

# **Adlink Technology Inc. and Subsidiaries**

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

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Adlink Technology Inc.

### **Opinion**

We have audited the accompanying consolidated financial statements of Adlink Technology Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

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

#### Impairment of Goodwill

In order to expand the “Industrial Internet of Things” market, Adlink Technology Inc. entered into a share purchase agreement and acquired 100% equity interest in PrismTech Group Limited with premium of \$544,895 thousand, recognizing goodwill of \$494,546 thousand according to the acquisition cost and price allocation report issued by external expert. Since the management’s assessment of impairment of goodwill was based on the management’s judgments and estimation, the recognition of the impairment of goodwill is deemed to be a key audit matter. Refer to Notes 5 and 15 of the consolidated financial statements for details on the impairment of goodwill.

Our key audit procedures performed in respect of the foresaid impairment included obtaining future business plans of PrismTech Group Limited from the management and reviewing recent performance and industry trends of cash-generating units in order to evaluate the reasonableness to achieve the future business plans. We further obtained impairment assessment report from external expert and consulted with internal expert in our firm to assess whether the assumptions used by the management (i.e. expected growth rate and discount rate) were appropriate. We also compared the expectation of future cash flows between the operating plan mentioned above with the external expert report to ensure if substantial differences existed.

#### Evaluation of Write-down of Inventories

As stated in the consolidated balance sheet, the balance of inventories was \$1,727,854 thousand as of December 31, 2016, representing 21% of total assets. Inventories of the Group are stated at the lower of cost or net realizable value regulated by IAS. Since the net realizable value is subject to the management’s experience and judgments, the valuation of inventories is deemed to be a key audit matter. Refer to Notes 5 and 11 of the consolidated financial statements for details on the evaluation of write-down of on inventories.

Our key audit procedures performed in respect of the abovementioned write-down included understanding the Group’s accounting policy on inventory valuation and testing the computation of inventory costs. We evaluated the reasonableness of the estimated value for LCM and tested the recent sales prices. We also reviewed and participated in annual inventory count to observe the condition of the inventories in order to evaluate the appropriateness of control over slow moving inventories.

#### **Other Matters**

We have also audited the parent company only financial statements of Adlink Technology Inc. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unqualified opinion.

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

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

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

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

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 consolidated 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 Chien-Liang Liu and Wen-Chin Lin.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 8, 2017

#### Notice to Readers

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

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

# ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 1,526,598	19	\$ 1,571,964	21
Available-for-sale financial assets (Note 7)	-	-	200,751	3
Debt investments with no active market (Note 9)	330,563	4	2,017	-
Notes receivable (Note 10)	64,852	1	62,982	1
Trade receivables (Note 10)	1,867,528	23	1,458,395	19
Trade receivables from related parties (Note 33)	33,269	1	5,788	-
Other receivables (Note 10)	35,246	1	27,776	1
Other receivables from related parties (Note 33)	-	-	19,695	-
Current tax assets	24,420	-	17,977	-
Inventories (Note 11)	1,727,854	21	1,740,931	23
Prepayments (Notes 16, 17 and 34)	187,314	2	101,652	1
Other current assets	<u>5,898</u>	<u>-</u>	<u>5,435</u>	<u>-</u>
Total current assets	<u>5,803,542</u>	<u>72</u>	<u>5,215,363</u>	<u>69</u>
<b>NON-CURRENT ASSETS</b>				
Investments accounted for using equity method (Note 13)	64,726	1	-	-
Property, plant and equipment (Notes 14, 33 and 34)	1,024,813	13	1,158,502	15
Intangible assets (Note 15)	974,314	12	521,443	7
Deferred tax assets (Note 26)	96,670	1	68,090	1
Refundable deposits	38,320	-	38,281	-
Prepayments for investment (Notes 17 and 29)	-	-	508,865	7
Prepayments for lease (Notes 16 and 34)	60,416	1	67,500	1
Other non-current assets	<u>7,161</u>	<u>-</u>	<u>23,250</u>	<u>-</u>
Total non-current assets	<u>2,266,420</u>	<u>28</u>	<u>2,385,931</u>	<u>31</u>
<b>TOTAL</b>	<u>\$ 8,069,962</u>	<u>100</u>	<u>\$ 7,601,294</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 18)	\$ 506,965	6	\$ 1,534,145	20
Trade payables (Note 19)	1,472,731	18	1,101,512	14
Trade payables to related parties (Note 33)	6,527	-	1,704	-
Other payables (Notes 20 and 33)	840,103	11	748,032	10
Current tax liabilities	66,251	1	85,362	1
Provisions (Note 21)	52,893	1	52,102	1
Current portion of long-term liabilities (Note 18)	32,500	-	-	-
Other current liabilities (Note 20)	<u>153,484</u>	<u>2</u>	<u>61,082</u>	<u>1</u>
Total current liabilities	<u>3,131,454</u>	<u>39</u>	<u>3,583,939</u>	<u>47</u>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Note 18)	167,500	2	-	-
Provisions (Note 21)	32,688	-	35,146	1
Deferred tax liabilities (Note 26)	7,131	-	26,559	-
Net defined benefit liabilities (Note 22)	<u>45,157</u>	<u>1</u>	<u>48,658</u>	<u>1</u>
Total non-current liabilities	<u>252,476</u>	<u>3</u>	<u>110,363</u>	<u>2</u>
Total liabilities	<u>3,383,930</u>	<u>42</u>	<u>3,694,302</u>	<u>49</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 23)</b>				
Share capital				
Ordinary shares	2,175,579	27	2,017,589	26
Advance receipts for share capital	40	-	-	-
Total share capital	<u>2,175,619</u>	<u>27</u>	<u>2,017,589</u>	<u>26</u>
Capital surplus	<u>1,575,678</u>	<u>19</u>	<u>714,356</u>	<u>9</u>
Retained earnings				
Legal reserve	479,434	6	418,719	6
Unappropriated earnings	<u>554,287</u>	<u>7</u>	<u>703,589</u>	<u>9</u>
Total retained earnings	<u>1,033,721</u>	<u>13</u>	<u>1,122,308</u>	<u>15</u>
Other equity				
Exchange differences on translating foreign operations	(74,736)	(1)	114,602	2
Unrealized gain on available-for-sale financial assets	-	-	1,021	-
Unearned employee benefit	<u>(33,089)</u>	<u>-</u>	<u>(71,399)</u>	<u>(1)</u>
Total other equity	<u>(107,825)</u>	<u>(1)</u>	<u>44,224</u>	<u>1</u>
Total equity attributable to owners of the Company	4,677,193	58	3,898,477	51
<b>NON-CONTROLLING INTERESTS</b>	<u>8,839</u>	<u>-</u>	<u>8,515</u>	<u>-</u>
Total equity	<u>4,686,032</u>	<u>58</u>	<u>3,906,992</u>	<u>51</u>
<b>TOTAL</b>	<u>\$ 8,069,962</u>	<u>100</u>	<u>\$ 7,601,294</u>	<u>100</u>

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

# ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

## CONSOLIDATED 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 REVENUE (Notes 24 and 33)	\$ 9,569,741	100	\$ 9,068,123	100
OPERATING COSTS (Notes 11, 25 and 33)	<u>5,402,609</u>	<u>57</u>	<u>5,321,609</u>	<u>59</u>
GROSS PROFIT	4,167,132	43	3,746,514	41
UNREALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES	<u>(647)</u>	<u>-</u>	<u>-</u>	<u>-</u>
REALIZED OPERATING PROFIT	<u>4,166,485</u>	<u>43</u>	<u>3,746,514</u>	<u>41</u>
OPERATING EXPENSES (Notes 25 and 33)				
Selling and marketing	1,056,306	11	883,728	10
General and administrative	961,609	10	775,961	8
Research and development	<u>1,552,679</u>	<u>16</u>	<u>1,301,422</u>	<u>14</u>
Total operating expenses	<u>3,570,594</u>	<u>37</u>	<u>2,961,111</u>	<u>32</u>
PROFIT FROM OPERATIONS	<u>595,891</u>	<u>6</u>	<u>785,403</u>	<u>9</u>
NON-OPERATING INCOME AND EXPENSES (Note 25)				
Other income	75,743	1	46,293	-
Other gains and losses	(119,848)	(1)	(42,275)	-
Finance costs	(15,656)	-	(20,570)	-
Share of loss of associates (Note 13)	<u>(4,588)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating income and expenses	<u>(64,349)</u>	<u>-</u>	<u>(16,552)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	531,542	6	768,851	9
INCOME TAX EXPENSE (Note 26)	<u>100,393</u>	<u>1</u>	<u>160,247</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>431,149</u>	<u>5</u>	<u>608,604</u>	<u>7</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 22)	2,690	-	(7,711)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 26)	<u>(457)</u>	<u>-</u>	<u>1,310</u>	<u>-</u>
	<u>2,233</u>	<u>-</u>	<u>(6,401)</u>	<u>-</u>

(Continued)

# ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

## CONSOLIDATED 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	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 23)	\$ (228,048)	(2)	\$ (6,434)	-
Unrealized gain on available-for-sale financial assets (Note 23)	(1,021)	-	1,021	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 26)	<u>38,781</u>	<u>-</u>	<u>1,139</u>	<u>-</u>
	<u>(190,288)</u>	<u>(2)</u>	<u>(4,274)</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(188,055)</u>	<u>(2)</u>	<u>(10,675)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 243,094</u>	<u>3</u>	<u>\$ 597,929</u>	<u>7</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 430,896	5	\$ 607,152	7
Non-controlling interests	<u>253</u>	<u>-</u>	<u>1,452</u>	<u>-</u>
	<u>\$ 431,149</u>	<u>5</u>	<u>\$ 608,604</u>	<u>7</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 242,770	3	\$ 596,211	7
Non-controlling interests	<u>324</u>	<u>-</u>	<u>1,718</u>	<u>-</u>
	<u>\$ 243,094</u>	<u>3</u>	<u>\$ 597,929</u>	<u>7</u>
EARNINGS PER SHARE (Note 27)				
Basic	<u>\$ 2.00</u>		<u>\$ 3.03</u>	
Diluted	<u>\$ 1.97</u>		<u>\$ 3.00</u>	

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

(Concluded)



# ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company												Non-controlling Interests	Total Equity
								Other Equity						
								Exchange Differences on Translating Foreign Operations	Unrealized Gain on Available-for-sale Financial Assets	Unearned Employee Benefit	Total Other Equity	Total Equity Attributable to Owners of the Company		
	Ordinary Shares	Advance Receipts for Share Capital	Total Share Capital	Capital Surplus	Legal Reserve	Unappropriated Earnings	Total Retained Earnings							
BALANCE AT JANUARY 1, 2015	\$ 1,834,335	\$ -	\$ 1,834,335	\$ 620,038	\$ 359,875	\$ 676,863	\$ 1,036,738	\$ 120,163	\$ -	\$ -	\$ 120,163	\$ 3,611,274	\$ 6,797	\$ 3,618,071
Appropriation of 2014 earnings														
Legal reserve	-	-	-	-	58,844	(58,844)	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company - NT\$1.9 per share	-	-	-	-	-	(349,537)	(349,537)	-	-	-	-	(349,537)	-	(349,537)
Share dividends distributed by the Company - NT\$0.9 per share	165,644	-	165,644	-	-	(165,644)	(165,644)	-	-	-	-	-	-	-
Issue of restricted shares for employees	12,200	-	12,200	83,200	-	-	-	-	-	(95,400)	(95,400)	-	-	-
Compensation costs of share-based payments recognized by the Company	-	-	-	1,150	-	-	-	-	-	24,001	24,001	25,151	-	25,151
Issue of ordinary shares under employee share options	5,410	-	5,410	9,968	-	-	-	-	-	-	-	15,378	-	15,378
Net profit for the year ended December 31, 2015	-	-	-	-	-	607,152	607,152	-	-	-	-	607,152	1,452	608,604
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	-	(6,401)	(6,401)	(5,561)	1,021	-	(4,540)	(10,941)	266	(10,675)
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	-	600,751	600,751	(5,561)	1,021	-	(4,540)	596,211	1,718	597,929
BALANCE AT DECEMBER 31, 2015	2,017,589	-	2,017,589	714,356	418,719	703,589	1,122,308	114,602	1,021	(71,399)	44,224	3,898,477	8,515	3,906,992
Appropriation of 2015 earnings														
Legal reserve	-	-	-	-	60,715	(60,715)	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company - NT\$2.4 per share	-	-	-	-	-	(521,716)	(521,716)	-	-	-	-	(521,716)	-	(521,716)
Issue of ordinary shares for cash	150,000	-	150,000	810,000	-	-	-	-	-	-	-	960,000	-	960,000
Issue of restricted shares for employees	2,800	-	2,800	15,761	-	-	-	-	-	(18,561)	(18,561)	-	-	-
Retirement of restricted shares for employees	(850)	-	(850)	850	-	-	-	-	-	-	-	-	-	-
Compensation costs of share-based payments recognized by the Company	-	-	-	24,729	-	-	-	-	-	56,871	56,871	81,600	-	81,600
Issue of ordinary shares under employee share options	6,040	40	6,080	9,982	-	-	-	-	-	-	-	16,062	-	16,062
Net profit for the year ended December 31, 2016	-	-	-	-	-	430,896	430,896	-	-	-	-	430,896	253	431,149
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	-	2,233	2,233	(189,338)	(1,021)	-	(190,359)	(188,126)	71	(188,055)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	433,129	433,129	(189,338)	(1,021)	-	(190,359)	242,770	324	243,094
BALANCE AT DECEMBER 31, 2016	\$ 2,175,579	\$ 40	\$ 2,175,619	\$ 1,575,678	\$ 479,434	\$ 554,287	\$ 1,033,721	\$ (74,736)	\$ -	\$ (33,089)	\$ (107,825)	\$ 4,677,193	\$ 8,839	\$ 4,686,032

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

# ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

## CONSOLIDATED 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	\$ 531,542	\$ 768,851
Adjustments for:		
Depreciation expenses	191,774	181,480
Amortization expenses	99,192	69,719
Impairment loss (reversed) recognized on trade receivables	1,021	(735)
Finance costs	15,656	20,570
Interest income	(6,936)	(10,195)
Compensation costs of share-based payments	81,600	25,151
Share of loss of associates	4,588	-
Loss (gain) on disposal of property, plant and equipment	1,006	(258)
Loss on disposal of computer software	-	223
Gain on disposal of financial assets	(1,117)	(8,976)
Gain on disposal of subsidiaries	(31,853)	-
Impairment loss recognized on financial assets	-	45
Impairment loss recognized on intangible assets	47,733	17,045
Write-down of inventories	96,275	77,349
Unrealized gain on the transactions with associates	647	-
Net loss (gain) on foreign currency exchange	13,764	(24,474)
Payable for investments transferred to other income	(36,113)	-
Amortization of prepayments for lease	1,738	1,823
Changes in operating assets and liabilities		
Notes receivable	(1,870)	57,717
Trade receivables	(426,203)	32,238
Trade receivables from related parties	(27,481)	(3,614)
Other receivables	(7,470)	38,483
Other receivables from related parties	-	(19,695)
Inventories	(72,450)	(242,750)
Prepayments	(65,552)	(1,635)
Other current assets	(463)	(97)
Trade payables	366,435	65,022
Trade payables to related parties	4,823	(2,186)
Other payables	51,541	45,806
Provisions	(1,667)	17,976
Other current liabilities	4,151	8,647
Net defined benefit liabilities	(811)	(3,355)
Cash generated from operations	833,500	1,110,175
Interest received	6,936	10,195
Interest paid	(16,935)	(20,859)
Income tax paid	(135,631)	(191,094)
Net cash generated from operating activities	687,870	908,417
		(Continued)

# ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

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

	2016	2015
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of available-for-sale financial assets	\$ (50,000)	\$ (274,730)
Proceeds from sale of available-for-sale financial assets	250,847	75,040
Purchase of debt investments with no active market	(609,771)	(151,848)
Proceeds from sale of debt investments with no active market	281,062	150,260
Proceeds from sale of financial assets measured at cost	-	24,011
Acquisition of associate	(70,442)	-
Increase in prepayments for investment	-	(508,865)
Net cash inflow on acquisition of subsidiary (Note 29)	12,782	-
Payments for property, plant and equipment	(115,494)	(235,859)
Proceeds from disposal of property, plant and equipment	318	6,770
Decrease (increase) in refundable deposits	761	(9,187)
Payments for computer software	(65,191)	(60,731)
Increase in prepayments for equipment	<u>(3,082)</u>	<u>(21,858)</u>
Net cash used in investing activities	<u>(368,210)</u>	<u>(1,006,997)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	1,182,925	2,143,788
Repayments of short-term borrowings	(2,161,447)	(1,241,591)
Repayments of short-term bills payable	-	(100,000)
Proceeds from long-term borrowings	300,000	-
Repayments of long-term borrowings	(100,000)	-
Cash dividends paid	(521,716)	(349,537)
Proceeds from issue of ordinary shares	960,000	-
Proceeds from issue of ordinary shares under employee share options	<u>16,062</u>	<u>15,378</u>
Net cash generated from (used in) financing activities	<u>(324,176)</u>	<u>468,038</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>	<u>(40,850)</u>	<u>19,321</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(45,366)	388,779
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>1,571,964</u>	<u>1,183,185</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 1,526,598</u>	<u>\$ 1,571,964</u>

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

(Concluded)

# ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Adlink Technology Inc. (the “Company”) was incorporated in the Republic of China (ROC) in August 1995. The Company mainly manufactures and sells hardware, software and peripheral devices of industrial computers.

The Company’s shares have been previously listed on the Taipei Exchange (TPEX) Mainboard in March 2002 and listed on the Taiwan Stock Exchange (TSE) since November 2004.

