

Syscom Computer Engineering Co.

**Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Syscom Computer Engineering Co.

Opinion

We have audited the accompanying financial statements of Syscom Computer Engineering Co. (the "Corporation"), which comprise the balance sheets as of December 31, 2016 and 2015, 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, based on our audits and the reports of other auditors (refer to Other Matter section), the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2016 and 2015, 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 Corporation 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 based on our audits and the reports of other auditors.

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, 2016. 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.

Key audit matters for the financial statements of the Corporation for the year ended December 31, 2016 are stated as follows:

Recognition of Contract Revenue

The Corporation generates revenue through rendering of services according to contract. Revenue from contract is recognized by reference to the stage of completion of contract activity. The stage of completion of the contract is measured based on the proportion of contract cost incurred for work performed to date relative to the estimated total contract cost. The management estimates total contract cost upon signing of the contract. However, the estimated total cost may change as

the contract activity progresses and such change may have material impact on revenue recognition; therefore, the recognition of contract revenue is deemed to be a key audit matter.

In respect of the recognition of contract revenue, we:

1. Verified the accuracy of accumulated incurred cost through test of detail;
2. Assessed the appropriateness of underlying information and assumptions the management utilized in estimating total cost;
3. Performed retrospective review of discrepancy between actual costs incurred and estimated total cost of completed contract;
4. Examined the underlying documents of original contract and related addendum used as basis for contract revenue recognized.

Please refer to Notes 4 and 5 to the accompanying financial statements for related disclosure on revenue recognition.

Valuation of Inventory

The inventories of the Corporation, which amounted to NT\$254,835 thousand as of December 31, 2016, are stated at the lower of cost or net realizable value. As described in Note 5, net realizable value is the estimated selling price in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale. Since the above estimation are subject to management's judgement, the valuation of inventory is deemed to be a key audit matter.

In respect of the valuation of inventory, we:

1. Verified the reasonableness of estimated net realizable value and the underlying documents through examining recent sales information;
2. Observed the annual physical inventory count and assessed the adequacy of the methods used by management to identify obsolete inventory.

Other Matter

The financial statements as of and for the years ended December 31, 2016 and 2015 of some investees in which the Corporation had equity-method investments were audited by other auditors. Our opinion, insofar as it relates to the amounts included in the accompanying financial statements for these investees, is based solely on the reports of the other auditors. As of December 31, 2016 and 2015, the aforementioned investments accounted for by using equity method amounted to NT\$217,568 thousand and NT\$224,053 thousand, which were 7% and 8% of total assets of the Corporation. For the years ended December 31, 2016 and 2015, investment loss from the aforementioned equity-method investments amounted to NT\$3,130 thousand and NT\$5,469 thousand, which represented (4)% and (7)% of total comprehensive income of the Corporation.

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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the supervisors, are responsible for overseeing the Corporation'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 Corporation'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 Corporation'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 Corporation 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 Corporation 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 statements 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, 2016 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 Wen-Chin Lin and Li-Wen Kuo.



Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2017

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.

SYSCOM COMPUTER ENGINEERING CO.

BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 261,591	9	\$ 285,887	10
Available-for-sale financial assets - current (Notes 4 and 7)	1,049	-	291,416	10
Debt investments with no active market - current (Notes 4, 9 and 26)	78,797	3	120,038	4
Notes receivable (Note 4)	3,103	-	1,266	-
Accounts receivable (Notes 4, 5, 10 and 25)	1,127,457	37	876,187	30
Lease receivables (Note 4)	83	-	-	-
Other receivables	15,550	-	9,540	-
Current tax asset	2,277	-	-	-
Inventories (Notes 4, 5 and 11)	254,835	8	206,964	7
Prepayments	174,378	6	95,704	3
Other current assets	46,851	1	32,702	1
Total current assets	<u>1,965,971</u>	<u>64</u>	<u>1,919,704</u>	<u>65</u>
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4 and 7)	1,509	-	1,521	-
Financial assets measured at cost - non-current (Notes 4 and 8)	3,150	-	3,150	-
Debt investments with no active market - non-current (Notes 4, 9 and 26)	120,006	4	90,342	3
Investments accounted for using equity method (Notes 4 and 12)	415,540	14	450,532	15
Property, plant and equipment (Notes 4, 13 and 26)	492,998	16	452,725	15
Intangible assets (Notes 4 and 14)	7,000	-	7,000	-
Deferred tax assets (Notes 4, 5 and 20)	35,315	1	36,225	1
Long-term lease receivable (Note 4)	2,883	-	762	-
Other non-current assets	21,440	1	12,386	1
Total non-current assets	<u>1,099,841</u>	<u>36</u>	<u>1,054,643</u>	<u>35</u>
TOTAL	<u>\$ 3,065,812</u>	<u>100</u>	<u>\$ 2,974,347</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 15 and 26)	\$ 100,000	3	\$ -	-
Notes payable	12,887	1	13,884	-
Accounts payable (Note 25)	887,934	29	859,819	29
Other payables (Note 16)	154,576	5	168,710	6
Current tax liabilities (Note 4)	-	-	9,590	-
Advances receipts	17,216	1	21,083	1
Other current liabilities	8,570	-	9,002	-
Total current liabilities	<u>1,181,183</u>	<u>39</u>	<u>1,082,088</u>	<u>36</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 20)	13,101	-	16,419	1
Net defined benefits liabilities non-current (Notes 4, 5 and 17)	141,977	5	151,082	5
Guarantee deposits received	10,838	-	6,422	-
Total non-current liabilities	<u>165,916</u>	<u>5</u>	<u>173,923</u>	<u>6</u>
Total liabilities	<u>1,347,099</u>	<u>44</u>	<u>1,256,011</u>	<u>42</u>
EQUITY (Notes 4, 18 and 20)				
Share capital	<u>1,000,000</u>	<u>33</u>	<u>1,000,000</u>	<u>34</u>
Capital surplus	511	-	511	-
Retained earnings				
Legal reserve	228,177	7	221,635	7
Special reserve	17,619	1	17,619	1
Unappropriated earnings	471,900	15	468,329	16
Total retained earnings	<u>717,696</u>	<u>23</u>	<u>707,583</u>	<u>24</u>
Other equity	506	-	10,242	-
Total equity	<u>1,718,713</u>	<u>56</u>	<u>1,718,336</u>	<u>58</u>
TOTAL	<u>\$ 3,065,812</u>	<u>100</u>	<u>\$ 2,974,347</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 22, 2017)

SYSCOM COMPUTER ENGINEERING CO.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4, 5 and 25)				
Sales	\$ 2,457,508	74	\$ 2,598,948	79
Rental revenue	19,917	1	13,593	-
Maintenance	<u>824,402</u>	<u>25</u>	<u>675,200</u>	<u>21</u>
Net operating revenues	<u>3,301,827</u>	<u>100</u>	<u>3,287,741</u>	<u>100</u>
OPERATING COSTS (Notes 4, 11, 19 and 25)				
Cost of goods sold	1,823,731	55	1,921,395	58
Rental cost	17,322	-	11,312	-
Maintenance cost	<u>684,593</u>	<u>21</u>	<u>577,684</u>	<u>18</u>
Total operating costs	<u>2,525,646</u>	<u>76</u>	<u>2,510,391</u>	<u>76</u>
GROSS PROFIT	<u>776,181</u>	<u>24</u>	<u>777,350</u>	<u>24</u>
OPERATING EXPENSES (Notes 19 and 25)				
Selling and marketing expenses	522,275	16	554,471	17
Research and development expenses	<u>189,747</u>	<u>6</u>	<u>131,477</u>	<u>4</u>
Total operating expenses	<u>712,022</u>	<u>22</u>	<u>685,948</u>	<u>21</u>
PROFIT FROM OPERATING	<u>64,159</u>	<u>2</u>	<u>91,402</u>	<u>3</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4, 19 and 25)	32,098	1	29,633	1
Other gains and losses (Notes 4 and 19)	(1,643)	-	(3,035)	-
Finance costs (Note 19)	(34)	-	(3)	-
Share of profit or loss of associates and joint ventures (Note 4)	<u>(22,775)</u>	<u>(1)</u>	<u>(38,584)</u>	<u>(2)</u>
Total non-operating income and expenses	<u>7,646</u>	<u>-</u>	<u>(11,989)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	71,805	2	79,413	2
INCOME TAX EXPENSE (Notes 4 and 20)	<u>5,336</u>	<u>-</u>	<u>13,996</u>	<u>-</u>
NET PROFIT	<u>66,469</u>	<u>2</u>	<u>65,417</u>	<u>2</u>

