

**MPI CORPORATION and Subsidiaries**  
**Consolidated Financial Statements**  
**For the Years Ended**  
**December 31, 2017 and 2016, and**  
**Independent Auditors' Report**

# MPI CORPORATION and Subsidiaries

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## **DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES**

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2017 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,  
MPI CORPORATION  
By

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Chairman

March 20, 2018



## Independent Auditor's Audit Report

### The Board of Directors and Shareholders

### MPI Corporation

### Opinion

We have audited the accompanying consolidated financial statements of **MPI CORPORATION** (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as 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 Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial

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statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters on the consolidated financial statements for the year ended December 31, 2017 were as follows:

## **I. Revenue Recognition**

### Matter Description

Regarding the accounting policy of revenue recognition, please refer to (17) of Note 4 of the Consolidated Financial Statements.

Sales revenue is the major index for investors and the management to evaluate the finance or performance of MPI Group. As the point in time for revenue recognition and the amount of recognized revenue can make a big difference on the financial statements, the CPA(s) has also reviewed the accuracy of these two key factors during the audit.

### Audit Procedures in Response

The CPA(s) has implemented audit procedures in response as summarized below:

- (1) Understood and tested the design and implementation efficiency of sales and receiving circulation control system.
- (2) Understood the major revenue type and trading terms of MPI Group to assess if the accounting policy of point in time for revenue recognition is appropriate.
- (3) Understood the product type and sales of the top 10 customers; sampled and reviewed the orders; assessed the influence of trading terms to revenue recognition; and confirmed if MPI Group has handled accounting relevant activities appropriately.
- (4) Evaluated if the number of days for turning over the sales revenue and payables; and analyzed changes to customers of this and last year at the same time point to see if there is any abnormality.
- (5) Implemented the detail test, where transactions of sales revenue before and after the financial statements within a specified period have been sampled to carry out the cut-off test and verify relevant certificates. Changes to the inventory in account books and transferred sales costs have been recorded during an appropriate period of period to evaluate the correctness of the period of recognizing the revenue, ensure if there is any abnormal revenue journal voucher, and understand if there is any grave refund or return after the period.

## **2. Inventory Valuation**

### Matter Description

Regarding the accounting policy of inventory valuation, please refer to (8) of Note 4 of Consolidated Financial Statements. Regarding significant accounting judgments, estimations, and assumptions of inventory valuation, please refer to Note 5 of Individual Financial Statements.

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Regarding descriptions of inventory accounting items, please refer to (4) of Note 6 of Individual Financial Statements. The Group recognize inventories amounting to NT\$2,519,782 thousand and Allowance for inventories amounting to NT\$245,313 thousand. The book value of the Group's inventories as December 31, 2017 was NT\$2,274,469 thousand and accounted 30% of the total assets in the consolidated balance sheet.

MPI Group mainly engages in the manufacturing and sales of semiconductor production and testing equipment. Due to rapid technological changes, short life cycle and intense market competition of electronic products, there is a high tendency for inventory valuation loss and losses caused by outdated inventory. The inventory is evaluated by either the cost or net realizable value, depending on which one has the lower value. Inventories that exceed specific inventory age or are evaluated as outdated during individual assessment shall have the inventory loss evaluation conducted also based on the inventory age and future product demand during specific period of time. The information comes from the management's judgement on each product's net realizable value based on the inventory sales, age and quality conditions. As the amount of MPI Corporation's inventory is great; a number of items are included on the inventory list; and the valuation of inventories that have exceeded specific age or are outdated relies heavily on the management's subjective judgement and involves a high degree of uncertainty, the Account(s) believes that the inventory valuation and obsolescence loss is one of the key audit matters of the year.

## Audit Procedures in Response

The CPA(s) has implemented the audit procedures in response as summarized below:

- (1) With the CPA's knowledge of the industry and MPI Group's operations, evaluated the soundness of the Corporation's policies concerning the allowance for inventory valuation loss and doubtful debts.
- (2) Understood MPI Group's inventory management procedures, reviewed its annual inventory plan, and participated in its annual inventory check to evaluate the management's judgement and control efficiency of outdated inventories.
- (3) Acquired the list of product inventory age, verified the appropriateness of reporting system logic, and confirmed the consistency of report information and adopted policies.
- (4) Evaluated the appropriateness of the methods of calculating inventory valuation impairment, including deciding the inventory classification based on the net realizable value, checking individual material number to verify the basic assumption of the calculation in relevant supporting document, and verify the accuracy of calculation.

## **Other Matter-Making Reference to the Audits of Component Auditors**

Information on the subsidiaries of MPI Corporation included in the aforementioned statements

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covering the period of 2017 and 2016. And the information on direct investment as disclosed in note 13 is valued as audited by other public accountants. Said subsidiaries' total assets of are NT\$149,613 thousand and NT\$39,649 thousand or accounted for 1.94% and 0.55% of the consolidated total assets as of December 31, 2017 and 2016, respectively. As of January 1 to December 31, 2017 and 2016, had net operating revenue amounted to NT\$181,678 thousand and NT\$52,927 thousand, or accounted for 4.08% and 1.07% of the consolidated net operating revenue, respectively.

## **Other Matter**

We have also audited the parent Group only financial statements of MPI CORPORATION as of and for the years ended December 31, 2017 and 2016 on which we have issued an unqualified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, 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.

## **Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

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

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

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

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

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

*Sun Rise CPAs & Company*  
Sun Rise CPAs & Company  
Taipei, Taiwan, Republic of China

March 20, 2018

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

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NEXIA SUN RISE CPAS & CO IS A MEMBER OF NEXIA INTERNATIONAL, A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING FIRMS.

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (ASSETS)**

DECEMBER 31 ,2017 AND 2016

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

ASSETS	Note	December 31,2017		December 31,2016	
		Amounts	%	Amounts	%
<b>CURRENT LIABILITIES</b>					
Cash and cash equivalents	6(1)	\$ 656,829	9	\$ 749,227	10
Current financial assets at fair value through profit or loss	6(12)	-	-	60	-
Notes receivable, net	6(2)	6,995	-	18,001	-
Accounts receivable, net	6(3)	947,622	12	774,020	11
Accounts receivable -related parties, net	6(3).7	758	-	36,613	1
Other receivables		9,303	-	14,944	-
Income tax receivable		814	-	1,736	-
Inventories, net	6(4)	2,274,469	30	1,954,686	27
Prepayments		94,101	1	101,670	1
Non-current assets held for sale	6(5)	71,302	1	-	-
Other current assets	8	4,763	-	11,596	-
<b>Total Current Assets</b>		<b>4,066,956</b>	<b>53</b>	<b>3,662,553</b>	<b>50</b>
<b>NONCURRENT ASSETS</b>					
Investments accounted for using equity method	6(5)	29,999	-	96,221	1
Property, plant and equipment	6(6).7.8	3,294,748	43	2,971,021	41
Intangible assets	6(7)	41,424	-	35,923	1
Deferred income tax assets	6(18)	72,726	1	65,622	1
Other noncurrent assets	6(8)	201,826	3	433,654	6
<b>Total Noncurrent Assets</b>		<b>3,640,723</b>	<b>47</b>	<b>3,602,441</b>	<b>50</b>
<b>TOTAL ASSETS</b>		<b>\$ 7,707,679</b>	<b>100</b>	<b>\$ 7,264,994</b>	<b>100</b>

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

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (LIABILITIES AND EQUITY)**

DECEMBER 31, 2017 AND 2016

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

LIABILITIES AND EQUITY	Note	December 31, 2017		December 31, 2016	
		Amounts	%	Amounts	%
<b>CURRENT LIABILITIES</b>					
Short-term loans	6(9)	\$ 1,170,000	15	\$ 384,052	5
Accounts payable		414,918	5	425,773	6
Accounts payable-related parties	7	3,673	-	92	-
Payables on equipment		87,846	1	134,487	2
Other payables	6(10)	496,645	7	640,354	9
Other payables-related parties	7	4,875	-	342	-
Income tax payable		10,110	-	46,762	1
Provisions	6(11)	3,210	-	2,595	-
Sales revenue received in advance	7	797,292	10	696,866	10
Corporate bonds payable – current portion	6(12)	-	-	590,647	8
Current portion of long-term liabilities	6(13)	225,787	3	9,328	-
Lease obligations payable – current	6(6)	16,229	-	16,697	-
Other current liabilities		36,770	1	26,026	-
<b>Total Current Liabilities</b>		<b>3,267,355</b>	<b>42</b>	<b>2,974,021</b>	<b>41</b>
<b>NONCURRENT LIABILITIES</b>					
Long-term loans	6(13)	572,909	8	240,640	3
Deferred income tax liabilities	6(18)	14,591	-	11,292	-
Lease obligations payable – noncurrent	6(6)	32,459	-	50,091	1
Accrued pension cost	6(14)	35,257	1	29,071	1
Other noncurrent liabilities		207	-	97	-
<b>Total Other Liabilities</b>		<b>655,423</b>	<b>9</b>	<b>331,191</b>	<b>5</b>
<b>TOTAL LIABILITIES</b>		<b>3,922,778</b>	<b>51</b>	<b>3,305,212</b>	<b>46</b>
<b>EQUITY</b>					
6(15)					
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>					
Capital common stock		799,014	10	796,054	11
Capital surplus		909,204	12	885,735	12
Retained earnings					
Appropriated as legal capital reserve		548,516	7	492,188	7
Special reserve		30,177	-	-	-
Unappropriated earnings		1,523,376	20	1,803,156	24
<b>Total Retained Earnings</b>		<b>2,102,069</b>	<b>27</b>	<b>2,295,344</b>	<b>31</b>
Other					
Foreign currency translation adjustments		(42,309)	-	(30,177)	-
<b>Total others</b>		<b>(42,309)</b>	<b>-</b>	<b>(30,177)</b>	<b>-</b>
Treasury stock		-	-	-	-
Equity attributable to shareholders of the parent		3,767,978	49	3,946,956	54
<b>NONCONTROLLING INTERESTS</b>		<b>16,923</b>	<b>-</b>	<b>12,826</b>	<b>-</b>
<b>TOTAL EQUITY</b>		<b>3,784,901</b>	<b>49</b>	<b>3,959,782</b>	<b>54</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 7,707,679</b>	<b>100</b>	<b>\$ 7,264,994</b>	<b>100</b>

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

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
From January 1 to December 31, 2017 and 2016  
(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Items	Note	January 1 ~ December 31, 2017		January 1 ~ December 31, 2016	
		Amounts	%	Amounts	%
<b>OPERATING REVENUE, NET</b>	7				
Sales revenue		\$ 4,078,376	92	\$ 4,532,993	91
Less: sales returns		(15,136)	(1)	(2,531)	-
sales discounts and allowances		(1,117)	-	(34)	-
Commission revenue		28,638	1	99,065	2
Processing Fees revenue		357,693	8	332,262	7
Operating Revenue, net		4,448,454	100	4,961,755	100
<b>OPERATING COSTS</b>	6(4).7	(2,688,543)	(60)	(2,665,069)	(54)
<b>GROSS PROFIT</b>		1,759,911	40	2,296,686	46
Realized (Unrealized) Gross profit on sales to subsidiaries and associates		276	-	176	-
<b>GROSS PROFIT, NET</b>		1,760,187	40	2,296,862	46
<b>OPERATING EXPENSES</b>	7				
Selling expenses		(492,501)	(12)	(443,492)	(9)
General & administrative expenses		(284,549)	(6)	(318,812)	(6)
Research and development expenses	6(7)	(803,458)	(18)	(848,616)	(17)
Operating expense, net		(1,580,508)	(36)	(1,610,920)	(32)
<b>OPERATING INCOME</b>		179,679	4	685,942	14
<b>NON-OPERATING INCOME AND EXPENSES</b>					
Other gains and losses	6(17)	(8,752)	-	(61,394)	(1)
Finance costs	6(17)	(17,474)	-	(19,490)	(1)
Share of profits of subsidiaries and associates	6(5)	9,782	-	4,341	-
Interest income	7	1,831	-	1,725	-
Rent income	7	2,902	-	7,565	-
Other non-operating revenue-other items	7	36,862	1	32,799	1
Total Non-operating Income		25,151	1	(34,454)	(1)
<b>INCOME BEFORE INCOME TAX</b>		204,830	5	651,488	13
<b>INCOME TAX BENEFIT(EXPENSE)</b>	6(18)	(55,563)	(2)	(90,651)	(2)
<b>NET INCOME</b>		149,267	3	560,837	11
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Items that are not to be reclassified to profit or loss					
Re-measurements from defined benefit plans		(4,699)	-	(1,665)	-
Items that may be reclassified subsequently to profit or loss					
Exchange differences arising on translation of foreign operations		(11,535)	-	(57,619)	(1)
Other comprehensive income for the year, net of income tax		(16,234)	-	(59,284)	(1)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		\$ 133,033	3	\$ 501,553	10
<b>NET INCOME(LOSS) ATTRIBUTABLE TO :</b>					
Shareholders of the parent		\$ 145,767	3	\$ 563,279	11
Noncontrolling interests		3,500	-	(2,442)	-
		\$ 149,267	3	\$ 560,837	11
<b>TOTAL COMPREHENSIVE INCOME(LOSS)</b>					
Shareholders of the parent		\$ 128,936	3	\$ 504,565	10
Noncontrolling interests		4,097	-	(3,012)	-
		\$ 133,033	3	\$ 501,553	10
<b>EARNINGS PER COMMON SHARE(NTD)</b>	6(19)				
Basic earnings per share		\$ 1.83		\$ 7.09	
Diluted earnings per share		\$ 1.83		\$ 6.49	

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

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

From January 1 to December 31, 2017 and 2016

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Items	Capital-Common Stock		Capital Surplus	Legal Capital Reserve	Retained Earnings		Foreign Currency Translation Reserve	Others	Treasury Stock	Total	Non-controlling	Total Equity
	Common Stock	Special Reserve			Special Reserve	Unappropriated Earnings						
BALANCE, JANUARY, 1, 2016	\$ 796,054	\$ 871,572	\$ 462,706	\$ 1,509,840	\$ 26,872	\$ -	\$ -	\$ -	\$ (34,454)	\$ 3,632,590	\$ 15,838	\$ 3,648,428
BALANCE, JANUARY, 1, 2016			29,482	(29,482)								
Legal capital reserve				(238,816)						(238,816)		(238,816)
Cash Dividends of Common Stock				563,279						563,279	(2,442)	560,837
Net Income in 2016				(1,665)						(58,714)	(570)	(59,284)
Other comprehensive income in 2016, net of income tax				561,614	(57,049)					504,565	(3,012)	501,553
Total comprehensive income in 2016					(57,049)					48,617		48,617
Issuance of stock from exercise of employee stock options		14,163							34,454			
BALANCE, DECEMBER, 31, 2016	\$ 796,054	\$ 885,735	\$ 492,188	\$ 1,803,156	\$ (30,177)	\$ -	\$ -	\$ -	\$ -	\$ 3,946,956	\$ 12,826	\$ 3,959,782
BALANCE, JANUARY, 1, 2017												
Legal capital reserve				(56,328)								
Special reserve				30,177								
Cash Dividends of Common Stock				(334,343)						(334,343)		(334,343)
Capital Reserve From Stock Warrants										(1,256)		(1,256)
Net Income in 2017				145,767						145,767	3,500	149,267
Other comprehensive income in 2017, net of income tax				(4,699)						(16,831)	(597)	(16,234)
Total comprehensive income					(12,132)					128,936	4,097	133,033
Convertible Bonds Transferred To Common Stock	2,960	24,725		141,068	(12,132)					27,685		27,685
BALANCE, DECEMBER, 31, 2017	\$ 799,014	\$ 909,204	\$ 548,516	\$ 1,523,376	\$ (42,309)	\$ -	\$ -	\$ -	\$ -	\$ 3,767,978	\$ 16,923	\$ 3,784,901

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

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
From January 1 to December 31, 2017 and 2016  
(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Items	Jan 1 ~ Dec 31, 2017	Jan 1 ~ Dec 31, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 204,830	\$ 651,488
Adjustments to reconcile net income to net		
Depreciation	417,423	361,936
Amortization	59,265	57,161
(Reversal) allowance for doubtful receivables	654	1,726
Gains on Financial Assets (Liabilities) at Fair Value through Profit or Los:	55	(1,742)
Interest expense	17,474	19,490
Interest revenue	(1,831)	(1,725)
Compensation cost of employee stock options	-	14,268
Loss (gain) on equity-method investments	(9,782)	(4,341)
(Gain) loss on disposal of property, plant and equipment	2,246	191
Gains on disposal of investments	(1,870)	-
Loss (gain) on disposal of equity-method investments	(15,557)	-
Loss on valuation of nonfinancial asset	-	45,533
(Realized) Unrealized gross profit on sales to subsidiaries and associates	(276)	(176)
Adjustments-exchange (Gain) loss on prepayments for equipment	2,032	(564)
Net changes in operating assets and liabilities		
Decrease (Increase) in notes receivable	11,006	8,567
Decrease (Increase) in accounts receivable	(174,656)	(5,804)
Decrease (Increase) in accounts receivable-related parties	36,303	45,398
Decrease (Increase) in other receivables	5,639	4,780
Decrease (Increase) in inventories	(319,783)	(318,509)
Decrease (Increase) in prepayments	7,569	24,183
Decrease (Increase) in other current assets	1,066	(666)
(Decrease) Increase in notes payable	-	(56)
(Decrease) Increase in accounts payable	(10,856)	31,592
(Decrease) Increase in accounts payable-related parties	3,581	(2,900)
(Decrease) Increase in other accounts payable	(144,423)	161,361
(Decrease) Increase in other accounts payable-related parties	4,533	(6,325)
(Decrease) Increase in provision of liabilities	615	1,355
(Decrease) Increase in sales revenue received in advance	100,425	204,798
(Decrease) Increase in other current liabilities	10,744	2,826
Decrease(Increase) in accrued pension cost	1,487	1,392
Cash generated from operations	207,913	1,295,237
Interest received	1,833	1,726
Cash dividends received	554	13,192
Interest (excluding capitalization of interest)	(6,973)	(8,393)
Cash dividends	(334,343)	(238,816)
Income taxes paid	(95,097)	(93,622)
Net cash Provided By Operating Activities	<u>(226,113)</u>	<u>969,324</u>

(Continue)

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
From January 1 to December 31, 2017 and 2016  
(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Items	Jan 1 ~ Dec 31, 2017	Jan 1 ~ Dec 31, 2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of equity-method investments	18,918	-
Proceeds from disposal of Subsidiary Company	1,870	-
Net cash flow from acquisition of subsidiaries	(814,894)	(332,669)
Proceeds from sale of property, plant and equipment	18	482
Intangible assets	(29,605)	(22,966)
Increase in other financial assets	-	(344)
Decrease in other non-current assets	5,766	-
(Increase) in other non-current assets	-	(181,299)
Decrease in other non-current assets	196,265	-
Cash dividends received from equity-method investees	-	(123)
Net cash Provided Used In Investing Activities	(621,662)	(536,919)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term loans	785,949	-
(decrease) in short-term loans	-	(170,165)
Repurchase of convertible bonds	(574,000)	-
Increase in long-term borrowings	548,728	-
Repayments of long-term loans	-	(9,428)
Increase in other nocurrent liabilities	110	-
(decrease) in other nocurrent liabilities	-	(1,159)
Employees to repurchase of treasury stock	-	34,349
Increase (decrease) in noncontrolling interests	597	(570)
Net cash (Used In) Financing Activities	761,384	(146,973)
Effects of exchange rate change on cash	(6,007)	(9,998)
Net increase in cash and cash equivalents	(92,398)	275,434
Cash and cash equivalents at beginning of year	749,227	473,793
Cash and cash equivalents at end of year	\$ 656,829	\$ 749,227

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

**MPI CORPORATION and its Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(Expressed in NT\$1,000, Unless Otherwise Noted)

**1. Company profile**

- (1) MPI Corporation (hereinafter referred to as the "Company") was founded according to the Company Law and other related laws on July 25, 1995. Upon capital increase for several times, the Company's paid-in capital has been NT\$799,014 thousand and outstanding stock has been 79,901,388 shares until December 31, 2017. Upon resolution of the special shareholders' meeting on December 28, 2006, the Company raised the authorized capital as NT\$1,000,000,000, divided into 100,000,000 shares at par value of NT\$10 per share. The board of directors is authorized to issue the stock in lots. NT\$50,000 thousand is withheld from the gross capital referred to in the preceding paragraph, divided into 5,000,000 shares at par value of NT\$10 per share, available for the subscription by exercise of stock warrants and issued upon resolution of a directors' meeting.
- (2) The Company and its subsidiaries (hereinafter referred to as the "Group" collectively) primarily engage in manufacturing, processing, maintenance, import/export and trading of semi-conductor production process and testing equipments.
- (3) The Company was approved to initiate the IPO in July 2001, and started to trade on Taiwan Stock Exchange as of January 6, 2003.

**2. Date and procedure for ratification of financial report**

The consolidated financial statements have been approved and released by the Board of Directors on March 20, 2018.

