Voltronic Power Technology Corp.

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

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Voltronic Power Technology Corp.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

The key audit matters in the audit of the Company's financial statements of for the year ended December 31, 2017 are stated below:

Sales Revenue from Related Parties

For the year ended December 31, 2017, the Company's revenue was $8,710,973 thousand, net profit before income tax was $1,496,766 thousand, and its basic earnings per share was $17.46. It is expected that management will encounter pressure in achieving profitable targets to maintain outstanding sales performance. Although the customer base for sales is scattered, the primary sales customers are related parties. The transactions with related parties, especially the occurrence of sales to related parties, are a significant matter and concern to the management, shareholders, public investors, and other users of the financial reports. Therefore, we deemed the occurrence of the revenue from related parties to be a key audit matter. The revenue recognition accounting policy is disclosed in Note 4 to the Company's financial statements.

In connection with the sales from related parties, we performed the following audit procedures:

1. We verified the occurrence of the sales to related parties through understanding the implementation of the controls and test procedures regarding sales recognition.

2. We obtained sales details for primary customers and performed background checks on them to inspect whether new primary customers were classified as related parties.

3. We further examined the related party sales transaction samples' external shipping documents, receipts, and amounts to confirm the occurrence of the related party sales transactions; the settlement of trade receivables and trade terms with related parties were audited as well.

4. We performed the tests on significant post-sales returns and allowances to confirm the occurrence of the sales revenue.

<u>Impairment of Trade Receivables</u>

As explained in Note 7 to the accompanying financial statements, the past due, but not impaired, trade receivables of the Company amounted to $98,104 thousand as of December 31, 2017. The Company's management believed the amount to be recoverable; hence, we deemed the assessment of the impairment of the past due trade receivables to be a key audit matter. Refer to Note 4 and Note 5 to the accompanying financial statements for the accounting policy for the impairment of trade receivables and for relevant, critical accounting estimates and judgments, respectively.

In connection with past due trade receivables, we performed the following audit procedures:

1. We understood and tested the effectiveness of the design and implementation of internal controls over the receivables' management process for the sales revenue collection cycle.

2. We examined the overdue trade receivables and understood the reasons thereof and confirmed the Company's safeguard adopted against such receivables.

3. We performed substantial testing procedures for the collectability of overdue receivables to ensure the reasonableness of the estimates used for the impairment assessments of such receivables.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Cheng Chuan Yu and Chung Chen Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 26, 2018

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail. Also, as stated in Note 4 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

VOLTRONIC POWER TECHNOLOGY CORP.

BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 1,988,824	25	$ 2,415,115	34
Notes receivable (Notes 4 and 7)	20,504	-	18,225	-
Trade receivables (Notes 4, 5 and 7)	1,405,259	18	1,175,006	16
Trade receivables from related parties (Notes 4 and 24)	145,221	2	108,307	2
Other receivables (Note 7)	13,200	-	10,040	-
Inventories (Notes 4 and 8)	467	-	636	-
Prepayments (Note 12)	14,353	-	12,811	-
Total current assets	3,587,828	45	3,740,140	52
NON-CURRENT ASSETS				
Investments accounted for using equity method (Notes 4 and 9)	3,469,418	43	2,550,549	36
Property, plant and equipment (Notes 4 and 10)	933,168	12	860,456	12
Other intangible assets (Notes 4 and 11)	6,037	-	7,270	-
Deferred income tax assets (Notes 4 and 18)	40,545	-	25,353	-
Other non-current assets (Notes 12 and 24)	12,485	-	3,216	-
Total non-current assets	4,461,653	55	3,446,844	48
TOTAL	$ 8,049,481	100	$ 7,186,984	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Notes payable (Note 13)	$ 23	-	$ 7	-
Trade payables (Note 13)	6,516	-	16,986	-
Trade payables to related parties (Note 24)	3,507,629	43	2,440,684	34
Other payables (Note 14)	238,390	3	249,828	3
Current income tax liabilities (Notes 4 and 18)	57,935	1	113,883	2
Other current liabilities (Notes 14 and 24)	60,227	1	58,634	1
Total current liabilities	3,870,720	48	2,880,022	40
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 and 18)	-	-	18,703	-
Total liabilities	3,870,720	48	2,898,725	40
EQUITY (Note 16)				
Share capital - ordinary shares	786,885	10	787,055	11
Capital surplus	1,295,700	16	1,697,404	24
Retained earnings				
Legal reserve	549,457	7	406,623	6
Special reserve	102,342	1	-	-
Unappropriated earnings (Note 18)	1,702,344	21	1,764,457	24
Total retained earnings	2,354,143	29	2,171,080	30
Other equity (Notes 4, 16 and 20)	(257,967)	(3)	(367,280)	(5)
Total equity	4,178,761	52	4,288,259	60
TOTAL	$ 8,049,481	100	$ 7,186,984	100

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

VOLTRONIC POWER TECHNOLOGY CORP.

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

	2017		2016	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE				
Sales (Notes 4 and 24)	$ 8,710,973	100	$ 7,111,206	100
OPERATING COSTS				
Cost of goods sold (Notes 8 and 24)	(7,220,127)	(83)	(5,598,692)	(79)
GROSS PROFIT	1,490,846	17	1,512,514	21
OPERATING EXPENSES (Notes 17 and 24)				
Selling and marketing expenses	(168,141)	(2)	(160,853)	(2)
General and administrative expenses	(188,153)	(2)	(159,690)	(2)
Research and development expenses	(109,804)	(1)	(86,178)	(1)
Total operating expenses	(466,098)	(5)	(406,721)	(5)
PROFIT FROM OPERATIONS	1,024,748	12	1,105,793	16
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 17)	26,318	-	37,126	-
Other gains and losses (Note 17)	(259,929)	(3)	28,816	-
Finance costs (Note 17)	(9,637)	-	(7,360)	-
Share of profit of subsidiaries, associates and joint ventures (Note 4)	715,266	8	474,214	7
Total non-operating income and expense	472,018	5	532,796	7
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	1,496,766	17	1,638,589	23
INCOME TAX EXPENSE (Notes 4 and 18)	(133,122)	(1)	(210,253)	(3)
NET PROFIT FOR THE YEAR	1,363,644	16	1,428,336	20
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations (Notes 4 and 16)	(38,433)	(1)	(181,365)	(2)
Income tax relating to components of other comprehensive income that may be reclassified subsequently (Notes 16 and 18)	6,534	-	30,832	-
Other comprehensive loss for the year, net of income tax	(31,899)	(1)	(150,533)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,331,745	15	$ 1,277,803	18

(Continued)

VOLTRONIC POWER TECHNOLOGY CORP.

