. Restricted stocks:
 - (a) Restricted stocks issued to employees 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.
 - (b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognises the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.
 - (c) For restricted stocks where employees do not need to pay to acquire those stocks, if employees resign during the vesting period, the Company will redeem at no consideration and retire those stocks.

(25) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized 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 income tax is recognized, 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 income tax is not accounted for if it arises from initial recognition of goodwill or 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 income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized 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 recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income 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 realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(26) Share capital

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

(27) 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.

(28) Revenue recognition

The Group revenue is measured at the fair value of the consideration received or receivable taking into account of value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognized 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.

(29) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are presented by deducting the grants from the asset's carrying amount and are amortized to profit or loss over the estimated useful lives of the related assets as reduced depreciation expenses.

(30) 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. The information is addressed below:

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

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.

If the decline of the fair value of an individual equity investment below cost was considered significant or prolonged, the Group would recognise an adjustment to transfer the accumulated fair value adjustments in other comprehensive income on the impaired available-for-sale financial assets to profit or loss or to recognise the impairment loss on the impaired financial assets carried at cost in profit or loss.

(2) Critical accounting estimates and assumptions

A. Impairment assessment of goodwill

The impairment assessment of goodwill relies on the Group's subjective judgement, including identifying cash-generating units, allocating assets and liabilities as well as goodwill to related cash-generating units, and determining the recoverable amounts of related cash-generating units.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable 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 realizable 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.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------------|--------------------------|--------------------------|
| Cash on hand and petty cash | \$ 4,028 | \$ 5,339 |
| Checking accounts and demand deposits | 863,348 | 818,622 |
| Time deposits | <u>91,413</u> | <u>87,757</u> |
| Total | <u>\$ 958,789</u> | <u>\$ 911,718</u> |

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

B. The Group's cash and cash equivalents are pledged as collateral, please see Note 8.

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

| <u>Items</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|------------------------------------|--------------------------|--------------------------|
| Financial assets held for trading | | |
| Derivatives | | |
| Forward foreign exchange contracts | \$ 57,892 | \$ 68 |
| Exchange rate swap contracts | <u>1,194</u> | <u>36,743</u> |
| Total | <u>\$ 59,086</u> | <u>\$ 36,811</u> |

| Items | December 31, 2017 | December 31, 2016 |
|--|-------------------|-------------------|
| Financial liabilities held for trading | | |
| Derivatives | | |
| Forward foreign exchange contracts | \$ - | \$ 30,368 |
| Exchange rate swap contracts | 1,755 | - |
| | <u>\$ 1,755</u> | <u>\$ 30,368</u> |

A. The Group recognized net gains (loss) of \$153,380 and (\$16,494) on financial assets and liabilities held for trading for the years ended December 31, 2017 and 2016, respectively.

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

| Current Items | December 31, 2017 | |
|------------------------------------|--|---------------------------|
| | Contract Amount (Notional Principal) (In thousands) | Due Date |
| Exchange rate swap contracts | | |
| - Buy USD / Sell NTD | USD 34,700 | 2018.01.03~ 2018.12.27 |
| Forward foreign exchange contracts | | |
| - Buy RMB / Sell USD | USD 111,000 | 2018.01.03~ 2018.12.04 |

| Current Items | December 31, 2016 | |
|------------------------------------|--|---------------------------|
| | Contract Amount (Notional Principal) (In thousands) | Due Date |
| Financial assets held for trading | | |
| Exchange rate swap contracts | | |
| - Buy USD / Sell NTD | USD 73,000 | 2017.01.03~ 2017.03.03 |
| Forward foreign exchange contracts | | |
| - Buy NTD / Sell USD | USD 81,000 | 2017.02.02~ 2017.06.27 |

Forward foreign exchange contracts / Exchange rate swap contracts

The Group entered into forward foreign exchange contracts and exchange rate swap contracts to buy (sell) to hedge exchange rate risk of import and export proceeds. However, these forward foreign exchange contracts and exchange rate swap contracts are not accounted for under hedge accounting.

C. None of the Group's financial assets at fair value through profit or loss are pledged as collateral.

(3) Available-for-sale financial assets

| Items | December 31, 2017 | December 31, 2016 |
|--------------------------|-------------------|-------------------|
| Current items: | | |
| Listed stocks | \$ 2,273,641 | \$ 1,422,950 |
| Emerging stocks | 14,520 | - |
| Convertible bonds | 251,250 | 251,250 |
| Beneficiary certificates | - | 51,523 |
| Subtotal | 2,539,411 | 1,725,723 |
| Valuation adjustment | (793,124) | (277,689) |
| Accumulated impairment | (102,847) | (141,249) |
| Total | \$ 1,643,440 | \$ 1,306,785 |
| Non-current items: | | |
| Listed stocks | \$ 422,100 | \$ 422,100 |
| Beneficiary certificates | 60,000 | 60,000 |
| Subtotal | 482,100 | 482,100 |
| Valuation adjustment | (13,559) | (3,120) |
| Accumulated impairment | (405,657) | (405,657) |
| Total | \$ 62,884 | \$ 73,323 |

- A. The above listed stocks of available-for-sale financial assets - non-current were private placements that could not be sold during the private lock-up in accordance with the R.O.C. Securities Exchange Law. These private placements are remeasured and stated at value adjusted by the same item's fair value in active markets considering the effect of the restrictions.
- B. The above available-for-sale financial assets - non-current beneficiary certificates were private fund investment, the invested shares of the fund are all listed. As the stock has quoted market price in an active market, it was reclassified from financial assets carried at cost to available-for-sale financial assets – non-current beneficiary certificates.
- C. Certain stocks held by the Group had quoted market price in an active market starting the first quarter of 2017, they were reclassified from financial assets carried at cost - non-current to available-for-sale financial assets - current.
- D. Investments accounted for under the equity method transferred to available-for-sale financial assets, please see Note 6(7) and 6(17).
- E. The Group recognized (\$238,657) and \$286,786 for fair value changes in other comprehensive income and reclassified (\$287,217) and (\$659,068) from equity to profit or loss for the years ended December 31, 2017 and 2016, respectively.
- F. The Group recognised an impairment loss of \$546,906 for the year ended December 31, 2016. The accumulated impairment loss were \$508,504 and \$546,906 for the years ended December 31, 2017 and 2016, respectively.
- G. No interest income was recognised from debt instruments held for the years ended December 31, 2017 and 2016.

H. The counterparties of the Group's investments in debt instruments has good credit rating.

I. None of the Group's available-for-sale financial assets are pledged as collateral.

(4) Accounts receivable

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-------------------------------|--------------------------|--------------------------|
| Accounts receivable | \$ 6,073,474 | \$ 7,223,270 |
| Less: Allowance for bad debts | (3,928) | (5,346) |
| | <u>\$ 6,069,546</u> | <u>\$ 7,217,924</u> |

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

B. For details of the credit quality information of accounts receivable, please see Note 12(2) C(b).

(5) Inventories

| | <u>December 31, 2017</u> | | |
|----------------------|--------------------------|---|---------------------|
| | <u>Cost</u> | <u>Allowance for valuation loss</u> | <u>Book value</u> |
| Raw materials | \$ 1,772,275 | (\$ 119,646) | \$ 1,652,629 |
| Work in process | 609,500 | (39,814) | 569,686 |
| Finished goods | 3,280,113 | (177,041) | 3,103,072 |
| Inventory in transit | 147,590 | - | 147,590 |
| Total | <u>\$ 5,809,478</u> | <u>\$ (336,501)</u> | <u>\$ 5,472,977</u> |
| | <u>December 31, 2016</u> | | |
| | <u>Cost</u> | <u>Allowance for valuation loss</u> | <u>Book value</u> |
| Raw materials | \$ 1,045,407 | (\$ 94,127) | \$ 951,280 |
| Work in process | 573,841 | (29,729) | 544,112 |
| Finished goods | 2,588,653 | (161,878) | 2,426,775 |
| Inventory in transit | 145,209 | - | 145,209 |
| Total | <u>\$ 4,353,110</u> | <u>\$ (285,734)</u> | <u>\$ 4,067,376</u> |

The cost of inventories recognised as expense for the period:

| | Years ended December 31, | |
|---|--------------------------|----------------------|
| | 2017 | 2016 |
| Cost of inventories sold | \$ 23,029,081 | \$ 22,782,970 |
| Provision for inventory obsolescence and market price decline | 54,743 | 49,055 |
| Others | 714 | 9,165 |
| | <u>\$ 23,084,538</u> | <u>\$ 22,841,190</u> |

Other related expenses of inventory mainly composed of loss on physical inventory.

(6) Financial assets carried at cost

| Items | December 31, 2017 | December 31, 2016 |
|--------------------------|-------------------|-------------------|
| Non-current items: | | |
| Unlisted stocks | \$ 247,110 | \$ 161,630 |
| Beneficiary certificates | 306,256 | 71,873 |
| Subtotal | 553,366 | 233,503 |
| Accumulated impairment | (47,110) | (47,110) |
| Total | <u>\$ 506,256</u> | <u>\$ 186,393</u> |

A. Based on the Group's intention, its investment in stocks and beneficiary certificates should be classified as available-for-sale financial assets. However, the investment targets are not publicly traded, and no fair value of the investment targets can be reliably measured. Therefore, those stocks are classified as 'financial assets carried at cost'.

B. For details of the financial assets carried at cost reclassified to available-for-sale financial assets, please see Note Note 6(3).

C. The Group has accumulated impairment loss of \$47,110 on equity investments as of December 31, 2017 and 2016.

D. None of the Group's financial assets carried at cost are pledged as collateral.

(7) Investments accounted for under equity method

A. Details of investments accounted for under the equity method are as follows:

| | December 31, 2016 |
|-------------------------------------|-------------------|
| Associates: | |
| Newmax Technology Co., Ltd (Newmax) | \$ <u>280,824</u> |

B. The basic information of the associates that are material to the Group is as follows:

| Company name | Principal place of business | December 31, 2016 | Nature of relationship | Methods of measurement |
|--------------|-----------------------------|-------------------|------------------------|------------------------|
| Newmax | Taiwan | 2.73% | Associates | Equity method |

C. The summarized financial information of the associates that are material to the Group is as follows:

| | <u>Newmax</u> |
|---------------------------------|--------------------------|
| | <u>December 31, 2016</u> |
| <u>Balance sheet</u> | |
| Current assets | \$ 1,658,730 |
| Non-current assets | 1,362,113 |
| Current liabilities | (1,407,054) |
| Non-current liabilities | (27,035) |
| Total net assets | <u>\$ 1,586,754</u> |
| Share in associate's net assets | <u>\$ 43,318</u> |

Note: Differences in share in associate's net assets were mainly arising from the difference of initial investment cost less the fair value of acquired identifiable net assets.

| | <u>Newmax</u> |
|--|--------------------------|
| | <u>Year ended</u> |
| | <u>December 31, 2016</u> |
| <u>Statement of comprehensive income</u> | |
| Revenue | \$ 1,107,502 |
| Loss-net of tax | (\$ 541,990) |
| Other comprehensive loss, net of tax | (123,314) |
| Total comprehensive loss for the year | <u>(\$ 665,304)</u> |

- D. On May 22, 2017, the shareholders of Newmax in their meeting resolved to increase the registered capital by private placement. As a result, the joint shareholding ratio of the Group and its parent company, Chicony Electronics Co., Ltd. decreased and was less than 20%. Additionally, on October 31, 2017, the shareholders of Newmax reelected directors, reducing the seats of representative directors of Chicony Electronics Co., Ltd. from three seats to one seat. The Group lost its significant control over Newmax by October 31, 2017. The Group remeasured the investment at fair value, and reclassified the investment from investments accounted for under equity method to available-for-sale financial assets - current of \$452,628. All the amounts previously recognised as other comprehensive income and capital surplus were reclassified to profit or loss, and gain on disposal of \$27,938 was recognised.