**3. Application of new standards, amendments and interpretations**

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016



Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment 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 Group

New standards, interpretations and amendments issued by IASB but not yet included in the 2018 version of IFRSs as endorsed by the FSC:

	Effective date by International Accounting Standards Board
<u>New Standards, Interpretations and Amendments</u>	
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from contracts with customers’	January 1, 2018
Amendment to IAS 7 Disclosure Initiative	January 1, 2017
Amendment to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
Amendments to IAS 40, ‘Transfers of investment property’	January 1, 2018

IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of international financial reporting standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Prepayment features with negative compensation (amendments to IFRS 9)	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 IASB
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
Long-term interests in associates and joint ventures (amendments to IAS 28)	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 followings, 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 recognize 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 important accounting policies applied by the financial statements are summarized as follows: Unless otherwise provided, the following accounting policies have been applied during the presentation period of the consolidated financial statements.

##### **(1) Statement of compliance**

The consolidated financial statements were prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" (hereinafter referred to as the "Regulations") and IFRSs recognized by FSC to disclose all of the necessary to be disclosed in the annual consolidated financial statements.

##### **(2) Basis for preparation**

###### **A. Basis for measurement**

Except the following important items in the balance sheet, the consolidated financial statement was prepared based on the historical cost:

- (1) Financial instruments at fair value through profit or loss (including derivative financial instruments);
- (2) Available-for-sale financial assets measured at fair value;
- (3) Defined benefit liability stated based on the net after pension fund assets less the present value of defined benefit obligations.

###### **B. Functional currency and presentation of currency**

The functional currency of each of the Group's entities shall be subject to the currency applicable in the main economic environment in which its business place is situated. The consolidated financial statements should be presented based on the Company's functional currency, NTD. Unless otherwise noted, all of the financial information presented in NTD should be held presented in NTD 1,000 as the currency unit.

##### **(3) Basis for consolidation**

###### **A. Principles for preparation of consolidated financial statements**

- (a) The Group included all of the subsidiaries into the consolidated financial statements. Subsidiaries mean the entities controlled by the Group (including structured entities). When the Group is exposed to the changes of remuneration participated by the entities or is entitled to changes of remuneration, and is able to influence the remuneration by virtue of its power over the entities, the Group is held controlling the entities. The subsidiaries are included into the consolidated financial statements on the date when the Group acquires the controlling power, and the consolidation shall be suspended as of the date when the Group forfeits the controlling power.

- (b) Unrealized gains on transactions between the Group companies are eliminated to the extent of the Group's interest in the associates. Accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Elements of the income and other comprehensive income shall be vested in parent company shareholders and non-controlling equity. The total comprehensive income shall be vested in parent company shareholders and non-controlling equity, even if the non-controlling equity suffers loss.
- (d) Where the changes in shareholdings of subsidiaries don't result in forfeiture of controlling power (transactions with non-controlling equity), they shall be processed as equity transactions, which are identified as the transactions with parent company shareholders. The price difference between the adjustment value of non-controlling equity and fair value of paid or collected consideration shall be stated into equity directly.
- (e) When the Group forfeits control over its subsidiaries, its residual investment in the subsidiaries shall be re-measured based on fair value, and identified as the fair value of financial asset recognized initially or cost of the investment in affiliates or joint ventures recognized initially. The price difference between the fair value and book value is stated into current income. Where the accounting treatment for the values related to the subsidiaries as stated into other comprehensive income previously is identical with the basis for the Group's direct disposition of related assets or liabilities, namely, if the gain or loss stated into other comprehensive income previously would be reclassified into income when the related assets or liabilities are disposed of, the gain or loss shall be reclassified into income from equity, when the Group forfeits control over the subsidiaries.

B. Subsidiaries included into the consolidated financial statements and status of change thereof:

Investor	Name of Subsidiary	Nature of business	Equity (%)		Note
			2017. 12.31	2016. 12.31	
The Company	Chain-Logic International Corp.	Professional agent and trading of semi-conductor	100%	100%	Founded on March 1, 1994
The Company	MPI TRADING CORP.(Samoa)	Trading of probe cards and semi-automatic probers	100%	100%	Founded on December 22, 2000
The Company	MMI HOLDING CORP.(Samoa)	General investment	100%	100%	Founded on August 7, 2002 (Note 3)

The Company	MEGTAS CO.,LTD.	Manufacturing, processing and sale of semi-conductor equipment and industrial mechanical spare parts, and manufacturing and sale of pottery and electronic spare parts	60%	60%	Founded on September 1, 2010
The Company	Chia Hsin Investment Co., Ltd.	General investment	-	-	Established in April 30, 2004. The company set June 27, 2016 as the dissolution date and completed liquidation on July 15, 2016. (Note 2)
The Company	Yi Hsin Investment Co., Ltd.	General investment	-	-	Established in April 30, 2004. The company set June 27, 2016 as the dissolution date and completed liquidation on July 15, 2016. (Note 2)
The Company	Won Tung Technology Co., Ltd.	Manufacturing of telecommunication appliances, wholesale and retail of electronic materials, and manufacturing of electronic components	100%	100%	Founded on December 22, 2010
The Company	ALLSTRON CORP.	Manufacturing of high frequency wafer foundry measuring probing	100%	100%	Established in March 31, 2006. The Company started on January 1, 2014 as the acquisition date, acquiring 100% of the shares.
MPI	MPA TRADING CORP.	Investment activities	100%	-	Established in April 12, 2017. (Note 4)
Chain-Logic International Corp.	CHAIN-LOGIC TRADING CORP. Mauritius	International trading	100%	100%	Founded on November 19, 2001
Chain-Logic International Corp.	Chia Ying Investment Co., Ltd.	General investment	-	-	Established in April 30, 2004. The company set June 27, 2016 as the dissolution date and completed liquidation on July 15, 2016. (Note 2)
CHAIN-LOGIC TRADING CORP.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	International trading	100%	100%	Founded on February 8, 2002
MMI HOLDING CORP.	LEDA-ONE (Shenzhen) Co.	Production, management and development of new electronic components, et al.	-	100%	Founded on May 7, 2010.(Note 6)
MMI HOLDING CORP.	Lumitek (Changchou) Co. Ltd.	Design, development, production and sale of LED dice production process	100%	100%	Founded on January 10, 2014. (Note 1)

MMI HOLDING CO., LTD.	MPI (Suzhou) CORPORATION	Selling and manufacturing of high-tech industry such as LED.	100%	–	Established in July 11, 2017. (Note 7)
MPA TRADING CORP.	MPI America Inc.	Selling Probe Card and Test Equipment	100%	–	Established in March 29, 2017. (Note 5)

(Note1) To develop the market of China, the Group through MMI HOLDING CO., LTD invested Lumitek (Chan gzhou) Co., Ltd. And increased investment US1, 000,000 (NT\$31,980 thousand) holding 100% of shares in 2016.

(Note2) By resolution of the board of directors on May 11, 2016, the Group would sell 17.87% of LUMITED Corporation's equity shares owned by its three subsidiaries (JIA-SIN INVESTMENT CORP., YI-SIN INVESTMENT CORP. and JIA-YING INVESTMENT CORP.) to ultimate parent company, MPI CORPORATION, which was in the event of liquidation. According to the legal interpretation of Ministry of Economic Affairs, original shareholders have the right to transfer their shares to others during company liquidation and it does not violate corporate law. The Group has migrated and integrated in MPI CORPORATION, and the Uni-President Enterprises Corporation deal with the proportional distribution of LUMITED CORPORATION of residual property claims request. It is unnecessary to keep the three subsidiaries in operation after their equity shares of LUMITED CORPORATION were all transferred. Therefore, the three subsidiaries were closed down.

(Note3) The Group invested MMI HOLDING CO., LTD. resolved to reducing the capital to offset the deficit US\$172,330.42 (equivalent to NT\$5,171 thousand) by the Board of Directors meeting on May 25, 2017.

(Note4) To develop the market of The USA, the Group invested MPA TRADING CORP increased capital by US\$650,000 (equivalent to NT\$19,689 thousand) in May 2017; Increased capital by US\$450,000 (equivalent to NT\$13,686 thousand) in July 2017 and increased capital by US\$150,000 (equivalent to NT\$4,506 thousand) in September 2017.

(Note5) To develop the market of The USA, the Group invested MPI America Inc. via the Group's subsidiary, MPA TRADING CORP increased capital by US\$600,000 (equivalent to NT\$18,174 thousand) in May 2017; Increased capital by US\$450,000 (equivalent to NT\$13,686 thousand) in July 2017 and increased capital by US\$150,000 (equivalent to NT\$4,506 thousand) in September 2017. The Investment been approved by Commission on MOEA had the investment approved document.

(Note6) The motion for liquidation of LEDA-ONE (Shenzhen) Co. submitted by the Company and approved by the directors' meeting on September 5, 2014. The Company was liquidated and Written off in May 2017 and remit the surplus investment US\$155,857.58 (equivalent to NT\$4,677 thousand). The Investment been approved by Commission on MOEA had

the investment approved document.

(Note7) To develop the market of China, the Group through MMI HOLDING CO., LTD invested MPI (Suzhou) CORPORATION US\$2,000,000 (NT\$60,180 thousand) holding 100% of shares. The Investment been approved by Commission on MOEA had the investment approved document.

These subsidiary's financial statements were audited by CPA. the period of these subsidiary's financial statements were the same with parent company and their profit and loss were recognized according to the proportion of shares held.

The financial statements 2017 and 2016 of said subsidiary, MEGTAS CO., LTD., were audited by other external auditors commissioned by it, instead of the Company's external auditors. The investment (losses) recognized according to the financial statements audited by other external auditors and based on the shareholdings were NT\$5,250 thousand and (NT\$3,663) thousand.

The financial statements 2017 of said subsidiary, MPI AMERICA INC. were audited by other external auditors commissioned by it, instead of the Company's external auditors. The investment (losses) recognized according to the financial statements audited by other external auditors and based on the shareholdings were (NT\$43,217) thousand.

- C. Subsidiaries not included into the consolidated financial statements: N/A.
- D. Different adjustment and treatment by subsidiaries in the accounting period: N/A.
- E. Nature and scope of the important restrictions on enterprise's acquisition or use of the group's assets and solvency: N/A.
- F. Subsidiaries over which the Group holds important non-controlling equity: N/A.

(4) Foreign currency

A. Foreign currency transactions

The foreign currency exchange shall be stated at the functional currency translated at the exchange rate prevailing on the date of transaction. The monetary items denominated in the foreign currency on the reporting date shall be stated at the functional currency translated at the exchange rate on the same day. The exchange gain or loss refers to the difference between the amounts upon adjustment of the valid interest, payment on the same period based on the amortized cost denominated in the functional currency, the amount translated from the amortized cost denominated in foreign currency at the exchange rate on the reporting date. The non-monetary items at fair value denominated in foreign currency shall be stated at the functional currency re-translated at the exchange rate prevailing on the same date of fair value measurement, while the non-monetary items at historical cost denominated in foreign currency shall be stated at the functional currency translated at the exchange rate on the date of transaction. Other than the foreign currency exchange difference generated from the translation of available-for-sale financial assets, financial liabilities designated as net investment hedge for foreign operations or qualified cash flow hedging, which shall be stated as other

comprehensive income, any difference shall be stated as income.

B. Foreign operations

Assets and liabilities of foreign operations, including the goodwill and fair value adjustment generated at the time of acquisition, shall be translated into functional currency at the exchange rate prevailing on the reporting date. Unless in the case of inflation, the income and expense & loss items shall be translated into functional currency at the average exchange rate in the current period, and the exchange difference generated therefore shall be stated as other comprehensive income.

When disposition of foreign operations results in loss of control, common control or any material effect, the accumulated exchange difference related to the foreign operations shall be reclassified into income in whole. If the disposition involves any subsidiary of the foreign operations, the relevant accumulated exchange difference shall be reclassified into the non-controlling interests on a pro rata basis. If the disposition involves any affiliate or joint venture of the foreign operations, the relevant accumulated exchange difference shall be reclassified into income on a pro rata basis.

If no repayment program is defined with respect to receivable or payable items of foreign operations denominated in currency and it is impossible to repay the same in the foreseeable future, the foreign currency exchange gain or loss generated therefore shall be held a part of the net investment in the foreign operations and stated as other comprehensive income.

(5) Current and non-current assets and liabilities

Assets which meet one of the following conditions shall be classified into current assets, and any assets other than the current assets shall be classified into noncurrent assets:

- A. Assets expected to be realized, or intent to be sold or consumed, in the Company's normal operating cycle.
- B. Assets primarily held for the purpose of trading.
- C. Assets expected to be realized within 12 months after the date of the balance sheet.
- D. Cash or cash equivalent, exclusive of the assets to be used for an exchange or to settle a liability, or otherwise remain restricted at more than 12 months after the date of the balance sheet.

Liabilities which meet one of the following conditions shall be classified into current liabilities, and any liabilities other than the current liabilities shall be classified into noncurrent liabilities:

- A. Liabilities expected to be repaid in the Company's normal operating cycle.
- B. Assets primarily held for the purpose of trading.
- C. Assets expected to be discharged within 12 months after the date of the balance sheet.
- D. Liabilities of which the Company does not have an unconditional right to defer



settlement for at least 12 months after the date of the balance sheet. Terms of a liability that could, at the option of the counterpart, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash and cash equivalent

Cash or cash equivalent include cash on hand, demand deposits, and short-term, highly liquid time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The bank time deposits to initially expire within one year are intended to satisfy the short-term cash commitment instead of investment or others, which may be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value and, therefore, are stated as cash or cash equivalent.

(7) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a part to the financial instrument contract.

A. Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, and loans and accounts receivable.

(a) Financial instruments at fair value through profit or loss

Such assets mean the financial assets held for trading or designated to be measured at fair value through profit or loss.

The financial assets held for trading are acquired or incurred principally for the purpose of sale in the near term or repurchase. Financial assets other than those held for trading are measured at fair value through profit and loss if they meet any of the following conditions:

The performance of financial assets is evaluated based on fair value.

Financial instrument with embedded derivatives.

Such financial assets are measured at fair value at the time of initial recognition. The relevant transaction costs shall be stated as income when they are incurred. The following measurement shall be based on fair value, and then the gain or loss generated therefore should be measured (including the relevant stock dividend revenue and interest revenue) and recognized as income and stated as non-operating revenue and expenses. The purchase or disposal of financial instruments in customary transactions shall be subject to accounting on the date of transaction.

If the financial assets are the equity investments without public market price and the fair value of which cannot be reliably measured, they should be measured at the cost less the impairment loss and stated as "financial asset measured at cost".

(b) Account receivables

Accounts receivables refer to financial assets without a public market price available but with fixed or determinable payments, including accounts receivable and other receivables. The loans and accounts receivable shall be initially evaluated based on fair value, plus the directly attributable transaction cost. The subsequent measurement shall be based on the amortized cost using effective interest method less impairment, unless the recognition of the interest on short-term accounts receivable is insignificant.

(c) Impairment on financial assets

The impairment on any financial assets other than financial assets at fair value through profit or loss shall be evaluated on each reporting date. If there is any objective evidence showing that the future cash flow of the financial assets is impaired due to a single or multiple events occurring after the initial recognition of the financial assets, the financial assets should be deemed impaired.

The objective evidence about impairment on financial assets include obvious financial problems confronting the issuer or debtor, breach (e.g. overdue or non-performance of interest or principal payment), the debtor likely to wind up or proceed with other financial reorganizations, and the active market of financial assets extinguishing due to financial difficulty.

For some accounts receivable was held unimpaired upon individual evaluation, the impairment should be evaluated on a combined basis again. The combined objective evidence for accounts receivable might include the Company's past experience in collection, the increase in overdue payment, and observable national or regional economic changes related to the defaulted accounts receivable.

The recognized impairment loss on the financial assets measured at cost is the difference in the book value of financial assets and the present value after the projected cash flow is discounted at the rate of return on the similar asset market. The impairment loss cannot be reversed subsequently.

The impairment loss on financial assets should be deducted from the book value of financial assets, provided that the book value of accounts receivable is adjusted through allowance accounts. If the accounts receivable were held uncollectible, they should have been written off against the allowance accounts. The accounts initially written off but collected afterwards were credited into the allowance evaluation accounts. The changes in book value of allowance evaluation accounts were stated as income.

(d) Derecognition of financial assets

The Group will derecognize financial assets only when the contractual rights

toward the cash flow of the assets are terminated or the financial assets are transferred and the risk and return over the ownership of the assets are transferred to another enterprise.

B. Financial liabilities and equity instruments

(a) Classification of liabilities or equity

The obligation and equity instruments issued by the Company are classified into financial liabilities or equities according to definitions of the financial liabilities and equity instruments referred to in an agreement.

The equity instruments mean any contracts signifying the residual equity of the Group's assets less its liabilities. The equity instruments issued by the Group should be recognized based on the payment of acquisition less the direct issuing cost.

The compound financial instruments issued by the Group reflect that the holders own the convertible corporate bonds which may be converted into capital stock. The quantity of issued shares will remain unchanged, irrelevant with the change in fair value, if any.

The amount of elements of the compound financial instrument liability recognized initially excludes the measurement on fair value of similar liability of the equity conversion option. The amount of elements of equity recognized initially is measured based on the price difference between fair value of the entire compound financial instrument and fair value of elements of liability. Any directly attributable trading cost shall be amortized to the elements of liability and equity on a pro rata basis subject to the book value of initial liability and equity.

Upon the initial recognition, the elements of compound financial instrument liability is measured based on the cost amortized under effective interest method. It is unnecessary to re-measure the elements of equity of compound financial instruments upon the initial recognition.

The interest and loss or gain related to financial liabilities should be recognized as income and stated into non-operating revenue and expenses.

The financial liabilities shall be re-classified into equity at the time of conversion, and no income is generated from the conversion.

(b) Financial instruments at fair value through profit or loss

Such liabilities mean the financial liabilities held for trading or designated to be measured at fair value through profit or loss.

The financial liabilities held for trading are acquired or incurred principally for the purpose of sale or repurchase in the near term or repurchase. Financial liabilities other than those held for trading are measured at fair value through profit and loss if they meet any of the following conditions:

The performance of financial liabilities is evaluated based on fair value.

Financial instrument with embedded derivatives.

Such financial liabilities are measured at fair value at the time of initial recognition. The relevant transaction costs shall be stated as income when they are incurred. The following measurement shall be based on fair value, and then the gain or loss generated therefore should be measured (including the relevant interest expenses) and recognized as income and stated as non-operating revenue and expenses.

(c) Other financial liabilities

When recognizing the financial liabilities other than those held for trading and not designated to be measured at fair value through profit or loss (including short-term and long-term loans, accounts payable and other payables ) initially, such liabilities shall be evaluated based on fair value, plus the directly attributable transaction cost. The following measurement shall be based on the cost after amortization under the effective interest rate method, unless the recognition of interest on short-term loan and accounts payable is of no importance. The interest expenses on asset costs, which are not capitalized, should be stated as "financial cost" under the non-operating revenue and expenses.

(d) Derecognition of financial liabilities

The Group will derecognize financial liabilities upon performance, cancellation or expiration of contractual obligations.

(e) Offset of financial assets and liabilities

Financial assets and financial liabilities may be offset against each other and reported in the balance sheet in net amount only when the Group is entitled to the right to offset exercisable under laws and intends to settle in net amount, or assets are realized and liabilities are repaid at the same time.

(8) Inventory

The inventories shall be stated at the lower of cost and net realizable present value. The cost should include the costs of acquisition, production or processing or others incurred when the inventory is sellable or producible and at the location where the inventory is sellable or producible, and calculated under weighted average method. The costs of inventories for finished goods and work in process include the manufacturing expenses amortized based on the normal productivity on a pro rata basis.

Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs under the normal operation.

(9) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than

through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell and stop arranging the depreciation.

(10) Investment in affiliates

An affiliate means an entity in which the Group has major influence over the financial and operating policies but has no control over the same. The Group will be assumed having major influence when it holds 20%~50% of the voting right in the investee.

Under the equity method, the investment is stated at cost at time of acquisition initially. The investment includes trading cost. The book value of investment in affiliates includes the goodwill identified at the time of initial investment less any accumulated impairment loss.

The consolidated financial statements shall include the income from the invested affiliates recognized subject to the shareholdings and other comprehensive income upon adjustment made in line with the Group's accounting policy, from the date when the Group has major influence until the date when the Group loses the major influence.

The unrealized gains from transactions between the Group and affiliates have been derecognized from the Group's equity in the investees. The unrealized loss shall be derecognized in the same manner applicable to unrealized gains; provided that the unrealized loss is limited to that arises under no impairment evidence is available.

When the Group's share of loss from any affiliate to be recognized on a pro rata basis is equivalent to or more than its equity in the affiliate, it shall stop recognizing the loss, but shall recognize the additional loss and relevant liabilities only when legal obligation or constructive obligation is incurred or the Group makes payment on behalf of the investee.

Where the Group forfeits its material influence over an affiliate when the Group disposes of the affiliate, the capital surplus related to the affiliate will be stated as income, provided that where it still has material influence over the affiliate, the capital surplus shall be stated as income based on the proportion of disposition.