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

	2017		2016	
	Amount	**%**	**Amount**	**%**
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 19)				
Basic	$ 17.46		$ 18.25	
Diluted	$ 17.37		$ 18.20	

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

VOLTRONIC POWER TECHNOLOGY CORP.

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

			Retained Earnings			Other Equity		
	Ordinary Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Others	Total Equity
BALANCE AT JANUARY 1, 2016	$ 743,557	$ 1,385,450	$ 264,952	$ -	$ 1,629,826	$ 48,191	$ (3,621)	$ 4,068,355
Appropriation of the 2015 earnings (Note 16)								
Legal reserve	-	-	141,671	-	(141,671)	-	-	-
Cash dividends distributed by the Company	-	-	-	-	(1,115,335)	-	-	(1,115,335)
Share dividends distributed by the Company	37,178	-	-	-	(37,178)	-	-	-
Share-based payment transactions (Notes 16, 17 and 20)	6,320	311,954	-	-	479	-	(261,317)	57,436
Net profit for the year ended December 31, 2016	-	-	-	-	1,428,336	-	-	1,428,336
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(150,533)	-	(150,533)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	1,428,336	(150,533)	-	1,277,803
BALANCE AT DECEMBER 31, 2016	787,055	1,697,404	406,623	-	1,764,457	(102,342)	(264,938)	4,288,259
Appropriation of the 2016 earnings (Note 16)								
Legal reserve	-	-	142,834	-	(142,834)	-	-	-
Special reserve	-	-	-	102,342	(102,342)	-	-	-
Cash dividends distributed by the Company	-	(393,527)	-	-	(1,180,581)	-	-	(1,574,108)
Share-based payment transactions (Notes 16, 17 and 20)	(170)	(8,177)	-	-	-	-	141,212	132,865
Net profit for the year ended December 31, 2017	-	-	-	-	1,363,644	-	-	1,363,644
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(31,899)	-	(31,899)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	1,363,644	(31,899)	-	1,331,745
BALANCE AT DECEMBER 31, 2017	$ 786,885	$ 1,295,700	$ 549,457	$ 102,342	$ 1,702,344	$ (134,241)	$ (123,726)	$ 4,178,761

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

VOLTRONIC POWER TECHNOLOGY CORP.

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 1,496,766	$ 1,638,589
Adjustments for:		
Depreciation expenses	6,742	7,816
Amortization expenses	2,979	2,073
Impairment loss recognized on trade receivables	68	657
Finance costs	9,637	7,360
Interest income	(26,120)	(35,635)
Compensation costs of employee share options	132,865	57,436
Share of profit of subsidiaries, associates and joint ventures	(715,266)	(474,214)
Net loss on disposal of property, plant and equipment	53	-
Write-downs of inventories	-	347
Net loss (gain) on foreign currency exchange	146,960	(12,924)
Changes in operating assets and liabilities		
Notes receivable	(2,279)	(6,870)
Trade receivables	(263,435)	(73,799)
Trade receivables from related parties	(39,857)	52,382
Other receivables	(3,672)	(4,445)
Inventories	169	836
Prepayments	(1,542)	(1,320)
Notes payable	16	(2,469)
Trade payables	(10,452)	11,092
Trade payables to related parties	1,032,072	222,945
Other payables	(9,246)	41,715
Other current liabilities	1,593	18,315
Cash generated from operations	1,758,051	1,449,887
Interest received	26,632	35,475
Interest paid	(9,637)	(7,360)
Income tax paid	(216,431)	(239,774)
Net cash generated from operating activities	1,558,615	1,238,228
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investment accounted for using the equity method	(242,036)	(271,481)
Acquisition of property, plant and equipment	(79,507)	(96,273)
Increase in prepayments for equipment	(8,707)	-
Increase in refundable deposits	(562)	-
Acquisition of intangible assets	(1,746)	(4,964)
Net cash used in investing activities	(332,558)	(372,718)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(1,574,108)	(1,115,335)

(Continued)

VOLTRONIC POWER TECHNOLOGY CORP.

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

	2017	2016
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	$ (78,240)	$ (15,907)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(426,291)	(265,732)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,415,115	2,680,847
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 1,988,824	$ 2,415,115

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

1. GENERAL INFORMATION

Voltronic Power Technology Corp. (the "Company") was incorporated in the Republic of China (ROC) in May 2008. The Company mainly manufactures and sells uninterruptible power systems (UPS).

The Company's shares have been listed on the Taiwan Stock Exchange since March 31, 2014.

The financial statements are presented in the Company's functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on February 26, 2018.

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

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

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

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

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

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Company, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company, are deemed to have a substantive related party relationship. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Company has significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the Company's respective total transaction amount or balance, such transactions should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation conditions after a business combination and the expected benefits at the acquisition date.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions is enhanced. Refer to Note 24 for the related disclosures.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2018

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

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

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

1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

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

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

a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

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

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

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

When IFRS 9 and related amendment are effective, that would not have any material impact for the Company.

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

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

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

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

When IFRS 15 and related amendment are effective, that would not have any material impact for the Company.

3) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

The amendments clarify that the difference between the carrying amount of a debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Company expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Company should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Company's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

In assessing a deferred tax asset, the Company currently assumes it will recover the asset at its carrying amount when estimating probable future taxable profit; the amendments will be applied retrospectively in 2018.

4) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Company will apply IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the interpretation.

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

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

New IFRSs	**Effective Date Announced by IASB (Note 1)**
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
IFRS 16 "Leases"	January 1, 2019 (Note 3)
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

(Concluded)

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

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

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

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

1) IFRS 16 "Leases"

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

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

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

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

2) IFRIC 23 "Uncertainty Over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Company shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 consolidated financial statements shall prevail. However, the consolidated financial statements do not include the English translation of the additional footnote disclosures that are not required under IFRSs but are required by the Financial Supervisory Commission (FSC) for their oversight purposes.

a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis.