(8) Property, plant and equipment

| | Buildings | Machinery | Test equipment | Others | Total |
|----------------------------|-------------------|---------------------|-------------------|-------------------|---------------------|
| January 1, 2017 | | | | | |
| Cost | \$ 872,275 | \$ 2,284,641 | \$ 1,384,906 | \$ 1,268,245 | \$ 5,810,067 |
| Accumulated depreciation | (390,807) | (1,217,883) | (1,082,659) | (783,622) | (3,474,971) |
| | <u>\$ 481,468</u> | <u>\$ 1,066,758</u> | <u>\$ 302,247</u> | <u>\$ 484,623</u> | <u>\$ 2,335,096</u> |
| <u>2017</u> | | | | | |
| Balance, beginning of year | \$ 481,468 | \$ 1,066,758 | \$ 302,247 | \$ 484,623 | \$ 2,335,096 |
| Additions | 179 | 201,588 | 176,028 | 213,726 | 591,521 |
| Disposals | - | (20,569) | (1,605) | (2,580) | (24,754) |
| Reclassifications | - | 29,263 | 4,079 | 12,048 | 45,390 |
| Depreciation charge | (40,259) | (193,820) | (131,392) | (175,033) | (540,504) |
| Net exchange differences | (5,614) | (10,900) | (3,450) | (9,735) | (29,699) |
| Balance, end of year | <u>\$ 435,774</u> | <u>\$ 1,072,320</u> | <u>\$ 345,907</u> | <u>\$ 523,049</u> | <u>\$ 2,377,050</u> |
| December 31, 2017 | | | | | |
| Cost | \$ 863,339 | \$ 2,314,631 | \$ 1,539,979 | \$ 1,415,338 | \$ 6,133,287 |
| Accumulated depreciation | (427,565) | (1,242,311) | (1,194,072) | (892,289) | (3,756,237) |
| | <u>\$ 435,774</u> | <u>\$ 1,072,320</u> | <u>\$ 345,907</u> | <u>\$ 523,049</u> | <u>\$ 2,377,050</u> |
| | Buildings | Machinery | Test equipment | Others | Total |
| January 1, 2016 | | | | | |
| Cost | \$ 939,813 | \$ 2,389,097 | \$ 1,451,037 | \$ 1,102,212 | \$ 5,882,159 |
| Accumulated depreciation | (376,790) | (1,120,652) | (1,030,290) | (696,849) | (3,224,581) |
| | <u>\$ 563,023</u> | <u>\$ 1,268,445</u> | <u>\$ 420,747</u> | <u>\$ 405,363</u> | <u>\$ 2,657,578</u> |
| <u>2016</u> | | | | | |
| Balance, beginning of year | \$ 563,023 | \$ 1,268,445 | \$ 420,747 | \$ 405,363 | \$ 2,657,578 |
| Additions | - | 52,441 | 43,640 | 239,153 | 335,234 |
| Disposals | - | (1,546) | (1,070) | (15,698) | (18,314) |
| Reclassifications | - | 30,121 | 182 | 41,839 | 72,142 |
| Depreciation charge | (43,256) | (197,057) | (138,832) | (158,377) | (537,522) |
| Net exchange differences | (38,299) | (85,646) | (22,420) | (27,657) | (174,022) |
| Balance, end of year | <u>\$ 481,468</u> | <u>\$ 1,066,758</u> | <u>\$ 302,247</u> | <u>\$ 484,623</u> | <u>\$ 2,335,096</u> |
| December 31, 2016 | | | | | |
| Cost | \$ 872,275 | \$ 2,284,641 | \$ 1,384,906 | \$ 1,268,245 | \$ 5,810,067 |
| Accumulated depreciation | (390,807) | (1,217,883) | (1,082,659) | (783,622) | (3,474,971) |
| | <u>\$ 481,468</u> | <u>\$ 1,066,758</u> | <u>\$ 302,247</u> | <u>\$ 484,623</u> | <u>\$ 2,335,096</u> |

None of the Group's property, plant and equipment are pledged as collateral.

(9) Intangible assets

| | Trademarks and patents | | | | Software | Goodwill | Others | Total |
|----------------------------|---------------------------|------------------|-------------------|------------------|-------------------|----------|--------|-------|
| January 1, 2017 | | | | | | | | |
| Cost | \$ 23,154 | \$ 76,638 | \$ 132,401 | \$ 57,301 | \$ 289,494 | | | |
| Accumulated amortisation | (11,715) | (33,507) | - | (33,784) | (79,006) | | | |
| | <u>\$ 11,439</u> | <u>\$ 43,131</u> | <u>\$ 132,401</u> | <u>\$ 23,517</u> | <u>\$ 210,488</u> | | | |
| <u>2017</u> | | | | | | | | |
| Balance, beginning of year | \$ 11,439 | \$ 43,131 | \$ 132,401 | \$ 23,517 | \$ 210,488 | | | |
| Additions | 15,140 | 36,868 | - | 477 | 52,485 | | | |
| Reclassifications | - | 1,282 | - | - | 1,282 | | | |
| Amortisation charge | (12,289) | (35,438) | - | (4,929) | (52,656) | | | |
| Net exchange differences | - | (208) | (5,160) | (644) | (6,012) | | | |
| Balance, end of year | <u>\$ 14,290</u> | <u>\$ 45,635</u> | <u>\$ 127,241</u> | <u>\$ 18,421</u> | <u>\$ 205,587</u> | | | |
| December 31, 2017 | | | | | | | | |
| Cost | \$ 38,294 | \$ 114,173 | \$ 127,241 | \$ 55,392 | \$ 335,100 | | | |
| Accumulated amortisation | (24,004) | (68,538) | - | (36,971) | (129,513) | | | |
| | <u>\$ 14,290</u> | <u>\$ 45,635</u> | <u>\$ 127,241</u> | <u>\$ 18,421</u> | <u>\$ 205,587</u> | | | |
| | Trademarks and patents | | | | Software | Goodwill | Others | Total |
| January 1, 2016 | | | | | | | | |
| Cost | \$ 23,579 | \$ 60,452 | \$ 139,281 | \$ 60,549 | \$ 283,861 | | | |
| Accumulated amortisation | (10,072) | (25,666) | - | (30,232) | (65,970) | | | |
| | <u>\$ 13,507</u> | <u>\$ 34,786</u> | <u>\$ 139,281</u> | <u>\$ 30,317</u> | <u>\$ 217,891</u> | | | |
| <u>2016</u> | | | | | | | | |
| Balance, beginning of year | \$ 13,507 | \$ 34,786 | \$ 139,281 | \$ 30,317 | \$ 217,891 | | | |
| Additions | 9,673 | 20,978 | - | - | 30,651 | | | |
| Disposals-cost | (10,098) | (18,639) | - | (2,600) | (31,337) | | | |
| Disposals-amortisation | 10,098 | 18,639 | - | 1,213 | 29,950 | | | |
| Reclassifications | - | 15,676 | - | - | 15,676 | | | |
| Amortisation charge | (11,741) | (27,531) | - | (5,146) | (44,418) | | | |
| Net exchange differences | - | (778) | (6,880) | (267) | (7,925) | | | |
| Balance, end of year | <u>\$ 11,439</u> | <u>\$ 43,131</u> | <u>\$ 132,401</u> | <u>\$ 23,517</u> | <u>\$ 210,488</u> | | | |
| December 31, 2016 | | | | | | | | |
| Cost | \$ 23,154 | \$ 76,638 | \$ 132,401 | \$ 57,301 | \$ 289,494 | | | |
| Accumulated amortisation | (11,715) | (33,507) | - | (33,784) | (79,006) | | | |
| | <u>\$ 11,439</u> | <u>\$ 43,131</u> | <u>\$ 132,401</u> | <u>\$ 23,517</u> | <u>\$ 210,488</u> | | | |

A. Goodwill is allocated to the Group’s cash-generating units identified according to operating segment as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------|--------------------------|--------------------------|
| Asia | \$ 73,540 | \$ 74,311 |
| America | <u>53,701</u> | <u>58,090</u> |
| | <u>\$ 127,241</u> | <u>\$ 132,401</u> |

B. After assessing impairment losses of the goodwill, the recoverable amount that the Group calculated is over the book value. Therefore, no impairment loss has occurred.

(10) Other non-current assets

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-------------------------------------|--------------------------|--------------------------|
| Long-term prepaid rents | \$ 121,673 | \$ 125,588 |
| Guarantee deposits paid | 26,785 | 20,956 |
| Prepayments for business facilities | 345,342 | 88,789 |
| Others | <u>95,425</u> | <u>167,593</u> |
| | <u>\$ 589,225</u> | <u>\$ 402,926</u> |

A. In June 2011 and March 2013, the Group signed the land use rights contracts with Bureau of Land Resources for use of the land in the municipality of Chongqing City with a term of 50 years. All rentals have been paid on the contract date. However, the local government of Chongqing City had an agreement which terminated part of the land use rights and returned related funds to the Group in October, 2014.

B. In June 2009, the group signed the land use rights contracts with Bureau of Land Resources for use of the land in the municipality of Dongguan City with a term of 50 years. All rentals have been paid on the contract date.

C. The above mentioned costs of land use rights less the government grants as a reward for the local investment are shown as “Long-term prepaid rents”.

D. The Group recognized rental expenses of \$3,047 and \$3,199 for the years ended December 31, 2017 and 2016, respectively.

(11) Accounts payable

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------------|--------------------------|--------------------------|
| Accounts payable | \$ 8,006,602 | \$ 7,663,999 |
| Estimated accounts payable | <u>1,613,541</u> | <u>1,980,095</u> |
| | <u>\$ 9,620,143</u> | <u>\$ 9,644,094</u> |

(12) Other payables

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Salaries payable | \$ 631,726 | \$ 555,096 |
| Commissions payable | 389,999 | 373,390 |
| Consumption goods expense payable | 375,619 | 219,454 |
| Compensation due to directors and supervisors | 279,187 | 246,707 |
| Processing fee payable | 178,885 | 132,095 |
| Others | 676,130 | 481,925 |
| | <u>\$ 2,531,546</u> | <u>\$ 2,008,667</u> |

(13) Long-term borrowings

| <u>Type of borrowings</u> | <u>Borrowing period and repayment term</u> | <u>Interest rate range</u> | <u>Collateral</u> | <u>December 31, 2017</u> |
|---------------------------|---|----------------------------|-------------------|--------------------------|
| Unsecured borrowings | Borrowing period is from December 20, 2017 to April 22, 2018; interest is repayable until the principal is matured. (Note) | 1.797% | None | <u>\$ 100,000</u> |

| <u>Type of borrowings</u> | <u>Borrowing period and repayment term</u> | <u>Interest rate range</u> | <u>Collateral</u> | <u>December 31, 2017</u> |
|---------------------------|--|----------------------------|-------------------|--------------------------|
| Unsecured borrowings | Borrowing period is from September 20, 2016 to January 20, 2017; interest is repayable until the principal is matured. (Note) | 1.797% | None | <u>\$ 100,000</u> |

Note: Revolving credit in five years starting from the first drawdown, each credit period is limited from 90 to 180 days.

A long-term syndicated loan facility amounting to \$4,500,000 (can be drawdown in United States Dollars or New Taiwan Dollars within the total credit facility) for five years was signed by the Company, with Taiwan Cooperative Bank as the lead bank in October 2015. It is to be used for the operations.

The main contents of the contract are as follows:

A. Annual consolidated financial reports should maintain financial ratios as follows:

- (a) Current ratio is above 100%,
- (b) Financial liabilities which divided by net tangible assets is under 250%,
- (c) Time interest earned is above 300%,

(d) Net tangible assets are above \$4,000,000,

The above financial ratios are based on the annual financial statements. If the Company does not conform to the contract, the Company should increase capital by cash or by other means. From the next day of the managing bank's notification till the next interest payment date after conforming to the contract, the lending rates will be increased by 0.125% of the used but unsettled amount of this contract, it is not a breach of contract. If the financial ratios could not be adjusted by next inspection day (subjected to the consolidated financial statements audited by independent accountants), the borrower violates the contract.

B. The Company should maintain appropriate accounts receivable ratio (include the drawn amount) above 50% in each withdrawal. If the Company's qualified accounts receivable is overdue (remains unpaid after 15 days of the due date of accounts receivable), or specific transaction parties did not deposit the accrued amount to the specific compensation accounts instructed by the payment notice, the total amount of that specific transaction parties' qualified accounts receivable will be deducted immediately. If the above situation incurs the appropriate accounts receivable ratio lower than 50%, the Company should choose any of the following actions to make the accounts receivable ratio comply with the contract:

(a) Provide other qualified accounts receivable, or,

(b) Repay or deposit in compensation accounts to maintain appropriate accounts receivable ratio above (or equal to) 50%.

C. As part of the contract, the commitment fee should be calculated every three months, which begins six months after the Company's first drawdowns of the credit. During the commitment fee calculation period, if the average drawdown amounts are less than 50% of the total loan facility, the commitment fee should be calculated seasonally, using the difference of actual drawdown amounts and 50% of the total loan facility, multiplied by 0.1%, the annual fee rate, and then pay the managing bank every three months.