(11) Property, plant and equipment

A. Recognition and measurement

Property, plant and equipment shall be recognized and measured using a cost model, and measured at the cost less accumulated depreciation and accumulated impairment. The costs include the expenses directly attributable to the acquisition of assets. The costs of self-built assets include the costs of raw materials and direct labor, any other costs directly attributable to usable status of investment assets, costs of dismantling and removal of the items and recovery of premises, and loan cost that meets the requisite asset capitalization. Meanwhile, the costs also include the purchase of property, plant and equipment denominated in foreign currency.

When property, plant and equipment consist of various components, and the total

cost for the item is significant and it is advisable to apply different depreciation ratio or methods, the property, plant and equipment should be treated separately (for major components).

The gain or loss on disposal of property, plant and equipment shall be decided based on the price difference between the book value of property, plant and equipment and proceeds on disposal of the same and recognized as the “other gains and losses” in the income statement on a net basis.

B. After cost

If the future economic effect expected to be generated from the after expenses of property, plant and equipment is very likely to flow into the Group and the amount thereof may be measured, the expenses shall be stated as a part of the book value and the relocated book value should be derecognized. The routine maintenance and repairs of property, plant and equipment shall be stated as income when incurred.

C. Depreciation

The depreciation shall be calculated at the cost of assets less residual value using the straight-line method over the estimated useful years, and evaluated based on the various major components of the assets. If the useful years for any component are different from those of other components, the component shall be depreciated separately. The depreciation shall be stated as income.

No depreciation of land is required.

The estimated useful years in the current period and comparative period are stated as follows:

Item	Useful years
House and building	
Plant and dormitory	20-50
Clean room	20
Electrical and mechanical facilities	20
Others	10-20
Machine & equipment	5-13
Transportation equipment	4-6
Furniture and fixtures	3-10
Research equipment	2-13
Other equipments	3-9
Leased assets	5

D. Depreciation, useful years and residual value shall be reviewed at the end of each fiscal year. If the expected value is different from the previous estimate, adjustment should be made if necessary, and the changes shall be treated as changes in accounting estimates.

(12) Lease

- A. None of the Company's lease terms and conditions has transferred the risk and return attached to the title of assets to the lessee. All of the leases are classified as operating leases. The income from lease shall be stated as income based on the straight line method within the related lease period. The lease payment shall be stated as expenses based on the straight line method within the related lease period. The contingent rent under operating lease shall be stated as expenses when it is incurred.
- B. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(13) Intangible assets

A. Goodwill

Where the acquisition cost of identifiable net assets acquired upon merger, if any, is more than the fair value of the assets, the excess shall be stated as goodwill. Goodwill shall be measured at cost less accumulated impairment.

For the investment under equity method, the face value of goodwill is included into that of the investment. Meanwhile, the impairment loss on such investment is not allocated to goodwill or any assets, but a part of the book value of the investment under equity method.

B. Software

Software is amortized over 2~5years on a straight-line basis.

C. Internally generated intangible assets—research and development expenditures

(a) Research expenditures are recognised as an expense as incurred.

(b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:

- Ⓐ It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Ⓑ An entity intends to complete the intangible asset and use or sell it;
- Ⓒ An entity has the ability to use or sell the intangible asset;
- Ⓓ It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Ⓔ Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; And
- Ⓕ The expenditure attributable to the intangible asset during its development can be reliably measured.

(14) Impairment on non-financial assets

- A. The Group will estimate the recoverable amount of the assets which show signs of impairment on the balance sheet date, and impairment loss would be recognized if the recoverable amount falls below the asset's face value. The recoverable amount

means the higher of fair value of one asset less its disposition cost, or its useful value. Impairment loss recognized in previous years on assets other than goodwill may be reversed if the basis of impairment no longer existed or is reduced. Notwithstanding, the increase in book value of the asset resulting from the reversal must not exceed the face value of the asset less depreciation or amortization without impairment.

- B. The recoverable amount of goodwill, intangible assets with indefinite useful years and intangible assets not available for use shall be estimated periodically. Impairment loss would be recognized if the recoverable amount falls below the face value. The impairment loss on goodwill shall not be reversed in following years.
- C. Goodwill shall be amortized to cash generation unit for the purpose of testing impairment. The amortization is identified by operations to amortize goodwill into cash generation unit or cash generation unit group expected to benefit from the merger of businesses generating the goodwill.

(15) Reserve for liabilities

The reserve for liabilities shall be recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Group's reserve for liabilities for warranty shall be recognized when the goods or services are sold. The reserve for liabilities shall be measured under weighted method based on the historical warranty information and potential results subject to the relevant possibility.

(16) Treasury stock

The issued stock recalled by the Group is stated based on the consideration paid for repurchase (including direct vested cost), recognized as "treasury stock" at the net after tax and presented as a deduction from equity. Where the gain on disposal of treasury stock is higher than the book value, the difference shall be credited under the title "additional paid-in capital-transaction of treasury stock". Where the gain is lower than the book value, the difference is offset against the additional paid-in capital generated from the transactions of treasury stock under the same type. Any deficits thereof shall be debited as retained earnings. The book value thereof is calculated based on the weighted average method according to the type of stock (common stock or special shares) and causes for the withdrawal.

Cancellation of treasury stock shall be credited under the title "treasury stock", and debited as "additional paid-in capital-stock premium" and "capital stock". Where the book value of treasury stock is higher than the total of the book value and stock premium, the balance is offset against the additional paid-in capital generated from the transactions of treasury stock under the same type. Any deficits thereof shall be debited



as retained earnings. Where the book value of treasury stock is lower than the total of the book value and stock premium, the difference should be credited as the additional paid-in capital generated from the transactions of treasury stock under the same type.

(17) Recognition of revenue

A. Sale of products

The revenue generated from sale of goods in normal activities is stated at the fair value of received or receivable consideration after taking the sale returns, sales discount and quantity discount into consideration. The revenue shall be recognized when there is persuasive evidence (normally an executed sale agreement), major risk and return over the ownership are transferred to the buyer, it is very likely to collect the payment, the related cost and possible sale return may be estimated reliably, participation in management of products is discontinued and revenue may be measured reliably. If a discount is likely to be incurred and the amount thereof may be measured reliably, it shall be stated as deduction from revenue when the sale is recognized.

The timing of transfer of risk and return shall be subject to the individual provisions in the sale agreement.

B. Labor service

The revenue generated from provision of labor services shall be recognized based on the progress in completion of the transaction on the reporting date.

C. Revenue from commission

When the Group acts as agent instead of principal in a transaction, the revenue are stated based on the net commission as collected.

D. Rent revenue

The income from sublease of the real property shall be stated as "rent revenue" under non-operating revenue and expenditure.

E. Dividend revenue

When the Group is entitled to collect dividends, the related dividend revenue shall be recognized.

(18) Cost of borrowing

- A. Loans shall be measured based on the fair value less trading cost at the time of initial recognition. The subsequent measurement of any difference between the price (less trading cost) and redemption value shall be stated at the amortized cost under effective interest method within the borrowing period.
- B. When it is very likely to withdraw the expenses paid for setting the borrowing limit, in part or in whole, the expenses shall be stated as the trading cost for the loan, deferred and stated as effective interest adjustment when the loan is drawn down. When it is not likely to withdraw the expenses, in part or in whole, the expenses shall be stated as prepayment and amortized within the period related to the limit.

(19) Government subsidies

The government subsidies shall be stated at fair value when it is reasonable to ensure that an enterprise will comply with the conditions incident to the government subsidies and the subsidies may be received affirmatively. If the government subsidies, in nature, are intended to compensate the expenses incurred by the Group, the government subsidies shall be stated as the current income on a systematic basis when the related expenses are incurred.

(20) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at non-discounted amount expected to be paid, and stated as expenses when the relevant services are provided.

B. Pension

(a) Defined contribution plan

Under the defined contribution plan, every contribution made to the pension fund is recognized as pension cost in the period occurred using the accrual basis. The prepaid contribution may be stated as assets, insofar as it may be refunded in cash or the future payment is reduced.

(b) Defined benefit plan

Ⓐ The net obligation under the defined benefit pension plan is converted to the present value based on the future benefit earned from the services provided by the employees under various benefit plans in the current period or in the past, and the present value of defined benefit obligations on the balance sheet date less the fair value of the planned assets. An actuary using the Projected Unit Credit Method estimates defined benefit obligations each year. The discount rate shall be based on the market yield rate of corporate bonds of high credit standing that have the same currency exposure and maturity date as the obligations on the balance sheet date, but the market yield rate of government bonds (on the balance sheet date) shall apply in the country where no market of corporate bonds of high credit standing is available.

Ⓑ The re-measurement generated from the defined benefit plan is stated as other comprehensive income in the period when it is incurred, and presented in the retained earnings.

Ⓒ The expenses related to the service cost in the previous period shall be recognized as income immediately.

Ⓓ The interim pension cost applied the pension cost ratio decided upon actuation at the end of the previous fiscal year, and was calculated from the beginning of year until the end of the current period. In the case of material changes in market and material reduction, repayment or other

important event at the end, it shall be adjusted and related information shall be disclosed pursuant to said policies.

C. Resignation benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the 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 will not state the benefits as expenses until the offer of benefits cannot be withdrawn or the related reorganization cost is stated, whichever earlier. It is not expected that benefits falling due more than 12 months after balance sheet date are discounted to their present value.

D. Remuneration to employee and directors/supervisors

The remuneration to employees and directors/supervisors shall be recognized as expenses and liabilities only when legal or constructive obligation is constituted and the value thereof may be estimated reasonably. Subsequently, if the actual distributed amount resolved is different from the estimate, the difference shall be treated as a change in accounting estimate.

(21) Employees' share-based payment

The transaction is share-based payment for settlement of equity. The share-based payment agreement shall measure the labor services provided by employees based on the fair value of the equity instruments granted on the date of granting, which shall be recognized as the remuneration cost during the vested period, and the equity shall be adjusted relatively.

The fair value of equity instruments shall reflect the effect produced by the vested conditions and non-vested conditions of market value. The recognized remuneration cost is adjusted based on the quantity of remuneration expected to meet service conditions and non-market value vested conditions, until the amount recognized ultimately is measured based on the vested quantity on the vested date.

(22) Income tax

A. The income tax expenses consist of current income tax and deferred income tax.

The income tax shall be stated as income other than the income tax related to the titles stated into other comprehensive incomes or into equity directly, which shall be stated into other comprehensive income or into equities directly.

B. The Group calculates the income tax related to the current period based on the statutory tax rate or tax rate substantially enacted in the countries where the Company is operating and generating taxable income on the balance sheet date. The management shall evaluate the status of income tax return within the statutory period defined by the related income tax laws, and shall be responsible for the income tax expected to be paid to the tax collection authority. Undistributed

earnings, if any, shall be levied 10% income tax. 10% income tax expenses for undistributed earnings will be stated in the year next to the year when the earnings are generated, upon approval of the motion for allocation of earnings at a shareholders' meeting.

- C. Deferred tax is stated based on the temporary differences between taxation basis for assets and liabilities and the face value thereof on the consolidated balance sheet using the balance sheet method. The deferred income tax liabilities resulting from the initial recognition of goodwill shall not be recognized. The deferred income tax resulting from the initial recognition of assets or liabilities in a transaction (exclusive of business merger) shall not be recognized; insofar as the accounting profit or taxable income (taxable loss) is not affected by the transaction. Taxable temporary difference generated from investment in subsidiaries and affiliates, of which the time of reverse is controllable by the Group and which is not likely to be reversed in the foreseeable future, shall not be recognized. The deferred income tax assets and liabilities are measured at the tax rate in the current period of which the assets are expected to be realized or liabilities to be repaid. The tax rate shall be based on the tax rate and tax laws already legislated or substantially legislated at the end of the reporting period.
- D. Deferred income tax assets shall be recognized, insofar as temporary difference is very likely to credit against future taxable income, and deferred income tax assets which are recognized and unrecognized shall be re-evaluated on each balance sheet date.
- E. Current income tax assets and liabilities are offset and the net amount is 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. Unused tax credits derived from purchase of equipment or technology, R&D expenditure and equity investment can be added to deductible temporary differences and recognized as deferred tax assets, to the extent that the Company is likely to earn taxable income to offset against.
- G. The average effective tax rate used to estimate the interim income tax expenses shall apply to the interim income before tax, and the relevant information shall be disclosed pursuant to said policies.

(23) Business combination

- A. The Group adopts the acquisition method to proceed with business combination.

The consideration for combination is calculated at the fair value of the assets to be transferred or liabilities to be derived or borne and the equity instruments to be issued. The consideration for the transfer includes the fair value of any assets and liabilities generated from the contingent consideration agreement. The cost related to acquisition is stated as expense when it is incurred. The identifiable assets and liabilities acquired from the business combination shall be measured at the fair value on the day of acquisition. Based on individual acquisition transaction, the elements of non-controlling equity which refer to the current ownership, of which the holder is entitled to the business's net assets on a pro rata basis at the time of liquidation may choose to measure the fair value based on the fair value on the date of acquisition or subject to proportion of non-controlling equity in the acquired identifiable net assets. The other elements of non-controlling equity shall be measured at the fair value on the date of acquisition.

- B. Goodwill arises when the transfer consideration, non-controlling equity of the acquiree, and the total fair value of the acquiree's equity already held exceeds the fair value of identifiable assets and liabilities. The price difference shall be stated as income on the date of acquisition if the fair value of identifiable assets and liabilities as acquired exceeds the transfer consideration, non-controlling equity of the acquiree, and the total fair value of the acquiree's equity already held.

(24) EPS

The Group will enumerate the basic and diluted EPS vested in the Company's common stock holders. The Group's EPS is calculated based on the income vested in the Company's common stock holders dividing by the number of shares of the weighted average outstanding common stock. The diluted EPS is calculated upon adjustment of the effect of all potential diluted common stocks based on the income vested in the common stock holders and the number of shares of the weighted average outstanding common stock. The Group's potential diluted common stock includes the stock options granted to employees.

(25) Information by department

The Group consists of various members including the operations engaged in operating activities likely to earn revenue and incur expense (including the revenue and expense from the transactions with the other members within the Group). The operating results of all operations are rechecked by the Group's operating decision maker periodically for making of the decision to allocate resources to each operation and evaluation of each operation's performance. Each operation's financial information is independent from that of the others.

5. Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty

The accounting estimations made by the Group were based on the reasonable expectation toward future events subject to current circumstances on the balance sheet date; nevertheless, the actual results might be different from the estimations. The estimations and hypotheses about the risk over material adjustment of book value of assets and liabilities in next fiscal year please see the following notes:

(1) Allowance for bad debt of receivable accounts

The Group evaluates and estimates the collectible receivable accounts and allowance for bad debt according to the loan quality and collection of debt from customers and based on the past experience in collecting bad debt. If some event or change resulting in failure to collect the debt shows, it is necessary to estimate the allowance for bad debt. If the projected collected cash is different from the estimation, the difference will affect the book value of receivable accounts and bad debt expenses in the year in which the estimation is changed. Until December 31, 2017, the book value of receivable accounts has been NT\$955,375 thousand (exclusive of the allowance for bad debt, NT\$13,081 thousand).

(2) Evaluation of inventory

The inventories shall be stated at the lower of cost and net realizable present value. Therefore, the Group has to decide the net realizable present value of the inventory on the balance sheet date based on judgment and estimation. Due to the rapid transformation of technology, the Group evaluates the value of inventories after excluding the torn and worn, out-of-fashion or unmarketable ones on the balance sheet date, and offset the cost of inventories against net realizable value. Until December 31, 2017, the book value of the Group's inventories has been NT\$2,274,469 thousand (exclusive of the allowance for inventory devaluation and obsolescence loss, NT\$245,313 thousand).

(3) Realizability of deferred income tax assets

Deferred income tax assets shall be recognized only when it is very likely that there will be sufficient taxable income afford to deduct temporary difference. To evaluate the realizability of deferred income tax assets, the management has to exert judgment and estimation, including the hypotheses about expectation toward growth and profit rate of future sale revenue, applicable income tax credit and taxation planning. The transformation of global economic environments and industrial environments and changes in laws and regulations, if any, might result in material adjustment on deferred income tax assets. Until December 31, 2017, the deferred income tax assets recognized by the Group have been NT\$72,726 thousand.

(4) Recognition of revenue

In principle, sale revenue is recognized at the time the earning process. The related reserve for liabilities is provided based on the estimated after-sale warranty cost

potentially incurred due to historical experience and other known causes, and stated as the sale cost in the period in which the product is sold. The reasonableness of estimation is also reviewed periodically. Until December 31, 2017, the reserve for liabilities recognized by the Group have been NT\$3,210 thousand.

(5) Calculation of net defined benefit liability

In the calculation of the determined welfare obligation, the Group must make use of judgment and estimate to determine relevant actuarial assumption on the balance sheet date, including the discount rate and growth of future salary. Any changes in the actuarial hypotheses might affect the value of the Group's defined benefit obligation materially. As of December 31, 2017, the book value of accrual pension liabilities of the Group amounted to NT\$35,257 thousand.

(6) Goodwill impairment evaluation

The impairment on goodwill is evaluated by the Group to its sole discretion, including identifying the cash-generating units and amortizing assets, liabilities and goodwill into the related cash-generating units, and deciding the recoverable amount of related cash-generating units. For the evaluation on goodwill impairment, please refer to Note 6(7). The Group recognized goodwill impairment at NT\$45,533 thousand in 2017. As of December 31, 2017, the book value of the Group's goodwill amounted to NT\$0 thousand.

6. **Notes to Major Accounting Titles**

(1) **Cash and cash equivalents**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash:		
Cash on hand	\$ 4,363	\$ 3,955
Bank deposit:		
Check deposit	10	10
Demand deposit	625,881	708,090
Time deposit	26,575	37,172
Total	<u>\$ 656,829</u>	<u>\$ 749,227</u>

The bank deposits provided by the Group as collateral have been re-stated as other current assets. Please see Note 8.

(2) **Note receivables, net**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Receivable notes	\$ 6,995	\$ 18,001
Less: Allowance for bad debt	-	-
Receivable notes, net	<u>\$ 6,995</u>	<u>\$ 18,001</u>

The Group's receivable notes were issued for business and never been provided as collateral.