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

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

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

3) Level 3 inputs are unobservable inputs for the asset or liability.

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

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents, unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading.

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Foreign currencies

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

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

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

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

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

e. Inventories

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

f. Investments in subsidiaries

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

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

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

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

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

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

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

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

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

g. Property, plant and equipment

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

Freehold land is not depreciated.

Properties, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

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

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

h. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for prospective basis.

2) Derecognition of intangible assets

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

i. Impairment of tangible and intangible assets other than goodwill

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

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

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

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

j. Financial instruments

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

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

1) Financial assets

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

   a) Measurement category

      Financial assets held by the company are classified into loans and receivables.

      <u>Loans and receivables</u>

      Loans and receivables (including cash and cash equivalent, notes receivable, trade receivables, trade receivables from related parties and other receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

   b) Impairment of financial assets

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

      Financial assets carried at amortized cost, such as notes receivable, trade receivables from related and unrelated parties and other receivables, are assessed for impairment on a collective basis even if they were assessed to be not impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with a default on receivables.

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

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

For all other financial assets, objective evidence of impairment could include the significant financial difficulty of the issuer or counterparty; breach of contract, such as default or delinquency in interest or principal payments; it becoming probable that the borrower will undergo bankruptcy or financial re-organization; or the disappearance of an active market for the financial asset because of financial difficulties.

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

All the financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

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

k. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1) Sale of goods

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

a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Company; and

e) The transaction costs incurred or to be incurred can be measured reliably.

2) Interest income

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

l. Leasing

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

1) The Company as lessor

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

2) The Company as lessee

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

Contingent rents are recognized as an expense in the period in which they are incurred.

m. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

n. Share-based payment arrangements

- Restricted shares for employees granted to employee

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

  When restricted shares for employees are issued, other equity - unearned employee benefits are recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees. Under certain conditions, some employees who receive restricted shares are required to return their shares to the issuer on their resignation, and these shares will then be recognized as payables. If restricted shares for employees are granted for consideration and should be returned, they are recognized as payables. Dividends paid to employees on restricted shares that do not need to be returned if employees resign in the vesting period are recognized as expenses when the dividends are declared with a corresponding adjustment in retained earnings.

  At the end of each reporting period, the Company revises its estimate of the number of restricted shares for employees expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - restricted shares for employees.

o. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be used.

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

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

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

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, but when these taxes pertain to items that are recognized in other comprehensive income or directly in equity, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Where current tax or deferred tax arises from the initial accounting for the acquisition of a subsidiary, the tax effect is included in the accounting for the investments in subsidiaries.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Estimated Impairment of Trade Receivables

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amounts of trade receivables as of December 31, 2017 and 2016 were $1,405,259 thousand and $1,175,006 thousand, respectively (deducting $2,279 thousand and $2,211 thousand as allowance for impairment of trade receivables for the years ended December 31, 2017 and 2016, respectively).

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	$ 451	$ 403
Demand deposits	1,101,369	1,406,498
Cash equivalents (investments with original maturities of less than 3 months)		
Time deposits	887,004	1,008,214
	$ 1,988,824	$ 2,415,115

The market interest rates for cash in bank at the end of the reporting period were as follows:

	December 31	
	2017	2016
Range of interest rates	0.05%-4.425%	0.05%-4%

7. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2017	2016
Notes receivable		
Notes receivable - operating	$ 20,504	$ 18,225
Trade receivables		
Trade receivables	$ 1,407,538	$ 1,177,217
Less: Allowance for impairment loss	(2,279)	(2,211)
	$ 1,405,259	$ 1,175,006
Other receivables		
Tax refund receivables	$ 10,027	$ 6,320
Interest receivables	3,173	3,685
Other	-	35
	$ 13,200	$ 10,040

Trade receivables

The average credit period on sales of goods was 0 to 180 days. In determining the collectability of a trade receivable, the Company considered any change in the credit quality of the trade receivables since the date credit was initially granted to the end of the reporting period. The Company recognized an allowance for impairment loss of 100% against all trade receivables over 365 days because historical experience shows that receivables outstanding beyond 365 days are not recoverable. For receivables outstanding between 0 to 365 days, the Company estimated irrecoverable amount based on the past default by the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Company did not recognize an allowance for impairment loss because there was no significant change in the credit quality and the amounts were still considered recoverable. The Company did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

	December 31	
	2017	**2016**
Not overdue	$ 1,284,920	$ 1,058,388
Overdue 60 days	107,244	104,068
Overdue 61-120 days	7,775	3,178
Overdue beyond 120 days	7,599	11,583
	$ 1,407,538	$ 1,177,217

The above aging schedule was based on the past due date.

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

	December 31	
	2017	**2016**
Overdue 60 days	$ 84,421	$ 92,884
Overdue 61-120 days	7,163	3,178
Overdue beyond 120 days	6,520	8,566
	$ 98,104	$ 104,628

The above aging schedule was based on the past due date.

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

	Individually Assessed for Impairment	**Collectability Assessed for Impairment**	**Total**
Balance at January 1, 2016	$ -	$ 1,554	$ 1,554
Add: Impairment losses recognized on receivables	-	657	657
Balance at December 31, 2016	$ -	$ 2,211	$ 2,211
Balance at January 1, 2017	$ -	$ 2,211	$ 2,211
Add: Impairment losses recognized on receivables	-	68	68
Balance at December 31, 2017	$ -	$ 2,279	$ 2,279

The Company recognized no impairment loss on trade receivables which related to customers that in severe financial difficulties with balances as of December 31, 2017 and 2016. The Company did not hold any collateral over these balances.

8. INVENTORIES

	December 31	
	2017	2016
Merchandise	$ 467	$ 636

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was $7,220,127 thousand and $5,598,692 thousand, respectively. The cost of goods sold included inventory write-downs of $0 and $347 thousand, respectively.

9. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2017	2016
Investments in subsidiaries- Voltronic International Corp.	$ 3,469,418	$ 2,550,549

At the end of the reporting period, the percentage of ownership of and voting rights in the subsidiary held by the Company were as follows:

	December 31	
	2017	2016
Voltronic International Corp.	100%	100%

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

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Machinery and Equipment	Office Equipment	Leasehold Improve-ments	Other Equipment	Property under Construction	Total
Cost							
Balance at January 1, 2016	$ 720,761	$ 56,402	$ 7,917	$ 6,533	$ 742	$ 31,460	$ 823,815
Additions	-	920	-	-	-	95,353	96,273
Disposals	-	-	(13)	-	-	-	(13)
Balance at December 31, 2016	$ 720,761	$ 57,322	$ 7,904	$ 6,533	$ 742	$ 126,813	$ 920,075
Accumulated depreciation and impairment							
Balance at January 1, 2016	$ -	$ 41,146	$ 5,357	$ 4,732	$ 581	$ -	$ 51,816
Depreciation expense	-	5,969	1,152	628	67	-	7,816
Disposals	-	-	(13)	-	-	-	(13)
Balance at December 31, 2016	$ -	$ 47,115	$ 6,496	$ 5,360	$ 648	$ -	$ 59,619
Carrying amounts at December 31, 2016	$ 720,761	$ 10,207	$ 1,408	$ 1,173	$ 94	$ 126,813	$ 860,456

(Continued)

	Freehold Land	Machinery and Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Property under Construction	Total
Cost							
Balance at January 1, 2017	$ 720,761	$ 57,322	$ 7,904	$ 6,533	$ 742	$ 126,813	$ 920,075
Additions	-	4,862	-	-	-	74,645	79,507
Disposals	-	(476)	(20)	-	-	-	(496)
Balance at December 31, 2017	$ 720,761	$ 61,708	$ 7,884	$ 6,533	$ 742	$ 201,458	$ 999,086
Accumulated depreciation and impairment							
Balance at January 1, 2017	$ -	$ 47,115	$ 6,496	$ 5,360	$ 648	$ -	$ 59,619
Depreciation expense	-	5,275	1,093	346	28	-	6,742
Disposals	-	(423)	(20)	-	-	-	(443)
Balance at December 31, 2017	$ -	$ 51,967	$ 7,569	$ 5,706	$ 676	$ -	$ 65,918
Carrying amounts at December 31, 2017	$ 720,761	$ 9,741	$ 315	$ 827	$ 66	$ 201,458	$ 933,168

(Concluded)

For the years ended December 31, 2017 and 2016, no impairment assessment was performed as there was no indication of impairment.

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

Machinery and equipment	5 years
Office equipment	2-3 years
Leasehold improvements	5 years
Other equipment	3-5 years

The unrecognized commitments for acquisition of property, plant and equipment were set out in Note 25.

11. OTHER INTANGIBLE ASSETS

	Computer Software
Cost	
Balance at January 1, 2016	$ 18,909
Additions	4,964
Balance at December 31, 2016	$ 23,873
Accumulated amortization and impairment	
Balance at January 1, 2016	$ 14,530
Amortization expense	2,073
Balance at December 31, 2016	$ 16,603
Carrying amounts at December 31, 2016	$ 7,270

(Continued)

	Computer Software
Cost	
Balance at January 1, 2017	$ 23,873
Additions	1,746
Balance at December 31, 2017	$ 25,619
Accumulated amortization and impairment	
Balance at January 1, 2017	$ 16,603
Amortization expense	2,979
Balance at December 31, 2017	$ 19,582
Carrying amounts at December 31, 2017	$ 6,037

(Concluded)

The above of intangible assets are amortized on a straight-line basis over their estimated useful lives of 3 to 5 years.

12. OTHER ASSETS

	December 31	
	2017	2016
Current		
Prepayments	$ 14,353	$ 12,811
Non-current		
Refundable deposits	$ 3,715	$ 3,153
Prepayments for equipment	8,770	63
	$ 12,485	$ 3,216

13. NOTES PAYABLE AND TRADE PAYABLES

	December 31	
	2017	2016
Notes payable		
Operating	$ 23	$ 7
Trade payables		
Operating	$ 6,516	$ 16,986

14. OTHER LIABILITIES

	December 31	
	2017	2016
Current		
Other payables		
Payables for salaries and bonuses	$ 32,971	$ 32,230
Payables for employee compensation	122,036	113,746
Payables for remuneration of directors and supervisors	14,400	17,325
Payables for commission	63,811	80,161
Others	5,172	6,366
	$ 238,390	$ 249,828
Other liabilities		
Advance receipts	$ 59,197	$ 57,552
Receipts under custody	1,030	1,082
	$ 60,227	$ 58,634

15. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

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

16. EQUITY

a. Share capital

	December 31	
	2017	2016
Number of shares authorized (in thousands)	100,000	100,000
Shares authorized	$ 1,000,000	$ 1,000,000
Number of shares issued and fully paid (in thousands)	78,688	78,705
Shares issued	$ 786,885	$ 787,055

Fully paid ordinary shares, which have a par value of NT$10, carry one vote per share and carry a right to dividends.

Shares authorized include $20,000 thousand for issuance of employee share options.

Per resolution of the board of directors on May 4, 2017 and February 25, 2016, the Company retired $170 thousand and $180 thousand of restricted employee shares, respectively at $10 par value, totaling 17 thousand shares and 18 thousand shares, respectively. The Company designated that the basis date of the capital reduction was June 30, 2017 and February 26, 2016, respectively, where the approval of the Ministry of Economic Affairs (MOEA) was obtained on July 17, 2017 and March 14, 2016, respectively.

In the meetings on May 24, 2016, the Company's shareholders approved the transfer of retained earnings of $37,178 thousand to 3,718 thousand new shares with a par value of NT$10. These transfers were approved by the FSC at July 14, 2016, and August 30, 2016 were approved as the subscription base dates.

The Company retired $6,500 thousand of new restricted employee shares at par value of $10, totaling 650 thousand shares on May 24, 2016 per resolution of the board meeting. The Company designated that the basis date of the capital reduction was August 30, 2016.