(14) Pensions

A. Defined benefit plans

(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 contributes an amount equal to 4% of the employees' monthly salaries and wages to the pension fund deposited in the Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor

pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

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

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Present value of funded defined benefit obligations | (\$ 78,690) | (\$ 71,189) |
| Fair value of plan assets | <u>27,347</u> | <u>26,898</u> |
| Net defined benefit liability | <u>(\$ 51,343)</u> | <u>(\$ 44,291)</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> |
|--|---|--------------------------------------|--|
| Year ended December 31, 2017 | | | |
| Balance at January 1 | (\$ 71,189) | \$ 26,898 | (\$ 44,291) |
| Current service cost | (403) | - | (403) |
| Interest (expense) income | (979) | <u>371</u> | (608) |
| | <u>(72,571)</u> | <u>27,269</u> | <u>(45,302)</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expense) | - | (101) | (101) |
| Change in demographic assumptions | (3,824) | - | (3,824) |
| Experience adjustments | (2,295) | - | (2,295) |
| | <u>(6,119)</u> | <u>(101)</u> | <u>(6,220)</u> |
| Pension fund contribution | - | <u>179</u> | <u>179</u> |
| Balance at December 31 | <u>(\$ 78,690)</u> | <u>\$ 27,347</u> | <u>(\$ 51,343)</u> |

| | Present value of defined benefit obligations | Fair value of plan assets | Net defined benefit liability |
|--|--|------------------------------|----------------------------------|
| Year ended December 31, 2016 | | | |
| Balance at January 1 | (\$ 65,662) | \$ 28,750 | (\$ 36,912) |
| Current service cost | (398) | - | (398) |
| Interest (expense) income | (1,067) | 469 | (598) |
| | <u>(67,127)</u> | <u>29,219</u> | <u>(37,908)</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expense) | - | (267) | (267) |
| Change in demographic assumptions | (2,539) | - | (2,539) |
| Experience adjustments | (2,245) | - | (2,245) |
| | <u>(1,510)</u> | <u>-</u> | <u>(1,510)</u> |
| | <u>(6,294)</u> | <u>(267)</u> | <u>(6,561)</u> |
| Pension fund contribution | - | 178 | 178 |
| Paid pension | 2,232 | (2,232) | - |
| Balance at December 31 | <u><u>(\$ 71,189)</u></u> | <u><u>\$ 26,898</u></u> | <u><u>(\$ 44,291)</u></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 has no right to participate in managing and operating that fund and hence the Company is 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, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

| | 2017 | 2016 |
|-------------------------|---------------|---------------|
| Discount rate | <u>1.375%</u> | <u>1.375%</u> |
| Future salary increases | <u>2.500%</u> | <u>2.500%</u> |

Assumptions regarding future mortality experience are set based on actual advice in

accordance with published statistics and experience in each territory.

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

| | Discount rate | | Future salary increases | |
|---|----------------|----------------|-------------------------|----------------|
| | Increase 0.25% | Decrease 0.25% | Increase 0.25% | Decrease 0.25% |
| December 31, 2017 | | | | |
| Effect on present value of defined benefit obligation | (\$ 2,458) | \$ 2,567 | \$ 2,498 | (\$ 2,405) |
| December 31, 2016 | | | | |
| Effect on present value of defined benefit obligation | (\$ 2,309) | \$ 2,414 | \$ 2,349 | (\$ 2,259) |

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

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

- (f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2018 amounts to \$179.
- (g) As of December 31, 2017, the weighted average duration of that retirement plan is 12.7 years.

B. Defined Contribution Plan

- (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.
- (b) The Company’s mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees’ monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- (c) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2017 and 2016 were \$192,569 and \$170,941, respectively.

(15) Share-based payment

A. For the years ended December 31, 2017 and 2016, the Company'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> |
|---|-------------------|---|----------------------------|-------------------------------|
| Restricted stocks to employees | 2015.8.28 | 4,008 | 2 years | Note |
| " | 2016.3.16 | 1,190 | " | " |
| Treasury stock transferred to employees | 2017.3.01 | 3,555 | - | Immediately |

B. The vesting conditions for the restricted stocks to employees are as follows:

(a) The Company's overall operating performance in the previous year should meet the following indicators:

- i. Consolidated operating revenue shall grow by at least 10% higher than the average amount over past three years.
- ii. Consolidated net income shall grow by at least 10% higher than the average amount over past three years.
- iii. Return on equity shall be at least 15%.

(b) For the employees who have met the vesting conditions since the allocation of restricted stocks, the ratio of vested shares is as follows:

| <u>Vesting conditions</u> | <u>Ratio of vested shares</u> |
|---|-------------------------------|
| A month after the restricted stocks are kept at the trust | 40% of the shares |
| September 30, 2016 | 30% of the shares |
| September 30, 2017 | 30% of the shares |

The restricted shares issued by the Company cannot be sold, pledged, transferred, donated, collateralised, or disposed in any other method during the vesting period. Other rights including but not limited to dividends, the distribution rights of bonuses and capital surplus, and share options and voting rights of cash capital, etc., are the same as the Company's issued ordinary shares. At the date of resignation, retirement or termination, the restricted shares are considered as not meeting the vesting conditions if employees resign, retire or are terminated during the vesting period. The Company redeems at no consideration and retires the shares which do not meet the vesting condition. Employees are not required to return the dividends received.

C. Details of the share-based payment arrangements are as follows:

| | <u>Year ended December 31, 2017</u> | |
|------------------------------------|-------------------------------------|---|
| | <u>No. of options</u> | <u>Weighted-average exercise price (in dollars)</u> |
| Options outstanding at January 1 | \$ - | NT\$ - |
| Options granted | 3,555 | 39.83 |
| Options exercised | <u>3,555</u> | <u>39.83</u> |
| Options outstanding at December 31 | <u>\$ -</u> | <u>-</u> |
| Options exercisable at December 31 | <u>\$ -</u> | <u>-</u> |

D. The weighted-average stock price of stock options at exercise dates was NT\$48.98.

E. The fair value of stock options granted on grant date 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</u> | <u>Exercise price</u> | <u>Expected price volatility</u> | <u>Expected option life</u> | <u>Expected dividends</u> | <u>Risk-free interest rate</u> | <u>Fair value per unit</u> |
|--|-------------------|--------------------|-----------------------|----------------------------------|-----------------------------|---------------------------|--------------------------------|----------------------------|
| Treasury stock transferred to employee | 2017.3.1 | NT\$49.10 | NT\$39.83 | (Note) | 0.0385 | - | 0.59% | NT\$9.279 |

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.

F. The restricted stocks issued by the Company were measured at their fair value which is the closing price of the Company's share at NT\$34 and NT\$37.85 on August 28, 2015 and March 16, 2016, respectively.

G. Liabilities arising from share-based payment transactions are shown below:

| | <u>Years ended December 31,</u> | |
|----------------|---------------------------------|-------------------|
| | <u>2017</u> | <u>2016</u> |
| Equity-settled | <u>\$ 51,951</u> | <u>\$ 106,379</u> |

(16) Share capital

A. As of December 31, 2017, the Company's authorized capital was \$4,000,000, and the paid-in capital was \$3,822,723 with a par value of \$10 (in dollars) per share.

Changes in the number of the Company's ordinary shares outstanding are as follows:

| (Unit:shares in thousands) | 2017 | 2016 |
|--|---------|----------|
| Balance, beginning of year | 363,491 | 358,580 |
| Stock dividends | 1,859 | 1,801 |
| Employee compensation | 4,722 | 3,942 |
| Employee restricted shares | - | 1,910 |
| Employee restricted shares retired | (53) | (227) |
| Treasury shares repurchased | - | (2,515) |
| Treasury stock transferred to employee | 3,555 | - |
| Balance, end of year | 373,574 | 363,491 |

- B. On June 5, 2017, the stockholders at the annual stockholders' meeting had approved to issue common stock dividends amounting to \$18,588. This capitalization had issued a total of 1,859 thousand shares and was approved by the appropriate authorities. The issuance date was set on July 21, 2017, and the Company had completed the registration on August 17, 2017.
- C. On March 1, 2017, the Company issued 4,722 thousand shares, because the Board of Directors of the Company approved to appropriate employees' compensation by \$229,000 which was calculated based on the closing price of \$48.5 (in dollars) per share of the date before the day the Board of Directors resolved the issuance. The issuance was approved by the authority and set April 6, 2017 as the effective date, the registration was completed on May 3, 2017.
- D. The Board of Directors' meeting on March 10, 2014 adopted a resolution to issue employee restricted ordinary shares (please refer to Note 6(15)), the registration on August 28, 2015 and March 16, 2016. The subscription price is \$0 (in dollars) per share. The employee restricted ordinary shares issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares.
- E. Information of retirement of employee stock option due to not meeting the vesting condition are as follows:

| Board meeting resolution | No. of share (in thousands) | Date of registration |
|--------------------------|--------------------------------|----------------------|
| March 15, 2016 | 169 | March 30, 2016 |
| June 15, 2016 | 33 | June 30, 2016 |
| August 8, 2016 | 21 | September 9, 2016 |
| November 7, 2016 | 4 | November 24, 2016 |
| March 1, 2017 | 5 | April 26, 2017 |
| May 2, 2017 | 31 | June 1, 2017 |
| July 31, 2017 | 12 | August 28, 2017 |
| October 30, 2017 | 5 | November 9, 2017 |

F. Treasury stocks:

| | | <u>December 31, 2017</u> | |
|---|-----------------------------|---------------------------------------|------------------------|
| <u>Name of company holding the shares</u> | <u>Purpose of buyback</u> | <u>Number of stocks (in thousand)</u> | <u>Carrying amount</u> |
| The Company | To be reissued to employees | 8,699 | <u>\$ 365,665</u> |

| | | <u>December 31, 2016</u> | |
|---|-----------------------------|---------------------------------------|------------------------|
| <u>Name of company holding the shares</u> | <u>Purpose of buyback</u> | <u>Number of stocks (in thousand)</u> | <u>Carrying amount</u> |
| The Company | To be reissued to employees | 12,254 | <u>\$ 513,950</u> |

- (a) Pursuant to the R.O.C. Securities and Exchange Law, the number of stocks bought back as treasury stock should not exceed 10% of the number of the Company's issued and outstanding stocks 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.
- (b) Pursuant to the R.O.C. Securities and Exchange Law, treasury stocks should neither pledged as collateral nor exercise shareholder's rights on there shares.
- (c) Pursuant to the R.O.C. Securities and Exchange Law, treasury stocks 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.
- (d) For information of treasury stock transferred to employees, please see Note 6(15).

(17) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange 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.

| | Share premium | Treasury share transactions | Employee restricted shares | Changes in equity of associates and joint ventures accounted for using equity method | Employee stock option | Total |
|--|---------------------|-----------------------------------|----------------------------------|--|--------------------------|---------------------|
| Balance, beginning of 2017 | \$ 1,236,018 | \$ - | \$ 143,917 | \$ 110,048 | \$ - | \$ 1,489,983 |
| Share-based payment transactions | | | | | | |
| –Employee compensation | 181,784 | - | - | - | - | 181,784 |
| –Treasury stock transferred to employee | - | 25,872 | - | - | - | 25,872 |
| –Restricted stocks to employees | 142,595 | - | (142,595) | - | - | - |
| –Restricted stocks to employees retired | - | - | (1,322) | - | - | (1,322) |
| –Changes in participation of capital increase of associates not proportionately to ownership | - | - | - | - | 26,218 | 26,218 |
| –Changes in net value of losing significant controls over associates | - | - | - | - | (26,218) | (26,218) |
| Balance, end of 2017 | <u>\$ 1,560,397</u> | <u>\$ 25,872</u> | <u>\$ -</u> | <u>\$ 110,048</u> | <u>\$ -</u> | <u>\$ 1,696,317</u> |

| | Share premium | Employee restricted shares | Employee stock option | Total |
|---|---------------------|----------------------------------|--------------------------|---------------------|
| Balance, beginning of 2016 | \$ 1,126,248 | \$ 96,191 | \$ 110,048 | \$ 1,332,487 |
| Share-based payment transactions | | | | |
| –Employee compensation | 109,770 | - | - | 109,770 |
| –Restricted stocks to employees | - | 53,189 | - | 53,189 |
| –Restricted stocks to employees retired | - | (5,463) | - | (5,463) |
| Balance, end of 2016 | <u>\$ 1,236,018</u> | <u>\$ 143,917</u> | <u>\$ 110,048</u> | <u>\$ 1,489,983</u> |

(18) Retained earnings

- A. Under the Company’s Articles of Incorporation, 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 it reaches the Company’s paid-up capital; and then set aside special reserve in accordance with relevant regulations when necessary; and the remainder, if any, to be appropriated shall be resolved by the stockholders at the stockholders’ meeting.
- B. The Company’s dividend policy is summarized below: the Company is in the development stage

of the electronics industry. The dividend policy should be formulated by considering the capital requirements of the new products and promoting the return on equity simultaneously. Therefore the total amounts of stockholders' dividends should not exceed 90% of the total distributable earnings, and then the cash dividend should not be less than 10% of the total amounts of stockholders' dividends. The above mentioned restrictions will not to be applicable if total amounts of stockholders' dividends are less than \$0.5(in dollars) per share.