(3) **Accounts receivable, net**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Receivable accounts	\$ 956,974	\$ 783,479

Less: Allowance for bad debt	(9,352)	(9,459)
Receivable accounts, net	<u>\$ 947,622</u>	<u>\$ 774,020</u>
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Receivable accounts-related party	\$ 758	\$ 37,060
Less: Allowance for bad debt	-	(447)
Receivable accounts-related party, net	<u>\$ 758</u>	<u>\$ 36,613</u>
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Receivable on demand (stated as other non-current assets)	\$ 3,729	\$ 2,951
Less: Allowance for bad debt	(3,729)	(2,951)
Receivable on demand, net	<u>\$ -</u>	<u>\$ -</u>

A. The Group's receivable accounts were incurred for business and never been provided as collateral.

B. For the information about the changes of bad debt provided for the impairment on receivable accounts and account age analysis on loans (for the disclosure of credit risk, please see Note 12(2)):

	<b>Impairment loss evaluated by group</b>	<b>Impairment loss evaluated individually</b>	<b>Total</b>
January 1, 2017	\$ 12,708	\$ 149	\$ 12,857
Impairment loss provided in the current period	676	(22)	654
Impairment loss reversed in the current period	-	-	-
Accounts written off and uncollected in the current period	(322)	(60)	(382)
Foreign exchange rate effect	(48)	-	(48)
December 31, 2017	<u>\$ 13,014</u>	<u>\$ 67</u>	<u>\$ 13,081</u>
January 1, 2016	\$ 17,982	\$ 60	\$ 18,042
Impairment loss provided in the current period	1,637	89	1,726
Impairment loss reversed in the current period	-	-	-
Accounts written off and uncollected in the current period	(6,462)	-	(6,462)
Foreign exchange rate effect	(449)	-	(449)
December 31, 2016	<u>\$ 12,708</u>	<u>\$ 149</u>	<u>\$ 12,857</u>

C. Account age analysis on loans is stated as follows:

	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Total</b>	<b>Impairment</b>	<b>Total</b>	<b>Impairment</b>
Undue	\$ 851,942	\$ -	\$ 747,358	\$ -
Overdue for 1~90 days	105,909	7,414	70,117	4,908
Overdue for 91~180 days	2,997	449	12,465	1,870
Overdue for 181~360 days	1,802	450	4,685	1,171
Overdue for 1~2 years	2,077	1,039	3,915	1,957
Overdue for more than 2 years	3,729	3,729	2,951	2,951
Total	<u>\$ 968,456</u>	<u>\$ 13,081</u>	<u>\$ 841,491</u>	<u>\$ 12,857</u>



**(4) Inventories**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Raw material	\$ 428,647	\$ 345,398
Supplies	119,794	76,234
Work in progress	384,103	338,417
Semi-finished goods	319,612	280,973
Finished goods	1,197,903	1,067,543
Commodity	60,950	55,182
Materials and supplies in transit	8,773	10,316
Less: Allowance for inventory devaluation and obsolescence losses	(245,313)	(219,377)
Inventory, net	<u>\$ 2,274,469</u>	<u>\$ 1,954,686</u>

## A. Expenses and losses related to inventory recognized in the current period:

	<u>2017</u>	<u>2016</u>
Cost of sold inventory	\$ 2,640,387	\$ 2,615,728
Allowance for inventory devaluation and obsolescence losses (revaluation gains)	35,019	(763)
Inventory retirement loss	12	13,445
Other operating cost - employee remuneration	8,064	33,376
Estimated maintenance and warranty cost	5,061	3,283
Sale cost, net	<u>\$ 2,688,543</u>	<u>\$ 2,665,069</u>

B. Before December 31, 2017 and December 31, 2016, the Group's inventories have never been provided as collaterals.

**(5) Investments accounted for using equity method (Include Re-stated as Non-current assets held for sale)**

The Investment under equity method by the Group on the reporting date is stated as follows:

<u>Investee</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	<u>Book value</u>	<u>Book value</u>
<b>Affiliates:</b>		
Mjc Microelectronics (Shanghai) Co., Ltd.	\$ 29,999	\$ 30,155
MMK (Kunshan)	-	62,706
Lumitek Co.,LTD	-	3,360
Total	<u>\$ 29,999</u>	<u>\$ 96,221</u>
<b>Re-stated as Non-current assets (or disposal groups) held for sale</b>		
MMK (Kunshan)	<u>\$ 71,302</u>	<u>\$ -</u>

## A. Changes in investment under equity method:

	<u>2017</u>	<u>2016</u>
Balance, beginning	\$ 96,221	\$ 112,301
Cash dividend	(554)	(13,192)
Investment income (loss) recognized under equity method	9,782	4,341
Exchange difference arising from translation of the financial statement of foreign operations	(1,063)	(7,526)
Realized (unrealized) income from downstream transactions with affiliates	276	176
Loss (gain) on disposal of equity -method investments- Lumitek Corporation	15,557	-
Proceeds from disposal of investments - Lumitek Corporation	(18,918)	-
Transfer to Non-current assets (or disposal groups) held for sale - MMK (Kunshan)	(71,302)	-
Other	-	121

Balance, ending	\$ 29,999	\$ 96,221
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B. The information about affiliates important to the consolidated companies is stated as following:

Name of Affiliate	Nature of relationship with consolidated company	Principal business place/country where the company is registered	Proportion of ownership and voting right		Measurement method
			December 31, 2017	December 31, 2016	
Mjc Microelectronics (Shanghai) Co., Ltd.	Primarily engaged in selling semi-conductor testing probe cards, under the strategic alliance for development of the market in territories of Mainland China by consolidated companies.	Mainland China	40%	40%	Equity method
MMK (Kunshan)	Primarily engaged in selling semi-conductor testing probe cards, under the strategic alliance for development of the market in territories of Mainland China by consolidated companies.	Mainland China	40%	40%	Equity method
Lumitek Co.,LTD	To dismiss in Feb.28,2015 (liquidated in August 8, 2017)	Taiwan	-	20.15%	Equity method

C. Book value and share of operating result of the affiliates not important to the Group individually

The financial information about the Group's affiliates under equity method not important the Company individually is summarized as following. Said financial information refers to the figures included into the Group's consolidated financial statements:

	December 31, 2017	December 31, 2016
Summarized total book value of the equity of individual unimportant affiliates	\$ 29,999	\$ 96,221
	<b>2017</b>	<b>2016</b>
Shares attributed to the Group:		
Net profit (net loss) of continuing department	\$ 9,782	\$ 4,341
Income after tax of discontinued department	-	-
Other consolidated income/loss	-	-
Total comprehensive income	\$ 9,782	\$ 4,341

D. As of December 31, 2017, the financial statements of investments accounted for using equity method were consolidated and measure based on their financial statements audited by the auditors for the same years.

For the year of 2016, apart from Lumitek Co., LTD. that has already applied for dissolution and is under the liquidation process (the Group has recognized the share

of affiliated enterprise with the equity methods according to the invested Group's non-CPA audited financial statements, and the Group's management believes that no major adjustment will be made to the said statements even after a CPA audit), the Group has recognized invested companies' shares of investment gains and losses with the equity methods according to their financial statements audited by CPA.

- E. As of December 31, 2017 and December 31, 2016, the Investments accounted for using equity method were not pledged as collateral.
- F. Company management board has on December 28, 2017 voted on a resolution to sell the entire shareholdings of the affiliated enterprise – MJC Microelectronics (Kunshan) Co., Ltd. of the group's subsidiary MMI Holding Co., Ltd to Japanese MJC Corporation (MJC is the parent firm of MJC Microelectronics (Kunshan) Co., Ltd.), and the two parties agree to set the total shareholding transfer transaction to the sum of RMB18,000 thousand (at approximately NT\$81,927 thousand, when calculated at the exchange rate of 4.5515 on Dec. 31, 2017), and planned to complete the liquidation proceedings in the next 12 months. The group has reclassified its investment held in MJC Microelectronics (Kunshan) Co., Ltd.'s book value amount totaling NT\$71,302 thousand to under the non-liquid asset item on its combined balance sheet as of Dec. 31, 2017.

**(6) Property, plant and equipment**

- A. The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

	Land	Buildings	Machinery	Transportation	Office equipment	Research equipment	Other equipment	Leased assets	construction in progress	Total
<b>Cost:</b>										
At January 1, 2017	\$ 763,767	\$ 1,403,676	\$ 1,097,608	\$ 2,600	\$ 82,625	\$ 583,521	\$ 51,982	\$ 83,485	\$ 42,836	\$ 4,112,100
Acquisition through	-	-	-	-	-	-	-	-	-	-
Additions	7,196	30,004	162,543	-	21,064	51,610	1,420	-	84,183	358,020
Disposals	-	-	(38,315)	-	(26,735)	(67,116)	(3,119)	(1,460)	-	(136,745)
Reclassifications	-	76,989	183,030	-	1,276	199,225	-	-	(69,448)	391,072
effect of movements in	-	(567)	(5,312)	(27)	(94)	23	12	(878)	-	(6,843)
At December 31, 2017	\$ 770,963	\$ 1,510,102	\$ 1,399,554	\$ 2,573	\$ 78,136	\$ 767,263	\$ 50,295	\$ 81,147	\$ 57,571	\$ 4,717,604
<b>Cost:</b>										
At January 1, 2016	\$ 763,767	\$ 1,294,595	\$ 1,024,363	\$ 4,189	\$ 94,639	\$ 559,075	\$ 51,336	\$ -	\$ 52,107	\$ 3,844,071
Acquisition through	-	-	-	-	-	-	-	-	-	-
Additions	-	20,908	76,903	-	9,933	12,484	7,972	86,900	81,671	296,771.00
Disposals	-	-	(40,290)	(1,374)	(22,366)	(19,461)	(5,003)	-	-	(88,494)
Reclassifications	-	91,387	78,025	-	536	31,402	120	-	(91,387)	110,083.00
effect of movements in	-	(3,214)	(41,393)	(215)	(117)	21	(2,443)	(3,415)	445	(50,331)
At December 31, 2016	\$ 763,767	\$ 1,403,676	\$ 1,097,608	\$ 2,600	\$ 82,625	\$ 583,521	\$ 51,982	\$ 83,485	\$ 42,836	\$ 4,112,100
<b>Accumulated depreciation</b>										
At January 1, 2017	\$ -	\$ 247,350	\$ 470,078	\$ 1,517	\$ 50,072	\$ 332,061	\$ 23,304	\$ 16,697	\$ -	\$ 1,141,079
Acquisition through	-	-	-	-	-	-	-	-	-	-
Additions	-	55,035	215,921	647	17,742	100,708	10,859	16,511	-	417,423
Disposals	-	-	(36,235)	-	(26,697)	(67,116)	(2,974)	(486)	-	(133,508)
Reclassifications	-	-	-	-	-	-	-	-	-	-
effect of movements in	-	(164)	(1,934)	(20)	77	23	143	(263)	-	(2,138)
At December 31, 2017	\$ -	\$ 302,221	\$ 647,830	\$ 2,144	\$ 41,194	\$ 365,676	\$ 31,332	\$ 32,459	\$ -	\$ 1,422,856
<b>Accumulated depreciation</b>										
At January 1, 2016	\$ -	\$ 202,323	\$ 331,938	\$ 1,617	\$ 53,737	\$ 273,007	\$ 18,480	\$ -	\$ -	\$ 881,102
Acquisition through	-	-	-	-	-	-	-	-	-	-
Additions	-	46,122	189,913	732	18,764	78,526	10,499	17,380	-	361,936
Disposals	-	-	(40,290)	(732)	(22,338)	(19,458)	(5,003)	-	-	(87,821)
Reclassifications	-	-	(105)	-	-	-	-	-	-	(105)
effect of movements in	-	(1,095)	(11,378)	(100)	(91)	(14)	(672)	(683)	-	(14,033)
At December 31, 2016	\$ -	\$ 247,350	\$ 470,078	\$ 1,517	\$ 50,072	\$ 332,061	\$ 23,304	\$ 16,697	\$ -	\$ 1,141,079
<b>Book value</b>										
At December 31, 2017	\$ 770,963	\$ 1,207,881	\$ 751,724	\$ 429	\$ 36,942	\$ 401,587	\$ 18,963	\$ 48,688	\$ 57,571	\$ 3,294,748
At December 31, 2016	\$ 763,767	\$ 1,156,326	\$ 627,530	\$ 1,083	\$ 32,553	\$ 251,460	\$ 28,678	\$ 66,788	\$ 42,836	\$ 2,971,021

- B. The Group in September 2014 to non-related party purchased pre - sale housing, the sale of a total of RMB 4,320 thousand (equivalent to NT\$21,988 thousand). And settled transfer in October 2016.
- C. The Group to non-related party purchased pre-sale housing in 2015, the sale of a total of RMB 1,642 thousand (equivalent to NT\$8,202 thousand). And settled transfer in May 2017.
- D. The Company purchased from the non-related party the land at Tai Ho Section, Zhubei City in August 2017. The total contract amount including necessary trading cost was NT\$7,196 thousand. The transfer registration was completed on October 3, 2017. Factory premises would be built on the land.

E. About Leased assets as follows :

(a) Leased assets, net :

	2017	2016
Cose		
Machinery	\$ 82,025	\$ 86,900
Less : Accumulated depreciation	(32,722)	(17,380)
effect of movements in exchange rate	(615)	(2,732)
Leased assets, Net.	<u>\$ 48,688</u>	<u>\$ 66,788</u>

(b) The content of capital were summarized as follows :

- Ⓐ The group has in January 2016 signed a leasing contract with a non-stakeholder for a five-year production equipment server contract, and the two parties collectively agree to collaborate by means of professional task-sharing to achieve the integrated operating yield, where the group is to lease/purchase the servers in response to its production capacity requirements, and the two parties consent to set the leasing period to span from January 1, 2016 to December 31, 2020.
- Ⓑ Prior to the leasing expiry, the two parties shall negotiate and finalize the servers' final transfer price, provided the two parties collectively agree that the initial transfer price is not to fall below RMB366 thousand, and which effective September 1, 2017 has been amended to not lower than RMB360 thousand, where the group completing remitting the negotiated payment as the tradeoff for purchasing the leased servers, the servers' ownership would be transferred to the ownership of the group.
- Ⓒ The group has in August 2017 returned 6 units of the leased assets, where initially each server's monthly lease is at RMB366 thousand (including the VAT), and the two parties have entered into an agreement to revamp to, effective September 1, 2017, each server's monthly lease at RMB360 thousand (including the VAT), and the reset remains the same as the initial contract.

(c) Future payments for Payables on leased were as follows :

	Total	Financing Expenses	Present Value
Current			
Up to 1 years	\$ 16,868	\$ 639	\$ 16,229
Non-current			
1 to 5 years	33,737	1,278	32,459
<b>Total</b>	<b>\$ 50,605</b>	<b>\$ 1,917</b>	<b>\$ 48,688</b>

E. The collateralized land and building for loans amounted please see note 8 for details.

F. Total capitalized interest see note 6 (17) B for details.

### (7) Intangible assets

The details about changes in the cost, amortization and impairment loss of intangible assets in 2017 and 2016 were stated as follows:

	Goodwill	Computer software	Total
<b>January~December 2017</b>			
<b>January 1, 2017</b>	\$ -	\$ 35,923	\$ 35,923
Addition	-	29,714	29,714
Reclassification	-	(109)	(109)
Amortization expenses	-	(24,097)	(24,097)
Impairment	-	-	-
Exchange difference, net	-	(7)	(7)
<b>December 31, 2017</b>	<b>\$ -</b>	<b>\$41,424</b>	<b>\$41,424</b>
<b>January~December 2016</b>			
<b>January 1, 2016</b>	\$ 45,533	\$ 35,934	\$ 81,467
Addition	-	22,966	22,966
Reclassification	-	-	-
Amortization expenses	-	(22,944)	(22,944)
Impairment	(45,533)	-	(45,533)
Exchange difference, net	-	(33)	(33)
<b>December 31, 2016</b>	<b>\$ -</b>	<b>\$ 35,923</b>	<b>\$ 35,923</b>

	Goodwill	
	December 31, 2017	December 31, 2016
Cost	\$ 45,533	\$ 45,533
Accumulated impairment	(45,533)	(45,533)
Net book value	\$ -	\$ -

#### A. Recognized amortization and impairment

The amortization expenses for intangible assets and other deferred expenses (stated as other noncurrent assets) 2017 and 2016 were stated as the following items in the comprehensive income statement:

	2017	2016
Operating cost	\$ 26,650	\$ 23,647
Operating expense	32,615	33,514
<b>Total amortization expenses</b>	<b>\$ 59,265</b>	<b>\$ 57,161</b>

## B. R&D expenditure

In FY2017 and FY2016, the R&D spending deriving from intangible assets internally developed amounted to NT\$803,458 thousand and NT\$848,616 thousand, respectively, recognized under the title of “Operating expenses –R&D expenses” in the comprehensive income statement.

## C. Acquisition of subsidiaries

Allstron Corp is the specialty manufacturer of high frequency wafer foundry measuring probing. We are able to improve the product production because using Allstron Corp patented technology by taking over Allstron Corp. In addition, we expect to increase the market share for the semi-conductor products and testing equipment that we have gained the customers through the acquired company. Therefore, we highly expect cost down by economic scale.

The Company started on January 1, 2014 as the acquisition date.

The consideration for the business combination and the fair values of identifiable assets and liabilities accounted for on acquisition date were as follows:

- (a) Transfer pricing : \$50,000 thousand.
- (b) Fair values of identifiable net assets acquired on acquisition date: NT\$ 4,467 thousand.
- (c) Goodwill

Transfer pricing	\$	50,000
Less : Fair value of net assets		(4,467)
Goodwill	<u>\$</u>	<u>45,533</u>

The goodwill of acquisition Allstron Corp mainly comes from Allstron Corp's measurement application of product line in electronics industry. For example, the measurement of RFM skills uses the wide spacing probe in order to accord the changeful demands of the market and also the value of employer. Furthermore, transfer the consideration relationship includes the expect of business to business semiconductor manufacturing and integrate the testing equipment to produce combined synergy, the growth of income and the future development.

The goodwill resulted from the merger of Allstron Corp. The Transfer pricing is determined through the income approach by an independent appraisal company.

Income approach is the five-year cash flow of Allstron Corp. and based on the discount rate used to calculate the asset recoverable.

### (d) Goodwill Impairment Charges

Upon the discussion of the management and report to the Board of Directors on March 24 of 2017, the Group has, according to the forecasted cash flow of Allstron Probing Solution, recognized the difference between the investment cost of the original investment day and the net equity value in the goodwill

impairment loss with a value of NT\$45,533 thousand for the year of 2016.

(e) Goodwill Impairment Test

For the purpose of impairment test, goodwill acquired from amalgamation already amortized to cash generating units. The goodwill in account books is as follows:

	<u>Cash Generating Unit - Allstron</u>	
	<u>December 31,</u>	<u>December 31,</u>
	<u>2016</u>	<u>2015</u>
Goodwill	<u>\$ -</u>	<u>\$ 45,533</u>

Cash Generating Unit - Allstron

As Allstron has been evaluated as an independent cash generating unit at the end of December, 2016, its recoverable amount shall be decided according to its use value. Allstron's recoverable amount was measured according to its forecasted cash flow (in a five-year financial forecast approved by the management) applied with a discount rate; the forecasted growth of the sixth-year cash flow is zero and the demand for an increase of net working capital is zero. The cash flow forecast is already updated to reflect changes to the needs for relevant products; discount rate adopted for the cash flow forecast is based on the pre-tax value. The management already, according to the analysis results, recognized goodwill impairment loss with a value of NT\$45,533 thousand at the end of 2016.

Key Assumptions Used to Calculate Cash Generating Unit's Recoverable Amount

- Ⓐ The forecast of cash flow is based on the past experience, past performance and the five-year business plan with regard to the market development. The management believes that the forecast period, which is from 2017 to 2021, is reasonable.
- Ⓑ The first-year revenue in the business plan is forecasted according to the past experience. Besides, the growth rate of forecasted annual revenue from 2018 to 2021 is based on the prediction of market performance. The management believes that such forecast is reasonable.
- Ⓒ The gross margin in the business plan is forecasted based on the past experience and the management believes that such forecast is reasonable.
- Ⓓ The purpose of applying a discount rate is to interpret risks to be taken over and required necessary returns for the future operation or use.

Values of these key assumptions represent the management's evaluation on Allstron's future trend and are based on both of external and internal information (historical information).

**(8) Other non-current assets**



	<u>December 31, 2017</u>	<u>December 31, 2016</u>
prepayments for equipment	\$ 95,842	\$ 326,688
Refundable deposit	25,000	22,937
Deferred Charges	80,984	84,029
Total	<u>\$ 201,826</u>	<u>\$ 433,654</u>

The costs of Deferred Charges, amortization, and the impairment loss of the Group as of and for the ended of December 31, 2017 and 2016 were as follows:

	<u>Deferred Charges</u>		<u>Deferred Charges</u>	
<b>January 1, 2017</b>	<b>\$</b>	<b>84,029</b>	<b>January 1, 2016</b>	<b>\$</b> 108,312
Addition		32,518	Addition	13,092
Reclassification		-	Reclassification	-
Amortization expenses		(35,168)	Amortization expenses	(34,217)
Impairment		-	Impairment	-
Exchange difference, net		(395)	Exchange difference, net	(3,158)
<b>December 31, 2017</b>	<b>\$</b>	<b>80,984</b>	<b>December 31, 2016</b>	<b>\$</b> 84,029

**(9) Short-term loan**

Nature of loan	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	Amount	Interest rate	Amount	Interest rate
Credit loan	\$ 210,000	0.87% ~0.895%	\$ 184,052	0.92% ~4.44%
Mortgage loan	960,000	0.89% ~0.895%	200,000	1.00%
Total	<u>\$ 1,170,000</u>		<u>\$ 384,052</u>	

A. For the information about exposure of the Group's interest rate and liquidity risks, please refer to Note 12(2).

B. Collateral for bank loan.

For bank loans secured by the Group's assets, please see Note 8.

**(10) Other payable accounts**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Payable expenses	\$ 460,896	\$ 503,750
Payable employees' remuneration	9,673	61,960
Short-term employee benefits	—	53,632
Others (all less than 5%)	26,076	21,012
Total	<u>\$ 496,645</u>	<u>\$ 640,354</u>

**(11) Reserve for liabilities**

	<u>Warranty</u>		<u>Warranty</u>	
<b>Balance, January 1, 2017</b>	<b>\$</b>	<b>2,595</b>	<b>Balance, January 1, 2016</b>	<b>\$</b> 1,240
Increase (decrease)		615	Increase (decrease)	1,355
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>3,210</b>	<b>Balance, December 31, 2016</b>	<b>\$</b> 2,595
Current	\$	3,210	Current	\$ 2,595
Non-current		-	Non-current	-
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>3,210</b>	<b>Balance, December 31, 2016</b>	<b>\$</b> 2,595

The Group's reserve for warranty and liabilities in 2017 and 2016 was primarily related to the sale of semi-conductor production process and testing equipments. The reserve for

warranty and liabilities was estimated based on the historical warranty information. The Group expects that the liabilities would be mostly incurred in the following year of the sale.