(Continued)

SYSCOM COMPUTER ENGINEERING CO.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
(Notes 17, 18 and 20)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ (7,767)	-	\$ (22,675)	(1)
Share of the other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method	90	-	(637)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	1,321	-	3,855	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(9,529)	-	2,108	-
Unrealized gain on available-for-sale financial assets	(458)	-	13	-
Share of the other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method	(2,778)	-	(780)	-
Income tax relating to items that may be reclassified to profit or loss	<u>3,029</u>	-	<u>(686)</u>	-
Other comprehensive income (loss) for the year, net of income tax	<u>(16,092)</u>	-	<u>(18,802)</u>	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 50,377</u>	<u>2</u>	<u>\$ 46,615</u>	<u>1</u>
EARNINGS PER SHARE (Note 21)				
Basic	<u>\$ 0.66</u>		<u>\$ 0.65</u>	
Diluted	<u>\$ 0.66</u>		<u>\$ 0.65</u>	

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

(With Deloitte & Touche audit report dated March 22, 2017)

(Concluded)

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)**

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated March 22, 2017)

SYSCOM COMPUTER ENGINEERING CO.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 71,805	\$ 79,413
Adjustments for:		
Depreciation expenses	77,137	78,710
Finance costs	34	3
Interest income	(3,467)	(3,225)
Dividend income	(65)	(73)
Share of loss of subsidiaries, associates and joint ventures	22,775	38,584
Loss on disposal of property, plant and equipment	24	783
Net gain on disposal of available-for-sale financial assets	(1,266)	(1,462)
Write-down of (reversal of) inventories	1,178	(1,417)
Net gain on foreign currency exchange	(380)	(1,431)
Changes in operating assets and liabilities		
Notes receivable	(1,837)	5,081
Accounts receivable	(251,270)	366,017
Other receivables	(6,010)	(3,702)
Inventories	(53,951)	77,869
Prepayments	(78,674)	13,451
Other current assets	(5,789)	(9,724)
Lease receivable	(2,204)	43
Notes payable	(997)	13,529
Accounts payable	28,664	(224,004)
Other payables	(14,134)	(11,589)
Receipts in advance	(3,867)	(4,497)
Current liabilities	(368)	1,203
Net defined benefits liabilities	(16,872)	1,294
Cash (used in) generated from operations	(239,534)	414,856
Interest received	3,467	3,225
Dividend received	65	73
Interest paid	(34)	(3)
Income tax paid	(15,261)	(15,157)
Net cash (used in) generated from operating activities	(251,297)	402,994
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(675,000)	(1,350,000)
Proceeds from sale of available-for-sale financial assets	966,187	1,187,508
Purchase of debt investments with no active market	-	(22,315)
Proceeds from sale of debt investments with no active market	11,577	-
Payments for property, plant and equipment	(112,582)	(54,252)
Proceeds from disposal of property, plant and equipment	50	214
Increase in refundable deposits	(17,414)	(9,523)
Payments for intangible assets	-	(7,000)
Net cash generated from (used in) investing activities	172,818	(255,368)

(Continued)

SYSCOM COMPUTER ENGINEERING CO.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	\$ 100,000	\$ -
Proceeds from guarantee deposits received	4,352	236
Cash dividends paid	<u>(50,000)</u>	<u>(60,000)</u>
Net cash generated from (used in) financing activities	<u>54,352</u>	<u>(59,764)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(169)</u>	<u>281</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(24,296)	88,143
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>285,887</u>	<u>197,744</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 261,591</u>	<u>\$ 285,887</u>

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

(With Deloitte & Touche audit report dated March 22, 2017)

(Concluded)

SYSCOM COMPUTER ENGINEERING CO.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

1. GENERAL INFORMATION

Syscom Computer Engineering Co. (the "Corporation") was incorporated in July 1975. The Corporation mainly leases and sells computer systems and designs computer software. It also provides services on the integration of computer information system and maintenance of computer hardware.

The Corporation's stock has been listed on the Taiwan Stock Exchange since May 22, 2001.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation's board of directors on March 22, 2017.

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

- a. 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) endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Corporation should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014

(Continued)

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014
	(Concluded)

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

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Corporation’s accounting policies, except for the following:

- 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 by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include 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, or is the spouse or second immediate family of the chairman of the board of directors or president of the Corporation are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Corporation has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Corporation’s respective total transaction or balance, such transaction 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 after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

As of the date the consolidated statements were authorized for issue, the Corporation continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Corporation's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Corporation has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 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
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

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

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Corporation's accounting policies, except for the following:

1) IFRS 9 "Financial Instruments"

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

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. 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 the collecting of contractual cash flows and the selling of 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 gain or loss 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 Corporation 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.

Impairment of financial assets

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily 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 the 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 Corporation 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.

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

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 from January 1, 2018.

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.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Corporation regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

When IFRS 15 and related amendment are effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers as endorsed and issued into effect by the FSC.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

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

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

When preparing its parent company only financial statements, the Corporation 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 Corporation in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only 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 the 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 Corporation 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 Corporation's financial statements, transactions in currencies other than the Corporation's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising 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 case, the exchange differences are also recognized directly in other comprehensive income.

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

For the purpose of presenting financial statements, the functional currencies of the Corporation (including subsidiaries, associates, joint ventures and branches in other countries that use currency different from the currency of the Corporation) 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 are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The cost of the prepayments for contracts was calculated by each contract. 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 stated at weighted-average cost.

f. Investments accounted for using equity method

The Corporation used the equity method to account for its investments in subsidiaries, associates and joint ventures.

1) Investment in subsidiaries

Subsidiaries are the entities controlled by the Corporation.

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

Changes in the Corporation's ownership interests in subsidiaries that do not result in the Corporation's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

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

Any excess of the cost of acquisition over the Corporation'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 Corporation'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 Corporation 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 Corporation 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 Corporation 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 Corporation 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 Corporation 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 financial statements only to the extent of interests in the subsidiaries of parties that are not related to the Corporation.

2) Investment in associates and joint venture

An associate is an entity over which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Corporation that has joint control of the arrangement have rights to the net assets of the arrangement.

The Corporation uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate and joint venture. The Corporation also recognizes the changes in the Corporation's share of the equity of associates and joint venture.

When the Corporation subscribes for additional new shares of the associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Corporation's proportionate interest in the associate and joint venture. The Corporation records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Corporation's share of the equity of associates and joint ventures. If the Corporation's ownership interest is reduced due to the additional subscription of the new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When the Corporation transacts with its associate and jointly controlled entity, profits and losses resulting from the transactions with the associate are recognized in the financial statements only to the extent of interests in the associate and the joint venture that are not related to the Corporation.

g. Property, plant and equipment

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

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 on a prospective basis.

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

h. 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 on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

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 Corporation reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, 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 in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

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

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

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit 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 Corporation 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 are classified into the following categories: Available-for-sale financial assets and loans and receivables.

i. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Corporation's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

ii. Loans and receivables

Loans and receivables (including cash and cash equivalents, notes and accounts receivable, other receivables, and debt investments with no active market) 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 equivalent includes time deposits with original maturities within three months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

Financial assets 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 that, 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.