A reconciliation of the number of shares outstanding was as follows:

	Number of Shares (In Thousands of Shares)	**Share Capital**
Balance at January 1, 2016	74,355	$ 743,557
Capital transferred from retained earnings	3,718	37,178
Issued employee restricted shares (Note 20)	650	6,500
Retirement of recovered employee restricted shares	(18)	(180)
Balance at December 31, 2016	78,705	$ 787,055
Balance at January 1, 2017	78,705	$ 787,055
Retirement of recovered employee restricted shares	(17)	(170)
Balance at December 31, 2017	78,688	$ 786,885

b. Capital surplus

	December 31	
	2017	**2016**
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note)		
Premium from issuing ordinary shares	$ 886,496	$ 1,280,023
May be used to offset a deficit only		
Premium from employee restricted shares	165,626	104,731
May not be used for any purpose		
Employee restricted shares	243,578	312,650
	$ 1,295,700	$ 1,697,404

Note: Capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, capital surplus may be distributed as cash dividends, or may be transferred to share capital within a certain percentage of the Company's paid-in capital once a year.

A reconciliation of the capital surplus was as follows:

	Premium from Ordinary Shares	Premium from Employee Restricted Shares		Arising from Employee Restricted Shares	
Balance at January 1, 2016	$ 1,280,023	$ 43,300		$ 62,127	
Issued employee restricted shares	-	-		312,650	
Vested employee restricted shares	-	60,842		(60,842)	
Retirement employee restricted shares	-	589	(Note 1)	(1,285)	(Note 2)
Balance at December 31, 2016	$ 1,280,023	$ 104,731		$ 312,650	
Balance at January 1, 2017	$ 1,280,023	$ 104,731		$ 312,650	
Vested employee restricted shares	-	60,895		(60,895)	
Retirement employee restricted shares	-	-		(8,177)	(Note 3)
Distributed as cash dividends	(393,527)	-		-	
Balance at December 31, 2017	$ 886,496	$ 165,626		$ 243,578	

Note 1: Accumulated share dividends of $589 thousand for withdrawn restricted shares was recognized as a salary expense.

Note 2: The reversed compensation cost of $1,465 thousand for restricted shares was net of retired share capital of $180 thousand.

Note 3: The reversed compensation cost of $8,347 thousand for restricted shares was net of retired share capital of $170 thousand.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on May 24, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, refer to employee benefits expense in Note 17,f.

Distribution of the compensation may be made by way of a cash dividend or share dividend, where the ratio of the cash dividend shall not less than 10% of the shareholders' bonus so as to achieve the balance and stability of the dividend policy. However, in a case that the bonus per share is less than NT$0.3, the board of directors may cancel the bonus distribution by submit such cancellation for recognition at the shareholders' meeting. If such cancellation is recognized by the shareholders' meeting, the allocation of the employees' bonuses and remuneration of directors and supervisors shall also be canceled.

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

Items referred to under Rule No. 1010012865 should be appropriated to or reversed from a special reserve by the Company.

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

The appropriations from the 2016 and 2015 earnings approved in the shareholders' meetings on June 16, 2017 and May 24, 2016, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	2016	**2015**	**2016**	**2015**
Legal reserve	$ 142,834	$ 141,671	$ -	$ -
Special reserve	102,342	-	-	-
Cash dividends	1,180,581	1,115,335	15.00	15.00
Share dividends	-	37,178	-	0.50

The Company's shareholders also resolved to issue share dividends and cash dividends from capital surplus of $393,527 thousand, in the shareholders' meeting on June 16, 2017.

The appropriations of earnings for 2017 had been proposed by the Company's board of directors on February 26, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 136,364	$ -
Special reserve	31,899	-
Cash dividends	1,180,326	15.00

The appropriations of earnings for 2017 are subject to the resolution of the shareholders' meeting to be held on June 5, 2018.

The board of directors on February 26, 2018 propose to issue cash dividends of $393,442 thousand from capital surplus, a proposal that is subject to the resolution of the shareholders' meeting held on June 5, 2018.

d. Special reserve

	For the Year Ended December 31	
	2017	**2016**
Balance at January 1	$ -	$ -
Appropriation in respect of:		
The debit to other equity items	102,342	-
Balance at December 31	$ 102,342	$ -

e. Other equity items

Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ (102,342)	$ 48,191
Exchange differences on translating foreign operations	(38,433)	(181,365)
Income tax related to exchange differences arising on translating to the presentation currency	6,534	30,832
Balance at December 31	$ (134,241)	$ (102,342)

Employee unearned benefit

In the meeting on May 24, 2016 and December 10, 2012, the shareholders approved the issuance of restricted shares to employees, respectively (refer to Note 20).

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ (264,938)	$ (3,621)
Issuance of shares	-	(319,150)
Share-based payment expenses recognized	132,865	56,368
Retired restricted employee shares (Note)	8,347	1,465
Balance at December 31	$ (123,726)	$ (264,938)

Note: Deducted from compensation cost of restricted shares amounting $8,347 thousand and $1,465 thousand for the years 2017 and 2016, respectively.

17. NET PROFIT (LOSS) FROM OPERATIONS

a. Other income

	For the Year Ended December 31	
	2017	2016
Interest income		
Bank deposits	$ 26,120	$ 35,635
Others	198	1,491
	$ 26,318	$ 37,126

b. Other gains and loss

	For the Year Ended December 31	
	2017	2016
Loss on disposal of property, plant and equipment	$ (53)	$ -
Net foreign exchange (losses) gains	(259,876)	28,816
	$ (259,929)	$ 28,816

c. Finance costs

	For the Year Ended December 31	
	2017	2016
Other interest expense	$ 9,637	$ 7,360

d. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	$ 6,742	$ 7,816
Intangible assets	2,979	2,073
	$ 9,721	$ 9,889
An analysis of depreciation by function		
Operating expenses	$ 6,742	$ 7,816
An analysis of amortization by function		
Selling and marketing expenses	$ 338	$ 270
General and administrative expenses	2,178	1,059
Research and development expenses	463	744
	$ 2,979	$ 2,073

e. Employee benefits expense

	For the Year Ended December 31			
	2017		2016	
Salary expenses	$ 177,760		$ 183,612	
Other employee benefits				
Labor and health insurance	7,487		7,386	
Other employee benefits	6,604		5,798	
Share-based payments				
Equity-settled share-based payments	132,865	(Note 1)	57,436	(Note 2)
Post-employment benefits				
Defined contribution plans	3,815		3,646	
Total employee benefits expense	$ 328,531		$ 257,878	
An analysis of employee benefits expense by function				
Operating expenses	$ 328,531		$ 257,878	

Note 1: The share-based payments included the equity-settled share-based payments $132,865 thousand in 2017.