**(12) Corporate bonds-payable**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total amount of 3rd domestic unsecured convertible corporate bond	\$ 700,000	\$ 700,000
Less: Conversion amount	(126,000)	(99,300)
Less : Convertible corporate bonds repayment due	(574,000)	-
Less: Corporate bond discount	-	(10,053)
Corporate bond payable, net	<u>\$ -</u>	<u>\$ 590,647</u>
Current	\$ -	\$ 590,647
Non-current	-	-
Total	<u>\$ -</u>	<u>\$ 590,647</u>
Embedded financial derivatives - financial liabilities (assets)	\$ -	\$ (60)
Elements of equity	<u>\$ -</u>	<u>\$ 28,261</u>

A. In order to purchase factory premises and machine & equipment and repayment of bank loan, the Company issued 3rd domestic unsecured convertible corporate bonds upon resolution of the board of directors on October 16, 2014, and upon approval of FSC via its approval letter under Ching-Kuan-Chen-Fa-Tze No. 1030042656 dated November 4, 2014. The issuance conditions are stated as following:

- (a) Total issued amount: NT\$700 million
- (b) Duration: 3 years (November 18, 2014~November 18, 2017)
- (c) Coupon rate: 0%
- (d) Duration: The day following expiration of one month after the date of issuance (December 19, 2014) until the expiry date (November 18, 2017).
- (e) Conversion price and adjustment thereof:
  - Ⓐ The conversion price at the time of issuance shall be NT\$100 per share.
  - Ⓑ In the case of changes in shares of common stock (e.g. capital increase in cash, recapitalization of earnings and recapitalization from capital surplus, et al.); the conversion price shall be adjusted relatively.
  - Ⓒ The Company's board of directors resolved on August 7, 2015 to authorize the Chairman to issue 3rd domestic unsecured convertible corporate bonds. According to Article 11 of the Company's Regulations Governing Issuance and Conversion of 3rd Domestic Unsecured Convertible Corporate Bonds, where the cash dividend of common stock to the market price per share is more than 1.5%, the conversion price shall be cut based on the cash dividend to the market price per share on the ex-dividend date. Upon verification, as of September 13, 2015, the Company's 3rd domestic unsecured convertible corporate bonds shall be

adjusted as NT\$93.4 per share.

- Ⓓ The Company's board of directors resolved on July 11, 2016 to authorize the Chairman to issue 3rd domestic unsecured convertible corporate bonds. According to Article 11 of the Company's Regulations Governing Issuance and Conversion of 3rd Domestic Unsecured Convertible Corporate Bonds, where the cash dividend of common stock to the market price per share is more than 1.5%, the conversion price shall be cut based on the cash dividend to the market price per share on the ex-dividend date. Upon verification, as of August 26, 2016, the Company's 3rd domestic unsecured convertible corporate bonds shall be adjusted as NT\$90.2 per share.
- Ⓔ The Company's board of directors resolved on August 11, 2017 to authorize the Chairman to issue 3rd domestic unsecured convertible corporate bonds. According to Article 11 of the Company's Regulations Governing Issuance and Conversion of 3rd Domestic Unsecured Convertible Corporate Bonds, where the cash dividend of common stock to the market price per share is more than 1.5%, the conversion price shall be cut based on the cash dividend to the market price per share on the ex-dividend date. Upon verification, as of September 15, 2017, the Company's 3rd domestic unsecured convertible corporate bonds shall be adjusted as NT\$85.6 per share.
- (f) Bondholders' put option: The bondholders may exercise the put option of the bonds earlier on the record date for exercise of put option, namely, November 18, 2016, upon expiration of two years after issuance of the bonds. The bondholders may ask the Company to redeem the bonds at 100% of the book value thereof in cash within 40 days prior to the record date for exercise of put option.
- (g) The Company's right of redemption:
  - Ⓐ From the date following expiration of one month upon offering of the bonds (December 19, 2014) until 40 days prior to expiration of the duration (October 9, 2017), if the closing price of the Company's common shares at Taipei Exchange exceeds the current conversion price by more than 30% for 30 consecutive business days, the Company may exercise the call option to repurchase the bonds from the bondholders at the book value thereof in cash.
  - Ⓑ From the date following expiration of one month upon offering of the bonds (December 19, 2014) until 40 days prior to expiration of the duration (October 9, 2017), if the balance of the outstanding bonds is less than 10% of the initial total issue price, the Company may exercise the

call option to repurchase the bonds from the bondholders at the book value thereof in cash.

- (h) Date and method of repayment of principal: Except those converted to the Company's common stock by the bondholders according to the Regulations, or those redeemed upon exercise of the put option, or those redeemed by the Company earlier pursuant to the Regulations, or those repurchased by the Company from securities firms for cancellation, the others would be repaid in cash in full amount upon maturity.
- B. As of the expiry (November 18, 2017), the cumulative local third unsecured, convertible corporate bonds' par value requesting for conversion is at NT\$126,000 thousand, with the issued shares at 1,289 thousand shares, and which also generates a capital reserve – converting the corporate bonds' conversion premium at NT\$113,265 thousand. The over-the-counter trading also ceases, effective from the following business day of the expiry (November 20, 2017), with the par value of the convertible corporate bonds tallied at NT\$574,000 thousand at expiry, in addition to bondholders with converting right not requesting for the conversion to be invalidated, the initially classified “capital reserve – shareholding pledging” balance at NT\$27,005 thousand is reclassified as “capital reserve – invalidated shareholding pledging” item.
- C. The Company analyzed the 3rd domestic unsecured convertible corporate bonds according to IFRS No.7 and identified the bonds as the compound financial instruments. Therefore, the Company separated the conversion option from liabilities and stated it into equity and liability respectively. The information about convertible corporate bonds in the financial statements is stated as following:

	<b>November 18, 2014</b>
	<b>(Issuing date)</b>
Total issuing amount of convertible corporate bond	\$ 700,000
Cost of convertible corporate bond	(5,203)
Elements of equity at the time of issuance - conversion option	(32,933)
Embedded financial derivatives at the time of issuance	(980)
Corporate bond payable, net on the issuing date	<u>\$ 660,884</u>

The elements of equity were stated into capital surplus-stock option at the time of issuance. At the time of issuance, the fair value of embedded non-equity derivative was re-evaluated at the end of 2016, which was stated into the "financial asset (liability) held for trading". The "gain (loss) from financial assets and liabilities at fair value through profit or loss" was NT\$(55) thousand and NT\$1,742 thousand in 2017 and 2016.

The effective interest rate for the 3rd domestic unsecured convertible corporate bonds was 1.9183%. The interest expenses of convertible corporate bond recognized in 2017 and 2016 were NT\$9,787 thousand and NT\$11,214 thousand.

### **(13) Long-term Loans**

Lender	Nature	Amount	Period	December 31, 2017
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 600,000	2017.11.28~2020.11.28	\$ 558,055
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 201,100	2015.09.30~2020.09.30	201,000
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 163,000	2009.03.02~2022.03.02	39,641
Less: Long-term Loans payable-current portion				(225,787)
Long-term Loans, net				\$ 572,909
Interest rates for long-term loans				1.28 %~1.445%

Lender	Nature	Amount	Period	December 31, 2016
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 201,100	2015.09.30~2020.09.30	\$ 201,100
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 163,000	2009.03.02~2022.03.02	48,868
Less: Long-term Loans payable-current portion				(9,328)
Long-term Loans, net				\$ 240,640
Interest rates for long-term loans				1.28 %~1.32%

1. For the information about exposure of the Group's interest rate and liquidity risks, please refer to Note 12(2).
2. Collateral for bank loan.

For bank loans secured by the Group's assets, please see Note 8.

#### **(14) Pension Benefits**

##### **A. Defined benefit plan**

- (a) The Company and its domestic subsidiaries have instituted regulations for the defined pension plan under the "Labor Standards Law" applicable to the years of services of employees before July 1, 2005, which is the day that the new "Labor Pension Act" came into full force, and the following years of services of employees who choose to continue applying the Labor Standard Law upon enforcement of the Labor Pension Act. Employees who meet the retirement requirements will be paid the pension based on their years of service and average salary or wage of the last six (6) months prior to retirement. Two units are accrued for each year of service for the first 15 years and one unit is accrued for each additional year thereafter, up to a maximum of 45 units. The Company and its domestic subsidiaries contribute 2% of the total salaries of the employees to the special pension fund account with Bank of Taiwan supervised by the Employee Pension Fund Reserve Supervisory Committee. Until the end of December 2017, the balance of the pension funds contributed

to the special pension fund account at Bank of Taiwan was \$60,772 thousand.

(b) The amount recognized in the balance sheet is stated as following:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Present value of defined benefit obligation	\$ 96,029	\$ 85,151
Fair value of planned assets	(60,772)	(56,080)
Net defined benefit liability	<u>\$ 35,257</u>	<u>\$ 29,071</u>

(c) Changes in the present value of defined benefit obligation:

	<u>2017</u>	<u>2016</u>
Present value of defined benefit obligation, January 1	\$ 85,151	\$ 77,509
Service cost in current period	5,164	5,165
Interest cost	1,448	1,395
Actuarial loss/gain		
Actuarial loss (gain) from changes of financial hypotheses	2,245	1,413
Empirical adjustment	2,021	(331)
Present value of defined benefit obligation, December 31	<u>\$ 96,029</u>	<u>\$ 85,151</u>

(d) Changes in fair value of planned assets:

	<u>2017</u>	<u>2016</u>
Fair value of planned assets, January 1	\$ 56,080	\$ 51,495
Interest revenue	988	962
Return (loss) on remuneration of planned assets	(432)	(582)
Contribution by employer	4,136	4,205
Benefit payment-from planned assets	-	-
Fair value of planned assets, December 31	<u>\$ 60,772</u>	<u>\$ 56,080</u>

(e) Total expenses recognized in comprehensive income statement:

	<u>2017</u>	<u>2016</u>
Service cost in current period	\$ 5,164	\$ 5,165
Interest cost of defined benefit obligation	1,448	1,395
Interest revenue from planned assets	(988)	(962)
Defined benefit cost stated into income	<u>\$ 5,624</u>	<u>\$ 5,598</u>

(f) The Bank of Taiwan was commissioned to manage the Fund of the Company's and its domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and Article 6 of the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (The scope of utilization 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 utilization 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. Any deficits thereof shall be made up by the national treasury upon approval of the competent authority. As the Company was not entitled to participate in operation and management of the Fund, it was impossible for the Company to disclose the classification of fair

value of the planned assets in accordance with Paragraph 142 of Article 19 of IAS. For the fair value of the total assets under the Fund on December 31, 2017 and 2016, please see the labor pension fund utilization report published by the government each year.

- (g) Actuarial hypotheses about pension are summarized as following: (expressed under weighted average method)

	<u>2017</u>	<u>2016</u>
Discount rate	1.55%	1.70%
Future salary and benefit level	2.25%~2.75%	2.25%~2.75%

Until December 31, 2017, the weighted average duration of the pension plan has been 16~19 years.

- (h) Analysis of sensitivity

In the calculation of the determined welfare obligation, the Group must make use of judgment and estimate to determine relevant actuarial assumption on the reporting date, including the discount rate and update of future salary. Any changes in the actuarial hypotheses might materially affect the value of the Group's defined benefit obligation materially.

- (i) The variance in the estimation of the Group's discount rate and future salary level increase rate from the management will affect the book value of pension benefit obligation in the following manners:

	<u>Discount rate</u>		<u>Future raise rate</u>	
	<u>Increase by 0.25%</u>	<u>Decrease by 0.25%</u>	<u>Increase by 1.00%</u>	<u>Decrease by 1.00%</u>
December 31, 2017				
Effect on defined benefit obligation %	(3.67%) ~ (3.89%)	3.84% ~4.08%	16.15% ~17.40%	(13.83%) ~ (14.60%)
Amount of effect on defined benefit obligation	\$ (3,708)	\$ 3,888	\$ 16,554	\$ (13,925)
December 31, 2016				
Effect on defined benefit obligation %	(3.85%) ~ (4.12%)	4.02% ~4.33%	17.00% ~18.62%	(14.45%) ~ (15.48%)
Amount of effect on defined benefit obligation	\$ (3,481)	\$ 3,655	\$ 15,690	\$ (13,076)

Said analysis of sensitivity refers to the analysis of the effect produced by any change of single hypothesis under the circumstance that the other hypotheses remain unchanged. In practice, a lot of changes in hypotheses might be linked with each other. The analysis of sensitivity adopted the same method used for calculation of net pension liability on the balance sheet.

The methods and hypotheses used by the analysis of sensitivity prepared in the current period are identical with those used in the previous period

- (j) The Group is expected to contribute NT\$4,080 thousand to the Plan in the reporting period of next year.

#### B. Defined contribution plans

- (a) As of July 1, 2005, the Group instituted the defined contribution retirement plan according to the "Labor Pension Act", applicable to the native employees. The Group shall contribute the amount equivalent to 6% of the monthly salary of respective native employees to the individual pension accounts of the employees at Labor Insurance Bureau, with respect to the labor pension system under the "Labor Pension Act" chosen by employees. Retired employees may claim for pension disbursement in accordance with the status of their individual accounts and the cumulative contribution in the account through monthly payment or in lump sum.
- (b) Foreign subsidiaries shall contribute specific ratio of the local employees' total salary, on a monthly basis, as the pension or fund of endowment insurance according to the local government regulations. The pension of each employee shall be arranged and managed by government. Except that the subsidiaries shall be obligated to contribute the fund on a monthly basis, the subsidiaries shall bear no other obligations.
- (c) The pension expenses recognized under the Group's defined contributed pension regulations were NT\$58,726 thousand and NT\$57,355 thousand in 2017 and 2016.

**(15) EQUITY**

A. The Company's outstanding common stock at beginning and ending is reconciled as follows:

	<b>2017</b>	<b>2016</b>
Balance, January 1	79,605,392	79,005,392
Transfer of treasury stock to employees	-	600,000
Corporate bond conversion	295,996	-
Balance, December 31	79,901,388	79,605,392

B. Capital surplus

- (a) Pursuant to the R.O.C. Company Law amended in January 2012, capital surplus shall be first used to offset a deficit and then new shares or cash may be allocated based on realized capital surplus subject to shareholdings. Realized capital surplus referred to in the preceding paragraph included the surplus generated from donations and the excess of the issuance price over the par value of capital stock. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the capital surplus may be transferred to common stock up to an annual limit of 10% of the paid-in capital.
- (b) The balance of the Company's capital surplus:

<b>December 31, 2017</b>	<b>December 31, 2016</b>
------------------------------	------------------------------

May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note1)



Common stock premium	\$ 210,163	\$ 210,163
Convertible corporate bond conversion premium	593,941	569,216
Treasury stock trading	58,236	58,236
<u>May be used to offset a deficit only (Note2)</u>		
Donation from shareholders	1	1
Invalidated employee shareholding pledging	27,005	-
<u>Such capital surplus may not be used for any purpose</u>		
Others-issuance of new shares due to acquisition of shares of another company	19,858	19,858
Stock option (Elements of equity of convertible corporate bonds)	-	28,261
Total	<u>\$ 909,204</u>	<u>\$ 885,735</u>

(Note1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.

(Note2) Such type of capital reserve pertains to bequeathing to the accepting shareholders without cash inflow or reclassification of invalidated employee shareholding pledging.

Ⓐ The company issued the first and second Domestic unsecured convertible corporate bonds; The company recognized NT\$480,676 thousand as paid-in capital in excess of par-common stock and treasury stock transaction NT\$8,477 thousand.

Ⓑ The group issued the first and second Domestic unsecured convertible corporate bonds; The company recognized NT\$35,596 thousand as paid-in capital in excess of par-common stock.

Ⓒ The Company received the shareholders' waiver of equity and 8 shares were transferred to the Company in June 2013. According to laws, the equity acquired by the Company upon receipt of the shareholders' waiver of the same shall be held as treasury stock and stated at the fair value of the stock on the same day, credited into capital surplus-donation from shareholders, NT\$1 thousand.

Ⓓ The Company issued new shares and swapped the equity with the subsidiary, Chain-Logic International Corp. on June 15, 2002. The Company's shareholding is 100%. The difference between the investment cost and net worth of the acquired equity was NT\$19,858 thousand on the date of investment, stated as capital surplus-others.

#### C. Retained earnings

(a) According to the Company's Articles of Incorporation, if the Company has profits after final account for the concerning fiscal year, the profits shall be allocated in the following order: (1) Payment of tax. (2) Covering of loss; (3) 10% set aside as legal reserve; (4) Provision of special reserve pursuant to laws; (5) The remainder, if any, plus allocable earnings at the end of the year

may be subject to the motion for distribution of allocable earnings prepared by the board of directors and submitted to a shareholders' meeting for resolution. Where the earnings are resolved to be allocated, they shall be allocated in the following manners:

- Employee remuneration: at least 12% of the allocable earnings.
- Remuneration to directors/supervisors: no more than 3% of the allocable earnings.
- Shareholders remuneration: the remainder less the allocated amount referred to in the preceding two sub-paragraphs.

The counterparts whom the stock dividends may be allocated to shall include the employees of affiliated companies.

- (b) The shareholders' meeting resolved to amend the Company Act of Incorporation as following on June 17, 2011: For the time being, the Company's industrial development is still growing, the dividend policy requires that the board of directors shall draft the motion for allocation of earnings each year and submit the same to a shareholders' meeting for ratification, subject to the Company's present and future investment environments, funding demand, status of competition domestically/overseas and capital budget and by taking care of shareholders' interest, balanced stock dividend and the Company's long-term financial planning into consideration. The earnings will be allocated in the form of cash dividend or stock dividend, subject to the funding demand and level of dilution of EPS. The cash dividend to be allocated, if any, shall be no less than 10% of the total stock dividend.
- (c) According to the company laws amended in May 2015, employee remuneration and remuneration to directors/supervisors shall not be allocated from earnings any longer. The Company has had the amended Articles of Incorporation resolved and approved by the board of directors on June 16, 2016. Therefore, if the Company has a profit at the year's final accounting, it shall first pay profit-seeking enterprise income tax and make up any losses from past years, and then make contribution of 10% of the balance to the statutory reserve, unless the statutory reserve reaches the amount of the Company paid-in capital, and also make provision/reversal of special reserves pursuant to laws. The residual balance shall be added to undistributed earnings carried from previous years. The Board shall draft a motion for allocation of the residual balance plus the undistributed earnings, and submit the same to a shareholders' meeting to resolve whether shareholder bonus shall be allocated or the earnings shall be retained.
- (d) Legal reserve
- According to the Company Law amended in January 2012, the Company shall

contribute 10% from the income after tax as the legal reserve until it is equivalent to the gross capital. When the Company suffers no loss, new shares or cash may be allocated from the legal reserve upon resolution of the shareholders' meeting, provided that the new shares or cash allocated shall be no more than 25% of the paid-in capital.

(e) Special reserve

Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Company doesn't need to provide special reserve, pursuant to the related laws in, in December 31, 2016.

The Company provided special reserve NT\$30,177 thousand to shareholders from earnings 2016 on June 13, 2017.

(f) The Company resolved to allocate the cash dividend, NT\$334,343 thousand (NT\$4.2 per share), to shareholders from earnings 2016 on June 13, 2017.

The Company resolved to allocate the cash dividend, NT\$238,816 thousand (NT\$3 per share), to shareholders from earnings 2015 on June 16, 2016.

(g) The information about allocation of retained earning approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

(h) For the information about remuneration to employees and remuneration to directors/supervisors, please see Note 6(20)

D. Treasury stock

(a) Cause of repurchase and increase/decrease in quantity:

Cause	2017			
	Quantity, beginning	Increase in current period	Decrease in current period	Quantity, ending
For transfer of shares to employees	-	-	-	-

  

Cause	2016			
	Quantity, beginning	Increase in current period	Decrease in current period	Quantity, ending
For transfer of shares to employees	600,000	-	600,000	-

(b) According to the Securities and Exchange Act, the number of outstanding shares repurchased may not exceed ten percent of the Company's total number of issued shares. The total amount of the repurchased shares may not exceed the amount of retained earnings plus premium on capital stock and realized

capital surplus. The Company repurchased the treasury stock totaling 600,000 shares, i.e. NT\$34,454 thousand, from August to October 2015.

- (c) According to the Securities and Exchange Act, the treasury stock held by the Company shall not be pledged. Before the transfer, the treasury stock shall not be entitled to any shareholder right.
- (d) According to the Securities and Exchange Act, the shares repurchased by a company for transfer of the same to employees shall be transferred within three years from the date of repurchase. The shares not transferred within the said time limit shall be deemed as not issued by the company, and amendment registration shall be processed.
- (e) In order to recruit and retain the technical and professional talents for the Company, and encourage their long-term service, loyalty, productivity and sense of belonging to create interest for the Company and shareholders jointly, the Company established the "Third time Regulations Governing Share Repurchase and Transfer of Shares to Employees", in accordance with Article 28-2 of Securities and Exchange Act, and the Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies promulgated by FSC. The Regulations were approved upon resolution of the board of directors on March 9, 2016. The treasury stock, totaling 600,000 shares, was transferred to employees of the Company and Chain-Logic International Corp. wholly owned by the Company on the record date of stock option, namely March 9, 2016, at NT\$54.72 per share. According to the estimation under Black-Scholes evaluation model, the fair value was NT\$23.78 per share on the grant date. The Company recognized the remuneration cost, NT\$14,268 thousand (stated as salary expenses). The parameters adopted by the evaluation model are stated as following:

		<b>2016 Treasury stock</b>
		<b><u>transferred to employees</u></b>
Evaluation Model	Black-Scholes option-pricing model	
	Vesting period	March 9~14,2016
	Dividend yield rate	4.42 %
	Exercise price	\$ 57.42
	Stock price	\$ 81.20
	Expected price volatility	49.60 %
	Risk-free interest rate	0.210 %

The price difference between the transfer consideration less necessary trading cost, NT\$34,349 thousand, and capital surplus-employee stock option, NT\$14,268 thousand, and the repurchase cost, NT\$34,454 thousand, was stated into the capital

surplus-treasury stock exchange, NT\$14,163 thousand.