For financial assets carried at amortized cost, such as accounts receivables are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60-120 days, as well as observable changes in national or local economic conditions that correlate with 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables where the carrying amount is reduced through the use of an allowance account. When an accounts receivable is considered uncollectible, it is 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 uncollectible accounts receivables that are written off against the allowance account.

c) Derecognition of financial assets

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

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

2) 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. Allowance for sales and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

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

- a) The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Corporation 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 Corporation; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specially, sale of goods are recognized when the goods are delivered and the legal ownership is transferred.

2) Rendering of services

Service income is recognized when services are provided.

3) Contract revenue

When the outcome of a contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred to date relative to the estimated total contract costs.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

4) Dividend and interest income

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

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

1. Amounts due from/to customers for contracts

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet as a liability, as prepayments. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under Accounts receivables.

m. Leasing

Leases are classified as finance lease 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 Corporation as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Corporation's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Corporation's net investment outstanding in respect of the leases.

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

2) The Corporation as lessee

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

n. Government grants

Government grants are not recognized until there is reasonable assurance that the Corporation will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Corporation recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Corporation should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Corporation with no future related costs are recognized in profit or loss in the period in which they become receivable.

o. Employee benefits

1) Short-term employee benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefit expenses in the period they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Corporation's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

p. 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 the earnings.

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

2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, research and development expenditures and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, except where the Corporation 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 in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Corporation takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (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.

b. Write-down of inventory

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

c. Recognition and measurement of defined benefit plans

The net defined benefit liabilities and the resulting defined benefit costs under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expenses and the liabilities.

d. Revenue recognition

Contract revenue is recognized by reference to the stage of completion of each contract. The stage of completion of the contract is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The Corporation estimated the total contract cost upon signing the contract. If the estimated cost changes, the Corporation amends the percentage of completion and the related contract revenue.

e. Income taxes

As of December 31, 2016 and 2015, the carrying amount of deferred tax assets in relation to unused tax losses was \$35,315 thousand and \$36,225 thousand, respectively. As of December 31, 2016 and 2015, no deferred tax asset has been recognized on tax losses of \$21 thousand and of \$1,505 thousand, respectively, due to the unpredictability of future profit streams. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Checking accounts and demand deposits	\$ 251,156	\$ 209,365
Time deposits with original maturities less than 3 months	10,000	75,976
Cash on hand	<u>435</u>	<u>546</u>
	<u>\$ 261,591</u>	<u>\$ 285,887</u>

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

	December 31	
	2016	2015
Bank demand deposits	0.08%	0.13%
Time deposits with original maturities less than 3 months	0.81%	0.80%-0.94%

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2016	2015
<u>Domestic investments</u>		
Mutual funds	\$ 1,049	\$ 291,416
Domestic quoted shares	<u>1,509</u>	<u>1,521</u>
	<u>\$ 2,558</u>	<u>\$ 292,937</u>
Current	\$ 1,049	\$ 291,416
Noncurrent	<u>1,509</u>	<u>1,521</u>
	<u>\$ 2,558</u>	<u>\$ 292,937</u>

8. FINANCIAL ASSETS MEASURED AT COST - NONCURRENT

	December 31	
	2016	2015
Domestic unlisted ordinary shares	\$ 3,150	\$ 3,150
Classified according to financial asset measurement categories		
Available-for-sale financial assets	\$ 3,150	\$ 3,150

Management believed that the fair value of the above unlisted equity investments held by the Corporation cannot be reliably measured because of the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of reporting period.

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2016	2015
Pledged time deposits	\$ 172,421	\$ 152,795
Time deposits with original maturities more than 3 months	26,382	57,585
	<u>\$ 198,803</u>	<u>\$ 210,380</u>
Current	\$ 78,797	\$ 120,038
Noncurrent	120,006	90,342
	<u>\$ 198,803</u>	<u>\$ 210,380</u>

The market interest rates of the time deposits with original maturity more than 3 months were 0.63%-1.425% and 0.94%-1.425% per annum, respectively, as of December 31, 2016 and 2015.

Refer to Note 26 for information relating to debt investments with no active market pledged as security.

10. ACCOUNTS RECEIVABLE

	December 31	
	2016	2015
Accounts receivable	\$ 920,278	\$ 767,181
Amount due from customers for contracts	207,948	109,775
Less: Allowance for impairment loss	(769)	(769)
	<u>\$ 1,127,457</u>	<u>\$ 876,187</u>

The average credit period of sales of goods was 60 to 120 days. In determining the recoverability of an accounts receivable, the Corporation considered any change in the credit quality of the accounts receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss were recognized based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial positions.

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

The aging of receivables was as follows:

	December 31	
	2016	2015
Less than 60 days	\$ 857,659	\$ 717,011
61-90 days	20,994	23,411
91-120 days	31,350	20,908
Over 121 days	<u>10,275</u>	<u>5,851</u>
	<u>\$ 920,278</u>	<u>\$ 767,181</u>

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

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

	December 31	
	2016	2015
Over 121 days	<u>\$ 9,506</u>	<u>\$ 5,082</u>

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

The allowance for impairment loss on accounts receivable did not change in 2016 and 2015.

11. INVENTORIES

	December 31	
	2016	2015
Commodities	\$ 171,546	\$ 69,208
Prepayments for contracts	65,593	71,046
Inventories in transit	17,011	65,658
Maintenance materials	<u>685</u>	<u>1,052</u>
	<u>\$ 254,835</u>	<u>\$ 206,964</u>

Costs incurred on contracts not yet completed are recognized as inventories. The commodities mainly consisted of computer hardware and software.

The cost of goods sold for the years ended December 31, 2016 and 2015 included inventory write-downs of \$1,178 thousand and reversal of inventory write-downs of \$1,417 thousand, respectively. Previous write-downs were reversed after the inventories were sold.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2016	2015
Investments in subsidiaries	\$ 282,416	\$ 312,937
Investments in associates	82,721	87,983
Investments in joint venture	<u>50,403</u>	<u>49,612</u>
	<u>\$ 415,540</u>	<u>\$ 450,532</u>

Investments in Subsidiaries

	December 31	
Name of Subsidiaries	2016	2015
Unlisted company		
CASEMaker, Inc.	\$ 129,103	\$ 133,316
Syscom International Inc.	64,848	88,884
WiseMaker Technology Co.	48,016	45,903
Netmaker Technology Co.	32,953	36,896
Syscom Vietnam Co., Ltd.	4,084	5,649
Coach Tech Management Co.	2,037	1,463
Syscom Computer (Thailand) Co., Ltd.	<u>1,375</u>	<u>826</u>
	<u>\$ 282,416</u>	<u>\$ 312,937</u>

At the end of the reporting period, the proportions of ownership and voting rights in subsidiaries held by the Corporation were as follows:

	December 31	
Name of Subsidiaries	2016	2015
CASEMaker, Inc.	100.00%	100.00%
Syscom International Inc.	100.00%	100.00%
WiseMaker Technology Co.	98.68%	98.68%
Netmaker Technology Co.	75.50%	75.50%
Syscom Vietnam Co., Ltd.	100.00%	100.00%
Coach Tech Management Co.	97.50%	97.50%
Syscom Computer (Thailand) Co., Ltd.	89.77%	89.77%

The investments in subsidiaries 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, 2016 and 2015 were based on the subsidiaries' financial statements audited by auditors for the same years.