Note 2: The share-based payments included the equity-settled share-based payments $56,368 thousand and the withdrawn accumulative share dividends $1,068 thousand in 2016.

As of December 31, 2017 and 2016, the Company’s employee number was 82 and 84, respectively.

f. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at the rates between 3.75% and 11.5% and no higher than 3.75%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016, which have been approved by the Company's board of directors on February 26, 2018 and February 24, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	**2016**
Employees' compensation	4.43%	4.33%
Remuneration of directors and supervisors	0.91%	1.00%

Amount

	For the Year Ended December 31			
	2017		**2016**	
	Cash	**Shares**	**Cash**	**Shares**
Employees' compensation	$ 70,000	$ -	$ 75,000	$ -
Remuneration of directors and supervisors	14,400	-	17,325	-

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the years ended December 31, 2017 and 2016.

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

g. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2017	**2016**
Foreign exchange gains	$ 51,673	$ 211,107
Foreign exchange losses	(311,549)	(182,291)
	$ (259,876)	$ 28,816

18. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of tax expense recognized in profit:

	For the Year Ended December 31	
	2017	2016
Current tax		
Current year	$ (160,215)	$ (199,770)
Income tax on unappropriated earnings	(258)	(12,252)
Adjustments for prior years	(10)	(58)
	(160,483)	(212,080)
Deferred tax		
Current year	27,361	1,827
Income tax expense recognized in profit or loss	$ (133,122)	$ (210,253)

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

	For the Year Ended December 31	
	2017	2016
Profit before tax	$ 1,496,766	$ 1,638,589
Income tax expense calculated at the statutory tax rate	$ (254,449)	$ (278,559)
Deferred tax effect of earnings of subsidiaries	121,595	80,616
Income tax on unappropriated earnings	(258)	(12,252)
Adjustments for prior years' tax	(10)	(58)
Income tax expense recognized in profit or loss	$ (133,122)	$ (210,253)

The statutory tax rate used above was the corporate tax rate of 17% payable by the Company in ROC.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets recognized as at December 31, 2017 are expected to be adjusted and would increase by $7,155 thousand in 2018.

As the status of the 2017 appropriation of earnings is uncertain, the potential income tax consequences of 2016 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
Deferred tax		
Current year:		
Translation of foreign operations	$ 6,534	$ 30,832

c. Current tax assets and liabilities

	December 31 2017	December 31 2016
Current tax liabilities		
Income tax payable	$ 57,935	$ 113,883

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen-sive Income	Closing Balance
Temporary differences				
Unrealized loss on write-down of inventories	$ 87	$ (52)	$ -	$ 35
Unrealized employee compensation	4,304	2,431	-	6,735
Unrealized exchanges loss	-	6,279	-	6,279
Exchanges difference on foreign operations	20,962	-	6,534	27,496
	$ 25,353	$ 8,658	$ 6,534	$ 40,545
Deferred tax liabilities				
Temporary differences				
Unrealized exchange gains	$ (18,703)	$ 18,703	$ -	$ -

For the year ended December 31, 2016

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen-sive Income	Closing Balance
Temporary differences				
Unrealized loss on write-down of inventories	$ 299	$ (212)	$ -	$ 87
Employee welfare	68	(68)	-	-
Unrealized employee compensation	-	4,304	-	4,304
Exchanges difference on foreign operations	-	-	20,962	20,962
	$ 367	$ 4,024	$ 20,962	$ 25,353

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen-sive Income	Closing Balance
Deferred tax liabilities				
Temporary differences				
Unrealized exchange loss	$ (16,506)	$ (2,197)	$ -	$ (18,703)
Exchanges difference on foreign operations	(9,870)	-	9,870	-
	$ (26,376)	$ (2,197)	$ 9,870	$ (18,703)

(Concluded)

e. The aggregate amount of temporary difference associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2017 and 2016, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities were recognized amounted to $466,288 thousand and $344,693 thousand, respectively.

f. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Generated before January 1, 1998	$ -	$ -
Generated on and after January 1, 1998	1,702,344	1,764,457
	$ 1,702,344	$ 1,764,457
Shareholder - imputed credit account	$ 152,110	$ 144,054

	For the Year Ended December 31	
	2017 (Expected)	2016 (Actual)
Creditable ratio for distribution of earning	Note	14.62%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, no creditable ratio for distribution of earnings in 2018 is expected.

g. Income tax assessments

The Company’s tax returns through 2015 have been assessed by the tax authorities. As of December 31, 2017, the Company has no unsettled lawsuit in related with tax.

19. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2017	**2016**
Basic earnings per share		
Net income	$ 1,363,644	$ 1,428,336
Weighted average number of ordinary shares in computation of basic earnings per share (in thousands)	78,098	78,278
Basic earnings per share	$ 17.46	$ 18.25
Diluted earnings per share		
Net income	$ 1,363,644	$ 1,428,336
Weighted average number of ordinary shares in computation of basic earnings per share (in thousands)	78,098	78,278
Effect of potentially dilutive ordinary shares:		
Bonus to employees	162	195
Employee restricted shares	266	-
Weighted average number of ordinary shares in computation of diluted earnings per share	78,526	78,473
Diluted earnings per share	$ 17.37	$ 18.20

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

20. SHARE-BASED PAYMENT ARRANGEMENTS - RESTRICTED SHARES PLAN

On December 10, 2012, the shareholders approved a restricted shares plan for employees with a total amount of $15,000 thousand, consisting of 1,500 thousand shares. The subscription base date at February 26, 2013 was determined by the board of directs on February 25, 2013. The restrictions on the rights of the employees who acquire the restricted shares but have not met the vesting conditions are as follows:

a. The employees should provide the restricted shares to the Company or the agency designated by the Company acting as the trust custodian and cooperate in complying with all related procedures and preparing the required documents.

b. The employees shall not sell, pledge, transfer, donate or, in any other way, dispose of these shares.

c. The employees’ other rights, which are the same as those of ordinary shareholders of the Company, include but are not limited to the rights to receive dividends, bonuses and capital surplus in shares and to vote on cash increases by share issuance.

d. The employees shall entrust the handling or execution of the related proposals, statements, voting rights and other equity-related matters for the shareholders’ meeting to the acting trust custody agency.