**(16) Share-based payment – employee compensation plan**

As of December 31, 2017, information on outstanding ESO is shown below: N/A

**(17) NON-OPERATING INCOME AND EXPENSES**

A. Other gains and losses, net

	<u>2017</u>	<u>2016</u>
Gain (loss) from disposition of property, plant and equipment	\$ (13)	\$ (191)
Gain on disposition of investment	17,427	-
Gain (debt) from financial assets at fair value through profit or loss	-	1,742
Debt (loss) from financial assets at fair value through profit or loss	(55)	-
Foreign currency exchange gain (loss), net	(25,780)	(14,344)
Loss on valuation of nonfinancial asset	-	(45,533)
Others	(331)	(3,068)
Total	<u>\$ (8,752)</u>	<u>\$ (61,394)</u>

(a) For the notes to gain on disposition of investment please refer to Note 6(5) and Note 13 (3).

(b) For the notes to loss on valuation of Investments accounted for using equity method, please refer to Note 6(7).

B. Financial cost

	<u>2017</u>	<u>2016</u>
Interest expenses		
Bank loan	\$ 9,470	\$ 10,135
Convertible corporate bond	9,787	11,214
Financial leasing interest	648	684
Subtotal	<u>19,905</u>	<u>22,033</u>
Less: capitalized interest	<u>(2,431)</u>	<u>(2,543)</u>
Total	<u>\$ 17,474</u>	<u>\$ 19,490</u>
Capitalized interest rate	<u>0.62%~1.12%</u>	<u>1.04%~1.57%</u>

**(18) Income Tax**

A. The Group's income tax expenses (gains) are specified as following:

	<u>2017</u>	<u>2016</u>
Income tax in the current period		
Generated in the current period	\$ 58,517	\$ 97,175
Overestimated (underestimated) income tax in previous year	851	292
Total income tax in the current period	<u>59,368</u>	<u>97,467</u>
Deferred income tax		
Occurrence and reversal of temporary difference	(3,805)	(6,816)
Effect of changes in tax rate	-	-
Total deferred income tax	<u>(3,805)</u>	<u>(6,816)</u>
Total	<u>\$ 55,563</u>	<u>\$ 90,651</u>

B. The Group recognized Income tax expenses in other comprehensive income are NT\$ 0 start from January to December, at 2017 and 2016.

C. The income tax expenses recognized under the title of equity are NT\$0 start from

January to December, at 2017 and 2016.

D. Relations between income tax expenses (gains) and accounting profit

	<u>2017</u>	<u>2016</u>
Net profit (loss) before tax	\$ 204,380	\$ 651,488
Income tax on net profit (loss) before tax calculated at the domestic tax rate applicable in the place where the Company is situated (17%)	\$ 34,821	\$ 110,753
Tax rate difference effect in foreign jurisdiction	17,009	20,982
Income tax effect included into the items that shall not be recognized pursuant to tax laws	5,158	(6,618)
Income tax effect on deferred income tax assets/liabilities	(3,805)	(6,816)
Changes of foreign exchange rate of deferred income tax assets/liabilities	-	-
Unrecognized deferred income tax assets	116	58
Tax-free income	-	(47,598)
Maximum foreign-tax deduction	-	-
Income tax effect on investment credit	(12,875)	(16,897)
Imposition of 10% income tax on undistributed earnings	14,178	2,636
Income tax effect under minimum tax system	110	33,859
Overestimated (underestimated) income tax in previous year	851	292
Total	<u>\$ 55,563</u>	<u>\$ 90,651</u>

E. Deferred income tax assets and liabilities

(a) Recognized deferred income tax assets and liabilities

	<u>2017</u>				
	<u>January 1</u>	<u>Recognized in income statement</u>	<u>Recognized in other comprehensive income</u>	<u>Exchange difference</u>	<u>December 31</u>
<b>Deferred income tax assets</b>					
Temporary difference					
Unrealized inventory devaluation and obsolescence losses	\$ 36,369	\$ 5,334	-	-	\$ 41,703
Unrealized net investment income (foreign)	-	7,018	-	-	7,018
Unrealized exchange loss	2,210	(470)	-	-	1,740
Unrealized warranty cost	441	105	-	-	546
Bad debt loss	7,741	-	-	-	7,741
Impairment loss	1	9	-	-	10
Unrealized gain on inter-affiliate accounts	15,980	(2,226)	-	-	13,754
Tax difference on depreciation expenses	13	-	-	-	13
Recognition of pension expenses (excess)	155	(22)	-	-	133
employee services and benefits amortized by year	-	68	-	-	68
Loss carry forwards	2,712	(2,712)	-	-	-
Total	<u>\$ 65,622</u>	<u>\$ 7,104</u>			<u>\$ 72,726</u>

<b>Deferred income tax liabilities</b>				
Temporary difference				
Unrealized exchange gain	\$ (757)	\$ 479	-	\$ (278)
Unrealized net investment income (foreign)	(6,482)	(4,052)	-	(10,534)
Recognition of pension expenses (deficit)	(4,053)	274	-	(3,779)
Total	<u>\$ (11,292)</u>	<u>\$ (3,299)</u>		<u>\$ (14,591)</u>

	2016				
	January 1	Recognized in income statement	Recognized in other comprehensive income	Exchange difference	December 31
<b>Deferred income tax assets</b>					
Temporary difference					
Unrealized inventory devaluation and obsolescence losses	\$ 38,216	\$ (1,847)	-	-	\$ 36,369
Unrealized exchange loss	276	1,934	-	-	2,210
Unrealized warranty cost	211	230	-	-	441
Bad debt loss		7,741	-	-	7,741
Impairment loss	252	(251)	-	-	1
Unrealized gain on inter-affiliate accounts	20,044	(4,064)	-	-	15,980
Tax difference on depreciation expenses	13	-	-	-	13
Recognition of pension expenses (excess)	181	(26)	-	-	155
Loss carry forwards	-	2,712	-	-	2,712
Total	<u>\$ 59,193</u>	<u>\$ 6,429</u>			<u>\$ 65,622</u>

<b>Deferred income tax liabilities</b>				
Temporary difference				
Unrealized exchange (gain)	\$ (1,219)	\$ 462	-	\$ (757)
Unrealized net investment income (foreign)	(6,144)	(338)	-	(6,482)
Recognition of pension expenses (deficit)	(4,316)	263	-	(4,053)
Total	<u>\$ (11,679)</u>	<u>\$ 387</u>		<u>\$ (11,292)</u>

(b) Unrecognized deferred income tax assets

	December 31, 2017	December 31, 2016
Loss carry forwards	\$ 84	\$ 53
Investment credit	-	-
Amount of unrecognized deferred income tax assets	<u>\$ 84</u>	<u>\$ 53</u>

According to the Income Tax Act, taxation may be made on its net income after deduction of losses incurred in the preceding ten years as verified and determined by the local collection authority-in-charge from the current income. Said items were not recognized as deferred income tax assets, because it is still uncertain whether said companies are not likely to have sufficient taxable income to cover the temporary difference.

The taxation loss which has not been recognized by the Group before December

31, 2017 shall be deducted by the following deadline:

<u>Item</u>	<u>Balance to be credited</u>	<u>Last year of credit</u>
Loss in 2011	\$ 85	2021
Loss in 2012	38	2022
Loss in 2013	24	2023
Loss in 2014	24	2024
Loss in 2015	24	2025
Loss in 2016	115	2026
Loss in 2017	184	2027
Total	<u>\$ 494</u>	

(c) Unrecognized deferred income tax liabilities

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taxable temporary difference	\$ -	\$ -
Amount of unrecognized deferred income tax liabilities	<u>\$ -</u>	<u>\$ -</u>

F. The investment credit tax on deferred income tax assets which has been recognized by the Company before December 31, 2017 shall be credited by the following deadline:

<u>Item</u>	<u>Total credit</u>	<u>Deducted amount</u>	<u>Credited balance in current period</u>	<u>Balance to be credited</u>	<u>Last year of credit</u>
R&D expenditure (projected) in 2017	\$ 86,919	\$ -	\$ 12,875	\$ -	(non-deferred)
	<u>\$ 86,919</u>	<u>\$ -</u>	<u>\$ 12,875</u>	<u>\$ -</u>	

(Note) According to the "Regulations Governing Investment Credit Applicable to a Company's R&D Expenditure" promulgated on November 8, 2010, the tax credit shall be no more than 30% of the income tax payable in the year and prohibited from being deferred until next year.

G. Authorization of income tax:

The status of authorization of the Group's tax return in the territories of Taiwan:

	<u>Year</u>
MPI Corporation	2015
Chain-Logic International Corp.	2015
WANG-TONG CORP.	2015
Allstron Corp	2015

H. Information about the Company's two-in-one tax policy:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Deductible tax account-Balance	\$ 238,268	\$ 229,656
	<u>2017 (Projected)</u>	<u>2016 (Actual)</u>
Deductible rate of earnings allocation	Note 1	15.32 %

Said information about the two-in-one tax policy refers to the amount treated according to the letter of Ministry of Finance under Tai-Tsai-Shui No. 10204562810 dated October 17, 2013.

According to Article 66-6 of the amended Income Tax Law, the tax deduction applicable to individual shareholders residing within the territories of the R.O.C.



may be discounted at 50% as of January 1, 2015 when the earnings are allocated.

Note 1 : 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 information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

- I. Information about the Company's undistributed earnings  
 Except the balance, NT\$322 thousand, before 1997, the remainder of the Company's undistributed earnings refers to those after 1998.

**(19) Earnings Per Common Share**

A. Basic EPS

The basic EPS is calculated based on the income vested in the Company's common stock holders dividing by the weighted average number of outstanding common stock.

B. Diluted EPS

The diluted EPS is calculated upon adjustment of the effect of all potential diluted common stocks based on the income vested in the common stock holders and the weighted average number of outstanding common stock.

- C. The Company's basic EPS and diluted EPS are calculated as follows:

	2017			2016		
	Amount after tax	Weighted average number of outstanding common stock (thousand shares)	EPS (NT\$)	Amount after tax	Weighted average number of outstanding common stock (thousand shares)	EPS (NT\$)
<b>Basic EPS</b>						
Net profit attributed to the Company's common stock shareholders	\$ 145,767	79,812	\$ 1.83	\$ 563,279	79,480	\$ 7.09
<b>Diluted EPS</b>						
Net profit attributed to the Company's common stock shareholders	\$ 145,767	79,812		\$ 563,279	79,480	
Effect of all potential diluted common stocks						
3rd domestic unsecured convertible corporate bond	-	-			6,660	
Employee stock option exercise adjustment	-	-		-	-	

Employee stock bonus	-	137	-	717
Net profit attributed to the Company's common stock shareholders plus effect of potential common stocks	\$ 145,767	79,949	\$ 1.83	\$ 563,279
			86,857	\$ 6.49

For the details about capital increase, please see Note 6(15).

**(20) Employee benefits, depreciation, depletion and amortization expenses are summarized as follows**

Nature	Function	2017			2016		
		Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit expense							
Salary expense (including employee remuneration)		732,343	617,851	1,350,194	805,443	753,429	1,558,872
Labor/health insurance expenses		56,293	45,302	101,595	56,972	51,539	108,511
Pension expenses		37,331	27,019	64,350	34,906	26,064	60,970
Other employee benefit expenses (Note)		70,301	25,141	95,442	76,149	25,650	101,799
Depreciation expenses		329,710	87,713	417,423	289,983	71,953	361,936
Depletion expenses		—	—	—	—	—	—
Amortization expenses		26,650	32,615	59,265	23,647	33,514	57,161

(Note) The other employee benefit expenses including meal expenses, overtime pay and workers' benefits.

- A. According to the Company's existing articles of incorporation, the Company shall allocate remuneration to employees and remuneration to directors/supervisors when allocating the earnings. For the details about capital increase, please see Note 6(15).
- B. The Company has approved the motion for amendments to the Articles of Incorporation on June 16, 2016:

Where the Company retains income before tax after the account settlement, it shall allocate 5%~15% thereof as the remuneration to employees, and not be lower than 3% thereof as the remuneration to directors/supervisors. However, profits must first be taken to offset against cumulative losses, if any. The remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph.

The allocation of remuneration to employees and directors/supervisors shall be resolved and approved by a majority of the directors present at a directors' meeting attended by more than two-thirds of the whole directors, and reported to a shareholders' meeting.

Employees' remuneration may be paid in the form of stock or in cash, and can be paid to employees of affiliated companies that satisfy certain criteria.

- C. The Company estimated the remuneration to employees was NT\$9,323 thousand

and NT\$61,660 thousand, respectively, in 2017 and 2016, and the remuneration to directors/supervisors NT\$0 and NT\$14,760 thousand. Said values were stated into salary expenses. The values were estimated based on the earnings gained until the current period (this year).

- D. The remuneration to employees and directors/supervisors 2016 resolved to be allocated at the shareholders' meeting on June 13, 2017 were NT\$61,660 thousand and NT\$14,760 thousand, respectively, identical with that recognized in the financial statement 2016, and the remuneration to employees will be paid in cash. The Board of Directors of MPI held on June 13, 2017 approved the profit sharing bonus to employees in 2016. There is no significant difference between the aforementioned approved amounts and the amounts charged against earnings of 2017.
- E. The remuneration to employees and directors/supervisors 2015 resolved to be allocated at the directors' meeting on June 16, 2016 were NT\$28,640 thousand and NT\$7,160 thousand, respectively, identical with that recognized in the financial statement 2015, and the remuneration to employees will be paid in cash. The remuneration will be paid after the amended Articles of Incorporation is resolved at the general shareholders' meeting 2016.
- F. The information about remuneration to employees and remuneration to directors/supervisors approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

## **(21) Supplemental cash flow information**

### A. Investing activities paid in cash in part only:

	<u>2017</u>	<u>2016</u>
Purchase of property, plant and equipment	\$ 750,153	\$ 406,876
Add: Payables for equipment, beginning	134,487	127,068
Add: Acquisition through business combination	66,788	-
Less: Payables for equipment, ending	(87,846)	(134,487)
Less: Acquisition through business combination	(48,688)	(66,788)
Cash paid in current period	<u>\$ 814,894</u>	<u>\$ 332,669</u>

### B. Financing activities not affecting cash flow:

	<u>2017</u>	<u>2016</u>
Conversion of corporate bond conversion into capital stock	<u>\$ 2,960</u>	<u>\$ -</u>

## **7. Transactions with related parties**

### (1) Parent company and ultimate controller

The Company is the ultimate controller of the Group.

### (2) The names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>
MICRONICS JAPAN CO.,LTD.(MJC)	MJC was a director of the Company originally, after the reorganization of the shareholders' meeting on June 13, 2017,

MJC Electronics Corporation(MEC)	which is the parent company of the affiliated enterprise currently. The Company's director – a subsidiary of MJC
MEK CO., LTD.(MEK)	The Company's director – a subsidiary of MJC
Mjc Microelectronics (Shanghai) Co., Ltd. (MMS)	Associates
MMS ELECTRONICS TECH. (SHANGHAI) CO., LTD (MET)	Associates –a subsidiary of MMS (liquidated in December 27, 2017)
MMK (Kunshan)	Associates
Lumitek Co.,LTD	Associates (liquidated in August 8, 2017)

(3) Important transactions with related parties

The balance and transaction between the Company and its subsidiaries have been derecognized from the consolidated financial statements and were not disclosed accordingly. The details about transactions between the Group and other related parties are disclosed as following:

A. Operating revenue

The Group's sales values to related parties are stated as follows:

Type	2017	2016
<b>Sale of products:</b>		
-Affiliates	\$ 34,109	\$ 58,019
-Essential related party (Director of the original Company)	266,104	356,503
<b>Sale of labor services:</b>		
-Essential related party (Director of the original Company)	26,322	97,524
Total	\$ 326,535	\$ 512,046

The price of the Group's sale to related parties was not significantly different from the Group's general selling price.

B. Purchase

The Group's purchase values to related parties are stated as follows:

Type	2017	2016
Affiliates	\$ 980	\$ 666
-Essential related party (Director of the original Company)	3,932	75,460
Total	\$ 4,912	\$ 76,126

The price of the Group's purchase from related parties was not significantly different from the Company's price of purchase from the general suppliers.

C. Receivable accounts-related parties

The Group's receivable accounts-related parties are stated as following:

<u>Title</u>	<u>Type</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Receivable accounts	Affiliates	\$ -	\$ 14,670
Receivable accounts	Essential related party Director of the original Company)	758	22,390
subtotal		758	37,060
Less: Allowance for bad debt		-	(447)
Total		<u>\$ 758</u>	<u>\$ 36,613</u>

D. Payable accounts-related parties

The Group's payable accounts-related parties are stated as following:

<u>Title</u>	<u>Type</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts payable	Affiliates	\$ -	\$ 11
Accounts payable	Essential related party(Director of the original Company)	3,673	81
Other payable accounts	Essential related party Director of the original Company)	4,875	342
Total		<u>\$ 8,548</u>	<u>\$ 434</u>

E. Exchange of property

(a) Acquisition of property, plant, and equipment

<u>Type</u>	<u>Nature</u>	<u>2017</u>	<u>2016</u>
Essential related party(Director of the original Company)	Machine & equipment	\$ -	\$ 224
Total		<u>\$ -</u>	<u>\$ 224</u>

(b)Disposition of property, plant, and equipment: N/A.

F. Financing from related party (stated as other payable accounts-related party)

The Group's loans from related parties are stated as follows:

2017: N/A

2016: N/A

G. Purchase of labor services from related parties

The Group's expenditure in labor services to related parties are stated as follows:

<u>Type</u>	<u>2017</u>	<u>2016</u>
<b>Promotion-expenditure in commission:</b>		
-Affiliates	\$ 2,307	\$ 2,770
-Essential related party (Director of the original Company)	5,103	3,978
Total	<u>\$ 7,410</u>	<u>\$ 6,748</u>

H. Others

(a) Payment on behalf of others (stated as other current assets)

<u>Related parties</u>	<u>December 31,2017</u>	<u>December 31,2016</u>
Essential related party (Director of the original Company)	\$ -	\$ 22

Payment of goods on behalf of others for triangle trade

(b) Sales revenue received in advance

Type	December 31, 2017	December 31, 2016
Affiliates	\$ -	\$ 2,413
-Essential related party (Director of the original Company)	265	611
Total	<u>\$ 265</u>	<u>\$ 3,024</u>

(c) Receipts under custody (stated as other current liabilities)

Related parties	December 31, 2017	December 31, 2016
Essential related party (Director of the original Company)-Others	<u>\$ 23,137</u>	<u>\$ 7,726</u>

Payment of goods and general receipt under custody for triangle trade.

(d) Manufacturing expenses (stated as operating cost)

Type	Nature	2017	2016
Affiliates	Processing expenses	<u>\$ 50</u>	<u>\$ 2,795</u>
Essential related party (Director of the original Company)-Others	Other expenses	<u>\$ -</u>	<u>\$ 4</u>

(e) Selling expenses

Type	Nature	2017	2016
Affiliates	Other expenses	<u>\$ 3,663</u>	<u>\$ 1,794</u>
Essential related party (Director of the original Company)-Others	Repair expenses	<u>\$ 46</u>	<u>\$ -</u>
Essential related party (Director of the original Company)-Others	Other expenses	<u>\$ -</u>	<u>\$ 964</u>

(f) Management expenses : None.

(g) Research and development expense : None.

(h) Lease

Type	2017	2016
Affiliates	<u>\$ 45</u>	<u>\$ 450</u>

The main contents of lease contract:

Objective	Lease period	Collection Term
Wenshan Rd., Xinpu Township, Hsinchu County	2014.11.01-2017.10.31	Since January 1, 2016, NT \$ 58 thousand per(excluded VAT) ; Since April 1, 2016, NT \$ 51 thousand per(excluded VAT) ; Since September 1, 2016, NT \$ 6 thousand per(excluded VAT) ; To count for actual parking space per month.

(i) Other revenue	2017	2016
Type		
-Essential related party (Director of the original Company	\$ 544	\$ 272
Affiliates	\$ 46	\$ 812

(3) Information about remuneration to the management

Information about remuneration to the Group's management is stated as follows:

	2017	2016
Salary and other short-term employee benefits	\$ 14,067	\$ 10,540
Resignation benefits	-	-
Retirement benefits	-	-
Other long-term benefits	-	-
Total	\$ 14,067	\$ 10,540

Said remuneration to the management is decided by the Remuneration Committee subject to personal performance and market trend. For the relevant information, please see the annual report of the general shareholders' meeting.

8. Pledged assets

The following assets have been provided to the Group as the collaterals for bank loans, import business tax and sale commitment. The book value thereof is stated as follows:

	December 31, 2017	December 31, 2016
Land	\$ 763,767	\$ 699,538
Building	884,374	910,837
Pledged time deposit (stated as other current assets)	3,546	9,312
Total	\$ 1,651,687	\$ 1,619,687

9. Significant contingent liability and unrecognized contractual commitment

(1) Contingency: N/A.

(2) Commitment:

A. Balance of unused letter of credit issued by the Group, guarantee money paid and service charges: N/A.

B. The Group's significant long-term rent:

(a) The Group rented the land lots in Tainan Science Park from Southern Taiwan Science Park Administration for construction of Luchu 1st Plant and 2nd Plant. According to the lease contract, the lease of the land shall persist for no more than 20 years, and the lease shall expire on December 31, 2024. Upon expiration of the lease, both parties may enter into a new contract; otherwise, the contract shall terminate naturally and the Group is prohibited from claiming the continuance of lease or irregular lease with any excuse. In the case of land price re-set by the government pursuant to laws, the rent shall be adjusted and collected based on the re-set land price.