The consolidated financial statements are presented in the Company’s functional currency, New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 8, 2017.

### 3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS 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 Financial Supervisory Commission (FSC) for application starting from 2017.

Order No. 1050050021 and Order No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Company and its subsidiaries (collectively, the Group) 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 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

(Continued)

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014
(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 Group’s accounting policies, except for the following:

1) Amendments to IFRS 2 “Share-based Payment”

IFRS 2 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to change the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017.

2) Amendments to IFRS 3 “Business Combinations”

IFRS 3 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9. Changes in fair value should be recognized in profit or loss. The amendment will be applied prospectively to business combination with acquisition date on or after January 1, 2017.

3) Amendment to IAS 36 “Impairment of Assets”

The amendment “Disclosures for Non-financial Assets” clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2/Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

4) 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 Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group’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.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group 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 Group’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 Group 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 consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
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.

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 Group'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) Debt instruments held within a business model whose objective is to collect contractual cash flows 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) Debt instruments held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of 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 is 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 Group 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.

#### The 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 under the circumstance in which both a significant increase of credit risk is observed since initial recognition and the credit risk itself is not considered to be 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 Group takes into account the expected credit losses on initial recognition when 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.

- 2) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulated that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate, the gain or loss resulting from the transaction is recognized in full.

Conversely, when an entity sells or contributes assets that do not constitute a business to an associate, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate or joint venture, i.e. the entity’s share of the gain or loss is eliminated.



### 3) 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.

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

### 4) 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 Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group 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 consolidated statements of comprehensive income, the Group 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 consolidated 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 Group as lessor.

When IFRS 16 becomes effective, the Group 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.

### 5) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

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

The Group shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of Compliance**

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

##### **Basis of Preparation**

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

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

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. 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
- c. Level 3 inputs are unobservable inputs for the asset or liability.

##### **Classification of Current and Non-current Assets and Liabilities**

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within twelve months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within twelve months after the reporting period; and
- c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

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

## **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries). Income and expenses of subsidiaries acquired during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See Note 12 and Table 8 and 9 for the detailed information of subsidiaries (including the percentage of ownership and main business).

## **Business Combinations**

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. The measurement period does not exceed 1 year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depend on how the contingent consideration is classified. Contingent consideration that is classified as an asset or a liability is remeasured at the end of the subsequent reporting period in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”, or IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

## **Foreign Currencies**

For each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences 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 on 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 purposes of presenting consolidated financial statements, the assets and liabilities of the Company and the Group entities (including of the subsidiaries in other countries or currencies used are different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income attributed to the owners of the Company and non-controlling interests as appropriate.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

### **Inventories**

Inventories consist of raw materials, supplies, work-in-process, finished goods and merchandise and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost.

### **Investments in Associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates.

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

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 forms part of 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 a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent that interests in the associate are not related to the Group.

### **Property, Plant and Equipment**

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

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 estimate 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.

## **Goodwill**

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as cash-generating units) that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized on goodwill is not reversed in subsequent periods.

## **Intangible Assets**

### **a. Intangible assets acquired separately**

Intangible assets (computer software) 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 estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

### **b. Intangible assets acquired in a business combination**

Intangible assets (including trademarks, customer relationship and technological expertise) acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

### **c. 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.

## **Impairment of Tangible and Intangible Assets Other than Goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication of impairment of asset. If any such indication exists, the recoverable amount of the asset will be 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be defined, corporate assets are also allocated to individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units using a reasonable and consistent allocation basis.

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.

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 on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

## **Financial Instruments**

Financial assets and financial liabilities are recognized when a group entity 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.

### **a. Financial assets**

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

#### **1) Measurement category**

Financial assets are classified into the following categories: Available-for-sale financial assets, and loans and receivables.

##### **a) 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 Group'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 loss is recognized in profit and loss.

b) Loans and receivables

Loans and receivables (including cash and cash equivalent, debt investments with no active market, trade receivables and other receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits and repurchase agreements collateralized by bonds with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. Cash equivalent is held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence 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 trade receivables, are assessed for impairment on a collective basis even if they were assessed as not impaired individually. Objective evidence of impairment on a portfolio of receivables could include the Group's past experience in the collection of payments, 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 the amortized cost that 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.

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

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.

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 trade receivables, where the carrying amount is reduced through the use of an allowance account. Trade receivables considered uncollectable are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables that are written off against the allowance account.

### 3) Derecognition of financial assets

The Group 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.

## b. Financial liabilities

### 1) Subsequent measurement

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

### 2) Derecognition of financial liabilities

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

## **Provisions**

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provisions for the expected cost of warranty obligations are recognized at the date of sale of the relevant products at the management's best estimate of the expenditure required to settle the Group's obligations.

## **Revenue Recognition**

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



a. Sale of goods

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

- 1) The Group has transferred the significant risks and rewards of ownership of the goods to the buyer;
- 2) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 3) The amount of revenue can be measured reliably;
- 4) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- 5) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

b. Rendering of services

Service income is recognized when services are provided.

c. Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group 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 effective interest rate applicable.

## **Leasing**

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

a. The Group as lessor

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

b. The Group as lessee

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

## **Government Grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to the grants 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 Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group 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 Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

## **Employee Benefits**

### **a. 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.

### **b. Retirement benefits**

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services 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, past service cost and net interest on the net defined benefit liability) are recognized as employee benefits expense in the period they occur, or when the plan amendment or curtailment occurs. Remeasurement, comprising actuarial gains and losses, 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 represents the actual deficit in the Group's defined benefit plan.

### **c. Termination benefits**

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognizes any related restructuring costs.

## **Share-based Payment Arrangements**

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

When restricted shares for employees are issued, other equity - unearned employee benefits are recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees. Dividends paid to employees on the restricted shares that do not need to be returned if employees resign in the vesting period, are recognized as expenses when the dividends are declared with a corresponding adjustment in retained earnings/and capital surplus - restricted shares for employees.

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

## **Taxation**

Income tax expense is the sum of the current tax payable and deferred tax.

a. 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.

b. 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, unused loss carryforward and unused tax credits for research and development 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, except where the Group 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 recognized only 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. Previously unrecognized deferred tax assets are also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period in which the liability is settled or the asset realized, based on tax rates and 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 based on the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the year

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

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group'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. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

b. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

## 6. CASH AND CASH EQUIVALENTS

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Cash on hand	\$ 522	\$ 537
Checking accounts and demand deposits	1,139,076	1,397,769
Cash equivalents (investments with original maturities less than 3 months)		
Time deposits	387,000	123,658
Repurchase agreements collateralized by bonds	-	50,000
	<u>\$ 1,526,598</u>	<u>\$ 1,571,964</u>

The market rate intervals of cash in bank and repurchase agreements collateralized by bonds at the end of the reporting period were as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Demand deposits	0.001%-0.72%	0.001%-0.40%
Time deposits	1.00%-1.32%	1.755%-5.00%
Repurchase agreements collateralized by bonds	-	0.45%

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Current</u>		
Domestic investments		
Mutual funds	<u>\$ -</u>	<u>\$ 200,751</u>

## 8. FINANCIAL ASSETS MEASURED AT COST

For details of the unlisted equity held by the Group, please refer to Table 3. They were measured at cost less impairment at the end of the reporting period. The Group believed that the fair value of these investments could not be estimated reliably because the range of reasonable fair value estimates is significant and the probabilities of various estimates cannot be reasonably assessed.

The Group disposed of certain financial assets measured at cost during 2015, recognizing disposal gain of \$8,936 thousand.

Impairment losses recognized on financial assets measured at cost were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Impairment losses	\$ <u>-</u>	\$ <u>45</u>

## 9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Time deposits with original maturities more than 3 months	\$ <u>330,563</u>	\$ <u>2,017</u>

The market rate intervals of debt investments with no active market at the end of the reporting period were as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Time deposits	0.60%-2.10%	0.05%-0.60%

## 10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Notes receivable</u>		
Notes receivable	\$ 64,852	\$ 62,982
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	\$ <u>64,852</u>	\$ <u>62,982</u>
<u>Trade receivables</u>		
Trade receivables	\$ 1,876,162	\$ 1,466,405
Less: Allowance for impairment loss	<u>(8,634)</u>	<u>(8,010)</u>
	\$ <u>1,867,528</u>	\$ <u>1,458,395</u>

(Continued)

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Other receivables</u>		
Tax receivables	\$ 29,680	\$ 25,705
Others	<u>5,566</u>	<u>2,071</u>
	<u>\$ 35,246</u>	<u>\$ 27,776</u>
		(Concluded)

The average credit period for sales of goods was 30 to 90 days. Allowance for impairment loss was recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Group 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 Group did not hold any collateral for these balances. Otherwise, parts of trade receivables from main customers were insured. Once these insured balances are uncollectable, the Group will receive claim payment. In addition, the Group did not have a legal right of offset against any amounts owed by the Group to the counterparties.