The vesting conditions of restricted shares is when employee received the restricted shares, the restriction of acquiring the shares would be canceled as follows:

After one year from the grant date: 20%
After two years from the grant date: 20%
After three years from the grant date: 60%

If an employee fails to meet the vesting conditions, the Company will withdraw the restricted shares.

The fair value of NT$81.41 per share of the newly issued restricted shares was determined using the market-price-based method. An expense of $122,115 thousand was recognized on the basis of vesting conditions. Compensation costs of $0 and $3,224 thousand were recognized, respectively, within the vesting period for the years ended December 31, 2017 and 2016.

On May 24, 2016, the shareholders approved a restricted shares plan for employees with a total amount of $6,500 thousand, consisting of 650 thousand shares. The subscription base date at August 30, 2016 was determined by the board of directs on August 8, 2016. The restrictions on the rights of the employees who acquire the restricted shares but have not met the vesting conditions are as follows:

a. The employees should provide the restricted shares to the Company or the agency designated by the Company acting as the trust custodian and cooperate in complying with all related procedures and preparing the required documents.

b. The employees shall not sell, pledge, transfer, donate or, in any other way, dispose of these shares.

c. The employees which hold equity under the custody of the trust agency do not have the right to attend shareholders' meetings or to engage in motions, speech, and voting therein.

d. The employees' other rights, which are the same as those of ordinary shareholders of the Company, include but are not limited to the rights to receive dividends, bonuses and capital surplus in shares and to vote on cash increases by share issuance.

The vesting conditions of restricted shares is when employee received the restricted shares, the restriction of acquiring the shares would be canceled as follows:

After one year from the grant date: 20%
After two years from the grant date: 20%
After three years from the grant date: 60%

If an employee fails to meet the vesting conditions, the Company will withdraw the restricted shares.

The fair value of NT$491 per share of the newly issued restricted shares was priced using the market-price-based method. The unearned employee benefit of $319,150 thousand was recognized on the basis of vesting conditions and expensed on a straight-line base over the vest period. Compensation costs of $132,865 thousand and $54,212 thousand were recognized respectively within the vesting period for the years ended December 31, 2017 and 2016.

21. OPERATING LEASE ARRANGEMENTS

Operating leases relate to leases of building with lease terms between 1 and 5 years. The Company does not have a bargain purchase option to acquire the leased land at the expiration of the lease periods.

The future minimum lease payables for non-cancellable operating lease commitments were as follows:

	December 31	
	2017	2016
Up to 1 year	$ 4,474	$ 5,003
Later than 1 year and not later than 5 years	1,239	308
	$ 5,713	$ 5,311

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

	For the Year Ended December 31	
	2017	2016
Minimum lease payments	$ 7,619	$ 7,031

22. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while considering operating risks and maximizing the returns to shareholders through the optimization of the debt and equity balance which were short-term and low fluctuation.

The capital structure of the Company consists of equity of the Company (comprising issued capital, reserves, retained earnings and other equity).

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

Under the recommendations of the key management, to balance the overall capital structure, the Company may adjust the number of new shares issued.

23. FINANCIAL INSTRUMENTS

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

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

b. Categories of financial instruments

	December 31	
	2017	2016
Financial assets		
Loans and receivables (1)	$ 3,566,696	$ 3,723,526
Financial liabilities		
Amortized cost (2)	3,583,151	2,544,204

1) The loans and receivables measured at amortized cost comprised cash and cash equivalents, notes receivable, trade receivables, trade receivables from related parties, other receivables (except for tax refund) and refundable deposits (included in other non-current assets).

2) The balances comprised notes payable, trade payables, trade payables to related parties and other payables that are measured at amortized cost.

c. Financial risk management objectives and policies

The Company's major financial instruments included trade receivables and trade payables. The Company's Corporate Treasury function provides services such as providing access to domestic and international financial markets, and monitoring and managing the financial risks relating to the operations of the Company through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (currency risk, interest rate risk and other price risks), credit risk and liquidity risk.

The Corporate Treasury function reports periodically to the board of directors, an independent body that monitors risks and policies implemented to mitigate risk exposures.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

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

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk.

The carrying amounts of the Company's foreign currency-denominated monetary assets and monetary liabilities (including those eliminated) are set out in Note 26.

Sensitivity analysis

The Company was mainly exposed to the movement of foreign exchange rate in USD and RMB.

The following table shows the Company's sensitivity to a 1% increase and decrease in New Taiwan dollars (the USD and RMB) against the relevant foreign currencies. A sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency-denominated monetary items, and their translation was adjusted at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicated an increase in pretax profit when the New Taiwan dollars weakened by 1% against the relevant currency. For a 1% strengthening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pretax profit and the balances below would be negative.

	USD Impact	
	For the Year Ended December 31	
	2017	**2016**
Profit or loss	$ 60,250	$ 54,866

	RMB Impact	
	For the Year Ended December 31	
	2017	**2016**
Profit or loss	$ (26,206)	$ (18,309)

This was mainly attributable to the exposure on USD investment accounted for using equity method, USD receivables, USD payables, RMB bank deposits and RMB payables at the end of the reporting period.

The Company's sensitivity to the USD increased during the current period mainly because of an increase in USD investment accounted for using equity method. The Company's sensitivity to RMB increased during the current period mainly because of a decrease in RMB bank deposits.

b) Interest rate risk

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

	December 31	
	2017	**2016**
Interest rate risk on fair value		
Financial assets	$ 887,004	$ 1,008,214
Interest rate risk on cash flow		
Financial assets	1,101,369	1,406,498

Sensitivity analysis

The sensitivity analysis in the next paragraph was based on the exposure of the Company's non-derivative instruments to interest rate risks at the end of the reporting period. A 100 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates been 100 basis points higher/lower and all other variables been held constant, the Company's pretax profit for the years ended December 31, 2017 and 2016 would have increased/decreased by $11,014 thousand and $14,065 thousand, respectively, which was mainly attributable to the Company's exposure to interest rate risks on its variable-rate bank deposit.