(b) The Company rented the land at Taiho Section, Zhubei City, Hsinchu Country

from a non-related party for parking lots. The lease shall expire on May 14, 2022. The Company shall surrender the land to the lessor upon expiration of termination of the lease contract.

- (c) The Group rented the land and the construction at Zhonghe Street, Zhubei City, Hsinchu Country from a non-related party for parking lots and plants. The lease shall expire on August 31, 2018. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.
- (d) The Group rented the land and the construction at Guangfu Rd, Hukou Township, Hsinchu Country from a non-related party for parking lots and plants. The lease shall expire on September 30, 2021. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.
- (e) The Group rented the land and the construction at Wujin Hi-Tech Industrial Zone from a non-related party for business. The lease shall expire on December 15, 2019. Upon expiration of the lease, both parties may enter into a new contract; otherwise, the contract shall terminate naturally and the Group is prohibited from claiming the continuance of lease or irregular lease with any excuse.
- (f) The Group rented the land and the construction at located on the Site from a non-related party for business. The lease shall be effective from May 1, 2017 to April 30, 2022.
- (g) The group rented the construction at Jiangsu Suzhou Industrial Park from a non-related party for business. The lease shall expire on May 31, 2022. Upon expiration of the lease, the group should notify landlord whether renewal in writing six months ago at maturity.

The income expenses for said two lots of long-term operating leased land were stated as NT\$19,559 thousand and NT\$10,842 thousand in 2017 and 2016 The future payable rent for important long-term operating lease is stated as follows:

	<u>December 31, 2017</u>
Less than one year	\$ 15,417
One year to five years	41,733
More than five years	8,658
Total	<u>\$ 65,808</u>

D. The outstanding amount under the purchase orders signed for the Group's purchase of equipment is stated as following:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Purchase of property, plant and equipment	\$ 30,724	\$ 196,205

**10. Significant disaster loss: N/A.**

**11. Significant subsequent events: N/A.**

**12. Others**



(1) Fair value of financial instruments

A. Financial instruments not at fair value

The carrying amounts of the Group' (including cash and cash equivalents, accounts receivable, other receivables, Pledged time deposit ,short-term loans, notes payable, accounts payable and other payables are approximate to their fair values.

Noncurrent financial instrument (including refundable deposit, deposits received, long-term loans, term accounts payable) , The effect of discounting is minor, thus, the book value are approximate their the fair values. Fair value recognized in the consolidated balance sheet:

B. Fair value measurements recognized in the consolidated balance sheets

The Group applied the input which was observable in the market as possible as it could when measuring its assets and liabilities. The level of fair value is concluded as following based on the input used by the valuation technology:

1st level: Open quotation of the same assets or liabilities in an active market on the date when the assets or liabilities may be acquired (before adjustment). The active market means the market in which there are frequent and large volumes of transactions to provide the information about pricing on an ongoing basis.

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

3rd level: Inputs for the asset or liability that are not based on.

	<u>1st level</u>	<u>2nd level</u>	<u>3rd level</u>	<u>Total</u>
<b>December 31, 2017</b>				
<b>Financial assets</b>	-	-	-	-
<b>Financial liabilities</b>	-	-	-	-
<b>December 31, 2016</b>				
<b>Financial assets</b>				
Financial Assets held for trading - current	-	\$ 60	-	\$ 60
Convertible corporate bond	-	-	-	-
<b>Financial liabilities</b>	-	-	-	-

(a) The methods and hypotheses used by the Group to measure fair value are stated as following:

With respect to more complicate financial instruments; the Group applied the evaluation models consisting of the evaluation methods and technologies extensively employed in the same trade to measure the fair value. Such evaluation model is used to applying to the debt instruments or securitization products, including financial derivatives and embedded derivatives.

(b) There was no transfer between Level 1 and Level 2 for the measurement of fair value from January 1 to December 31, 2017 and 2016.

(c) Among the total gains (losses) stated into the income, the gains (losses) related to the financial derivatives were (NT\$55) thousand and NT\$1,742 thousand until December 31, 2017 and 2016.

(2) Financial risk management

A. Purpose

- (a) The Group's financial risk management aims to manage the market risk, credit risk and liquidity risk related to operating activities, and to identify measure and administer said risks based on policies and risk preference.
- (b) The Group has established adequate policies, procedures and internal controls pursuant to the related regulations, in order to manage said financial risk. The important financial activities shall be audited and approved by the board of directors according to the related regulations and internal control system. In the duration of financial management activities, the Group shall strictly comply with the requirements related to financial risk management defined by the Company.

B. Nature and degree of important financial risk

(a) Market risk

The Group's market risk arises from market price fluctuation resulting in fluctuation of the fair value or cash flow of financial instruments. The market risk primarily includes foreign exchange risk, interest rate risk and other pricing risks.

Practically, few single risk variances would change independently. Additionally, changes of various risk variances are generally correlative to each other. Notwithstanding, the sensitivity analysis of the following risks does not take the interaction of related risk variances into consideration.

Ⓐ Foreign exchange risk

The Group's foreign exchange risk arises primarily from the operating activities (revenue or expense denominated in the currency different from the Group's functional currency) and net investment in foreign operations. The Group's receivable accounts denominated in foreign currency are identical with payable accounts denominated in foreign currency in some currencies and, therefore, the equivalent positions would produce the hedging effect naturally. Considering that said natural hedging did not meet the hedging accounting policy, the Group did not adopt the hedging accounting policy. Further, the net investment in foreign operations was identified as strategic investment. Therefore, the Company did not adopt any hedging policy against it.

The sensitivity analysis on the Company's foreign exchange risk was primarily intended to be conducted against the titles in foreign currencies at the end of the financial reporting and the effect produced by the revaluation/devaluation of related foreign currencies on the Group's income and equity. The Group's foreign exchange risk arises primarily

from fluctuation in the foreign exchange rate of USD, Japanese Yen and Euro.

The Group's business lines involved some non-functional currencies (the functional currency of the Company and some of its subsidiaries was NTD, and that of some subsidiaries is USD, RMB or Won). Therefore, the Company would be subject to the effect produced by fluctuation in foreign exchange rate. The information about assets denominated in foreign currency exposed to significant effect produced by fluctuation in foreign exchange rate is stated as follows:

<b>December 31, 2017</b>				
	<b>Currency unit</b>	<b>Amount in foreign currency (thousand dollars)</b>	<b>Applicable foreign exchange rate, ending (Dollar)</b>	<b>Book value (NTD) (thousand dollars)</b>
<b>Financial assets</b>	NTD/USD	\$ 19,827	29.808	\$ 591,009
	NTD/JPY	\$ 7,184	0.26414	\$ 1,898
	NTD/EUR	\$ 136	35.599	\$ 4,858
	NTD/RMB	\$ 33,742	4.5338	\$152,979
	NTD/KRW	\$ 3,345	0.02812	\$ 94
	NTD/HKD	\$ 8	3.662	\$ 31
	NTD/SGD	\$ 6	22.275	\$ 133
	NTD/MYR	\$ 7	6.277	\$ 43
	NTD/THB	\$ 3	0.8091	\$ 2
	NTD/CHF	\$ 1	29.78	\$ 40
<b>Financial liabilities</b>	NTD/USD	\$ 3,273	29.83	\$ 97,632
	NTD/JPY	\$ 59,396	0.2664	\$ 15,820
	NTD/EUR	\$ 512	35.799	\$ 18,317
	NTD/RMB	\$ 3,947	4.581	\$ 18,131
	NTD/SGD	\$ 10	22.37	\$ 234
<b>December 31, 2016</b>				
	<b>Currency unit</b>	<b>Amount in foreign currency (thousand dollars)</b>	<b>Applicable foreign exchange rate, ending (Dollar)</b>	<b>Book value (NTD) (thousand dollars)</b>
<b>Financial assets</b>	NTD/USD	\$ 9,688	31.423	\$ 304,442
	NTD/JPY	\$ 5,834	0.2727	\$ 1,591
	NTD/EUR	\$ 157	33.775	\$ 5,293
	NTD/RMB	\$ 31,310	4.618	\$ 144,576
	NTD/KRW	\$ 327	0.02701	\$ 9
	NTD/HKD	\$ 4	4.1055	\$ 16
	NTD/MYR	\$ 11	6.905	\$ 70
	NTD/THB	\$ 5	0.868	\$ 4
	<b>Financial liabilities</b>	NTD/USD	\$ 3,581	31.815
NTD/JPY		\$ 16,934	0.273	\$ 4,618
NTD/EUR		\$ 344	33.775	\$ 11,619
NTD/SGD		\$ 10	22.17	\$ 211
NTD/GBP		\$ 1	39.495	\$ 52
NTD/RMB		\$ 96	4.618	\$ 443

In consideration of the Group's multiple functional currency types, the

information about exchange gain or loss for currency is disclosed by summarization. The foreign currency exchange gain (loss) (including the realized and unrealized) was (NT\$25,780) thousand and (NT\$14,344) thousand in 2017 and 2016.

Ⓑ Interest rate risk

The interest rate risk arises when the fluctuation of market interest rate results in fluctuation in fair value of financial instruments or in future cash flow. The Group's interest rate risk arises primarily from the loan with floating interest rate.

The Group maintained adequate portfolio with fixed and floating interest rates to manage the interest rate risk.

Ⓒ Pricing risk

Due to the fact that in the investment held by the Group indicated in the individual balance sheet, the Group did not hold the financial assets including equity instruments. Therefore, the Group did not suffer significant pricing risk.

Ⓓ Other risks over market value

In addition to meeting expected consumption and sale needs, the Group did not sign any product contract which did not apply net settlement.

Ⓔ Under the circumstance that all of the other factors remained unchanged, the sensitivity analysis on the changes in related risks before tax on December 31, 2017 and 2016 is stated as following:

December 31, 2017		
Primary risk	Range of change	Sensitivity of income
Foreign exchange risk risk	Fluctuation in foreign exchange rate +/- 3%	+/-18,029 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	+/- 4,933 thousand

December 31, 2016		
Primary risk	Range of change	Sensitivity of income
Foreign exchange risk risk	Fluctuation in foreign exchange rate +/- 3%	+/-10,770 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	+/- 1,585 thousand

(b) Credit risk

Ⓐ Credit risk represents the financial loss that would be incurred by the Group if its customers or financial instrument trading counterparts fail to perform the contracts.

Ⓑ According to the loan policy expressly defined internally in the Group,

each business dept. Within the Group shall conduct the management and credit risk analysis on each new customer before setting payment and proposing the delivery terms and conditions. The internal risk control evaluates customers' credit quality by taking into consideration the customers' financial position, and past experience and other factors. The individual risk limit is set by the management according to the internal or external ratings. The management will also control the periodic drawdown of credit limits. The main credit risk results from derivative financial instruments and the balance deposited in banks and financial organizations, and customers' credit risk, including the unearned accounts receivable and undertaken transactions. The Group also applied some credit enhancement instruments (e.g. advance sale receipts) in a timely manner to reduce customers' credit risk.

- Ⓒ For the year ended December 31, 2017 and 2016, no circumstances resulting in excess of the credit limit have taken place. Meanwhile, the management expects no material loss resulting from trading counterpart's failure to perform contract.
- Ⓓ The Group grants the loan period varying based on the evaluation on each trading customer, generally O/A 90 days or 150 days. For the information about the changes of bad debt provided for the Group's impairment on receivable accounts and account age analysis on loans, please see Note 6(3).
- Ⓔ The Group's Finance Dept. Manages the credit risk over the deposits in banks and other financial instruments according to the Group's policy. The Group's trading counterparts were decided by the internal control procedure, who were trustworthy banks and corporations which were not expected to breach the contracts. Therefore, there should be no significant credit risk.
- Ⓕ **Guarantee**  
According to the Group's policy, the Group may only make financial guarantee for the subsidiaries wholly owned by the Group. Before December 31, 2017 and 2016, the Group has never made any endorsements/guarantees.

(3) Liquidity risk

- Ⓐ The liquidity risk arises when the Group fails to deliver cash or other financial assets to repay financial liabilities and to perform the related obligation. The Group managed the liquidity in a manner ensuring that the Company has sufficient working fund to repay matured liabilities under the general and critical circumstances, so as to avoid unacceptable

loss or impairment on the Group's goodwill.

- Ⓔ The Group's will call the management meeting periodically to assist Financial Accounting Dept. Control the need for cash flow and the optimal investment return in cash. Generally, the Group will ensure that it has sufficient cash to meet the need for expected operating expenditure for 90 days, including performance of financial obligation, but excluding the potential effect which it is impossible to expect reasonably under extreme circumstances, e.g. natural calamity. The unused limit of the Group's loan totaled NT\$506,000 thousand on December 31, 2017.
- Ⓕ The following table refers to the non-derivative financial liabilities and grouped subject to the relevant expiry dates. The non-derivative financial liabilities are analyzed based on the residual period from the date of balance sheet until the expiry date. Nevertheless, the Group did not hold derivative financial liabilities.

Non-derivative financial liabilities	December 31, 2017			Total
	Within 1 year	1~2 years	More than 2 years	
Short-term loan	\$1,170,000	\$ -	\$ -	\$1,170,000
Payable accounts (including related party)	418,591	-	-	418,591
Other payable accounts (including related party)	589,366	-	-	589,366
Long-term loan (including the current portion)	225,787	225,787	347,122	798,696
Rent payable	16,229	16,229	16,230	48,688
Total	<u>\$2,419,973</u>	<u>\$ 242,016</u>	<u>\$ 363,352</u>	<u>\$3,025,341</u>

Non-derivative financial liabilities	December 31, 2016			Total
	Within 1 year	1~2 years	More than 2 years	
Short-term loan	\$ 384,052	\$ -	\$ -	\$ 384,052
Payable accounts (including related party)	425,865	-	-	425,865
Other payable accounts (including related party)	775,183	-	-	775,183
Long-term loan (including the current portion)	9,328	9,328	231,312	249,968
Corporate bond payable	590,647	-	-	590,647
Rent payable	16,697	16,697	33,394	66,788
Total	<u>\$2,201,772</u>	<u>\$ 26,025</u>	<u>\$ 264,706</u>	<u>\$2,492,503</u>

### (3) Capital risk management

The Group's capital management objective is intended to protect the Group's continued operation and ensure maintenance of well-founded credit ratings and optimal capital structure to reduce capital cost, in order to support the enterprise's operation and maximization of shareholders' return. The Group manages and adjusts the capital structure subject to the economic condition. The Group might adjust the stock dividend to be paid, refund of capital, issuance of new shares or realization of assets to reduce

liabilities, in order to maintain and adjust the capital structure.

The Group controls its capital structure based on the debt/equity ratio. Said ratio is net liabilities dividing by the net worth. The Group maintained the same strategy in 2017 as that in 2016, dedicated to maintaining the debt/equity ratio less than 70%~120%. The Company's debt ratios on December 31, 2017 and 2016 are stated as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total liabilities	\$ 3,922,778	\$ 3,305,212
Total net worth	3,784,901	3,959,782
Debt/equity ratio	104%	83%

### 13. Disclosures of Notes

#### (1) Information about important transactions

According to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the Group shall also disclose the information about important transactions:

No.	Contents	January~ December 2017
1	Loans to others	Attached table 1
2	Endorsement/guarantees made for others	N/A
3	Marketable securities-ending	N/A
4	Cumulative amount of the same marketable securities purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital in the current period.	N/A
5	Acquisition amount of real estate reaching 300 million NTD or more than 20% of the Paid-in capital.	N/A
6	Amount on disposal of real estate reaching 300 million NTD or more than 20% of the Paid-in capital.	N/A
7	Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital.	Attached table 2
8	Accounts receivable-related party reaching 100 million NTD or more than 20% of the Paid-in capital.	N/A
9	Transactions of derivative instruments.	N/A
10	Business relationship and important transactions between parent company and subsidiaries.	Attached table 3

Attached table 1: Loans to others

No. (Note 1)	Lender	Borrower	Account titles	Related party	Maximum balance in current period (Note 2)	Balance, ending	Drawdown (Note 3)	Interest rate range	Nature of loans to others	Amount of transaction	Reasons necessary for offering short-term loans	Allowance for bad debt	Collateral		Limit of loans to particular borrower (Note 5)	Limit of total loans (Note 5)
													Name	Value		
0	The Company	MEGTAS CO.,LTD.	Other receivable accounts-related party	Yes	\$4,634	\$4,634	\$4,634	4.99%	Short-term loans	-	Working capital	-	-	-	\$394,696	\$1,578,782

Note 1: "0" for the Company and each investee are numbered in sequential order starting from 1.

Note 2: The maximum balance of the loan to others accumulated in the current year until the reporting month.

Note 3: The facility of the loan to others still effective until the reporting month

Note 4: The Company's board of directors resolved on March 24, 2017 to loan the fund to its subsidiary, MEGTAS CO., LTD., in the amount of NT\$4,634 thousand. The Contract term is from March 28, 2017 to March 28, 2018.

Note 5: According to the Company's Operating Procedure for Loaning to Others, the limit of loan shall be set in the following manners:

- (a) The limit of total loans to others shall be no more than 40% of the net worth in the Company's latest financial statement: NT\$3,946,956 thousand (the Company's net worth on December 31, 2016) X 40% = NT\$1,578,782 thousand.
- (b) The limit of loan to any single subsidiary shall be no more than 10% of the net worth in the Company's latest financial statement: NT\$3,946,956 thousand (the Company's net worth on December 31, 2016) X 10% = NT\$394,696 thousand.

Attached table 2: Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital

Purchaser/seller	Trading counterpart	Relationship	Status				Distinctive terms and conditions of trade and the reasons		Accounts/notes receivable (payable)		Remark
			Purchase (sale)	Amount	Percentage in total purchase (sale) amount	Duration of loan	Unit price	Duration of loan	Balance	Percentage in total accounts/notes receivable (payable)	
The Company	MJC Electronics Corporation	Subsidiary of the Company's director, MJC	Sale	\$ 253,212	6 %	same as that applicable to the general customer	—	—	Receivable accounts \$ 758	—	

Attached table 3 : Business relationship and important transactions between parent company and subsidiaries

a. 2017

No. (Note 1)	Trader	Trading counterpart	Affiliation with trader (Note 2)	Status of transaction			
				Title	Amount	Trading terms and conditions	To consolidated operating revenue or total assets (Note 3)
0	MPI Corporation	Chain-Logic International Corp.	1	Sale revenue	\$ 18,483	Note 4	—
				Receivable accounts	\$ 4,291	Note 6	—
				Advance sale receipts	\$ 22	Note 4	—
				Other receivable accounts	\$ 1,296	Note 8	—
				Rent revenue	\$ 3,844	Note 7	—



				Administrative and general expenses – other expenses, less	\$ 38	Note 7	—
				Other gains (losses)	\$ 925	Note 4	—
0	MPI Corporation	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	1	Sale revenue	\$ 41,150	Note 4	1%
				Receivable accounts	\$ 26,418	Note 6	—
				Other gains (losses)	\$ 177	Note 4	—
0	MPI Corporation	MEGTAS CO.,LTD.	1	Other receivable accounts	\$ 4,629	Note 9	—
				Interest revenue	\$ 172	Note 9	—
0	MPI Corporation	Lumitek (Changchou) Co. Ltd.	1	Sale revenue	\$ 64,255	Note 4	1%
				Receivable accounts	\$ 118,048	Note 6	2%
				Other gains (losses)	\$ 37,039	Note 4	1%
				Other receivable accounts	\$ 27,228	Note 8	—
0	MPI Corporation	MPI TRADING CORP.	1	Sale revenue	\$ 634	Note 4	—
0	MPI Corporation	MPI America Inc	1	Sale revenue	\$ 119,117	Note 4	3%
				Receivable accounts	\$ 111,349	Note 6	1%
				Others revenue	\$ 1,453	Note 4	—
0	MPI Corporation	MPI (SUZHOU) CORPORATION	1	Sale revenue	\$ 4,159	Note 4	—
				Receivable accounts	\$ 4,126	Note 6	—
				Other receivable accounts	\$ 1,651	Note 9	—
				Other gains (losses)	\$ 1,829	Note 4	—
1	Chain-Logic International Corp.	MPI Corporation	2	Sale revenue	\$ 7,928	Note 4	—
				Receivable accounts	\$ 10,696	Note 6	—
				Revenue from commission	\$ 72,323	Note 5	2%
				Receivable commission	\$ 116,335	Note 6	2%
				Other receivable accounts	\$ 652	Note 9	—
1	Chain-Logic International Corp.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	1	Sale revenue	\$ 7,190	Note 4	—
				Receivable accounts	\$ 3,130	Note 6	—
1	Chain-Logic International Corp.	Lumitek (Changchou) Co. Ltd.	3	Sale revenue	\$ 1,056	Note 4	—
				Receivable accounts	\$ 369	Note 6	—
1	Chain-Logic International Corp.	MEGTAS CO.,LTD.	3	Revenue from commission	\$ 2,371	Note 5	—
1	Chain-Logic International Corp.	MPI (SUZHOU) CORPORATION	2	Sale revenue	\$ 803	Note 4	—
				Receivable accounts	\$ 795	Note 6	—