The aging of trade receivables was as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Not past due	\$ 1,618,676	\$ 1,188,049
Less than 30 days	205,315	115,737
31-90 days	46,786	121,746
Over 91 days	<u>5,385</u>	<u>40,873</u>
	<u>\$ 1,876,162</u>	<u>\$ 1,466,405</u>

The above aging schedule was based on the past due days from the end of the credit term.

The past-due trade receivables were assessed for impairment individually or collectively and appropriate impairment losses were recognized on them.

The movements of the allowance for impairment loss recognized on trade receivables were as follows:

	<b>Individually Assessed for Impairment</b>	<b>Collectively Assessed for Impairment</b>	<b>Total</b>
Balance at January 1, 2015	\$ 1,349	\$ 7,851	\$ 9,200
Impairment losses recognized (reversed) on receivables	108	(843)	(735)
Amounts written off during the period as uncollectable	(236)	(90)	(326)
Foreign exchange translation gains and losses	<u>(3)</u>	<u>(126)</u>	<u>(129)</u>
Balance at December 31, 2015	1,218	\$ 6,792	8,010
Impairment losses recognized (reversed) on receivables	1,912	(891)	1,021
Foreign exchange translation gains and losses	<u>3</u>	<u>(400)</u>	<u>(397)</u>
Balance at December 31, 2016	<u>\$ 3,133</u>	<u>\$ 5,501</u>	<u>\$ 8,634</u>

The Group recognized impairment loss on trade receivables amounting to \$3,133 thousand and \$1,218 thousand as of December 31, 2016 and 2015, respectively. These amounts mainly related to customers that were in liquidation or in severe financial difficulties. The Group did not hold any collateral over these balances.

## 11. INVENTORIES

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Raw materials	\$ 849,200	\$ 875,553
Supplies	8,212	8,675
Work in progress	284,702	211,842
Finished goods	491,126	531,570
Merchandise	94,614	113,291
	<u>\$ 1,727,854</u>	<u>\$ 1,740,931</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 included inventory write-downs of \$96,275 thousand and \$77,349 thousand, and unallocated manufacturing expenses of \$30,225 thousand and \$39,797 thousand, respectively.

## 12. SUBSIDIARIES

### a. Subsidiaries included in consolidated financial statements

Investor	Investee	Main Business	% of Ownership		Remark
			December 31		
			2016	2015	
The Company	Adlink Technology Singapore Pte Ltd.	Selling of industrial computers	100.0	100.0	-
The Company	Adlink Technology Japan Corporation	Selling of industrial computers	85.1	85.1	-
The Company	Adlink International Co., Ltd.	Investment activities	100.0	100.0	-
The Company	PrismTech Group Limited	Investment activities	100.0	-	Note 4
Adlink International Co., Ltd.	Ampro Computers Inc.	Manufacturing and selling of industrial computers	100.0	100.0	-
Adlink International Co., Ltd.	Adlink Technology (Europe) GmbH	Selling of industrial computers	100.0	100.0	-
Adlink International Co., Ltd.	Systemworks Incorporated	International trading	100.0	100.0	-
Adlink International Co., Ltd.	Adlink Technology (HK) Co., Ltd.	Investment activities	100.0	100.0	-
Adlink Technology (Europe) GmbH	Adlink Technology GmbH (Formerly named Lippert)	Manufacturing and selling of industrial computers	100.0	100.0	Note 5
Adlink Technology (Europe) GmbH	Penta Adlink Technology GmbH	Manufacturing and selling of industrial computers	-	100.0	Note 5
Adlink Technology (HK) Co., Ltd.	Adlink Technology (Beijing) Co., Ltd.	Manufacturing and selling of industrial computers	-	100.0	Note 3
Adlink Technology (HK) Co., Ltd.	Adlink Technology (Shenzhen) Co., Ltd.	Manufacturing and selling of industrial computers	100.0	100.0	Note 1
Adlink Technology (HK) Co., Ltd.	Adlink Technology (Shanghai) Co., Ltd.	Manufacturing and selling of industrial computers	-	100.0	Note 2
Adlink Technology (HK) Co., Ltd.	Adlink Technology (China) Co., Ltd.	Manufacturing and selling of industrial computers	100.0	100.0	-
Adlink Technology (China) Co., Ltd.	Dong Guan Ling Yao	Manufacturing and selling of electronic parts	100.0	100.0	-
PrismTech Group Limited	PrismTech Holdings Limited	Investment	100.0	-	Note 4
PrismTech Holdings Limited	PrismTech Limited	Software development 、 authorization and service	100.0	-	Note 4

(Continued)

Investor	Investee	Main Business	% of Ownership December 31		Remark
			2016	2015	
PrismTech Limited	PrismTech Canada Inc.	Software development	100.0	-	Note 4
PrismTech Limited	PrismTech Corporation	Software authorization and service	100.0	-	Note 4
PrismTech Limited	PrismTech France SARL	Software development 、 authorization and service	100.0	-	Note 4
PrismTech Group Limited and PrismTech Limited	OpenSplice BV	Software development	100.0	-	Note 4

(Concluded)

Note 1: The business of Adlink Technology (Shenzhen) Co., Ltd. had been turned over to Adlink Technology (China) Co., Ltd. The liquidation of the subsidiary mentioned above is in progress.

Note 2: Adlink Technology (Shanghai) Co., Ltd. had been liquidated in March 2016. The proceeds from its liquidation amounting to US\$2,556 thousand collected by Adlink Technology (HK) Co., Ltd. had been directly invested in Adlink Technology (China) Co., Ltd.

Note 3: Adlink Technology (Beijing) Co., Ltd. had been liquidated in May 2016. The proceeds from its liquidation amounting to US\$2,551 thousand had been collected by Adlink Technology (HK) Co., Ltd. Of the proceeds, US\$2,500 had been directly invested in Adlink Technology (China) Co., Ltd.

Note 4: The Group acquired control over PrismTech Group Limited on January 1, 2016. And PrismTech Group Limited was included in the consolidated financial statements since the date the Group acquired control over it. Refer to Note 29.

Note 5: Penta Adlink Technology GmbH and Lippert Adlink Technology GmbH were combined in the third quarter of 2016. Lippert Adlink Technology GmbH was the surviving company and was renamed as ADLINK Technology GmbH simultaneously.

b. Subsidiaries excluded from the consolidated financial statements: None.

c. Subsidiaries that have material non-controlling interests: None.

### 13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

#### Investments in Associates

	December 31	
	2016	2015
<u>Unlisted shares</u>		
JY Technology (Shanghai)	\$ 64,726	\$ -



## Associates That are Not Individually Material

Name of Company	Nature of Activities	Principal Place of Business	Proportion of Ownership and Voting Rights	
			December 31	
			2016	2015
JY Technology (Shanghai)	Selling of industrial automatic control cards, industrial motherboards, industrial computers and peripheral devices	Shanghai, China	45.45%	-

## Aggregate Information of Associates That are Not Individually Material

	For the Year Ended December 31	
	2016	2015
The Group's share of:		
Loss from continuing operations	\$ <u>4,588</u>	\$ <u>-</u>

The amount of the recognized share of loss for the year ended December 31, 2016 from the investments in associates accounted for using the equity method as of December 31, 2016 was \$4,588 thousand. The share of loss was based on the associates' financial statements audited by the auditors for the same years.

## 14. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery and Equipment	Transportation Equipment	Leasehold Improvements	Other Equipment	Total
<u>Cost</u>							
Balance at January 1, 2015	\$ 131,362	\$ 908,926	\$ 457,416	\$ 3,711	\$ 92,580	\$ 201,191	\$ 1,795,186
Additions	-	20,966	121,636	540	36,077	65,937	245,156
Disposals	-	(4,509)	(10,196)	(1,096)	(19,983)	(17,347)	(53,131)
Reclassification	-	8,143	19,153	-	(3,261)	(2,652)	21,383
Transfer from prepayments for equipment	-	-	2,744	-	-	9,886	12,630
Effect of foreign currency exchange differences	-	(18,217)	(5,690)	(73)	41	(2,259)	(26,198)
Balance at December 31, 2015	<u>\$ 131,362</u>	<u>\$ 915,309</u>	<u>\$ 585,063</u>	<u>\$ 3,082</u>	<u>\$ 105,454</u>	<u>\$ 254,756</u>	<u>\$ 1,995,026</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2015	\$ -	\$ (231,858)	\$ (245,493)	\$ (3,062)	\$ (68,729)	\$ (139,425)	\$ (688,567)
Depreciation expense	-	(55,055)	(62,523)	(301)	(20,551)	(43,050)	(181,480)
Disposals	-	1,456	8,989	1,096	18,868	16,210	46,619
Reclassification	-	(2,705)	(19,600)	-	2,542	(1,620)	(21,383)
Effect of foreign currency exchange differences	-	4,872	2,244	88	(130)	1,213	8,287
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ (283,290)</u>	<u>\$ (316,383)</u>	<u>\$ (2,179)</u>	<u>\$ (68,000)</u>	<u>\$ (166,672)</u>	<u>\$ (836,524)</u>
Carrying amounts at December 31, 2015	<u>\$ 131,362</u>	<u>\$ 632,019</u>	<u>\$ 268,680</u>	<u>\$ 903</u>	<u>\$ 37,454</u>	<u>\$ 88,084</u>	<u>\$ 1,158,502</u>