C. The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

D. Special reserve

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

(b) The amounts of \$205,324, previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Order No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

E. (a) The appropriation of 2016 and 2015 earnings has been approved at the annual stockholders' meeting on June 5, 2017 and June 15, 2016, respectively, and the details are summarized below:

| | Years ended December 31, | | | |
|-----------------|--------------------------|----------------------------------|------------|----------------------------------|
| | 2016 | | 2015 | |
| | Amount | Dividends per share (in dollars) | Amount | Dividends per share (in dollars) |
| Legal reserve | \$ 134,065 | | \$ 115,414 | |
| Special reserve | 83,411 | | 136,855 | |
| Cash dividends | 1,022,347 | NT\$ 2.75 | 846,754 | NT\$ 2.35 |
| Stock dividends | 18,588 | 0.05 | 18,016 | 0.05 |

(b) Subsequent events: The appropriation of 2017 earnings had been proposed at the Board of Directors' meeting on March 6, 2018. Details are summarized below:

| | Year ended December 31, 2017 | |
|-----------------|------------------------------|----------------------------------|
| | Amount | Dividends per share (in dollars) |
| Legal reserve | \$ 156,160 | |
| Special reserve | 560,047 | |
| Cash dividends | 1,174,101 | NT\$ 3.10 |
| Stock dividends | 18,937 | 0.05 |

F. For information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(24).

(19) Other equity items

| | <u>Currency translation</u> | <u>Available- for-sale investments</u> | <u>Others- unearned employee salary</u> | <u>Total</u> |
|-----------------------------------|---------------------------------|--|---|-----------------------|
| Balance, beginning of 2017 | (\$ 202,552) | (\$ 280,809) | (\$ 20,813) | (\$ 504,174) |
| Currency translation differences: | | | | |
| –Group | (37,061) | - | - | (37,061) |
| –Associates | (434) | - | - | (434) |
| –Associates transfer out | 3,322 | - | - | 3,322 |
| Revaluation: | | | | |
| –Group | - | (238,657) | - | (238,657) |
| –Transfer out | - | (287,217) | - | (287,217) |
| Employee restricted shares: | | | | |
| –Current transferred to expenses | - | - | 18,964 | 18,964 |
| –Current retired | - | - | 1,849 | 1,849 |
| Balance, end of 2017 | <u>(\$ 236,725)</u> | <u>(\$ 806,683)</u> | <u>\$ -</u> | <u>(\$ 1,043,408)</u> |

| | <u>Currency translation</u> | <u>Available- for-sale investments</u> | <u>Others- unearned employee salary</u> | <u>Total</u> |
|-----------------------------------|---------------------------------|--|---|---------------------|
| Balance, beginning of 2016 | \$ 55,483 | (\$ 455,433) | (\$ 62,643) | (\$ 462,593) |
| Currency translation differences: | | | | |
| –Group | (254,699) | - | - | (254,699) |
| –Associates | (3,336) | - | - | (3,336) |
| Revaluation: | | | | |
| –Group | - | 286,786 | - | 286,786 |
| –Transfer out | - | (112,162) | - | (112,162) |
| Employee restricted shares: | | | | |
| –Current issue | - | - | (72,287) | (72,287) |
| –Current transferred to expenses | - | - | 106,379 | 106,379 |
| –Current retired | - | - | 7,738 | 7,738 |
| Balance, end of 2016 | <u>(\$ 202,552)</u> | <u>(\$ 280,809)</u> | <u>(\$ 20,813)</u> | <u>(\$ 504,174)</u> |

(20) Other income

| | Years ended December 31, | |
|------------------------------------|--------------------------|-------------------|
| | 2017 | 2016 |
| Dividend income | \$ 51,620 | \$ 32,838 |
| Interest income: | | |
| Interest income from bank deposits | 5,372 | 5,019 |
| Other interest income | 1,500 | 1,700 |
| Other income | 102,923 | 93,729 |
| Total | <u>\$ 161,415</u> | <u>\$ 133,286</u> |

(21) Other gains and losses

| | Years ended December 31, | |
|---|--------------------------|-------------------|
| | 2017 | 2016 |
| Net gains (losses) on financial assets and liabilities at fair value through profit or loss | \$ 153,380 | (\$ 16,494) |
| Net currency exchange (losses) gains | (262,689) | 97,913 |
| Losses on disposal of property, plant and equipment | (6,009) | (2,159) |
| Gains on disposal of investments | 329,959 | 659,659 |
| Impairment loss | - | (546,906) |
| Gains on doubtful debt recoveries | 1,365 | 4,401 |
| Others | (5,425) | (3,735) |
| Total | <u>\$ 210,581</u> | <u>\$ 192,679</u> |

(22) Finance costs

| | Years ended December 31, | |
|-------------------|--------------------------|------------------|
| | 2017 | 2016 |
| Interest expense: | | |
| Bank borrowings | <u>\$ 37,759</u> | <u>\$ 38,001</u> |

(23) Personnel expenses, depreciation and amortization

| | Year ended December 31, 2017 | | |
|---|------------------------------|-------------------|--------------|
| | Operating cost | Operating expense | Total |
| Employee benefit expenses | \$ 2,313,843 | \$ 1,578,058 | \$ 3,891,901 |
| Depreciation expense | 414,043 | 126,461 | 540,504 |
| Amortization expense | 3,289 | 49,367 | 52,656 |
| Other non-current assets recognized as expenses | 33,574 | 23,321 | 56,895 |
| Long-term prepaid rents recognized as expenses | - | 3,047 | 3,047 |

| | Year ended December 31, 2016 | | |
|--|------------------------------|-------------------|--------------|
| | Operating cost | Operating expense | Total |
| Employee benefit expenses | \$ 2,227,570 | \$ 1,490,916 | \$ 3,718,486 |
| Depreciation expense | 395,471 | 142,051 | 537,522 |
| Amortization expense | 2,758 | 41,660 | 44,418 |
| Other non-current assets recognized as expenses | 68,235 | 24,017 | 92,252 |
| Long-term prepaid rents recognized as expenses | - | 3,199 | 3,199 |

(24) Employee benefit expense

| | Year ended December 31, 2017 | | |
|--------------------|------------------------------|---------------------|---------------------|
| | Operating cost | Operating expense | Total |
| Salaries and wages | \$ 2,059,760 | \$ 1,415,227 | \$ 3,474,987 |
| Insurance | 62,761 | 66,545 | 129,306 |
| Pension | 141,462 | 52,118 | 193,580 |
| Others | 49,860 | 44,168 | 94,028 |
| Total | <u>\$ 2,313,843</u> | <u>\$ 1,578,058</u> | <u>\$ 3,891,901</u> |

| | Year ended December 31, 2016 | | |
|--------------------|------------------------------|---------------------|---------------------|
| | Operating cost | Operating expense | Total |
| Salaries and wages | \$ 2,004,474 | \$ 1,334,539 | \$ 3,339,013 |
| Insurance | 50,565 | 61,797 | 112,362 |
| Pension | 120,350 | 51,587 | 171,937 |
| Others | 52,181 | 42,993 | 95,174 |
| Total | <u>\$ 2,227,570</u> | <u>\$ 1,490,916</u> | <u>\$ 3,718,486</u> |

- A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 10% for employees' compensation and shall not be higher than 1% for directors' and supervisors' remuneration.
- B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$259,196 and \$229,000, respectively; directors' and supervisors' remuneration was accrued at \$19,991 and \$17,707, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 12.97% and 1% of distributable profit for the year ended December 31, 2017. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$259,196 and \$19,991, and the employees' compensation will be distributed in the form of cash and stocks.

- C. Employees' compensation of \$229,000 and directors' and supervisors' remuneration of \$17,707 of 2016 as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2016 financial statements. Actual number of shares distributed as employees' compensation for 2016 is 4,722 thousand shares.

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

(25) Income tax

A. Components of income tax expense:

| | Years ended December 31, | |
|---|--------------------------|-------------------|
| | 2017 | 2016 |
| Current tax: | | |
| Current tax on profits for the year | \$ 381,622 | \$ 401,944 |
| Tax on undistributed surplus earnings | 7,568 | 2,136 |
| Prior year income tax overestimation | (2,308) | (8,984) |
| Total current tax | <u>386,882</u> | <u>395,096</u> |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (14,429) | (21,115) |
| Income tax expense | <u>\$ 372,453</u> | <u>\$ 373,981</u> |

B. Reconciliation between income tax expense and profit before tax:

| | Years ended December 31, | |
|---|--------------------------|-------------------|
| | 2017 | 2016 |
| Tax calculated based on profit before tax and statutory tax rate (Note) | \$ 400,525 | \$ 427,669 |
| Effects from items allowed by tax regulation | (26,332) | (87,373) |
| Effect from tax credit of investment | (7,000) | (2,000) |
| Effect of Alternative Minimum Tax | - | 42,533 |
| Tax on undistributed surplus earnings | 7,568 | 2,136 |
| Prior year income tax overestimation | (2,308) | (8,984) |
| Income tax expense | <u>\$ 372,453</u> | <u>\$ 373,981</u> |

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

C. Amounts of deferred tax assets or liabilities as a result of temporary difference, loss carryforward and investment tax credit are as follows:

| | Year ended December 31, 2017 | | |
|--|------------------------------|---------------------------------|-------------------|
| | January 1 | Recognised in profit or loss | December 31 |
| Temporary differences: | | | |
| — Deferred tax assets (liabilities): | | | |
| Provision for inventory price decline and obsolescence | \$ 17,061 | (\$ 3,534) | \$ 13,527 |
| Impairment loss | 565 | - | 565 |
| Unrealized exchange gain | (11,416) | 9,329 | (2,087) |
| Unrealized (gain) loss on financial assets | (6,246) | 6,341 | 95 |
| Unrealized commissions expense | 63,476 | 2,824 | 66,300 |
| Unfunded pension expense | 2,114 | 142 | 2,256 |
| Unrealized government grants | 20,425 | (673) | 19,752 |
| Others | 5,198 | - | 5,198 |
| Total | <u>\$ 91,177</u> | <u>\$ 14,429</u> | <u>\$ 105,606</u> |

| | Year ended December 31, 2016 | | |
|--|------------------------------|---------------------------------|------------------|
| | January 1 | Recognised in profit or loss | December 31 |
| Temporary differences: | | | |
| — Deferred tax assets (liabilities): | | | |
| Provision for inventory price decline and obsolescence | \$ 14,343 | \$ 2,718 | \$ 17,061 |
| Impairment loss | 565 | - | 565 |
| Unrealized exchange gain | (5,879) | (5,537) | (11,416) |
| Unrealized loss (gain) on financial assets | (1,025) | (5,221) | (6,246) |
| Unrealized commissions expense | 32,925 | 30,551 | 63,476 |
| Unrealized intercompany profit (loss) | (552) | 552 | - |
| Unfunded pension expense | 1,976 | 138 | 2,114 |
| Unrealized government grants | 23,062 | (2,637) | 20,425 |
| Others | 4,647 | 551 | 5,198 |
| Total | <u>\$ 70,062</u> | <u>\$ 21,115</u> | <u>\$ 91,177</u> |

D. The Tax Authorities have examined the income tax returns of the Company through 2015.

E. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the imputation credit account is no longer applicable.

F. Unappropriated retained earnings on December 31, 2016:

| | |
|--------------------------------------|--------------------------|
| | <u>December 31, 2016</u> |
| Earnings generated in and after 1998 | <u>\$ 1,918,591</u> |

As of December 31, 2016, the balance of the imputation tax credit account was \$68,837. The creditable tax rate was 9.9% for the year ended December 31, 2016.

G. CPCQ applied for the Enterprise Income Tax Law of the People's Republic of China and the State Administration of Taxation on Tax Policy Issues Concerning Further Implementing China's Western Development Strategy, which refers to an enterprise whose main business falls within the scope of industry projects set out in the Catalogue of Encouraged Industries in China's Western Territory and whose revenues generated from its main business accounts for 70% or more of its gross income. The applications have been authorized, and CPCQ's income tax shall be paid at the reduced tax rate of 15% before 2020.