2	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	MPI Corporation	2	Revenue from commission	\$ 6,022	Note 5	—
				Revenue from repair and maintenance	\$ 104	Note 4	—
				Receivable accounts	\$ 8,637	Note 6	—
2	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	Lumitek (Changchou) Co. Ltd.	3	Sale revenue	\$ 106	Note 4	—
2	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	MPI (SUZHOU) CORPORATION	3	Sale revenue	\$ 9,773	Note 4	—
				Receivable accounts	\$ 11,373	Note 6	—
				Other receivable accounts	\$ 1,325	Note 8	—
3	MEGTAS CO.,LTD.	MPI Corporation	2	Sale revenue	\$ 217	Note 4	—
				Receivable accounts	\$ 36	Note 6	—
3	MEGTAS CO.,LTD.	Chain-Logic International Corp.	3	Sale revenue	\$ 10,323	Note 4	—
				Receivable accounts	\$ 377	Note 6	—
3	MEGTAS CO.,LTD.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	3	Sale revenue	\$ 1,038	Note 4	—
3	MEGTAS CO.,LTD.	MPI (SUZHOU) CORPORATION	3	Sale revenue	\$ 79	Note 4	—
				Receivable accounts	\$ 78	Note 6	—
4	Lumitek (Changchou) Co. Ltd.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	3	Sale revenue - maintenance	\$ 344	Note 4	—
				Receivable accounts	\$ 235	Note 6	—
4	Lumitek (Changchou) Co. Ltd.	MPI (SUZHOU) CORPORATION	3	Other receivable accounts	\$ 4,942	Note 8	—
5	WANG-TONG CORP.	MPI Corporation	2	Sales revenue	\$ 50	Note 4	—
6	MPI AMERICA INC.	MPI Corporation	2	Sales revenue	\$ 416	Note 4	—
7	MPI (SUZHOU) CORPORATION	MPI Corporation	2	Revenue from commission	\$ 2,424	Note 5	—
				Receivable accounts	\$ 2,520	Note 6	—
7	MPI (SUZHOU) CORPORATION	Lumitek (Changchou) Co. Ltd.	3	Sale revenue	\$ 103	Note 4	—
				Receivable accounts	\$ 120	Note 6	—

## b. 2016

No. (Note 1)	Trader	Trading counterpart	Affiliation with trader (Note 2)	Status of transaction			
				Title	Amount	Trading terms and conditions	To consolidated operating revenue or total assets (Note 3)
0	MPI Corporation	Chain-Logic International Corp.	1	Sale revenue	\$ 24,975	Note 4	1%
				Receivable accounts	\$ 9,116	Note 6	—
				Other receivable accounts	\$ 4,863	Note 8	—
				Rent revenue	\$ 3,859	Note 7	—
				Administrative and general expenses – other expenses, less	\$ 38	Note 7	—
				Other gains (losses)	\$ 305	Note 4	—
0	MPI Corporation	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	1	Sale revenue	\$ 32,705	Note 4	1%
				Receivable accounts	\$ 13,427	Note 6	—
				Advance sale receipts	\$ 3,360	Note 4	—
				Other gains (losses)	\$ 763	Note 4	—
0	MPI Corporation	MEGTAS CO.,LTD.	1	Interest revenue	\$ 40	Note 9	—
0	MPI Corporation	Lumitek (Changchou) Co. Ltd.	1	Sale revenue	\$ 22,307	Note 4	—
				Receivable accounts	\$ 125,963	Note 6	2%
				Other gains (losses)	\$ 29,635	Note 4	1%
				Other receivable accounts	\$ 23,389	Note 8	—
1	Chain-Logic International Corp.	MPI Corporation	2	Sale revenue	\$ 11,152	Note 4	—
				Receivable accounts	\$ 6,718	Note 6	—
				Other receivable accounts	\$ 475	Note 8	—
				Revenue from commission	\$ 58,894	Note 5	1%
				Receivable commission	\$ 61,910	Note 6	1%
1	Chain-Logic International Corp.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	1	Sale revenue	\$ 15,989	Note 4	—
				Receivable accounts	\$ 8,468	Note 6	—
1	Chain-Logic International Corp.	MEGTAS CO.,LTD.	3	Revenue from commission	\$ 1,287	Note 5	—
1	Chain-Logic International Corp.	Lumitek (Changchou) Co. Ltd.	3	Sale revenue	\$ 355	Note 4	—
				Receivable accounts	\$ 225	Note 6	—
2	MPI TRADING CORP.	MPI Corporation	2	Sale revenue	\$ 468	Note 4	—

3	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	MPI Corporation	2	Sale revenue	\$ 335	Note 4	—
				Revenue from commission	\$ 21,627	Note 5	1%
				Receivable accounts	\$ 16,357	Note 6	—
3	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	Lumitek (Changchou) Co. Ltd.	3	Sale revenue	\$ 1,772	Note 4	—
				Receivable accounts	\$ 118	Note 6	—
4	MEGTAS CO.,LTD.	MPI Corporation	2	Sale revenue	\$ 49	Note 4	—
4	MEGTAS CO.,LTD.	Chain-Logic International Corp.	3	Sale revenue	\$ 10,431	Note 4	—
				Receivable accounts	\$ 1,193	Note 6	—
4	MEGTAS CO.,LTD.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	3	Sale revenue	\$ 2,141	Note 4	—
				Receivable accounts	\$ 392	Note 6	—
5	Lumitek (Changchou) Co. Ltd.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	3	Sale revenue - maintenance	\$ 445	Note 4	—
				Receivable accounts	\$ 314	Note 6	—

Note 1: Transactions between parent company and its subsidiaries are numbered as follows:

- (1) "0" for parent company.
- (2) Each subsidiary is numbered in sequential order starting from 1.

Note 2: Related-party transactions are divided into the three categories as follows (If it refers to the same transaction between parent company and subsidiary or subsidiary and subsidiary, the transaction is not required to be disclosed repeatedly. For example, if the parent company has disclosed any transaction between it and its subsidiary, the subsidiary is not required to disclose the same transaction again. If either of the subsidiaries which trade with each other has disclosed the transaction, the other subsidiary is not required to disclose the same transaction again.)

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

Note 3: For assets and liabilities, the proportion to the consolidated total income or total assets is shown as the Ratio of Shareholding to the consolidated total assets for the years ended on Dec. 31. For income, it shall be shown as a Ratio of Shareholding to the consolidated Total incomes for the years ended on Dec 31.

Note 4: Processed under the general trading conditions and price.

Note 5: Based on the price agreed by both parties.

Note 6: O/A 30~180 days, same as that applicable to the general customers or suppliers.

Note 7: Based on the rent agreed by both parties.

Note 8: Out-of-pocket expenses of the general expenditure.

Note 9: Financing.

(2) Information about investees

The information about name, territory, business lines, original investment amount, shares held at ending, income and investment income recognized in the current period of the investees in which the Group may exert material influence or control directly or indirectly (exclusive of investees in Mainland China) in 2017 is stated as following:

Investor	Investee	Territory	Business lines	Original investment amount		Held at ending			Investee income recognized in current period (Note 1)	Investment income recognized in the current period (Note 2) (Note 3)	Remark
				End of the period	End of last year	Quantity	Ratio	Book value			
MPI Corporation	MPI TRADING CORP.	Offshore Chambers, P.O.BOX 217, APIA,SAMOA	Trading of probe cards and semi-automatic probers	\$ 32	\$ 32	1,000	100%	\$ 62,325	\$ 8,714	\$ 8,714	Subsidiary of MPI Corporation
MPI Corporation	MMI HOLDING CO.,LTD.	Offshore Chambers, P.O.BOX 217, APIA,SAMOA	Holding company	\$ 686,177	\$ 635,844	22,061,857 (Note6)	100%	\$ 587,125	\$ 23,116	\$ 23,963	Subsidiary of MPI Corporation (Note 4)
MPI Corporation	MEGTAS CO.,LTD.	134 Gunseo-ri, Jikson-eub, Seobuk-gu, Cheonan, Chungnam,331-811, Korea	Manufacturing, processing and sale of semi-conductor equipment and industrial mechanical spare parts, and manufacturing and sale of pottery and electronic spare parts	\$ 39,906	\$ 39,906	300,000	60%	\$ 25,255	\$ 8,750	\$ 5,285	Subsidiary of MPI Corporation
MPI Corporation	Chain-Logic International Corp.	3F, No. 153, Zhonghe Street, Zhubei City, Hsinchu County	Professional agent of semi-conductor	\$ 50,000	\$ 50,000	5,000,000	100%	\$ 238,519	\$ 21,861	\$ 18,947	Subsidiary of MPI Corporation
MPI Corporation	Won Tung Technology Co., Ltd.	1F, No. 100, Jiaren Street, Zhubei City, Hsinchu County	Manufacturing of telecommunication appliances, wholesale and retail of electronic materials, and manufacturing of electronic components	\$ 500	\$ 500	50,000	100%	\$ 4	\$ (184)	\$ (184)	Subsidiary of MPI Corporation
MPI Corporation	Lumitek Co.,LTD	No. 988, Sec. Litoushan, Wenshan Road, Xintu Township, Hsinchu County	Manufacturing of electronic spare parts	—	\$ 18,551	7,473,968	—	—	\$ 2,350	—	MPI adopted the evaluation under equity method. (Note 7)
MPI Corporation	Allstron Corporation	No. 8, Lane 98, Jiaren Street, Neighborhood 36, Xinan Vil., Zhubei City, Hsinchu County	High-frequency wafer measurement probe card manufacturer	\$ 50,000	\$ 50,000	1,550,000	100%	\$ 1,995	\$ (501)	\$ (501)	Subsidiary of MPI Corporation
MPI Corporation	MPA TRADING CORP.	Vistra (Anguilla) Limited, Vistra Corporate Services Centre, Albert Lake Drive, The Valley, Anguilla, British West Indies.	Holding company	\$ 37,881	—	1,250,000	100%	\$ (16,728)	\$ (43,307)	\$ (43,307)	Subsidiary of MPI Corporation (Note 5)
Chain-Logic International Corp.	CHAIN-LOGIC TRADING CORP.	Offshore Incorporations (Mauritius) Limited, G.P.O.BOX 365,307 St James Court, St Denis Street, Port Louis, Republic of Mauritius.	Primarily engaged in international trading	\$ 46,921	\$ 46,921	1,400,100	100%	\$ 54,994	\$ (17,274)	—	Subsidiary of Chain-Logic International Corp.
MPI Corporation	MPI America Inc	2360 QUME DRIVE,SUITE C,SAN JOSE,CA	Trading of probe cards and semi-automatic probers	\$ 36,366	—	1,200,000	100%	\$ (5,760)	\$ (43,217)	—	Subsidiary of MPA TRADING CORP. (Note 5)

Note 1: Except MEGTAS CO., LTD. and MPI AMERICA INC., which were audited by other external auditors commissioned by it instead of the Company's external auditors. The others were audited by CPA of the parent company.

Note 2: The investment income recognized in the current period includes the investment income recognized under equity method and realized (unrealized) gain recognized from upstream/side stream transactions.

Note 3: The subsidiaries' income recognized in the current period includes the investment income to be recognized for their re-investment pursuant to the requirements.

Note 4: In order to meet the need for business expansion, the Group's subsidiary, MMI HOLDING CO., LTD., increased capital by US\$1,000,000 (equivalent to NT\$31,980 thousand) in December 2016; Increased capital by US\$2,000,000 (equivalent to NT\$60,180 thousand) in December 2017. So far, the Group has invested a total of US\$22,061,857 in the subsidiary, MMI HOLDING CO., LTD., totaling 22,061,857 shares, at the par value of US\$1 per share. The Company's shareholding was 100%.

In order to expand the market in Mainland China, the Group invested Lumitek (Changchou) Co. Ltd. via the Group's subsidiary, MMI HOLDING CO., LTD., increased capital by US\$1,000,000 (equivalent to NT\$31,980 thousand) in December 2016. Until now, a total of US\$16,000,000 has been invested in Lumitek (Changchou) Co. Ltd., and the subsidiary, MMI HOLDING CO., LTD., held it wholly. The investment project was approved by Investment Commission, Ministry of Economic Affairs.

In order to expand the market in Mainland China, the Group invested subsidiary MPI (Suzhou) Corporation increased capital by US\$2,000,000 (equivalent to NT\$60,180 thousand) in September 2017. Until now, a total of US\$2,000,000 has been invested in MPI (Suzhou) Corporation and the subsidiary, MMI HOLDING CO., LTD., held it wholly. The investment project was approved by Investment Commission, Ministry of Economic Affairs.

Note 5: In order to meet the need for business expansion, the Group's subsidiary, MPA TRADING CORP increased capital by US\$650,000 (equivalent to NT\$19,689 thousand) in May 2017; Increased capital by US\$450,000 (equivalent to NT\$13,686 thousand) in July 2017 and increased capital by US\$150,000 (equivalent to NT\$4,506 thousand) in September 2017. So far, the Group has invested a total of US\$1,250,000 in the subsidiary, MPA TRADING CORP., totaling 1,250,000 shares, at the par value of US\$1 per share. The Company's shareholding was 100%.

In order to expand the market in USA, the Group invested MPI America Inc. via the Group's subsidiary, MPI America Inc increased capital by US\$600,000

(equivalent to NT\$18,174 thousand) in May 2017; Increased capital by US\$450,000 (equivalent to NT\$13,686 thousand) in July 2017 and increased capital by US\$150,000 (equivalent to NT\$4,506 thousand) in September 2017. Until now, a total of US\$1,200,000 in the subsidiary, MPI America Inc., totaling 1,200,000 shares, at the par value of US\$1 per share, and the subsidiary, MPA TRADING CORP held it wholly.

Note 6: The Group invested MMI HOLDING CO., LTD. resolved to reduce the capital to offset the deficit US\$172,330.42(equivalent to NT\$5,171 thousand) by the Board of Directors meeting in May 25, 2017.

The Group invested MMI HOLDING CO., LTD. resolved to liquidat and Write off LEDA-ONE (Shenzhen) Co. and remit the surplus investment US\$ 155,857.58 (equivalent to NT\$4,677 thousand) in May 25, 2017.

Note 7 : The group assessed Lumitek Corporation by equity method which was liquidated and written off on August 8, 2017. The distribution of surplus property to be allocated at the shareholders' meeting on August 23, 2017. The group obtained recover payment a total of NT\$18,918 thousand.

### (3) Information related to investments in China:

#### A. Information related to investments in the territories of Mainland China

Name of Chinese investee	Business lines	Paid-in capital	Mode of investment	Accumulated investment balance, beginning	Amount remitted or recovered in the current period		Accumulated investment balance, ending	Investee income recognized in current period	Direct and indirect shareholding of the Company	Investment income recognized in the current period (Note 4)	Book value, ending	Accumulated investment income received until the end of period
					outflow	inflow						
CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	Primarily engaged in international trading	USD 1,400,000 (\$46,917)	(Note 1)	USD 1,400,000 (\$ 46,917)	-	-	USD 1,400,000 (\$ 46,917)	\$ (17,284)	100 %	\$ (17,284)	\$ 49,901	\$15,852
Mjc Microelectronics (Shanghai) Co., Ltd.	Design and production of electronic equipment, testing instrument and probe card for semi-conductor testing, and sale of self-made products	USD 1,500,000 (\$52,033)	(Note 2)	USD 600,000 (\$20,813)	-	-	USD 600,000 (\$ 20,813)	\$ 1,865	40 %	\$ 746	\$ 29,999	\$40,273
MMS ELECTRONICS TECH. (SHANGHAI) CO., LTD	Electronic and communication technology development and import/export of electronic parts	RMB 500,000 (\$ 2,396)	(Note 3)	-	-	-	-	\$ 1,807	40 %	\$ 723	-	-
LEDA-ONE (Shenzhen) Co.	Production of new electronic components, LED prober, LED sorting machine, and LED spectrometer, and development of new electronic components	USD 1,800,000 (\$54,111)	(Note 2)	USD 1,800,000 (\$ 54,111)	-	USD 1,800,000 (\$ 54,111)	- (Note 5)	\$ (174)	100 %	\$ (174)	-	-
MMK (Kunshan)	Design and production of electronic equipment, testing instrument and probe card for semi-conductor	USD 4,900,000 (\$143,558)	(Note 2)	USD 1,960,000 (\$ 57,423)	-	-	USD 1,960,000 (\$ 57,423)	\$ 22,592	40 %	\$ 9,037	\$ 71,302	-

	testing, and sale of self-made products											
Lumitek (Changzhou) Co. Ltd.	R&D and production of LED semi-conductor LED chips, spare parts of calculators, LED process equipment, and new electronic components; procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts.	USD 16,000,000 (\$ 502,470)	(Note 2)	USD 16,000,000 (\$ 502,470)	—	—	USD 16,000,000 (\$ 502,470)	\$ 23,833	100 %	\$ 23,833	\$ 494,480	—
MPI (Suzhou) Corporation	R&D and production of LED semi-conductor LED chips, spare parts of calculators, LED process equipment, and new electronic components; procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts.	USD 2,000,000 (\$60,180) Registered capital USD 3,000,000 (\$ 90,270)	(Note 2)	—	USD 2,000,000 (\$60,180)	—	USD 2,000,000 (\$60,180)	\$ (11,016)	100 %	\$(11,016)	\$ 49,264	—

Note 1: Reinvest the company in Mainland China via the offshore subsidiary, CHAIN-LOGIC TRADING CORP.

Note 2: Reinvest the company in Mainland China via the offshore subsidiary, MMI HOLDING CO., LTD.

Note 3: Reinvest the company in Mainland China by own fund via the China investee, Mjc Microelectronics (Shanghai) Co., Ltd. (The Company decide liquidated on July 7, 2017 and was liquidated on December 27, 2017)

Note 4: The investment income was recognized based on the financial statements audited by the parent company's external auditors.

Note 5: The motion for liquidation of LEDA-ONE (Shenzhen) Co. submitted by the Company and approved by the directors' meeting on September 5, 2014.

The Company was liquidated and Write off in May 2017 and remit the surplus investment USD 155,857.58 (equivalent to NT\$4,677 thousand).Has cut it up till



now, the Investment not been approved by Commission on MOEA had the investment approved document. MMI HOLDING CO., LTD., recognized gains on disposal of investments were NT1,870 thousand.

**B. Information related to ceiling on investment in Mainland China**

Accumulated amount of remittance from Taiwan to Mainland China at the end of period	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs	Ceiling on investment in Mainland China imposed by the Investment Commission of the Ministry of Economic Affairs (Note)
USD 21,960,000 (NTD 687,803)	USD 24,604,142.42 (NTD 767,327)	NTD 2,270,941

Note1: The ceiling shall be the higher of the net worth or 60% of the consolidated net worth.

Note2 : Investment amount approved by the Investment

LEDA-ONE (Shenzhen) Co. was liquidated and Written off in May 2017 and remitted the surplus investment US\$155,857.58 (equivalent to NT\$4,677 thousand) to offset the investment amount approved by the MOEA. The original investment amount at US\$1,800,000 is still in total of US\$1,644,142.42(equivalent to NT\$49,434 thousand) that could not be offset the investment amount.

**C. Important transactions:**

For the important transactions of the Group with the investees in Mainland China, direct or indirect, in 2017 (which have been eliminated when preparing the consolidated financial statements), please see the “Information related to the investees” and “Major business dealings and transactions between the parent company and its subsidiaries”.

**14. Information by department**

(1) General information

The Group primarily engages in manufacturing, processing, maintenance, import/export and trading of semi-conductor production process and testing equipments.

(2) To report the information about department income, assets and liabilities, and basis of measurement and reconciliation

The department income, department assets and department liabilities are consistent with those identified in the financial statements. Please see the balance sheet and comprehensive income statement.

(3) By product and labor service:

The Group engages in a single industry. Its revenue from customers is primarily generated from the sale of semi-conductor production process and testing equipment.

(4) By territory

The Group's information by territory is stated as following. The revenue is classified

based on the customers' geographical locations, while the non-current assets are classified based on the geographical locations of the assets.

By territory	2017		2016	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 1,708,366	\$ 3,129,484	\$ 2,309,807	\$ 3,038,366
China	1,144,462	394,757	974,673	393,717
U.S.A.	743,496	8,441	775,843	—
Malaysia	228,875	—	393,928	—
Korea	35,644	5,316	29,366	8,515
Other countries	587,611	—	478,138	—
Total	<u>\$ 4,448,454</u>	<u>\$ 3,537,998</u>	<u>\$ 4,961,755</u>	<u>\$ 3,440,598</u>

(Note) The non-current assets include property, plant and equipment, investment property, intangible assets and other assets, exclusive of financial instruments, deferred income tax assets, assets of retirement/termination benefits and non-current assets generated from insurance contract.

(5) Information about major customers

Information about the Group's revenue from the transaction with single customer accounting for 10% of the operating revenue, net:

2017 : None.

2016 :

Customer	2016
Customer S	<u>\$ 574,946</u>