(Continued)

	Freehold Land	Buildings	Machinery and Equipment	Transportation Equipment	Leasehold Improvements	Other Equipment	Total
<u>Cost</u>							
Balance at January 1, 2016	\$ 131,362	\$ 915,309	\$ 585,063	\$ 3,082	\$ 105,454	\$ 254,756	\$ 1,995,026
Acquisitions through business combination	-	-	-	-	3,319	54,985	58,304
Additions	-	5,184	18,943	-	22,023	48,608	94,758
Disposals	-	-	(5,804)	(917)	(2,250)	(56,583)	(65,554)
Reclassification	-	-	-	-	-	(143)	(143)
Transfer from prepayments for equipment	-	-	2,997	-	-	16,184	19,181
Effect of foreign currency exchange differences	-	(64,233)	(20,729)	(96)	(624)	(15,843)	(101,525)
Balance at December 31, 2016	<u>\$ 131,362</u>	<u>\$ 856,260</u>	<u>\$ 580,470</u>	<u>\$ 2,069</u>	<u>\$ 127,922</u>	<u>\$ 301,964</u>	<u>\$ 2,000,047</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2016	\$ -	\$ (283,290)	\$ (316,383)	\$ (2,179)	\$ (68,000)	\$ (166,672)	\$ (836,524)
Acquisitions through business combination	-	-	-	-	(2,963)	(53,798)	(56,761)
Depreciation expense	-	(53,819)	(66,047)	(249)	(21,267)	(50,392)	(191,774)
Disposals	-	-	5,594	917	2,250	55,469	64,230
Reclassification	-	(233)	-	-	-	233	-
Effect of foreign currency exchange differences	-	21,675	11,653	77	518	11,672	45,595
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ (315,667)</u>	<u>\$ (365,183)</u>	<u>\$ (1,434)</u>	<u>\$ (89,462)</u>	<u>\$ (203,488)</u>	<u>\$ (975,234)</u>
Carrying amounts at December 31, 2016	<u>\$ 131,362</u>	<u>\$ 540,593</u>	<u>\$ 215,287</u>	<u>\$ 635</u>	<u>\$ 38,460</u>	<u>\$ 98,476</u>	<u>\$ 1,024,813</u>

(Concluded)

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

Building	
Main buildings	20-50 years
Mechanical and electrical accessories	2-20 years
Decoration	3-10 years
Machinery equipment	2-10 years
Transportation equipment	5-6 years
Leasehold improvements	3-10 years
Other equipment	2-15 years

Refer to Note 34 for the carrying amount of property, plant and equipment pledged by the Group to secure general banking facilities granted to the Group.

## 15. INTANGIBLE ASSETS

	Computer Software	Goodwill	Trademarks	Customer Relationship	Technological Expertise	Total
<u>Cost</u>						
Balance at January 1, 2015	\$ 128,404	\$ 246,455	\$ 174,181	\$ 294,862	\$ 44,549	\$ 888,451
Additions	60,731	-	-	-	-	60,731
Disposals	(3,357)	-	-	-	-	(3,357)
Effect of foreign currency exchange differences	(918)	3,218	(378)	(663)	(2,999)	(1,740)
Balance at December 31, 2015	<u>\$ 184,860</u>	<u>\$ 249,673</u>	<u>\$ 173,803</u>	<u>\$ 294,199</u>	<u>\$ 41,550</u>	<u>\$ 944,085</u>

(Continued)

	Computer Software	Goodwill	Trademarks	Customer Relationship	Technological Expertise	Total
<u>Accumulated amortization and impairment</u>						
Balance at January 1, 2015	\$ (95,743)	\$ (14,832)	\$ (16,102)	\$ (201,333)	\$ (6,364)	\$ (334,374)
Amortization expense	(46,352)	-	-	(17,537)	(5,830)	(69,719)
Disposals	3,134	-	-	-	-	3,134
Impairment losses recognized	-	-	(17,045)	-	-	(17,045)
Effect of foreign currency exchange differences	<u>901</u>	<u>(550)</u>	<u>(36)</u>	<u>(5,276)</u>	<u>323</u>	<u>(4,638)</u>
Balance at December 31, 2015	<u>\$ (138,060)</u>	<u>\$ (15,382)</u>	<u>\$ (33,183)</u>	<u>\$ (224,146)</u>	<u>\$ (11,871)</u>	<u>\$ (422,642)</u>
Carrying amounts at December 31, 2015	<u>\$ 46,800</u>	<u>\$ 234,291</u>	<u>\$ 140,620</u>	<u>\$ 70,053</u>	<u>\$ 29,679</u>	<u>\$ 521,443</u>
<u>Cost</u>						
Balance at January 1, 2016	\$ 184,860	\$ 249,673	\$ 173,803	\$ 294,199	\$ 41,550	\$ 944,085
Additions	65,191	-	-	-	-	65,191
Acquisitions through business combination	-	494,546	-	72,420	107,075	674,041
Disposals	(125,790)	-	-	-	-	(125,790)
Transfer from prepayments for equipment	626	-	-	-	-	626
Effect of foreign currency exchange differences	<u>(1,457)</u>	<u>(104,176)</u>	<u>(5,348)</u>	<u>(22,540)</u>	<u>(22,225)</u>	<u>(155,746)</u>
Balance at December 31, 2016	<u>\$ 123,430</u>	<u>\$ 640,043</u>	<u>\$ 168,455</u>	<u>\$ 344,079</u>	<u>\$ 126,400</u>	<u>\$1,402,407</u>
<u>Accumulated amortization and impairment</u>						
Balance at January 1, 2016	\$ (138,060)	\$ (15,382)	\$ (33,183)	\$ (224,146)	\$ (11,871)	\$ (422,642)
Amortization expense	(60,003)	-	-	(19,524)	(19,665)	(99,192)
Disposals	125,790	-	-	-	-	125,790
Impairment losses recognized	-	(38,214)	(9,519)	-	-	(47,733)
Effect of foreign currency exchange differences	<u>1,216</u>	<u>3,909</u>	<u>1,692</u>	<u>6,605</u>	<u>2,262</u>	<u>15,684</u>
Balance at December 31, 2016	<u>\$ (71,057)</u>	<u>\$ (49,687)</u>	<u>\$ (41,010)</u>	<u>\$ (237,065)</u>	<u>\$ (29,274)</u>	<u>\$ (428,093)</u>
Carrying amounts at December 31, 2016	<u>\$ 52,373</u>	<u>\$ 590,356</u>	<u>\$ 127,445</u>	<u>\$ 107,014</u>	<u>\$ 97,126</u>	<u>\$ 974,314</u>

(Concluded)

The above items of intangible assets are amortized on a straight-line basis over the following estimated economic life:

Computer software	1-6 years
Customer relationship	7-11 years
Technological expertise	7 years

Goodwill and trademarks are considered to have an indefinite useful life, and will be tested for impairment annually and whenever there is an indication that the asset may be impaired. For the years ended December 31, 2016 and 2015, impairment losses recognized on intangible assets were \$47,733 thousand and \$17,045 thousand, respectively.

## 16. PREPAYMENTS FOR LEASE

	December 31	
	2016	2015
Current assets (included in prepayments)	\$ 1,663	\$ 1,808
Non-current assets	<u>60,416</u>	<u>67,500</u>
	<u>\$ 62,079</u>	<u>\$ 69,308</u>

Prepayments for lease include land use rights located in Zhangjiang and Shanghai, Mainland China. Refer to Note 34 for the land use rights pledged by the Group to secure general banking facilities granted to the Group.

## 17. OTHER ASSETS

	December 31	
	2016	2015
<u>Current</u>		
Prepayments		
Prepaid input tax	\$ 63,529	\$ 25,339
Payments for purchase of goods	569	903
Prepaid expenses	<u>123,216</u>	<u>75,410</u>
	<u>\$ 187,314</u>	<u>\$ 101,652</u>
<u>Non-current</u>		
Prepayments for investment (Note 29)	<u>\$ -</u>	<u>\$ 508,865</u>

The Group entered into a share purchase agreement and acquired 100% equity interest in PrismTech Group Limited for US\$16,600 thousand (including contingent considerations) in December 2015 in order to expand the “Industrial Internet of Things” market. The Group acquired control over PrismTech Group Limited and the entity was included in the consolidated financial statements since January 2016. Based on the share purchase agreement, the Group remitted prepayments for investment of \$508,865 thousand (US\$15,500 thousand) to the escrow account opened by the solicitors.