Investment in Associates

	December 31	
	2016	2015
<u>Associates that are not individually material</u>		
Listed company		
Dimension Computer Technology Co., Ltd.	\$ 70,836	\$ 78,590
Unlisted company		
DBMaker Japan Inc.	<u>11,885</u>	<u>9,393</u>
	<u>\$ 82,721</u>	<u>\$ 87,983</u>

As the end of the reporting period, the proportions of ownership and voting rights in associates held by the Corporation were as follows:

Name of Associates	December 31	
	2016	2015
Dimension Computer Technology Co., Ltd.	17.62%	17.62%
DBMaker Japan Inc.	49.89%	49.89%

Fair values (Level 1) of investments in associates with available published price quotation are summarized as follows:

Name of Associates	December 31	
	2016	2015
Dimension Computer Technology Co., Ltd.	<u>\$ 79,755</u>	<u>\$ 72,658</u>

The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Corporation for equity accounting purposes.

	For the Year Ended December 31	
	2016	2015
The Corporation's share of:		
Net profit (loss) for the year	\$ (2,260)	\$ (2,451)
Other comprehensive income (loss)	<u>(3,002)</u>	<u>39</u>
Total comprehensive loss for the year	<u>\$ (5,262)</u>	<u>\$ (2,412)</u>

Except for DBMaker Japan Inc., investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have been audited. Management believes there is no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income, from the financial statements of DBMaker Japan Inc. that have not been audited.

Investment in Joint Venture

	December 31	
	2016	2015
Joint ventures that are not individually material		
CloudMaster Co., Ltd. ("CloudMaster")	<u>\$ 50,403</u>	<u>\$ 49,612</u>

At the end of the reporting period, the proportion of ownership and voting rights in jointly controlled entities held by the Corporation were as follows:

	December 31	
Name of Associate	2016	2015
CloudMaster	50.00%	50.00%

The summarized financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with IFRSs adjusted by the Corporation for equity accounting purposes.

	For the Year Ended December 31	
	2016	2015
The Corporation's share of:		
Net profit (loss) for the year	\$ 678	\$ (4,918)
Other comprehensive income	<u>113</u>	<u>141</u>
Total comprehensive income (loss) for the year	<u>\$ 791</u>	<u>\$ (4,777)</u>

In March 2013, under the authorization of the Investment Commission of the Ministry of Economic Affairs, the Corporation incorporated CloudMaster under the joint venture agreement and had 50% of ownership. CloudMaster provides services in information software, data processing and electronic information. Under the joint venture agreement, in the meetings of the board of directors and the shareholders of CloudMaster, majority rule shall prevail. However, the Corporation's seat in CloudMaster's board of director does not exceed half of the board. Besides, under CloudMaster's policies, significant strategic decisions should be made by unanimous agreement of the shareholders of both entities, and the Corporation has no right to obtain the variable rewards which is unavailable to CloudMaster's shareholders and does not have direct ability to affect the rewards from investing in CloudMaster. As a result, the Corporation has no control over CloudMaster.

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, 2016 and 2015 were based on the associates' financial statements audited by auditors for the same years.

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Maintenance Equipment	Computer Equipment	Leasehold Improvements	Others	Total
<u>Cost</u>							
Balance at January 1, 2015	\$ 116,553	\$ 83,229	\$ 173,113	\$ 183,005	\$ 83,130	\$ 74,315	\$ 713,345
Additions	-	-	3,104	46,522	3,154	1,472	54,252
Disposals	-	-	(39,419)	(17,077)	-	(1,382)	(57,878)
Reclassification	-	-	8,182	(550)	-	-	7,632
Balance at December 31, 2015	<u>\$ 116,553</u>	<u>\$ 83,229</u>	<u>\$ 144,980</u>	<u>\$ 211,900</u>	<u>\$ 86,284</u>	<u>\$ 74,405</u>	<u>\$ 717,351</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2015	\$ -	\$ 30,505	\$ 103,734	\$ 78,885	\$ 21,863	\$ 7,861	\$ 242,848
Depreciation expense	-	1,410	24,001	32,615	8,157	12,527	78,710
Disposals	-	-	(38,533)	(17,074)	-	(1,274)	(56,881)
Reclassification	-	-	-	(51)	-	-	(51)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 31,915</u>	<u>\$ 89,202</u>	<u>\$ 94,375</u>	<u>\$ 30,020</u>	<u>\$ 19,114</u>	<u>\$ 264,626</u>
Carrying amounts at December 31, 2015	<u>\$ 116,553</u>	<u>\$ 51,314</u>	<u>\$ 55,778</u>	<u>\$ 117,525</u>	<u>\$ 56,264</u>	<u>\$ 55,291</u>	<u>\$ 452,725</u>
<u>Cost</u>							
Balance at January 1, 2016	\$ 116,553	\$ 83,229	\$ 144,980	\$ 211,900	\$ 86,284	\$ 74,405	\$ 717,351
Additions	-	-	7,294	26,995	490	77,803	112,582
Disposals	-	-	(561)	(420)	-	-	(981)
Reclassification	-	-	2,217	2,685	-	-	4,902
Balance at December 31, 2016	<u>\$ 116,553</u>	<u>\$ 83,229</u>	<u>\$ 153,930</u>	<u>\$ 241,160</u>	<u>\$ 86,774</u>	<u>\$ 152,208</u>	<u>\$ 833,854</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2016	\$ -	\$ 31,915	\$ 89,202	\$ 94,375	\$ 30,020	\$ 19,114	\$ 264,626
Depreciation expense	-	1,410	19,063	33,873	8,590	14,201	77,137
Disposals	-	-	(526)	(381)	-	-	(907)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 33,325</u>	<u>\$ 107,739</u>	<u>\$ 127,867</u>	<u>\$ 38,610</u>	<u>\$ 33,315</u>	<u>\$ 340,856</u>
Carrying amounts at December 31, 2016	<u>\$ 116,553</u>	<u>\$ 49,904</u>	<u>\$ 46,191</u>	<u>\$ 113,293</u>	<u>\$ 48,164</u>	<u>\$ 118,893</u>	<u>\$ 492,998</u>

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

Buildings	50-60 years
Maintenance equipment	3-6 years
Computer equipment	3-6 years
Leasehold improvements	5-10 years
Others	
Research and development equipment	3 years
Furniture and fixtures	5-8 years
Transportation equipment	5 years
Equipment under capital leases	6 years

Refer to Note 26 for the carrying amount of property, plant and equipment pledged by the Corporation to secure borrowings and general banking facilities granted to the Corporation.

14. INTANGIBLE ASSETS

	For the Year Ended December 31	
	2016	2015
<u>Customer relations</u>		
Balance at January 1	\$ 7,000	\$ -
Additions	<u>-</u>	<u>7,000</u>
Balance at December 31	<u>\$ 7,000</u>	<u>\$ 7,000</u>

The value of customer relations is recognized as intangible asset based on the expected benefit from sustainable partnership with the customers. The Corporation expects to gain economic benefits from the intangible asset, but its economic life cannot be estimated. Therefore, the asset is assessed for impairment annually or when there is indication of impairment.

There was no indication of impairment for the years ended December 31, 2016 and 2015.

15. BORROWINGS

	December 31	
	2016	2015
<u>Unsecured borrowing</u>		
Line of credit borrowings	<u>\$ 100,000</u>	<u>\$ -</u>

The range of weighted average effective interest rate on bank loans was 1.40%-1.55% per annum as of December 31, 2016.

16. OTHER PAYABLES

	December 31	
	2016	2015
Payable for salaries or bonus	\$ 90,729	\$ 111,018
Payable for value-added tax	21,511	20,993
Payable for insurance	11,124	10,521
Payable for pension	10,836	9,660
Payable for annual leave	5,214	2,647
Other	<u>15,162</u>	<u>13,871</u>
	<u>\$ 154,576</u>	<u>\$ 168,710</u>

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The defined benefit plan adopted by the Corporation in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Corporation has no right to influence the investment policy and strategy.