(26) Earnings per share

| | <u>Year ended December 31, 2017</u> | | |
|--|-------------------------------------|--|--|
| | <u>Amount after tax</u> | <u>Weighted-average number of ordinary shares outstanding (In thousands)</u> | <u>Earnings per share (in dollars)</u> |
| <u>Basic EPS</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 1,561,602 | 370,987 | <u>NT\$ 4.21</u> |
| <u>Diluted EPS</u> | | | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| -Employees' bonus | <u>-</u> | <u>4,944</u> | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | <u>\$ 1,561,602</u> | <u>375,931</u> | <u>NT\$ 4.15</u> |

| | Year ended December 31, 2016 | | |
|--|------------------------------|--|------------------------------------|
| | Amount after tax | Weighted-average number of ordinary shares outstanding (In thousands) | Earnings per share (in dollars) |
| <u>Basic EPS</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 1,340,653 | 363,562 | <u>NT\$ 3.69</u> |
| <u>Diluted EPS</u> | | | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| -Employees' bonus | - | 5,377 | |
| -Employees' restricted shares | - | 1,199 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | <u>\$ 1,340,653</u> | <u>370,138</u> | <u>NT\$ 3.62</u> |

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The ultimate parent of the Company is Chicony Electronics Co., Ltd.

(2) Names of related parties and relationship

| Names of related parties | Relationship with the Group |
|--|--|
| Chicony Electronics Co., Ltd.(CEC) | The parent company |
| Chicony Global Inc. | Entities controlled by the same parent company |
| Hipro Electronics Ltd. | Entities controlled by the same parent company |
| Quansun Investment Corp. Ltd. | Entities controlled by the same parent company |
| Qun-Jing Power Co., Ltd. | Entities controlled by the same parent company |
| XAVi Technology Corp. | Entities controlled by the same parent company |
| Chicony Electronics CEZ s.r.o | Entities controlled by the same parent company |
| Chicony Electronics Japan Co., Ltd. | Entities controlled by the same parent company |
| Chicony Electronics (DongGuan) Co., Ltd. | Entities controlled by the same parent company |
| Chicony Electronics (Chong-Qing) Co., Ltd. | Entities controlled by the same parent company |
| Chicony Electronics (Suzhou) Co., Ltd. | Entities controlled by the same parent company |
| Mao-Ray Electronics (DongGuan) Co., Ltd. | Entities controlled by the same parent company |
| XAVi Technologies (Suzhou) Co., Ltd. | Entities controlled by the same parent company |
| Clevo Co. | Other related parties |
| Kapok Computer (KUNSHAN) Co. | Other related parties |
| Buynow Group | Other related parties |

| Names of related parties | Relationship with the Group |
|----------------------------|------------------------------|
| Chicony Co., Ltd. | Other related parties |
| Shanghai Hongwell Co. Ltd. | Other related parties |
| Genesis Photonics Inc. | Other related parties (Note) |

Note: The Company's parent company is the juristic person director of this company before November 2016.

(3) Significant related party transactions and balances

A. Sales of goods

| | Years ended December 31, | |
|---|--------------------------|---------------------|
| | 2017 | 2016 |
| Sales of goods: | | |
| -Entities controlled by the same parent company | \$ 2,898,767 | \$ 2,409,724 |
| -Other related parties | 363,452 | 413,213 |
| -The parent company | 71,637 | 65,234 |
| Total | <u>\$ 3,333,856</u> | <u>\$ 2,888,171</u> |

The terms of the sales to related parties were not significantly different from those of sales to third parties.

B. Purchases of goods

| | Years ended December 31, | |
|------------------------|--------------------------|-----------------|
| | 2017 | 2016 |
| Purchases of goods: | | |
| -Other related parties | <u>\$ -</u> | <u>\$ 1,174</u> |

The terms of the purchases from related parties were not significantly different from those of purchases to third parties.

C. Purchases of services

| | Years ended December 31, | |
|---|--------------------------|------------------|
| | 2017 | 2016 |
| -Entities controlled by the same parent company | \$ 25,169 | \$ 19,849 |
| -The parent company | 21,059 | 24,045 |
| | <u>\$ 46,228</u> | <u>\$ 43,894</u> |

The purchases from related parties arise mainly from providing the service management to the Group.

D. Receivables from related parties

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Accounts receivable: | | |
| -Entities controlled by the same parent company | \$ 1,270,987 | \$ 1,156,848 |
| -Other related parties | 138,880 | 246,356 |
| -The parent company | <u>22,500</u> | <u>19,802</u> |
| Subtotal | <u>1,432,367</u> | <u>1,423,006</u> |
| Other receivables: | | |
| -Entities controlled by the same parent company | 1,349 | 793 |
| -Other related parties | <u>47</u> | <u>-</u> |
| Subtotal | <u>1,396</u> | <u>793</u> |
| Total | <u>\$ 1,433,763</u> | <u>\$ 1,423,799</u> |

The accounts receivable arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest. Other receivables are raised from payments on behalf of others.

E. Payables to related parties

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Other payables: | | |
| -Entities controlled by the same parent company | \$ 2,486 | \$ 1,201 |
| -The parent company | <u>6,409</u> | <u>6,472</u> |
| Total | <u>\$ 8,895</u> | <u>\$ 7,673</u> |

The other payables arise mainly from services, collections, and operating leases.

F. Property transactions

(a) Disposal of property, plant and equipment:

No such issue for the year ended December 31, 2017.

| | <u>Year ended December 31, 2016</u> | |
|---|-------------------------------------|-------------------------|
| | <u>Disposal proceeds</u> | <u>Gain on disposal</u> |
| -Entities controlled by the same parent company | <u>\$ 500</u> | <u>\$ 379</u> |

(b) Acquisition of financial assets:

No such issue for the year ended December 31, 2017.

| | <u>Accounts</u> | <u>No. of shares</u> | <u>Objects</u> | <u>Year ended December 31, 2016</u> |
|-----------------------|---|----------------------|---|---|
| Other related parties | Available-for-sale financial assets-non current | 9,000,000 | Fuh Hwa Securitised Investment Trust Fund | <u>\$ 150,854</u> |

G. Operating leases:

(a) Rental expense arising from leases in office and plants from related parties is as follows:

| | Years ended December 31, | |
|---|--------------------------|------------------|
| | 2017 | 2016 |
| Rental expense: | | |
| -Entities controlled by the same parent company | \$ 36,870 | \$ 32,774 |
| -The parent company | 49,377 | 1,380 |
| Total | <u>\$ 86,247</u> | <u>\$ 34,154</u> |

(b) As of December 31, 2017, the main lease contracts between the Company and related parties are as follows:

| Lessor | Lease subject | Rental calculation and payment |
|---|-------------------------------|-------------------------------------|
| -Entities controlled by the same parent company | Property, plant and equipment | RMB ¥10,661 (in thousands) per year |
| -The parent company | Property, plant and equipment | \$4,115 per month |

(4) Remuneration information of key management

| | Years ended December 31, | |
|---|--------------------------|-------------------|
| | 2017 | 2016 |
| Salaries and other short-term employee benefits | \$ 181,028 | \$ 162,551 |
| Post-employment benefits | 1,331 | 1,325 |
| Total | <u>\$ 182,359</u> | <u>\$ 163,876</u> |

8. DETAILS OF PLEDGED ASSETS

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

| Pledged asset | Book value | | Purpose |
|--|-------------------|-------------------|----------------------------------|
| | December 31, 2017 | December 31, 2016 | |
| Time deposits (shown as other current assets) | \$ 28,338 | \$ 23,094 | Customs Tariff |
| Refundable deposits (shown as other non-current assets) | 5,083 | - | Guarantee for purchase equipment |
| " | 11,388 | 12,837 | Guarantee for rentals |
| " | 10,314 | 8,119 | Others |
| | <u>\$ 55,123</u> | <u>\$ 44,050</u> | |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

- (1) As of December 31, 2017, for financing forward exchange contracts and for bill purchased purposes, the Group provided standby promissory notes totaling \$13,978,840 as security.
- (2) As of December 31, 2017 and 2016, due to the Group's leasing of plants, offices and parking lots, the Group shall pay rental expense as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Not later than one year | \$ 126,750 | \$ 128,276 |
| Later than one year but not later than five years | 58,976 | 80,576 |
| | <u>\$ 185,726</u> | <u>\$ 208,852</u> |

- (3) Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| | \$ 84,374 | \$ 33,203 |

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- (1) The appropriation of 2017 earnings and proposal of employees' compensation and supervisors' and directors' remuneration distribution have been resolved by the Board of Directors on March 6, 2018, please see Note 6(18) and (24).
- (2) The amendments to the Income Tax Act were promulgated by the President of the Republic of China on February 7, 2018, and went into effect on January 1, 2018. The material effects to the Company are described as follows:
- A. The Company's applicable income tax rate will be raised from 17% to 20%. As of January 1, 2018, the Company's deferred tax assets will increase by 3% as a result, and the income tax expense of the current period will decrease accordingly.
- B. With the abolishment of the imputed tax system, the balance of the imputation credit account as of December 31, 2017, will be reduced to zero on January 1, 2018.

12. OTHERS

(1) Capital management

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

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

(2) Financial instruments

A. Fair value information of financial instruments

Except for those listed in the table below, the carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable (including related parties), other receivables (including related parties), other current assets, notes payable, accounts payable and other payables (including related parties)) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation 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 and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.
- ii. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD, RMB and HKD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate

fluctuations is as follows:

| December 31, 2017 | | | |
|--|------------------|---------------|---------------------|
| (Foreign currency: functional currency) | Foreign Currency | | Book Value (NTD) |
| | Amount | Exchange Rate | |
| | (In Thousands) | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 215,873 | 29.800 | \$ 6,433,015 |
| USD:RMB (Note) | 240,100 | 6.5179 | 7,154,980 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 223,176 | 29.800 | \$ 6,650,645 |
| USD:RMB (Note) | 138,651 | 6.5179 | 4,131,800 |
| December 31, 2016 | | | |
| (Foreign currency: functional currency) | Foreign Currency | | Book Value (NTD) |
| | Amount | Exchange Rate | |
| | (In Thousands) | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 246,282 | 32.235 | \$ 7,938,900 |
| USD:RMB (Note) | 240,036 | 6.9773 | 7,737,560 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 218,594 | 32.235 | \$ 7,046,378 |
| USD:RMB (Note) | 185,532 | 6.9773 | 5,980,624 |

Note: The method is to disclose in foreign currency. The functional currencies of certain subsidiaries belonging to the Group are not NTD, thus, this information has to be considered when reporting. For example, when a subsidiary's functional currency is RMB, the subsidiary's segments that are involved with USD have to be taken into consideration.

iii. Total exchange (loss) gain, including realised and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2017 and 2016, amounted to (\$262,689) and \$97,913, respectively.

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

| | | Year ended December 31, 2017 | | |
|---|----|------------------------------|--------------------------|--------------------------------------|
| | | 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 | 1% | \$ | 64,330 | \$ - |
| USD:RMB | 1% | | 71,550 | - |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 1% | \$ | 66,506 | \$ - |
| USD:RMB | 1% | | 41,318 | - |
| | | Year ended December 31, 2016 | | |
| | | 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 | 1% | \$ | 79,389 | \$ - |
| USD:RMB | 1% | | 77,376 | - |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 1% | \$ | 70,464 | \$ - |
| USD:RMB | 1% | | 59,806 | - |

Price risk

- i. The Group's equity securities, which are classified on the consolidated balance sheet as either available-for-sale or at fair value through profit or loss, are exposed to price risk. The Group diversifies its portfolio to manage the price risk arising from its investments. Diversification of the portfolio is done within the restrictions set by the Group.
- ii. The Group invests mainly in listed stocks. The prices of equity securities would change due to the changes of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, the

Group's shareholders' equity would have increased/decreased for the years ended December 31, 2017 and 2016 by \$14,568 and \$11,327, respectively, as a result of unrealized gain or loss on available-for-sale financial assets.

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings 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. During the years ended December 31, 2017 and 2016, the Group's borrowings at variable rates were denominated in NTD and USD.

As of December 31, 2017 and 2016, if interest rates on USD-denominated borrowings had been 0.25% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, both 2017 and 2016 would have been \$250 lower/higher.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by its clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each internal operating entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial positions, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with restrictions 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.
- ii. For the years ended December 31, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The credit quality information of accounts receivable (including related parties) that are neither past due nor impaired is as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------|--------------------------|--------------------------|
| Group 1 | \$ 4,890,345 | \$ 5,020,864 |
| Group 2 | <u>2,554,865</u> | <u>3,608,431</u> |
| | <u>\$ 7,445,210</u> | <u>\$ 8,629,295</u> |

Group 1: Low-risk customers which have larger scale of operations.

Group 2: Other normal-risk customers.