## 18. BORROWINGS

### a. Short-term borrowings

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Unsecured borrowings</u>		
Bank loans	\$ 407,725	\$ 1,211,575
<u>Secured borrowings (Note 34)</u>		
Bank loans	<u>99,240</u>	<u>322,570</u>
	<u>\$ 506,965</u>	<u>\$ 1,534,145</u>

- 1) The interest rate on the short-term borrowings was 0.84%-3.95% and 1.10%-2.60% per annum as of December 31, 2016 and 2015, respectively.
- 2) The expected repayment dates of unsecured bank loans were January to June 2017 and January to November 2016 as of December 31, 2016 and 2015, respectively.
- 3) The expected repayment period of secured bank loans were February to March 2017 and March 2016 as of December 31, 2016 and 2015, respectively.
- 4) Refer to Note 32 for related information about utilized and unutilized bank loan facilities.

### b. Long-term borrowings

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Unsecured borrowings</u>		
Bank loans	\$ 200,000	\$ -
Less: Current portion	<u>32,500</u>	<u>-</u>
Long-term borrowings	<u>\$ 167,500</u>	<u>\$ -</u>

- 1) The interest rate on the long-term borrowings was 1.21%-1.28% as of December 31, 2016.
- 2) \$100,000 thousand of the bank loans is expected to be repaid in equal installments, and the last installment will be paid in December 2019. Another \$100,000 thousand of the bank loans can be used in revolving credit line before August 2019.
- 3) Refer to Note 32 for related information about utilized and unutilized bank loan facilities.

## 19. TRADE PAYABLES

Trade payables occurred from operating activities. The average credit period for purchase of certain goods was 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

## 20. OTHER LIABILITIES

	December 31	
	2016	2015
<u>Current</u>		
Other payables		
Payable for salaries and bonus	\$ 391,267	\$ 300,411
Compensation to employees	77,320	91,869
Payable for annual leave	42,480	31,128
Payable for outsourcing cost	20,648	23,441
Payable for indirect materials	11,248	27,602
Payable for research and design expense	10,192	10,255
Remuneration of directors and supervisors	5,155	6,125
Payable for purchase of equipment	5,100	25,836
Others	<u>276,693</u>	<u>231,365</u>
	<u>\$ 840,103</u>	<u>\$ 748,032</u>
Other current liabilities		
Receipts in advance	\$ 137,335	\$ 51,186
Others	<u>16,149</u>	<u>9,896</u>
	<u>\$ 153,484</u>	<u>\$ 61,082</u>

## 21. PROVISIONS

	December 31	
	2016	2015
<u>Warranties</u>		
Current	\$ 52,893	\$ 52,102
Non-current	<u>32,688</u>	<u>35,146</u>
	<u>\$ 85,581</u>	<u>\$ 87,248</u>
		<b>Warranties</b>
Balance at January 1, 2016		\$ 87,248
Additional provisions recognized		34,171
Usage		(611)
Reversed unused balances		(33,675)
Effect of foreign currency exchange differences		<u>(1,552)</u>
Balance at December 31, 2016		<u>\$ 85,581</u>

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

## 22. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

The Company 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.

Overseas subsidiaries have to contribute amounts at certain percentage of salaries to the local governments. Employees of these subsidiaries will receive retirement pension from the local governments after retirement.

### b. Defined benefit plans

The defined benefit plan adopted by the Company 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 six months before retirement. The Company 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 Company 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 Company 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 Company has no right to influence the investment policy and strategy.

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Present value of defined benefit obligation	\$ 90,059	\$ 91,081
Fair value of plan assets	<u>(44,902)</u>	<u>(42,423)</u>
Net defined benefit liability	<u>\$ 45,157</u>	<u>\$ 48,658</u>

Movements in net defined benefit liability were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
Balance at January 1, 2015	<u>\$ 88,500</u>	<u>\$ (44,198)</u>	<u>\$ 44,302</u>
Service cost			
Current service cost	1,190	-	1,190
Past service cost and gain on settlements	(2,924)	-	(2,924)
Net interest expense (income)	<u>1,768</u>	<u>(904)</u>	<u>864</u>
Recognized in profit or loss	<u>34</u>	<u>(904)</u>	<u>(870)</u>
			(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (264)	\$ (264)
Actuarial loss - changes in demographic assumptions	20	-	20
Actuarial loss - changes in financial assumptions	6,805	-	6,805
Actuarial loss - experience adjustments	<u>1,150</u>	<u>-</u>	<u>1,150</u>
Recognized in other comprehensive income	<u>7,975</u>	<u>(264)</u>	<u>7,711</u>
Contributions from the employer	-	(2,485)	(2,485)
Benefits paid	<u>(5,428)</u>	<u>5,428</u>	<u>-</u>
Balance at December 31, 2015	<u>91,081</u>	<u>(42,423)</u>	<u>48,658</u>
Service cost			
Current service cost	933	-	933
Past service cost and gain on settlements	(287)	-	(287)
Net interest expense (income)	<u>1,366</u>	<u>(652)</u>	<u>714</u>
Recognized in profit or loss	<u>2,012</u>	<u>(652)</u>	<u>1,360</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	344	344
Actuarial loss - changes in demographic assumptions	47	-	47
Actuarial loss - experience adjustments	<u>(3,081)</u>	<u>-</u>	<u>(3,081)</u>
Recognized in other comprehensive income	<u>(3,034)</u>	<u>344</u>	<u>(2,690)</u>
Contributions from the employer	<u>-</u>	<u>(2,171)</u>	<u>(2,171)</u>
Balance at December 31, 2016	<u>\$ 90,059</u>	<u>\$ (44,902)</u>	<u>\$ 45,157</u> (Concluded)

Through the defined benefit plans under the Labor Standards Law, the Group 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:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Discount rate(s)	1.50%	1.50%
Expected rate(s) of salary increase	4.00%	4.00%

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:

	<b>December 31, 2016</b>
Discount rate(s)	
0.25% increase	<u>\$ (3,142)</u>
0.25% decrease	<u>\$ 3,290</u>
Expected rate(s) of salary increase	
0.25% increase	<u>\$ 3,201</u>
0.25% decrease	<u>\$ (3,075)</u>
Turnover rate	
10% increase	<u>\$ (1,164)</u>
10% decrease	<u>\$ 1,192</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.

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
The expected contributions to the plan for the next year	<u>\$ 1,994</u>	<u>\$ 2,054</u>
The average duration of the defined benefit obligation	14 years	15 years

## 23. EQUITY

### a. Ordinary shares

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Number of shares authorized (in thousands)	<u>250,000</u>	<u>250,000</u>
Shares authorized	<u>\$ 2,500,000</u>	<u>\$ 2,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>217,558</u>	<u>201,759</u>
Shares issued	<u>\$ 2,175,579</u>	<u>\$ 2,017,589</u>

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

A total of 5,000 thousand shares of the Company's authorized shares were reserved for the issuance of employee share options.

For the year ended December 31, 2016, the Company issued 15,000 thousand ordinary shares, 280 thousand restricted shares for employees and 604 thousand shares under employee share options. Also, the Company retired 85 thousand restricted shares for employees.

On November 2, 2015, the Company's board of directors resolved to issue 15,000 thousand ordinary shares, with a par value of NT\$10, for consideration of NT\$64 per share. On December 14, 2015, the above transaction was approved by FSC, and the subscription base date was determined at January 4, 2016 by the board of directors.

The Company issued 12,608 thousand shares, at an issue price of \$34.5 per share, through a private placement for cash of \$435,000 thousand in January 2013, and distributed share dividends of 883 thousand shares and 1,217 thousand shares in August 2014 and August 2015, respectively, to the shareholders. As of December 31, 2016, the number of ordinary shares issued through private placements was 14,708 thousand shares.

b. Capital surplus

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Arising from issuance of common shares	\$ 1,197,175	\$ 377,193
Arising from conversion of bonds	207,034	207,034
Arising from treasury share transactions	17,579	17,579
<u>May be used to offset a deficit only (2)</u>		
Arising from employee share options exercised	42,983	16,871
Arising from employee share options expired	11,328	1,924
<u>May not be used for any purpose</u>		
Arising from employee share options	1,215	9,708
Arising from employee restricted shares	<u>98,364</u>	<u>84,047</u>
	<u>\$ 1,575,678</u>	<u>\$ 714,356</u>

A reconciliation of the carrying amounts of capital surplus was as follows:

	<b>Premium of Common Shares</b>	<b>Premium of Conversion of Bonds</b>	<b>Treasury Share Transactions</b>	<b>Share Options Exercised</b>	<b>Share Options Expired</b>	<b>Employee Share Options</b>	<b>Employee Restricted Shares</b>	<b>Total</b>
Balance at January 1, 2015	\$ 367,225	\$ 207,034	\$ 17,579	\$ 9,681	\$ -	\$ 18,519	\$ -	\$ 620,038
Issue of restricted shares for employees	-	-	-	-	-	-	83,200	83,200
Compensation costs of share-based payments recognized by the Company	-	-	-	-	-	303	847	1,150
Issue of ordinary shares under employee share options	9,968	-	-	7,190	-	(7,190)	-	9,968
Expiration of ordinary shares under employee share options	-	-	-	-	1,924	(1,924)	-	-
Balance at December 31, 2015	377,193	207,034	17,579	16,871	1,924	9,708	84,047	714,356
Issuance of ordinary shares for cash	810,000	-	-	17,619	9,404	(27,023)	-	810,000
Issue of restricted shares for employees	-	-	-	-	-	-	15,761	15,761
Retirement of restricted shares for employees	-	-	-	-	-	-	850	850
Compensation costs of share-based payments recognized by the Company	-	-	-	-	-	27,023	(2,294)	24,729
Issue of ordinary shares under employee share options	9,982	-	-	8,493	-	(8,493)	-	9,982
Balance at December 31, 2016	<u>\$ 1,197,175</u>	<u>\$ 207,034</u>	<u>\$ 17,579</u>	<u>\$ 42,983</u>	<u>\$ 11,328</u>	<u>\$ 1,215</u>	<u>\$ 98,364</u>	<u>\$ 1,575,678</u>

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).
  - 2) Such capital surplus arises from share options exercised or expired with no cash flows.
- 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 20, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the Articles), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made post-tax profit in a fiscal year, the profit shall be first utilized for offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, please refer to (d) Employee benefits expense in Note 25.