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

	December 31	
	2016	2015
Present value of defined benefit obligation	\$ 211,024	\$ 208,545
Fair value of plan assets	<u>(69,047)</u>	<u>(57,463)</u>
Net defined benefit liability	<u>\$ 141,977</u>	<u>\$ 151,082</u>

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2015	<u>\$ 186,276</u>	<u>\$ (59,163)</u>	<u>\$ 127,113</u>
Current service cost	700	-	700
Net interest expense (income)	<u>3,100</u>	<u>(940)</u>	<u>2,160</u>
Recognized in profit or loss	<u>3,800</u>	<u>(940)</u>	<u>2,860</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(630)	(630)
Actuarial loss - changes in financial assumptions	12,274	-	12,274
Actuarial loss - experience adjustments	<u>11,031</u>	<u>-</u>	<u>11,031</u>
Recognized in other comprehensive income	<u>23,305</u>	<u>(630)</u>	<u>22,675</u>
Contributions from the employer	-	(1,566)	(1,566)
Benefits paid	<u>(4,836)</u>	<u>4,836</u>	<u>-</u>
Balance at December 31, 2015	<u>208,545</u>	<u>(57,463)</u>	<u>151,082</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Current service cost	\$ 765	\$ -	\$ 765
Net interest expense (income)	<u>2,239</u>	<u>(578)</u>	<u>1,661</u>
Recognized in profit or loss	<u>3,004</u>	<u>(578)</u>	<u>2,426</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	134	134
Actuarial loss - changes in financial assumptions	(3,083)	-	(3,083)
Actuarial loss - experience adjustments	<u>10,716</u>	<u>-</u>	<u>10,716</u>
Recognized in other comprehensive income	<u>7,633</u>	<u>134</u>	<u>7,767</u>
Contributions from the employer	-	(19,298)	(19,298)
Benefits paid	<u>(8,158)</u>	<u>8,158</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 211,024</u>	<u>\$ (69,047)</u>	<u>\$ 141,977</u> (Concluded)

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

	For the Year Ended December 31	
	2016	2015
Operating expenses	<u>\$ 2,426</u>	<u>\$ 2,860</u>

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

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

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

	December 31	
	2016	2015
Discount rate	1.25%	1.10%
Expected rate of salary increase	2.00%	2.00%

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

	December 31	
	2016	2015
Discount rate		
0.25% increase	<u>\$ (4,998)</u>	<u>\$ (5,244)</u>
0.25% decrease	<u>\$ 5,175</u>	<u>\$ 5,440</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 5,123</u>	<u>\$ 5,377</u>
0.25% decrease	<u>\$ (4,974)</u>	<u>\$ (5,211)</u>

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

	December 31	
	2016	2015
The expected contributions to the plan for the next year	<u>\$ 7,200</u>	<u>\$ 160</u>
The average duration of the defined benefit obligation	10 years	10 years

18. EQUITY

a. Share capital

	December 31	
	2016	2015
Number of shares authorized (in thousands)	<u>157,000</u>	<u>157,000</u>
Shares authorized	<u>\$ 1,570,000</u>	<u>\$ 1,570,000</u>
Number of shares issued and fully paid (in thousands)	<u>100,000</u>	<u>100,000</u>
Shares issued	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

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

b. Capital surplus

The capital surplus from investment accounted for using equity method may not be used for any purpose.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 16, 2016 and, in that meeting, had resolved amendments to the Corporation'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 Corporation 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 Corporation'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, please refer to e. employee benefits expense in Note 19.

The Corporation distributes both cash and stock dividends, taking into account its profitability, future capital expenditure requirements and cash position. The distribution of cash dividends should not be less than 10% of the total dividends of the year. The Corporation may raise the percentage of cash dividend distribution only if the Corporation's earnings and cash position are strong.

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

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

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 Corporation.

The appropriations of earnings for 2015 and 2014 had been approved in the shareholders' meetings on June 6, 2016 and June 15, 2015, respectively, as follows:

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2015	2014	2015	2014
Legal reserve	\$ 6,542	\$ 9,718		
Cash dividends	<u>50,000</u>	<u>60,000</u>	\$0.5	\$0.6
	<u>\$ 56,542</u>	<u>\$ 69,718</u>		

The appropriations of earnings for 2016 had been proposed by the Corporation's board of directors on March 23, 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 6,647	
Cash dividends	50,000	\$0.5

The appropriations of earnings for 2016 are subject to the resolution in the shareholders' meeting to be held on June 13, 2017.

d. Special reserves

On first-time adoption of IFRSs, the Corporation appropriated for special reserve, the amount that was the same as the cumulative translation differences transferred to retained earnings, which was \$17,619 thousand.

e. Other equities

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ 10,146	\$ 9,499
Exchange differences arising on translating the financial statements foreign operations	(9,529)	2,108
Share of exchange differences of subsidiaries, associates, and joint ventures accounted for using the equity method	(2,778)	(775)
Income tax related to gains arising on translating the net assets of foreign operations	<u>3,029</u>	<u>(686)</u>
Balance at December 31	<u>\$ 868</u>	<u>\$ 10,146</u>

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ 96	\$ 88
Unrealized gain arising on revaluation of available-for-sale financial assets	(458)	13
Share of unrealized gain on revaluation of available-for-sale financial assets of subsidiaries and associates accounted for using the equity method	<u>-</u>	<u>(5)</u>
Balance at December 31	<u>\$ (362)</u>	<u>\$ 96</u>

19. NET PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS) FROM CONTINUING OPERATIONS

Net profit (loss) from continuing operation included the following items:

a. Other income

	For the Year Ended December 31	
	2016	2015
Government grant	\$ 11,932	\$ 5,650
Rental income	6,344	7,239
Interest income	3,467	3,225
Others	<u>10,355</u>	<u>13,519</u>
	<u>\$ 32,098</u>	<u>\$ 29,633</u>

b. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Gain on disposal of available-for-sale financial assets	\$ 1,266	\$ 1,462
Loss on disposal of property, plant and equipment	(24)	(783)
Net foreign exchange (losses) gains	(349)	83
Others	<u>(2,536)</u>	<u>(3,797)</u>
	<u>\$ (1,643)</u>	<u>\$ (3,035)</u>

c. Finance costs

	For the Year Ended December 31	
	2016	2015
Interest on bank loans	\$ <u>34</u>	\$ <u>3</u>

d. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
<u>Property, plant and equipment</u>		
An analysis of depreciation by function		
Operating costs	\$ 11,568	\$ 9,427
Operating expenses	<u>65,569</u>	<u>69,283</u>
	<u>\$ 77,137</u>	<u>\$ 78,710</u>

e. Employee benefit expense

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits		
Salary	\$ 776,706	\$ 763,087
Labor and health Insurance	70,934	67,907
Others	<u>30,887</u>	<u>28,102</u>
	<u>878,527</u>	<u>859,096</u>
Post-employment benefits (Note 17)		
Defined contribution plans	40,164	37,768
Defined benefit plans	<u>2,426</u>	<u>2,860</u>
	<u>42,590</u>	<u>40,628</u>
Total employee benefits expense	<u>\$ 921,117</u>	<u>\$ 899,724</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 392,356	\$ 394,767
Operating expenses	<u>528,761</u>	<u>504,957</u>
	<u>\$ 921,117</u>	<u>\$ 899,724</u>

1) Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Corporation approved by the shareholders in their meeting on June 16, 2016, the Corporation accrues employees' compensation at rates no less than 3% of net profit before income tax and employees' compensation.

The Corporation accrued employees' compensation in the amounts of \$2,250 thousand and \$2,460 thousand representing 3.04% and 3.01% of net profit before tax for the years ended December 31, 2016 and 2015, respectively. There was no accrual for remuneration of directors and supervisors for the years ended December 31, 2016 and 2015. The accrued amounts of employees' compensation and zero remuneration of directors and supervisors for 2016 have been approved by the Corporation's board of directors on March 22, 2017 and for 2015 approved on March 23, 2016.