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

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|----------------|--------------------------|--------------------------|
| Up to 30 days | \$ 42,945 | \$ 7,128 |
| 31 to 120 days | <u>13,758</u> | <u>4,507</u> |
| | <u>\$ 56,703</u> | <u>\$ 11,635</u> |

v. The analysis of the Group's accounts receivable that were impaired is as follows:

| <u>Individual provision</u> | <u>2017</u> | <u>2016</u> |
|---------------------------------|-----------------|-----------------|
| At January 1 | \$ 5,346 | \$ 10,101 |
| Reversal of impairment | (1,365) | (4,401) |
| Effect of exchange rate changes | (53) | (354) |
| At December 31 | <u>\$ 3,928</u> | <u>\$ 5,346</u> |

(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 borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal financial ratio targets and, if applicable external regulatory or legal requirements.

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 and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As of December 31, 2017 and 2016, the Group held money market position of \$2,598,201 and \$2,213,164, respectively, which are expected to generate sufficient cash inflows to cover liquidity risk.

iii. The Group has the following undrawn borrowing facilities:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------------|--------------------------|--------------------------|
| Floating rate: | | |
| Expiring beyond one year | <u>\$ 4,400,000</u> | <u>\$ 4,400,000</u> |

iv. 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 and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

| December 31, 2017 | <u>Less than 1 year</u> | <u>Over 1 year</u> |
|--|-------------------------|--------------------|
| Notes payable | \$ 153 | \$ - |
| Accounts payable | 9,620,143 | - |
| Other payables (including related parties) | 2,540,441 | - |
| Long-term borrowings | - | 100,551 |

Derivative financial liabilities:

| December 31, 2017 | <u>Less than 1 year</u> | <u>Over 1 year</u> |
|--|-------------------------|--------------------|
| Financial liabilities at fair value through profit or loss | 1,755 | - |

Non-derivative financial liabilities:

| December 31, 2016 | <u>Less than 1 year</u> | <u>Over 1 year</u> |
|--|-------------------------|--------------------|
| Notes payable | \$ 430 | \$ - |
| Accounts payable | 9,644,094 | - |
| Other payables (including related parties) | 2,016,340 | - |
| Long-term borrowings | - | 100,098 |

Derivative financial liabilities:

| December 31, 2016 | <u>Less than 1 year</u> | <u>Over 1 year</u> |
|--|-------------------------|--------------------|
| Financial liabilities at fair value through profit or loss | 30,368 | - |

(3) Fair value of financial instruments

- 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).
- 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 (including emerging) stocks, convertible bonds and beneficiary certificates 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 private placement of listed shares and most derivative instruments is included in Level 2.
- Level 3: Unobservable inputs for the asset or liability.
- C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31,

2017 and 2016 is as follows:

| December 31, 2017 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|---------------------|------------------|----------------|---------------------|
| Financial assets: | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward exchange contracts | \$ - | \$ 57,892 | \$ - | \$ 57,892 |
| Exchange rate swap contracts | - | 1,194 | - | 1,194 |
| Available-for-sale financial assets | | | | |
| Equity securities | 1,393,940 | 20,584 | - | 1,414,524 |
| Debt securities | 249,500 | - | - | 249,500 |
| Beneficiary certificates | 42,300 | - | - | 42,300 |
| Total | <u>\$ 1,685,740</u> | <u>\$ 79,670</u> | <u>\$ -</u> | <u>\$ 1,765,410</u> |
| Financial liabilities : | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Exchange rate swap contracts | <u>\$ -</u> | <u>\$ 1,755</u> | <u>\$ -</u> | <u>\$ 1,755</u> |
| December 31, 2016 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Financial assets: | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward exchange contracts | \$ - | \$ 68 | \$ - | \$ 68 |
| Exchange rate swap contracts | - | 36,743 | - | 36,743 |
| Available-for-sale financial assets | | | | |
| Equity securities | 1,020,490 | 16,443 | - | 1,036,933 |
| Debt securities | 247,375 | - | - | 247,375 |
| Beneficiary certificates | 95,800 | - | - | 95,800 |
| Total | <u>\$ 1,363,665</u> | <u>\$ 53,254</u> | <u>\$ -</u> | <u>\$ 1,416,919</u> |

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| Financial liabilities : <u>Recurring fair value</u> <u>measurements</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward exchange contracts | \$ - | \$ 30,368 | \$ - | \$ 30,368 |

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

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

| | <u>Listed shares</u> | <u>Emerging Stocks</u> | <u>Open-end fund</u> | <u>Convertible bond</u> |
|---------------------|----------------------|----------------------------|----------------------|-----------------------------|
| Market quoted price | Closing price | Average trades price | Net asset value | Closing price |

(b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes.

E. For the years ended December 31, 2017 and 2016, there was no transfer between Level 1 and Level 2.

F. For the years ended December 31, 2017 and 2016, there was no transfer into or out from Level 3.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 3.

E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 4.

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 5.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Note 6(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to Note 13(1).

14. SEGMENT INFORMATION

(1) General information

The Chief Operating Decision-Maker considers the business from a geographic and product type perspective; geographically, the Group currently focuses on wholesale in Taiwan, Mainland China and US.

The Group's company organization, basis of department segmentation and principles for measuring segment information for the period were not significantly changed.

(2) Measurement of segment information

A. The accounting policies of operating departments are the same as the accounting policies summarized in Note 4.

B. The Group evaluates performance based on external revenue and segment income which had already eliminated the effect of segment transactions.

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

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

| <u>Year ended</u> | | | | |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|
| <u>December 31, 2017</u> | <u>Taiwan</u> | <u>Asia</u> | <u>America</u> | <u>Total</u> |
| Revenue from external customers | \$ 24,148,089 | \$ 1,091,252 | \$ 2,635,587 | \$ 27,874,928 |
| Inter-segment revenue | 787,978 | 25,862,999 | 22,709,975 | 49,360,952 |
| Total-segment revenue | <u>\$ 24,936,067</u> | <u>\$ 26,954,251</u> | <u>\$ 25,345,562</u> | <u>\$ 77,235,880</u> |
| Segment profit | <u>\$ 935,160</u> | <u>\$ 1,124,310</u> | <u>\$ 270,482</u> | <u>\$ 2,329,952</u> |

| <u>Year ended</u> | | | | |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|
| <u>December 31, 2016</u> | <u>Taiwan</u> | <u>Asia</u> | <u>America</u> | <u>Total</u> |
| Revenue from external customers | \$ 24,419,909 | \$ 770,214 | \$ 2,229,340 | \$ 27,419,463 |
| Inter-segment revenue | 680,636 | 25,450,605 | 23,171,698 | 49,302,939 |
| Total-segment revenue | <u>\$ 25,100,545</u> | <u>\$ 26,220,819</u> | <u>\$ 25,401,038</u> | <u>\$ 76,722,402</u> |
| Segment profit | <u>\$ 564,370</u> | <u>\$ 1,112,159</u> | <u>\$ 501,005</u> | <u>\$ 2,177,534</u> |

(4) Reconciliation for segment income

- A. The revenue from external parties reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income.
- B. A reconciliation of reportable segment profit to the profit before tax for the years ended December 31, 2017 and 2016 is provided as follows:

| | <u>Years ended December 31,</u> | |
|--------------------------------------|---------------------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Reportable segment profit | \$ 2,329,952 | \$ 2,177,534 |
| Unclassified related profit and loss | (696,311) | (739,723) |
| Non-operating revenue and expense | 301,050 | 273,201 |
| Profit before tax | <u>\$ 1,934,691</u> | <u>\$ 1,711,012</u> |

(5) Information on products and services

Revenue from third parties is mainly derived from the sale of electronic component products, consumer electronic products and other electronic products as follows:

| | <u>Years ended December 31,</u> | |
|-------------------------------|---------------------------------|----------------------|
| | <u>2017</u> | <u>2016</u> |
| Electronic component products | \$ 18,379,810 | \$ 18,288,256 |
| Consumer electronic products | 9,346,178 | 9,032,108 |
| Others | 148,940 | 99,099 |
| Total | <u>\$ 27,874,928</u> | <u>\$ 27,419,463</u> |

(6) Geographical information

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

| | <u>Year ended December 31, 2017</u> | | <u>Year ended December 31, 2016</u> | |
|--------|-------------------------------------|---------------------------|-------------------------------------|---------------------------|
| | <u>Revenue</u> | <u>Non-current assets</u> | <u>Revenue</u> | <u>Non-current assets</u> |
| Asia | \$ 23,871,640 | \$ 3,047,286 | \$ 23,479,014 | \$ 2,827,705 |
| US | 3,543,112 | 97,791 | 3,449,679 | 99,849 |
| Europe | 430,631 | - | 469,342 | - |
| Others | 29,545 | - | 21,428 | - |
| Total | <u>\$ 27,874,928</u> | <u>\$ 3,145,077</u> | <u>\$ 27,419,463</u> | <u>\$ 2,927,554</u> |

Non-current assets include property, plant and equipment, intangible assets and other non-current assets, but exclude financial instruments and deferred income tax assets.

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2017 and 2016 is as follows:

| | Year ended December 31, 2017 | |
|-----------|------------------------------|---------|
| | Revenue | Segment |
| Company A | \$ 4,285,256 | Taiwan |
| | Year ended December 31, 2016 | |
| | Revenue | Segment |
| Company A | \$ 4,361,388 | Taiwan |
| Company B | 3,042,355 | " |

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Loans to others

Year ended December 31, 2017

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

| No. (Note 1) | Creditor | Borrower | General ledger account | Is a related party | Maximum outstanding balance during the year ended December 31, 2017 (Note 2) | Balance at December 31, 2017 (Note 3) | Actual amount drawn down | Interest rate | Nature of loan (Note 4) | Amount of transactions with the borrower (Note 5) | Reason for short-term financing | Allowance for doubtful accounts | Collateral | | Limit on loans granted to a single party (Note 6) | Ceiling on total loans granted (Note 6) | Footnote |
|-----------------|----------|----------------------------------|-------------------------------------|--------------------|--|---------------------------------------|--------------------------|---------------|-------------------------|---|---------------------------------|---------------------------------|------------|-------|---|---|----------|
| | | | | | | | | | | | | | Item | Value | | | |
| 0 | CP | CT | Other receivables - related parties | YES | \$ 45,000 | \$ 30,000 | \$ 15,000 | 1.5 | 2 | \$ - | working capital | \$ - | None | None | \$ 3,000,160 | \$ 3,000,160 | - |
| 1 | CPI | WT | Other receivables - related parties | YES | 60,550 | 29,800 | 22,946 | 1.3 | 2 | - | working capital | - | None | None | 1,667,742 | 1,667,742 | - |
| 1 | CPI | CT | Other receivables - related parties | YES | 6,267 | - | - | - | 2 | - | working capital | - | None | None | 1,667,742 | 1,667,742 | - |
| 1 | CPI | CPUS | Other receivables - related parties | YES | 172,343 | 163,900 | 149,000 | 1.6 | 2 | - | working capital | - | None | None | 2,250,120 | 3,000,160 | - |
| 1 | CPI | CPHK | Other receivables - related parties | YES | 1,284,735 | 1,221,800 | 1,102,600 | 1.6 | 2 | - | working capital | - | None | None | 2,250,120 | 3,000,160 | - |
| 2 | CPSZ | Zhuzhou Torch Auto Lamp CO., Ltd | Other receivables - related parties | YES | 323,280 | 237,744 | 137,160 | 1.6 | 2 | - | working capital | - | None | None | 630,609 | 630,609 | - |
| 2 | CPSZ | CPCQ | Other receivables - related parties | YES | 160,510 | - | - | - | 2 | - | working capital | - | None | None | 2,250,120 | 3,000,160 | - |
| 2 | CPSZ | WTK | Other receivables - related parties | YES | 52,578 | 16,002 | 16,002 | 1.6 | 2 | - | working capital | - | None | None | 630,609 | 630,609 | - |
| 3 | WTS | WT | Other receivables - related parties | YES | 15,668 | 14,900 | 14,900 | 1.3 | 2 | - | working capital | - | None | None | 84,112 | 84,112 | - |

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

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

Note 2: Fill in the maximum outstanding balance of loans to others during the year ended December 31, 2017.

Note 3: The amounts of funds to be loaned to others which have been approved by the board of directors of a public company in accordance with Article 14, Item 1 of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" should be included in its published balance of loans to others at the end of the reporting period to reveal the risk of loaning the public company bears, even though they have not yet been appropriated. However, this balance should exclude the loans repaid when repayments are done subsequently to reflect the risk adjustment. In addition, if the board of directors of a public company has authorized the chairman to loan funds in instalments or in revolving within certain lines and within one year in accordance with Article 14, Item 2 of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies", the balance of loans to others at the end of the reporting period should also include these lines of loaning approved by the board of directors, and these lines of loaning should not be excluded from this balance even though the loans are repaid subsequently, for taking into consideration they could be loaned again thereafter.