The Company's sensitivity to interest rates decreased during the current period mainly because of the decrease in floating-rate bank deposits.

2) Credit risk

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

The Company adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

To minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. Thus, management believes the Company's credit risk was significantly reduced.

Except for the Company's top three customers, the Company had no material exposure to credit risk with counterparty or a group of counterparties that had similar properties.

The Company's concentration of credit risk of 13% and 20% of total trade receivables as of December 31, 2017 and 2016, respectively, was related to the Company's top three customers.

3) Liquidity risk

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

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

The following tables show the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed-upon repayment periods. The tables were based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The tables included both interest and principal cash flows.

For interest flows pertaining to floating rates, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2017

	Less than 3 Months	**3 Months to 1 Year**	**Over 1 Year to 5 Years**	**More than 5 Years**
Non-derivative financial liabilities				
Non-interest bearing	$ 3,582,414	$ 737	$ -	$ -

December 31, 2016

	Less than 3 Months	**3 Months to 1 Year**	**Over 1 Year to 5 Years**	**More than 5 Years**
Non-derivative financial liabilities				
Non-interest bearing	$ 2,470,959	$ 73,245	$ -	$ -

24. TRANSACTIONS WITH RELATED PARTIES

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

Related Name	Related Party Category
RPS. SPA	Key management personnel
FSP Technology Inc.	Key management personnel
Juor-Ming Hsieh	Key management personnel
Ya-Chin Hsieh	Essential related parties
Ya-Chen Hsieh	Essential related parties
Ming Fang International Investment Co., Ltd.	Essential related parties
Soltec Power Co., Ltd.	Essential related parties
Voltronic International H.K. Corp. Limited	Subsidiaries
Voltronic Power Technology (Shen Zhen) Corp.	Subsidiaries
Zhongshan Voltronic Power Electronics Limited	Subsidiaries

a. Sales of goods

		For the Year Ended December 31	
Line Item	**Related Party Category**	**2017**	**2016**
Sales	Key management personnel	$ 660,343	$ 617,473
	Subsidiaries	-	73
	Essential related parties	-	4,161
		$ 660,343	$ 621,707

The selling prices are not comparable due to same product not sold to third party in 2017 and 2016. Payment terms of related parties are 135-150 days and 60-150 days after every month end close, respectively, and of third parties are 0-180 days.

b. Purchases of goods

	For the Year Ended December 31	
Related Party Category	**2017**	**2016**
Subsidiaries - Voltronic International H.K. Corp. Limited	$ 7,170,445	$ 5,530,543
Subsidiaries	145	-
Essential related parties	-	5,998
	$ 7,170,590	$ 5,536,541

The purchase prices are not comparable due to no purchase of above specified items from third parties in 2017 and 2016. Payment terms of related parties are 150 days and 60-150 days after every month end close, respectively, and of third parties are 30-90 days.

c. Trade receivables from related parties (excluding loans to related parties)

		December 31	
Line Item	**Related Party Category**	**2017**	**2016**
Trade receivables from related parties	Key management personnel	$ 145,221	$ 108,307

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

d. Trade payables to related parties (excluding loans from related parties)

Line Item	Related Party Category	December 31 2017	December 31 2016
Trade payables to related parties	Subsidiaries - Voltronic International H.K. Corp. Limited	$ 3,507,629	$ 2,440,684

The outstanding trade payables from related parties are unsecured.

e. Other transactions with related parties

Line Item	Related Party Category	December 31 2017	December 31 2016
Receipts in advance	Key management personnel	$ 1,722	$ 1,602
Refundable deposits	Key management personnel	$ 207	$ 207
	Essential related parties	419	419
	Essential related parties - Ming Fang International Investment Co., Ltd.	648	149
		$ 1,274	$ 775

Line Item	Related Party Category	December 31 2017	December 31 2016
Rental expenses	Key management personnel	$ 1,283	$ 1,283
	Essential related parties	3,110	3,110
		$ 4,393	$ 4,393

In 2017 and 2016, the Company rented buildings from key management personnel and other related parties. The rental expenses, which were payable monthly, were based on current market prices.

f. Compensation of key management personnel

	For the Year Ended December 31 2017	For the Year Ended December 31 2016
Short-term employee benefits	$ 83,777	$ 84,517
Post-employee benefits	747	566
Share-based payments	54,984	16,336
	$ 139,508	$ 101,419

The remunerations of directors and key executives were determined by the remuneration committee on the basis of individual performance and market trends.

25. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of the end of the reporting period were as follows:

Unrecognized commitments are as follows:

	December 31	
	2017	2016
Acquisition of property, plant and equipment	$ 188,802	$ 252,834

26. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company and the exchange rates between foreign currencies. The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 204,572	29.7600 (USD:NTD)	$ 6,088,076
RMB	194,766	4.5545 (RMB:NTD)	887,061
			$ 6,975,137
Financial liabilities			
Monetary items			
USD	2,120	29.7600 (USD:NTD)	$ 63,091
RMB	770,146	4.5545 (RMB:NTD)	3,507,629
			$ 3,570,720

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 172,925	32.2500 (USD:NTD)	$ 5,576,836
RMB	131,160	4.6490 (RMB:NTD)	609,761
			$ 6,186,597
Financial liabilities			
Monetary items			
USD	2,797	32.2500 (USD:NTD)	$ 90,210
RMB	524,991	4.6490 (RMB:NTD)	2,440,684
			$ 2,530,894

The significant unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2017		2016	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
RMB	4.4929 (RMB:NTD)	$ (27,911)	4.8470 (RMB:NTD)	$ 15,643
USD	30.2992 (USD:NTD)	(119,049)	32.2258 (USD:NTD)	(1,359)
		$ (146,960)		$ 14,284