The Company's Articles of Incorporation provide that the Company adopts residual dividend policy. After setting aside amounts based on the Company's capital budget plan, the residual profits shall be distributed as cash dividends. The Company's Articles of Incorporation also prescribe that less than 10% of total dividends shall be paid in cash.

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

Under Order No. 1010012865 and Order No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve.

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

The appropriations of earnings, profit sharing to employees and remuneration of directors and supervisors for 2015 and 2014 approved in the shareholders' meetings on June 20, 2016 and June 11, 2015, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Legal reserve	\$ 60,715	\$ 58,844		
Cash dividends	521,716	349,537	\$2.4	\$1.9
Share dividends	-	165,644	-	0.9

The appropriations of earnings for 2016 had been proposed by the Company's board of directors on March 8, 2017. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 43,090	
Special reserve	74,736	
Cash dividends	392,511	\$1.8

The appropriations of earnings for 2016 are subject to the resolution in the shareholders' meeting to be held on June 19, 2017.

- d. Other equity items - exchange differences on translating the financial statements of foreign operations

	<b><u>For the Year Ended December 31</u></b>	
	<b>2016</b>	<b>2015</b>
Balance at January 1	\$ 114,602	\$ 120,163
Exchange differences arising on translating the financial statements of foreign operations	(228,119)	(6,700)
Related income tax	<u>38,781</u>	<u>1,139</u>
Balance at December 31	<u>\$ (74,736)</u>	<u>\$ 114,602</u>

- e. Other equity items - unrealized gain on available-for-sale financial assets

	<b><u>For the Year Ended December 31</u></b>	
	<b>2016</b>	<b>2015</b>
Balance at January 1	\$ 1,021	\$ -
Unrealized (realized) gain arising on revaluation of available-for-sale financial assets	<u>(1,021)</u>	<u>1,021</u>
Balance at December 31	<u>\$ -</u>	<u>\$ 1,021</u>

- f. Other equity items - unearned employee benefit

	<b><u>For the Year Ended December 31</u></b>	
	<b>2016</b>	<b>2015</b>
Balance at January 1	\$ (71,399)	\$ -
Issuance of shares	(18,561)	(95,400)
Share-based payment compensation costs recognized	<u>56,871</u>	<u>24,001</u>
Balance at December 31	<u>\$ (33,089)</u>	<u>\$ (71,399)</u>

## 24. REVENUE

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Revenue from the sale of goods	\$ 9,231,068	\$ 9,068,123
Software authorization and service revenue	<u>338,673</u>	<u>-</u>
	<u>\$ 9,569,741</u>	<u>\$ 9,068,123</u>

## 25. NET PROFIT FOR THIS YEAR

### a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Payables for investments transferred to other income (Note 29)	\$ 36,113	\$ -
Rental income	7,757	6,827
Interest income	6,936	10,195
Income from clearance of overdue debts	6,863	3,459
Grant revenue	2,979	3,075
Others	<u>15,095</u>	<u>22,737</u>
	<u>\$ 75,743</u>	<u>\$ 46,293</u>

### b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Net foreign exchange losses	\$ (82,933)	\$ (23,272)
Impairment losses (Notes 8 and 15)	(47,733)	(17,090)
Gain on disposal of subsidiaries	31,853	-
Gain on disposal of available-for-sale financial assets	1,117	40
(Loss) gain on disposal of property, plant and equipment	(1,006)	258
Gain on disposal of financial assets measured at cost (Note 8)	-	8,936
Loss on disposal of computer software	-	(223)
Others	<u>(21,146)</u>	<u>(10,924)</u>
	<u>\$ (119,848)</u>	<u>\$ (42,275)</u>

### c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Interest on bank loans	<u>\$ 15,656</u>	<u>\$ 20,570</u>

d. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Property, plant and equipment	\$ 191,774	\$ 181,480
Computer software	60,003	46,352
Customer relationship	19,524	17,537
Technological expertise	<u>19,665</u>	<u>5,830</u>
	<u>\$ 290,966</u>	<u>\$ 251,199</u>
An analysis of depreciation by function		
Cost of goods sold	\$ 69,722	\$ 73,316
Operating expenses	<u>122,052</u>	<u>108,164</u>
	<u>\$ 191,774</u>	<u>\$ 181,480</u>
An analysis of amortization by function		
Cost of goods sold	\$ 701	\$ 1,171
Operating expenses	<u>98,491</u>	<u>68,548</u>
	<u>\$ 99,192</u>	<u>\$ 69,719</u>

e. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Post-employment benefits		
Defined contribution plans	\$ 85,889	\$ 79,375
Defined benefit plans (Note 22)	<u>1,360</u>	<u>(870)</u>
	87,249	78,505
Equity-settled share-based payments	81,600	25,151
Other employee benefits	<u>2,189,765</u>	<u>2,039,386</u>
	<u>\$ 2,358,614</u>	<u>\$ 2,143,042</u>
An analysis of employee benefits expense by function		
Cost of goods sold	\$ 360,528	\$ 326,756
Operating expenses	<u>1,998,086</u>	<u>1,816,286</u>
	<u>\$ 2,358,614</u>	<u>\$ 2,143,042</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 Company approved by the shareholders in their meeting in June 2016, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates from 3% to 20% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employee's compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on March 8, 2017 and April 28, 2016, respectively, were as follows:

Accrual rate

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Employees' compensation	12.94%	11.04%
Remuneration of directors and supervisors	0.86%	0.74%

Amount

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Employees' compensation	\$ 77,320	\$ 91,869
Remuneration of directors and supervisors	\$ 5,155	\$ 6,125

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in 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 consolidated financial statements for the year ended December 31, 2015.

Information on the employee's compensation and remuneration of directors and supervisors resolved by the Company'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 and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meeting on June 11, 2015 were as follows:

	<b>For the Year Ended December 31, 2014</b>
	<b>Cash</b>
Bonus to employees	\$ 95,385
Remuneration of directors and supervisors	6,359

There was no difference between the amounts of the bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meetings on June 11, 2015 and the amounts recognized in the consolidated financial statements for the years ended December 31, 2014.

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

## 26. INCOME TAXES

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Current tax		
In respect of the current year	\$ 128,908	\$ 153,812
Income tax on unappropriated earnings	1,832	2,069
Adjustments for prior periods	<u>(18,315)</u>	<u>(7,451)</u>
	112,425	148,430
Deferred tax		
In respect of the current year	<u>(12,032)</u>	<u>11,817</u>
Income tax expense recognized in profit or loss	<u>\$ 100,393</u>	<u>\$ 160,247</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Profit before tax	<u>\$ 531,542</u>	<u>\$ 768,851</u>
Income tax expense calculated at the statutory rate (17%)	\$ 90,362	\$ 130,705
Tax-exempt income	(190)	(7)
Nondeductible expenses in determining taxable income	695	1,096
Income tax on unappropriated earnings	1,832	2,069
Unrecognized temporary differences	10,184	8,468
Unrecognized loss carryforwards	(12,841)	(6,374)
Effect of different tax rate of group entities operating in other jurisdictions	28,666	31,741
Adjustments to prior years' tax	<u>(18,315)</u>	<u>(7,451)</u>
Income tax expense recognized in profit or loss	<u>\$ 100,393</u>	<u>\$ 160,247</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