Note 4: The numbers filled in the column of 'Nature of loan are as follows:

- (1) The business transaction is '1'.
- (2) The short-term financing is '2'.

Note 5: Fill in the amount of business transactions when nature of the loan is related to business transactions, which is the amount of business transactions occurred between the creditor and borrower in the current year.

Note 6: (1) Total financing amount should not exceed the Company's stockholders' equity and

- a. the total financing amount to any individual party should not exceed 40% of the Company's stockholders' equity for the purpose of short-term financing.
 - b. the total financing amount to any individual party should not exceed 50% of the Company's stockholders' equity and the amount of sales/purchase during the year for the purpose of business.
- (2) Total financing amount should not exceed 40% of the subsidiary's stockholders' equity and
- a. the total financing amount to any individual party should not exceed 40% of the subsidiary's stockholders' equity for the purpose of short-term financing.
 - b. the total financing amount to any individual party should not exceed 50% of the subsidiary's stockholders' equity and the amount of sales/purchase during the year for the purpose of business.

(3) Loans for foreign companies whose voting rights are 100% directly or indirectly held by the Company are not limited to the restriction of 40% of the lending company's net assets based on the latest audited or reviewed financial statements. However, limit on loans granted to a single company is 30% of the Company's net assets based on the latest audited or reviewed financial statements, or the higher of sales and purchases during the year. Ceiling on total loans is 40% of the Company's net assets based on the latest audited or reviewed financial statements, and the financing period should not exceed 3 years.

(4) Except for (3), the financing period should not exceed one year.

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Holding of marketable securities at the end of the period(not including subsidiaries, associates and joint ventures)
December 31, 2017

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

| Securities held by | | Marketable securities | Relationship with the securities issuer | General ledger account | As of December 31, 2017 | | | | Footnote |
|--------------------|--------------------------|---|--|---|-------------------------|------------|--------------|------------|----------|
| | | | | | Number of shares | Book value | Ownership(%) | Fair value | |
| The Company | Common stock | Newmax Technology Co., Ltd | The Group's parent company is this company's corporate directors | Available-for-sale financial assets - current | 8,199,779 | \$ 337,421 | 5.18 | \$ 337,421 | - |
| The Company | Common stock | CLEVO CO. | The Company's chairman is the director of the securities issuer | Available-for-sale financial assets - current | 4,538,000 | 131,602 | 0.66 | 131,602 | - |
| The Company | Common stock | Everlight Electronics Co., Ltd. | - | Available-for-sale financial assets - current | 300,000 | 13,485 | 0.07 | 13,485 | - |
| The Company | Common stock | KINSUS INTERCONNECT TECHNOLOGY CORP. | - | Available-for-sale financial assets - current | 920,000 | 49,864 | 0.21 | 49,864 | - |
| The Company | Common stock | Genesis Photonics Inc. | - | Available-for-sale financial assets - current | 8,379,940 | 28,827 | 2.66 | 28,827 | - |
| The Company | Common stock | AcBel Polytech Inc. | - | Available-for-sale financial assets - current | 1,908,000 | 42,453 | 0.37 | 42,453 | - |
| The Company | Common stock | GlobalWafers Co., Ltd. | - | Available-for-sale financial assets - current | 175,000 | 69,562 | 0.04 | 69,562 | - |
| The Company | Common stock | CHENG UEI PRECISION INDUSTRY CO., LTD. | - | Available-for-sale financial assets - current | 250,000 | 12,500 | 0.05 | 12,500 | - |
| The Company | Common stock | ZIPPY TECHNOLOGY CORP. | - | Available-for-sale financial assets - current | 337,000 | 12,082 | 0.22 | 12,082 | - |
| The Company | Common stock | Green Seal Holding Limited | - | Available-for-sale financial assets - current | 2,356,200 | 152,446 | 1.44 | 152,446 | - |
| The Company | Common stock | Hon Hai Precision Industry Co., Ltd. | - | Available-for-sale financial assets - current | 1,000,000 | 95,200 | 0.01 | 95,200 | - |
| The Company | Common stock | Flytech Technology Co., Ltd. | - | Available-for-sale financial assets - current | 300,000 | 24,570 | 0.20 | 24,570 | - |
| The Company | Common stock | SOE CO., LTD. | The Group's parent company is this company's corporate directors | Available-for-sale financial assets - current | 451,850 | 22,186 | 0.34 | 22,186 | - |
| The Company | Common stock | Laster Tech Corporation Ltd. | - | Available-for-sale financial assets - current | 1,000,176 | 70,112 | 1.46 | 70,112 | - |
| The Company | Common stock | TWi Biotechnology, Inc | - | Available-for-sale financial assets - current | 220,000 | 7,663 | 0.39 | 7,663 | - |
| The Company | Common stock | Redhorse Corporation | - | Available-for-sale financial assets - current | 200,000 | 10,540 | 0.42 | 10,540 | - |
| The Company | Common stock | APOGEE OPTOCOM CO., LTD. | - | Available-for-sale financial assets - current | 264,307 | 22,889 | 0.79 | 22,889 | - |
| The Company | Common stock | Powertech Technology Inc. | - | Available-for-sale financial assets - current | 1,900,000 | 167,200 | 0.24 | 167,200 | - |
| The Company | Common stock | Amazing Microelectronic Corp. | - | Available-for-sale financial assets - current | 486,000 | 40,678 | 0.70 | 40,678 | - |
| The Company | Common stock | Formosa Sumco Thechnology Corporation | - | Available-for-sale financial assets - current | 270,000 | 26,028 | 0.03 | 26,028 | - |
| The Company | Bond | Everlight Electronics Co., Ltd. | - | Available-for-sale financial assets - current | 2,500,000 | 249,500 | 5.40 | 249,500 | - |
| The Company | Private equity | Genesis Photonics Inc. | - | Available-for-sale financial assets - non-current | 8,699,899 | 20,584 | 2.76 | 20,584 | - |
| The Company | Beneficiary certificates | Fuh Hwa New Oriental Securities Investment Trust Fund | - | Available-for-sale financial assets - non-current | 6,000,000 | 42,300 | - | 42,300 | - |
| The Company | Beneficiary certificates | Fuh Hwa New Smart Energy Securities Investment Trust Fund | - | Financial assets carried at cost - non-current | 21,000,000 | 210,000 | - | - | - |
| The Company | Common stock | LumenMax Optoelectronics Co., Ltd. | - | Financial assets carried at cost - non-current | 234,069 | - | 1.67 | - | - |
| The Company | Common stock | TAIPEI TECH Venture Capital Co.,Ltd | Corporate director | Financial assets carried at cost - non-current | 1,500,000 | 15,000 | 5.00 | - | - |
| The Company | Common stock | WK Venature Capital Management CO. Ltd. | - | Financial assets carried at cost - non-current | 1,000,000 | 10,000 | 10.00 | - | - |
| The Company | Common stock | Top Taiwan Venture Capital Management Co., Ltd. | The Company's independent director is the chairman of the securities issuer, and the Company is its supervisor | Financial assets carried at cost - non-current | 7,500,000 | 75,000 | 9.38 | - | - |
| The Company | Common stock | Chen Ding Venture Capital Management Co., Ltd. | Corporate director | Financial assets carried at cost - non-current | 10,000,000 | 100,000 | 7.41 | - | - |
| CPI | Common stock | Anxin-China Holdings Ltd. | - | Available-for-sale financial assets - current | 8,300,000 | 12,238 | 0.28 | 12,238 | - |
| CPI | Common stock | Merrimack Pharmaceuticals, Inc. MACK | - | Available-for-sale financial assets - current | 49,228 | 15,037 | 0.37 | 15,037 | - |
| CPI | Common stock | Q Technology (Group) Company Limited | - | Available-for-sale financial assets - current | 700,000 | 29,357 | 0.06 | 29,357 | - |
| CPI | Beneficiary certificates | WRV II, L.P | - | Financial assets carried at cost - non-current | 3,230,066 | 96,256 | - | - | - |

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital

Year ended December 31, 2017

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

Balance as at

December 31, 2017 (Note 5)

| Investor | Marketable securities (Note 1) | General ledger account | Counterparty (Note 2) | Relationship with the investor (Note 2) | Balance as at January 1, 2017 | | Addition (Note 3) | | Disposal (Note 3) | | | Balance as at December 31, 2017 (Note 5) | | |
|-------------|-----------------------------------|--|--------------------------|--|-------------------------------|------------|---------------------|------------|---------------------|---------------|------------|---|---------------------|-----------|
| | | | | | Number of shares | Amount | Number of shares | Amount | Number of shares | Selling price | Book value | Gain (loss) on disposal | Number of shares | Amount |
| The Company | Laster tech Corporation Ltd. | Available-for-sale financial assets - current | - | - | 3,329,176 | \$ 204,744 | 2,249,000 | \$ 213,560 | 4,578,000 | \$ 424,060 | \$ 233,007 | \$ 191,053 | 1,000,176 | \$ 70,112 |

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

Note 5: It is the fair value at the end of period (took valuation adjustment into consideration).

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching NTS100 million or 20% of paid-in capital or more

Year ended December 31, 2017

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

| Purchaser/seller | Counterparty | Relationship with the counterparty | Transaction | | Differences in transaction terms compared to third party transactions | | | | Notes/accounts receivable (payable) | | Footnote |
|------------------|---------------------------------|--|-------------------|---------------|---|-------------|------------|-------------|-------------------------------------|---|----------|
| | | | Purchases (sales) | Amount | Percentage of total purchases (sales) | Credit term | Unit price | Credit term | Balance | Percentage of total notes / accounts receivable (payable) | |
| | | | | | | | | | | | |
| Sales | | | | | | | | | | | |
| The Company | KAPOK | Other related party | Sales | (\$ 301,612) | 1 | 60days | Note 1 | Note 1 | \$ 89,373 | 1 | - |
| The Company | Chicony Electronics CEZ s.r.o. | Entity controlled by the same parent company | Sales | (112,697) | - | 90days | Note 1 | Note 1 | 1 | - | - |
| The Company | Chicony Electronics(Dong Guan) | Entity controlled by the same parent company | Sales | (740,431) | 3 | 90days | Note 1 | Note 1 | 272,002 | 4 | - |
| The Company | CPUS | Subsidiary | Sales | (787,414) | 3 | 90days | Note 1 | Note 1 | 245,170 | 4 | - |
| CPI | The Company | The Company | Sales | (22,619,351) | 92 | 45days | Note 1 | Note 1 | 6,226,360 | 88 | - |
| CPI | Chicony Electronics(Suzhou) | Entity controlled by the same parent company | Sales | (1,164,250) | 5 | 90days | Note 1 | Note 1 | 582,039 | 8 | - |
| CPI | Mao-Ray(Dong Guan) | Entity controlled by the same parent company | Sales | (366,723) | 1 | 90days | Note 1 | Note 1 | 149,697 | 2 | - |
| CPI | Chicony Electronics(Chong-Qing) | Entity controlled by the same parent company | Sales | (285,045) | 1 | 90days | Note 1 | Note 1 | 124,813 | 2 | - |
| CPDG | CPI | Subsidiary | Sales | (9,803,479) | 99 | 45days | Note 1 | Note 1 | 1,600,380 | 93 | - |
| CPSZ | CPI | Subsidiary | Sales | (9,544,099) | 97 | 45days | Note 1 | Note 1 | 3,928,688 | 96 | - |
| CPSZ | Chicony Electronics(Suzhou) | Entity controlled by the same parent company | Sales | (139,938) | 1 | 90days | Note 1 | Note 1 | 71,852 | 2 | - |
| CPCQ | CPI | Subsidiary | Sales | (4,615,446) | 87 | 45days | Note 1 | Note 1 | 1,353,769 | 82 | - |
| CPCQ | CPSZ | Subsidiary | Sales | (629,054) | 12 | 60days | Note 1 | Note 1 | 259,189 | 16 | - |
| GSE | CPDG | Subsidiary | Sales | (437,225) | 43 | 60days | Note 1 | Note 1 | 148,825 | 44 | - |
| GSE | CPSZ | Subsidiary | Sales | (313,626) | 31 | 60days | Note 1 | Note 1 | 87,679 | 26 | - |
| GSE | CPCQ | Subsidiary | Sales | (156,843) | 15 | 60days | Note 1 | Note 1 | 51,964 | 15 | - |
| Purchases | | | | | | | | | | | |
| The Company | CPI | Subsidiary | Purchases | \$ 22,619,351 | 96 | 45days | Note 2 | Note 2 | (\$ 6,226,360) | 99 | - |
| CPUS | The Company | The Company | Purchases | 787,414 | 100 | 90days | Note 2 | Note 2 | (245,170) | 100 | - |
| CPI | CPDG | Subsidiary | Purchases | 9,803,479 | 41 | 45days | Note 2 | Note 2 | (1,600,380) | 22 | - |
| CPI | CPSZ | Subsidiary | Purchases | 9,544,099 | 39 | 45days | Note 2 | Note 2 | (3,928,688) | 54 | - |
| CPI | CPCQ | Subsidiary | Purchases | 4,615,446 | 19 | 45days | Note 2 | Note 2 | (1,353,769) | 19 | - |
| CPDG | GSE | Subsidiary | Purchases | 437,225 | 5 | 60days | Note 2 | Note 2 | (148,825) | 4 | - |
| CPSZ | CPCQ | Subsidiary | Purchases | 629,054 | 7 | 60days | Note 2 | Note 2 | (259,189) | 6 | - |
| CPSZ | GSE | Subsidiary | Purchases | 313,626 | 3 | 60days | Note 2 | Note 2 | (87,679) | 2 | - |
| CPCQ | GSE | Subsidiary | Purchases | 156,843 | 3 | 60days | Note 2 | Note 2 | (51,964) | 2 | - |

Note 1 : The terms of the sales to related parties were not significantly different from those of sales to third parties.