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 year ended December 31, 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees for the year ended December 31, 2014 in the amount of \$1,000 thousand was distributed in cash as approved in the shareholders' meeting on June 15, 2015. There was no difference between the amount approved in the shareholders' meeting and the amount recognized in the financial statements for the year ended December 31, 2014. There was no accrual for remuneration of directors and supervisors for 2014.

Information on the bonus to employees and remuneration of directors and supervisors resolved by the shareholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

20. INCOME TAXES RELATING TO CONTINUING OPERATIONS

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

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	\$ 8,513	\$ 19,671
Income tax on unappropriated earnings	-	1,734
Adjustments for prior years	(5,119)	(5,312)
Deferred tax		
In respect of the current year	<u>1,942</u>	<u>(2,097)</u>
Income tax expense recognized in profit or loss	<u>\$ 5,336</u>	<u>\$ 13,996</u>

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

	For the Year Ended December 31	
	2016	2015
Profit before tax from continuing operations	<u>\$ 71,805</u>	<u>\$ 79,413</u>
Income tax expense calculated at the statutory rate	\$ 12,207	\$ 13,500
Nondeductible expenses in determining taxable income	940	1,789
Tax-exempt income	(226)	(261)
Additional income tax under the Alternative Minimum Tax Act	11	-
Investment credits applied	(3,644)	-
Income tax on unappropriated earnings	-	1,734
Unrecognized deductible temporary differences	1,167	2,546
Adjustments for prior years' tax	<u>(5,119)</u>	<u>(5,312)</u>
Income tax expense recognized in profit or loss	<u>\$ 5,336</u>	<u>\$ 13,996</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Corporation.

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

b. Deferred tax assets and liabilities

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

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized write-downs of inventory	\$ 10,091	\$ 200	\$ -	\$ 10,291
Defined benefit obligation	25,684	(2,868)	1,321	24,137
Others	<u>450</u>	<u>437</u>	<u>-</u>	<u>887</u>
	<u>\$ 36,225</u>	<u>\$ (2,231)</u>	<u>\$ 1,321</u>	<u>\$ 35,315</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Subsidiaries and associates	\$ (13,384)	\$ 283	\$ -	\$ (13,101)
Exchange difference on foreign operations	(3,029)	-	3,029	-
Others	<u>(6)</u>	<u>6</u>	<u>-</u>	<u>-</u>
	<u>\$ (16,419)</u>	<u>\$ 289</u>	<u>\$ 3,029</u>	<u>\$ (13,101)</u>

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized write-downs of inventory	\$ 10,332	\$ (241)	\$ -	\$ 10,091
Defined benefit obligation	20,009	1,820	3,855	25,684
Others	<u>570</u>	<u>(120)</u>	<u>-</u>	<u>450</u>
	<u>\$ 30,911</u>	<u>\$ 1,459</u>	<u>\$ 3,855</u>	<u>\$ 36,225</u>

Deferred tax liabilities

Temporary differences				
Subsidiaries and associates	\$ (14,008)	\$ 624	\$ -	\$ (13,384)
Exchange difference on foreign operations	(2,343)	-	(686)	(3,029)
Others	<u>(20)</u>	<u>14</u>	<u>-</u>	<u>(6)</u>
	<u>\$ (16,371)</u>	<u>\$ 638</u>	<u>\$ (686)</u>	<u>\$ (16,419)</u>

c. Integrated income tax

	<u>December 31</u>	
	2016	2015
Unappropriated earnings		
Generated before January 1, 1998	\$ 280,351	\$ 280,351
Generated on and after January 1, 1998	<u>191,549</u>	<u>187,978</u>
	<u>\$ 471,900</u>	<u>\$ 468,329</u>
Shareholder-imputed credit account	<u>\$ 24,621</u>	<u>\$ 30,668</u>
	<u>\$ 496,521</u>	<u>\$ 509,007</u>
	<u>For the Year Ended December 31</u>	
	2016	2015
	(Expected)	(Actual)
Creditable ratios for distribution of earning	12.85%	19.19%

d. Income tax assessments

The tax returns through 2014 have been assessed by the tax authorities.

21. EARNINGS PER SHARE

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

Net Profit for the Year

	For the Year Ended December 31	
	2016	2015
Earnings used in the computation of basic earnings per share	<u>\$ 66,469</u>	<u>\$ 65,417</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 66,469</u>	<u>\$ 65,417</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	(In Thousands of Shares)	
	For the Year Ended December 31	
	2016	2015
Weighted average number of ordinary shares in computation of basic earnings per share	100,000	100,000
Effect of potentially dilutive ordinary shares		
Employees' compensation	<u>257</u>	<u>273</u>
Weighted average number of common shares used in the computation of diluted earnings per share	<u>100,257</u>	<u>100,273</u>

Since the Corporation offered to settle compensation paid to employees in cash or shares, the Corporation assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

22. OPERATING LEASE ARRANGEMENTS

Operating leases relate to leases of office with lease terms between 1 and 10 years. All operating lease contracts over 5 years contain clauses for 5-yearly market rental reviews. The Corporation does not have a bargain purchase option to acquire the leased office at the expiration of the lease periods.

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

	December 31	
	2016	2015
Not later than 1 year	\$ 36,480	\$ 36,480
Later than 1 year and not later than 5 years	143,890	144,730
Later than 5 years	<u>35,640</u>	<u>71,280</u>
	<u>\$ 216,010</u>	<u>\$ 252,490</u>

23. CAPITAL MANAGEMENT

The Corporation manages its capital to ensure that entities in the Corporation will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Corporation's overall strategy remains unchanged from 2013.

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

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

Key management personnel of the Corporation review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Corporation may adjust the amount of dividends paid to shareholders, or the amount of new debt issued or existing debt redeemed.

24. FINANCIAL INSTRUMENTS

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

Except for those equity investments that do not have a quoted market price in an active market (accounted for as financial assets carried at cost), the Corporation's management believes the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values or their fair values cannot be reliably measured.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2016</u>				
Available-for-sale financial assets				
Mutual funds	\$ 1,049	\$ -	\$ -	\$ 1,049
Securities listed in ROC - equity securities	<u>1,509</u>	<u>-</u>	<u>-</u>	<u>1,509</u>
	<u>\$ 2,558</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,558</u>
<u>December 31, 2015</u>				
Available-for-sale financial assets				
Mutual funds	\$ 291,416	\$ -	\$ -	\$ 291,416
Securities listed in ROC - equity securities	<u>1,521</u>	<u>-</u>	<u>-</u>	<u>1,521</u>
	<u>\$ 292,937</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 292,937</u>

There were no transfers between Levels 1 and 2 in the current and prior periods.

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Financial assets</u>		
Loans and receivables (1)	\$ 1,606,587	\$ 1,383,260
Available-for-sale financial assets (2)	5,708	296,087
<u>Financial liabilities</u>		
Amortized cost (3)	1,155,397	1,042,413

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable, accounts receivable and other receivables.
- 2) The balances included the carrying amount of available-for-sale financial assets measured at cost.
- 3) The balances included financial liabilities measured at amortized cost, which comprise short-term loans, notes payable, accounts payable and other payables.

d. Financial risk management objectives and policies

The Corporation's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Corporation through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

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

a) Foreign currency risk

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

The carrying amounts of the Corporation's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 28.

Sensitivity analysis

The Corporation was mainly exposed to USD.

The following details the Corporation's sensitivity to a 10% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity rate of 10% 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 foreign currency forward contracts designated as cash flow hedges at the end of the reporting period with the exchange rates adjusted for an assumed 10% change.