Note 2 : The terms of the purchases to related parties were not significantly different from those of purchases to third parties.

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES
 Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
 December 31, 2017

Table 5

Expressed in thousands of NTD
 (Except as otherwise indicated)

| Creditor | Counterparty | Relationship with the counterparty | Balance as at December 31, 2017 | Turnover rate | Overdue receivables | | Amount collected subsequent to the balance | Allowance for Creditor Counterparty doubtful accounts |
|-----------------------------------|---|---|---------------------------------|---------------|---------------------|--------------|--|---|
| | | | | | Amount | Action taken | | |
| <u>Financial funds receivable</u> | | | | | | | | |
| CPI | CPHK | Subsidiary | \$ 1,120,928 | - | - | - | - | - |
| CPI | CPUS | Subsidiary | 151,450 | - | - | - | - | - |
| CPSZ | Zhuzhou Torch Auto Lamp Co., Ltd. | Subsidiary | 138,005 | - | - | - | - | - |
| <u>Accounts receivable</u> | | | | | | | | |
| The Company | CPUS | Subsidiary | \$ 245,170 | 3.93 | - | - | - | - |
| The Company | Chicony Electronics(Dong Guan) Co., Ltd. | Entity controlled by the same parent company. | 272,002 | 3.18 | - | - | - | - |
| CPI | The Company | The Company | 6,226,360 | 3.56 | - | - | - | - |
| CPI | Chicony Electronics(Suzhou) Co., Ltd. | Entity controlled by the same parent company. | 582,039 | 2.09 | - | - | - | - |
| CPI | Mao-Ray(Dong Guan) Co., Ltd. | Entity controlled by the same parent company. | 149,697 | 2.71 | - | - | - | - |
| CPI | Chicony Electronics(Chong-Qing) Co., Ltd. | Entity controlled by the same parent company. | 124,813 | 1.89 | - | - | - | - |
| CPDG | CPI | Subsidiary | 1,600,380 | 5.04 | - | - | - | - |
| CPSZ | CPI | Subsidiary | 3,928,688 | 2.51 | - | - | - | - |
| CPCQ | CPI | Subsidiary | 1,353,769 | 3.38 | - | - | - | - |
| CPCQ | CPSZ | Subsidiary | 259,189 | 2.98 | - | - | - | - |
| GSE | CPDG | Subsidiary | 148,825 | 3.27 | - | - | - | - |

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Significant inter-company transactions during the reporting periods

Year ended December 31, 2017

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction | | | Percentage of consolidated total operating revenues or total assets (Note 3) |
|--------------------|--------------|--------------|--------------------------|-------------------------------------|------------|-------------------|---|
| | | | | General ledger account | Amount | Transaction terms | |
| 0 | The Company | CPUS | 1 | Sales | \$ 787,414 | Note 4 | 3 |
| 0 | The Company | CPUS | 1 | Accounts receivable - related-party | 245,170 | Note 4 | 1 |
| 1 | CPI | The Company | 2 | Sales | 22,619,351 | Note 4 | 81 |
| 1 | CPI | The Company | 2 | Accounts receivable - related-party | 6,226,360 | Note 4 | 31 |
| 1 | CPI | CPHK | 3 | Other receivables - related-party | 1,120,928 | Note 5 | 5 |
| 2 | CPDG | CPI | 3 | Sales | 9,803,479 | Note 4 | 35 |
| 2 | CPDG | CPI | 3 | Accounts receivable - related-party | 1,600,380 | Note 4 | 8 |
| 3 | CPSZ | CPI | 3 | Sales | 9,544,099 | Note 4 | 34 |
| 3 | CPSZ | CPI | 3 | Accounts receivable - related-party | 3,928,688 | Note 4 | 19 |
| 4 | CPCQ | CPI | 3 | Sales | 4,615,446 | Note 4 | 17 |
| 4 | CPCQ | CPI | 3 | Accounts receivable - related-party | 1,353,769 | Note 4 | 7 |
| 4 | CPCQ | CPSZ | 3 | Sales | 629,054 | Note 4 | 2 |
| 4 | CPCQ | CPSZ | 3 | Accounts receivable - related-party | 259,189 | Note 4 | 1 |
| 5 | GSE | CPDG | 3 | Sales | 437,225 | Note 4 | 2 |
| 5 | GSE | CPSZ | 3 | Sales | 313,626 | Note 4 | 1 |

Other transactions between the parent company and subsidiaries not exceeding 1% of the consolidated total revenue or total assets are not disclosed. Those transactions are shown in other assets and revenue.

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

(1) Parent company is '0'

(2) The subsidiaries are numbered in order starting from '1'

Note 2 : Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belong to (If transactions between parent company and subsidiaries or between refer to the same transactions, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary,

then the subsidiary is not required to disclose the transaction; for transactions subsidiaries, if one of the subsidiaries has disclosed the transactions, then the other is not required to disclose the transaction.) :

(1) Parent company to subsidiary.

(2) Subsidiary to parent company

(3) Subsidiary to subsidiary

Note 3 : Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on year-end balance of transaction

to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4 : Depends on the transaction quantity and the market situation.

Note 5 : The terms of related parties loans depend on both parties' operation situation.

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Information on investees
Year ended December 31, 2017

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

| Investor | Investee | Location | Main business activities | Initial investment amount | | Shares held as at December 31, 2017 | | | Net profit (loss) of the investee for the year ended December 31, 2017 | Investment income(loss) recognised by the Company for the year ended December 31, 2017 | Footnote |
|-------------|---|---------------|---|----------------------------------|----------------------------------|-------------------------------------|---------------|--------------|--|--|---|
| | | | | Balance as at December 31, 2017 | Balance as at December 31, 2016 | Number of shares | Ownership (%) | Book value | | | |
| The Company | Chicony Power Holdings Inc. (CPH) | BVI | Investment holdings | \$ 326,350 | 326,350 | 10,000,000 | \$ 100 | \$ 4,087,317 | \$ 768,511 | \$ 745,910 | Subsidiary |
| The Company | Newmax Technology Co., Ltd. | Taiwan | Design of optical instrument and manufacture of ophthalmic lens | - | 358,590 | - | - | - | (417,977) | (33,187) | Lost significant control from October 31, 2017. |
| CPH | Chicony Power International Inc. (CPI) | Cayman Island | Sales of switching power supplies and other electronic parts | 298,000 (USD 10,000 thousand) | 298,000 (USD 10,000 thousand) | 10,000,000 | 100 | 4,169,354 | 768,470 | - | Subsidiary |
| CPI | Chicony Power USA, Inc. (CPUS) | U.S.A | Sales of switching power supplies and other electronic parts | 39,247 (USD 1,317 thousand) | 39,247 (USD 1,317 thousand) | 1,500,000 | 100 | 13,574 | 2,377 | - | Subsidiary |
| CPI | Chicony Power Technology Hong Kong Limited (CPHK) | Hong Kong | Research and development center and investment holdings | 327,020 (HKD 85,800 thousand) | 327,020 (HKD 85,800 thousand) | 46,800,000 | 100 | 2,576,789 | 349,441 | - | Subsidiary |
| CPI | WitsLight Technology Co., Ltd (WTS) | Samoa | Design, R&D, manufacturing and sales of LED lighting module | 268,200 (USD 9,000 thousand) | 268,200 (USD 9,000 thousand) | 10,000,000 | 78.125 | 218,276 | 2,907 | - | Subsidiary |
| WTS | WitsLight Technology Co, Ltd.(WT) | Taiwan | Design, R&D, manufacturing and sales of LED lighting module | 5,000 | 5,000 | 500,000 | 100 | (75,592) | (187) | - | Subsidiary |
| WTS | Carlight Technology Co., Ltd (CT) | Taiwan | Design, R&D, developing and sales of automotive and motorcycle lamps and other components | 3,000 | 3,000 | 300,000 | 100 | (11,605) | (12,576) | - | Subsidiary |

Note: For the amounts denominated in foreign currencies, profit and loss amounts are translated into New Taiwan dollars at the yearly average exchange rate of 2017, while others are translated into New Taiwan dollars at the spot exchange rates prevailing at the end of the annual period reporting period.

CHICONY POWER TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

Year ended December 31, 2017

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method (Note 1) | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017 | | | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 | Net income of investee as of December 31, 2017 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 2, 3) | Book value of investments in Mainland China as of December 31, 2017 | Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017 | Footnote |
|--|---|-----------------|----------------------------|--|----------------------------|-------------------------|--|--|--|--|---|---|---|----------|
| | | | | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017 | Remitted to Mainland China | Remitted back to Taiwan | | | | | | | | |
| Chicony Power Technology (DongGuan) Co., Ltd. | Manufacturing and sales of switching power supplies and other electronics parts | \$ 593,135 | 2.(1) | \$ 114,408 | \$ - | \$ - | \$ 114,408 | \$ 49,657 | 100 | \$ 49,657 | \$ 1,125,842 | \$ - | - | |
| Chicony Power Technology (Suzhou) Co., Ltd | Manufacturing and sales of electronics components and LED lighting equipment | 239,442 | 2.(1) | 45,197 | - | - | 45,197 | 93,327 | 100 | 93,327 | 1,576,523 | - | - | |
| Quang Sheng Electronics (Nangchang) Co., Ltd. | Manufacturing and sales of electronics components and transformers | 131,175 | 2.(1) | 33,573 | - | - | 33,573 | 6,930 | 100 | 7,391 | 223,952 | - | - | |
| Chicony Power Technology (Chong Qing) Co., Ltd. | Manufacturing and sales of electronics components and LED lighting equipment | 301,744 | 2.(1) | - | - | - | - | 214,261 | 100 | 214,261 | 768,146 | - | - | |
| Chicony Energy Saving Technology (Shanghai) Co., Ltd. | Sales of LED lighting equipment | 44,379 | 2.(1) | - | - | - | - | 1,037 | 100 | 1,037 | 47,186 | - | - | |
| Chicony Power Technology Trading (Dong Guan) Co., Ltd. | Importing and exporting of power supplies, LED lighting equipments, and other electronics and smart building system industry. | 10,491 | 2.(1) | - | - | - | - (| 165) | 100 (| 165) | 9,701 | - | - | |
| WitsLight Technology (Kushun) Co, Ltd. | Manufacturing and sales of LED lighting module | 331,859 | 2.(2) | - | - | - | - | 28,432 | 78.125 | 22,212 | 214,542 | - | - | |
| Zhuzhou Torch Auto Lamp CO., Ltd | Production and sales of automotive and motorcycle components, electric machine and device, lamps and plastic products | 228,654 | 2.(2) | - | - | - | - | 30,087 | 78.125 | 23,505 | 195,346 | - | - | |

| Company name | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA |
|--------------|---|---|---|
| The Company | \$ 193,178 | \$ 1,097,177 | \$ 4,500,240 |

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

1. Directly invest in a company in Mainland China..

2. Through investing in an existing company in the third area, which then invested in the investee in Mainland China. The third areas are as follows:

(1) Chicony Power Technology Hong Kong Limited.

(2) Witslight Technology Co., Ltd.

3. Others

Note 2: The gain or loss from investment which recognised in the current period including the recognition and derecognition of realised and unrealised profit or income of upstream and sidestream sales.

Note 3: Based on the financial statements audited by the parent companies' CPA.

Note 4: The numbers in this table are expressed in New Taiwan Dollars.

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