For the years ended December 31, 2016 and 2015, there would be an increase of \$3,560 thousand and \$2,466 thousand, respectively, in pre-tax profit associated with New Taiwan dollars strengthen 10% against USD. For a 10% weakening of New Taiwan dollars against USD, there would be an equal and opposite impact on pre-tax profit and the balances would be negative. The effect of exchange rate changes was mainly attributable to the exposure outstanding on USD cash, receivables and payables, which were not hedged at the end of the reporting period.

b) Interest rate risk

The Corporation is exposed to interest rate risk arising from the investments, classified as loans and receivables, at floating interest rates.

The carrying amount of the Corporation's financial assets with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2016	2015
Fair value interest rate risk		
Financial assets	\$ 208,803	\$ 286,356
Financial liabilities	100,000	-
Cash flow interest rate risk		
Financial assets	251,113	209,329

Sensitivity analysis

The sensitivity analyses below were determined based on the Corporation's exposure to interest rates for non-derivative instruments at the end of the reporting period.

If interest rates had been 1 basis point higher/lower and all other variables were held constant, the Corporation's pre-tax profit for the years ended December 31, 2016 and 2015 would decrease/increase by \$25 thousand and \$21 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation. As at the end of the reporting period, the Corporation's maximum exposure to credit risk which will cause a financial loss to the Corporation due to failure of counterparties to discharge an obligation and financial guarantees provided by the Corporation could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Corporation adopted a policy of only dealing with creditworthy counterparties. Before trading with new customers, the Corporation assessed the credit quality of potential customer by internal credit checking and set the credit limit which is reassessed annually.

3) Liquidity risk

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

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

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

December 31, 2016

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ -	\$ 1,055,397	\$ -
Financial guarantee contracts	-	-	100,669
Fixed interest rate liabilities	-	70,000	30,000
	<u>\$ -</u>	<u>\$ 1,125,397</u>	<u>\$ 130,669</u>

December 31, 2015

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ -	\$ 1,042,413	\$ -
Financial guarantee contracts	-	-	114,533
	<u>\$ -</u>	<u>\$ 1,042,413</u>	<u>\$ 114,533</u>

The amounts included above for financial guarantee contracts were the maximum amounts the Corporation could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Corporation considers that it is more likely than not that no amount will be payable under the arrangement.

The amounts included above for floating interest rate instruments for both non-derivative financial assets and liabilities was subject to change if changes in floating interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities

	December 31	
	2016	2015
Secured bank overdraft facility:		
Amount used	\$ -	\$ -
Amount unused	<u>200,000</u>	<u>200,000</u>
	<u>\$ 200,000</u>	<u>\$ 200,000</u>
Unsecured bank overdraft facility, reviewed annually and payable at call:		
Amount used	\$ 100,000	\$ 197,960
Amount unused	<u>720,000</u>	<u>702,040</u>
	<u>\$ 820,000</u>	<u>\$ 900,000</u>

25. TRANSACTIONS WITH RELATED PARTIES

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

a. Operating revenue

	For the Year Ended December 31	
Related Party Categories	2016	2015
Subsidiaries	\$ 4,502	\$ 22,851
Joint ventures	1,615	2,208
Associates	<u>1,253</u>	<u>766</u>
	<u>\$ 7,370</u>	<u>\$ 25,825</u>

b. Purchases of goods

	For the Year Ended December 31	
Related Party Categories	2016	2015
Subsidiaries	\$ 17,646	\$ 34,338
Joint ventures	<u>4,007</u>	<u>4,171</u>
	<u>\$ 21,653</u>	<u>\$ 38,509</u>

c. Service cost

	For the Year Ended December 31	
Related Party Categories	2016	2015
Subsidiaries	\$ 20,010	\$ 21,226
Joint ventures	<u>950</u>	<u>-</u>
	<u>\$ 20,960</u>	<u>\$ 21,226</u>

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

Line Items	Related Party Categories	December 31	
		2016	2015
Accounts receivable	Subsidiaries	\$ 4,306	\$ 5,089
	Joint ventures	998	9
	Associates	<u>65</u>	<u>40</u>
		<u>\$ 5,369</u>	<u>\$ 5,138</u>

The outstanding accounts receivables from related parties are unsecured. For the years ended December 31, 2016 and 2015, no impairment loss was recognized for accounts receivable from related parties.

e. Payables to related parties (excluding loans from related parties)

Line Items	Related Party Categories	December 31	
		2016	2015
Accounts payable	Subsidiaries	\$ 17,310	\$ 14,143
	Joint ventures	1,105	119
	Investors that have significant influence over the Corporation	<u>2</u>	<u>24</u>
		<u>\$ 18,417</u>	<u>\$ 14,286</u>

The outstanding accounts payable from related parties are unsecured and paid off by cash.

f. Endorsements and guarantees

Refer to Table 1 for information relating to endorsements/guarantees provided with related parties.

g. Rental expense

Line Items	Related Party Categories	December 31	
		2016	2015
Operating expenses	Investors that have significant influence over the Corporation	<u>\$ 35,488</u>	<u>\$ 35,433</u>

h. Rental revenue

Line Items	Related Party Categories	December 31	
		2016	2015
Other income	Subsidiaries	\$ 2,932	\$ 2,979
	Joint ventures	<u>2,147</u>	<u>2,995</u>
		<u>\$ 5,079</u>	<u>\$ 5,974</u>

i. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	\$ 156,288	\$ 161,039
Post-employment benefits	<u>7,192</u>	<u>7,147</u>
	<u>\$ 163,480</u>	<u>\$ 168,186</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The assets pledged as collaterals for system design contract, bank loans and for product warranty were as follows:

	December 31	
	2016	2015
Pledge deposits (classified as debt investments with no active market)	\$ 172,421	\$ 152,795
Property, plant and equipment, net	<u>78,935</u>	<u>79,600</u>
	<u>\$ 251,356</u>	<u>\$ 232,395</u>

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2016, for the contracts with customers and the application for government grants, the Corporation issued guarantee notes and had bank guarantee amounting to \$36,878 thousand and \$200,947 thousand, respectively.

28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	December 31, 2016		
	Foreign Currencies (In Thousand)	Exchange Rate	Carrying Amount (In Thousands of Dollars)
<u>Financial assets</u>			
Monetary items			
USD	\$ 1	32.2500	\$ 24
Non-monetary items			
USD	6,014	32.2500	193,950
JPY	86,443	0.2756	11,885

(Continued)

December 31, 2016			
	Foreign Currencies (In Thousand)	Exchange Rate	Carrying Amount (In Thousands of Dollars)
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 1,105	32.2500	\$ 35,638 (Concluded)

December 31, 2015			
	Foreign Currencies (In Thousand)	Exchange Rate	Carrying Amount (In Thousands of Dollars)
<u>Financial assets</u>			
Monetary items			
USD	\$ 200	32.8250	\$ 6,569
Non-monetary items			
USD	6,768	32.8250	222,200
JPY	34,443	0.2727	9,393

<u>Financial liabilities</u>			
Monetary items			
USD	951	32.8250	31,232

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

For the Year Ended December 31				
2016		2015		
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
USD	32.263 (USD:NTD)	\$ (349)	31.739 (USD:NTD)	\$ 83

29. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others: None.
- 2) Endorsements/guarantees provided: Table 1.
- 3) Marketable securities held (excluding investment in subsidiaries, associates and jointly controlled entities): Table 2.
- 4) Marketable securities acquired or disposed of at costs or prices at least NT\$300 million or 20% of the paid-in capital: None.

- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None.
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None.
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- 9) Trading in derivative instruments: None.
- 10) Information on investees: Table 3.

b. Information on investments in mainland China:

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Table 4.
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: None.
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

SYSCOM COMPUTER ENGINEERING CO.

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars and U.S. Dollars Unless Stated Otherwise)

No.	Endorser/ Guarantor	Endorsee/Guaranteee		Limits on Endorsement/ Guarantee Given on Behalf of Each Party	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period (Note 1)	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Relationship										
0	Syscom Computer Engineering Co.	Syscom Computer (Shenzhen) Co., Ltd. Netmaker Technology Co.	Indirect subsidiary Subsidiary	20% of net worth, \$343,743 Same as above	\$ 290,250 (US\$ 9,000) 150,000	\$ 180,600 (US\$ 5,600) 130,000	\$ 99,169 (US\$ 3,075) -	\$ -	10.51 7.56	50% of net worth, \$859,357 Same as above	Yes Yes	No No	Yes No
		WiseMaker Technology Co. Casemaker, Inc.	Subsidiary	Same as above	30,000	20,000	-	-	1.16	Same as above	Yes	No	No
		Coach Tech Management Co. Xian Lian Computer Co.	Subsidiary Subsidiary	Same as above Same as above	77,400 (US\$ 2,400) 30,000	38,700 (US\$ 1,200) 15,000	- 1,500	-	2.25 0.87	Same as above Same as above	Yes Yes	No No	No No
			Subsidiary	Same as above	32,250 (US\$ 1,000)	-	-	-	-	Same as above	Yes	No	Yes

Note 1: In ending endorsed guarantee balance which is conducted in extension is approved by regulation of endorsed/guaranteee first, including \$20,000 thousand of WiseMaker Technology Co.

Note 2: The above amounts were translated into New Taiwan dollar at the prevailing exchange rate as of December 31, 2016.

SYSCOM COMPUTER ENGINEERING CO.

MARKETABLE SECURITIES HELD

DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars and U.S. Dollars Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Syscom Computer Engineering Co.	Beneficiary certificates Concord Dream	-	Available-for-sale financial assets - current	100	\$ 1,049	-	\$ 1,049	Note 2
	Common stocks Engsound Technical Enterprise Co., Ltd.	-	Financial assets carried at cost - noncurrent	273	3,150	9.09	1,926	Note 3
	Masterlink Securities Co., Ltd.	-	Available-for-sale financial assets - noncurrent	168	1,509	0.01	1,509	Note 1
WiseMaker Technology Co.	Beneficiary certificates Eastspring Inv Well Pool Money Market	-	Available-for-sale financial assets - current	56	751	-	751	Note 2
	Fuh Hwa You Li Money Market	-	Available-for-sale financial assets - current	464	6,202	-	6,202	Note 2
	Nomura Taiwan Select Money Market	-	Available-for-sale financial assets - current	155	2,502	-	2,502	Note 2
Netmaker Technology Co.	Beneficiary certificates Fuh Hwa Money Market	-	Available-for-sale financial assets - current	210	3,001	-	3,001	Note 2
	Jih Sun Money Market	-	Available-for-sale financial assets - current	109	1,600	-	1,600	Note 2

Note 1: The basis of market value: For listed stocks, closing price as of December 31, 2016.

Note 2: Amount was based on the net asset value of the fund as of December 31, 2016.

Note 3: The calculation of the net asset value was based on the investees' audited financial statements as of December 31, 2016.

Note 4: The above stocks and beneficiary certificates were not provided as guarantee.

SYSCOM COMPUTER ENGINEERING CO.

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, U.S. Dollars, Japanese Yen and Thai Baht Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2016			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				December 31, 2016	December 31, 2015	Shares (Thousands)	Percentage of Ownership	Carrying Value			
Syscom Computer Engineering Co.	Dimension Computer Technology Co., Ltd.	Taipei	Wholesale and retail of information software, electronic devices and machinery equipment.	\$ 39,284	\$ 39,284	6,759	17.62	\$ 70,836	\$ (27,474)	\$ (4,840)	Equity-method investee
	CASEMaker, Inc.	California	Sale of computer software and related products.	US\$ 1,300	US\$ 1,300	1,300	100.00	129,103	(2,363)	(1,185)	Subsidiary
	Syscom International Inc.	Cayman Islands	Investment	US\$ 3,200	US\$ 3,200	3,200	100.00	64,848	(18,063)	(18,063)	Subsidiary
	Netmaker Technology Co.	Taipei	Provision of services on information software, data processing and electronic information.	15,100	15,100	2,492	75.50	32,953	(5,264)	(3,974)	Subsidiary
	WiseMaker Technology Co.	Taipei	Provision of services on information software, data processing and electronic information.	41,675	41,675	2,664	98.68	48,016	2,078	2,050	Subsidiary
	DBMaker Japan Inc.	Tokyo	Sale of computer software and related products	JPY 53,260	JPY 53,260	5	49.89	11,885	5,172	2,580	Equity-method investee
WiseMaker Technology Co.	Syscom Vietnam Co., Ltd.	Vietnam	Consultation and administration of computer system, consultation on computer science and technology and other related computer services	US\$ 400	US\$ 400	-	100.00	4,084	(1,142)	(1,142)	Subsidiary
	Coach Tech Management Co.	Taipei	Business management consulting.	19,200	19,200	1,950	97.50	2,037	569	555	Subsidiary
	Syscom Computer (Thailand) Co., Ltd.	Thailand	Development and maintenance software.	THB 30,894	THB 30,894	3,160	89.77	1,375	631	566	Subsidiary
	CloudMaster Co., Ltd.	Taipei	Provision of services on information software, data processing and electronic information.	65,000	65,000	6,500	50.00	50,403	1,355	678	Equity-method investee
	Dimension Computer Technology Co., Ltd.	Taipei	Wholesale and retail of information software, electronic devices and machinery equipment.	791	-	74	0.19	765	(27,474)	(26)	Equity-method investee
	Coach Tech Management Co.	Thailand	Development and maintenance software.	THB 200	THB 200	20	0.57	9	631	Not applicable	Subsidiary

Note: The foreign currency amount of the net income of the investee is expressed in New Taiwan dollars at the average exchange rate in 2016.

SYSCOM COMPUTER ENGINEERING CO.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investment (Note 2)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of December 31, 2016 (Note 2)	Accumulated Inward Remittance of Earnings as of December 31, 2016	Note
					Outflow	Inflow							
Syscom Computer (Shenzhen) Co., Ltd.	Development and manufacture of computer equipment and computer software; sale of self-manufactured products and provision of technical services	\$ 96,750 (US\$ 3,000)	Note 1	\$ 86,108 (US\$ 2,670)	\$ -	\$ -	\$ 86,108 (US\$ 2,670)	\$ (19,164) (US\$ (594))	97.40	\$ (18,680) (US\$ (579))	\$ 61,856 (US\$ 1,918)	\$ -	
Xian Lian Computer Company	Development and manufacture of computer equipment and computer software; sale of self-manufactured products and provision of technical services	24,188 (US\$ 750)	Note 1	5,418 (US\$ 168)	-	-	5,418 (US\$ 168)	(4,420) (US\$ (137))	48.11	(2,129) (US\$ (66))	15,125 (US\$ 469)	-	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Authorized by Investment Commission, MOEA (Note 3)
\$ 91,526 (US\$ 2,838)	\$ 91,526 (US\$ 2,838) (Note 1.b)	\$1,031,228
-	14,061 (US\$ 436) (Note 1.a)	

Note 1: a. An investee of CASEMaker, Inc., a wholly owned subsidiary of Syscom Computer Engineering Company and dividend from paid capital.

b. An investee of Syscom International Inc., a wholly owned subsidiary of Syscom Computer Engineering Company.

Note 2: The calculation was based on the investees' audited financial statements as of December 31, 2016.

Note 3: The upper limit is calculated as follows:

$$60\% \text{ of the stockholders' equity} = \$1,718,713 \times 60\% = \$1,031,228$$

Note 4: The foreign currency amounts of original investment amount and carrying value are expressed in New Taiwan dollars at exchange rate as of December 31, 2016; the foreign currency amount of net income is expressed in New Taiwan dollars at average exchange rate for the year ended December 31, 2016.