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



b. Income tax recognized in other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Deferred tax</u>		
In respect of the current year		
Translation of foreign operations	\$ 38,781	\$ 1,139
Remeasurement on defined benefit plan	<u>(457)</u>	<u>1,310</u>
Total income tax recognized in other comprehensive income	<u>\$ 38,324</u>	<u>\$ 2,449</u>

c. 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

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized intercompany gains	\$ 13,306	\$ (3,305)	\$ -	\$ -	\$ 10,001
Defined benefit obligation	8,271	(137)	(457)	-	7,677
Payable for annual leave	1,894	517	-	-	2,411
Allowance for value decline of inventory	29,923	11,600	-	(1,991)	39,532
Property, plant and equipment	2,732	1,086	-	(267)	3,551
Warranties	8,752	168	-	-	8,920
Exchange difference on foreign operations	-	-	15,320	-	15,320
Others	<u>3,212</u>	<u>6,134</u>	<u>-</u>	<u>(88)</u>	<u>9,258</u>
	<u>\$ 68,090</u>	<u>\$ 16,063</u>	<u>\$ 14,863</u>	<u>\$ (2,346)</u>	<u>\$ 96,670</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Exchange difference on foreign operations	\$ 23,461	\$ -	\$ (23,461)	\$ -	\$ -
Unrealized exchange gains	1,080	(642)	-	-	438
Others	<u>2,018</u>	<u>4,673</u>	<u>-</u>	<u>2</u>	<u>6,693</u>
	<u>\$ 26,559</u>	<u>\$ 4,031</u>	<u>\$ (23,461)</u>	<u>\$ 2</u>	<u>\$ 7,131</u>

For the year ended December 31, 2015

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized intercompany gains	\$ 19,867	\$ (6,561)	\$ -	\$ -	\$ 13,306
Defined benefit obligation	7,532	(571)	1,310	-	8,271
Payable for annual leave	1,481	413	-	-	1,894
Allowance for value decline of inventory	24,204	6,079	-	(360)	29,923
Investment losses overseas	14,068	(14,068)	-	-	-
Property, plant and equipment	1,919	863	-	(50)	2,732
Warranties	6,285	2,467	-	-	8,752
Others	<u>4,803</u>	<u>(1,569)</u>	<u>-</u>	<u>(22)</u>	<u>3,212</u>
	<u>\$ 80,159</u>	<u>\$ (12,947)</u>	<u>\$ 1,310</u>	<u>\$ (432)</u>	<u>\$ 68,090</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred tax liabilities</u>					
Temporary differences					
Exchange difference on foreign operations	\$ 24,600	\$ -	\$ (1,139)	\$ -	\$ 23,461
Unrealized exchange gains	4,003	(2,923)	-	-	1,080
Others	294	1,793	-	(69)	2,018
	<u>\$ 28,897</u>	<u>\$ (1,130)</u>	<u>\$ (1,139)</u>	<u>\$ (69)</u>	<u>\$ 26,559</u>
					(Concluded)

d. Unrecognized and unused loss carryforward

	<u>December 31</u>	
	2016	2015
Loss carryforwards		
Expire in 2021	\$ 71,410	\$ 100,585
Expire in 2022	<u>8,359</u>	<u>8,508</u>
	<u>\$ 79,769</u>	<u>\$ 109,093</u>

e. Integrated income tax

	<u>December 31</u>	
	2016	2015
Unappropriated earnings		
Generated on and after January 1, 1998	<u>\$ 554,287</u>	<u>\$ 703,589</u>
Imputation credits account	<u>\$ 76,523</u>	<u>\$ 72,001</u>

The creditable ratios for distribution of earnings of 2016 and 2015 were 21.70% (expected) and 17.33%, respectively.

f. Income tax assessments

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

## 27. 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

	<u>For the Year Ended December 31</u>	
	2016	2015
Earnings used in the computation of basic and diluted earnings per share	<u>\$ 430,896</u>	<u>\$ 607,152</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Weighted average number of ordinary shares in computation of basic earnings per share	215,857	200,226
Effect of potentially dilutive ordinary shares:		
Employees' compensation or profit sharing to employees	1,684	1,646
Employee share option	49	477
Employee restricted shares	<u>673</u>	<u>55</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>218,263</u>	<u>202,404</u>

The Group may settle compensation or profit sharing to employees in cash or shares; accordingly, the Group assumed the entire amount of the compensation or profit sharing would 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, if the effect is dilutive. Such dilutive effect of the potential shares was 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.

## **28. SHARE-BASED PAYMENT ARRANGEMENTS**

### **Employee Share Option Plan of the Company**

Qualified employees of the Company were granted 500 options in December 2011 and 2,000 options in September 2010. Each option entitles the holder to subscribe for one thousand common shares of the Company. The options granted are valid for 6 years and exercisable at 30%, 70% and 100%, respectively, after the second, third and fourth anniversary year from the grant date. Information about the number of options granted and exercise prices was as follows:

	<b>Grant Date</b>	
	<b>September 9, 2010</b>	<b>December 22, 2011</b>
Number of options granted	2,000	500
Exercise price per share granted (equal to the closing price of the Company's common shares listed on the TWSE on the grant date)	\$49.20	\$30.90
Exercise price per share as of independent auditors' report date (revised in accordance with relevant regulations)	\$26.90	\$20.30

There was no employee share option granted for the year ended December 31, 2016 and 2015. Information about options granted was as follows:

a. Movements of the number of options and weighted-average exercise price were as follows:

	For the Year Ended December 31			
	2016		2015	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance at January 1	680	\$ 26.10	1,296	\$ 29.21
Options exercised	(608)	26.42	(541)	28.43
Options forfeited	<u>-</u>	-	<u>(75)</u>	27.92
Balance at December 31	<u>72</u>	20.30	<u>680</u>	26.10
Options exercisable, end of period	<u>72</u>		<u>680</u>	

b. Information about outstanding options as of December 31, 2016 and 2015 was as follows:

	December 31, 2016	
	Outstanding Options	
	Unit	Weighted- average Remaining Contractual Life (Years)
Range of Exercise Price (NT\$)		
\$ 26.90	-	-
20.30	<u>72</u>	-
	<u>72</u>	
	December 31, 2015	
	Outstanding Options	
	Unit	Weighted- average Remaining Contractual Life (Years)
Range of Exercise Price (NT\$)		
\$ 27.92	499	-
21.07	<u>181</u>	0.757
	<u>680</u>	

- c. Options granted were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

Vested Time (from the Grant Date)	Grant Date					
	September 9, 2010			December 22, 2011		
	Second Anniversary Year	Third Anniversary Year	Fourth Anniversary Year	Second Anniversary Year	Third Anniversary Year	Fourth Anniversary Year
Expected volatility	34.18%	34.02%	34.15%	35.37%	36.81%	35.91%
Risk-free interest rate	0.87%	0.92%	0.98%	1.01%	1.02%	1.05%
Expected dividend yield	-	-	-	-	-	-
Expected life (years)	4	4.5	5	4	4.5	5

- d. Fair value of options and compensation cost recognized:

The fair values of employee share options with grant dates September 9, 2010 and December 22, 2011 are priced based on their vested time that starts from the second, third and fourth anniversary year.

Vested Time (from the Grant Date)	Grant Date					
	September 9, 2010			December 22, 2011		
	Second Anniversary Year	Third Anniversary Year	Fourth Anniversary Year	Second Anniversary Year	Third Anniversary Year	Fourth Anniversary Year
Fair value of options (thousand per unit)	\$13.79	\$14.60	\$15.49	\$9.00	\$9.89	\$10.20

The compensation costs recognized were \$303 thousand for the years ended December 31, 2015.

### Restricted Stock Plan for Employees of the Company

In the shareholders' meeting on June 11, 2015, the shareholders approved a restricted stock plan for employees with a total amount of \$15,000 thousand, consisting 1,500 thousand shares, at the issue price of zero per share. Regulations of the employees' restricted stock plan were as follows:

- a. If the employees who acquire the restricted shares issued by the Company achieve the Company's goals for financial performance, personal performance and service rules, the restricted shares are exercisable at 15%, 30% and 55% after the first, second and third anniversary year from the grant date, respectively.
- b. The restrictions on the rights of the employees who acquire the restricted shares but have not met the vesting conditions are as follows:
  - 1) The employees cannot sell, pledge, transfer, donate or in any other way dispose of these shares.
  - 2) The employees holding these shares are entitled to receive dividends and participate in any share issuance for cash. Cash and share dividends received are free from vesting time (from the grant date) and will be remitted from the custodian account to employees' individual bank accounts with no consideration after the payment date.
  - 3) Their rights to propose, speak, vote and participate in other events related to shareholders' equity are all entrusted to the trust custodian.

- 4) The restricted shares should be held in trust after being issued and non-refundable before meeting the vesting conditions.
- c. If an employee fails to meet the vesting conditions due to leaving without pay, retirement, death or disability to work caused by occupational hazards, general death, significant negligence or violation of employment agreements or work rules, transfer to another post or voluntary withdrawal, etc., his/her restricted shares will be handled in accordance with the regulations of employee restricted stock plan. However, if an employee fails to meet the vesting conditions in other general situations, the Company will recall and cancel his/her restricted shares with no consideration.

Information about restricted stock plan for employees was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
	<b>Number of Options (In Thousand)</b>	<b>Number of Options (In Thousand)</b>
Balance at January 1	1,026	-
Options granted	280	1,220
Options exercised	(358)	(194)
Options retired	<u>(85)</u>	<u>-</u>
Balance at December 31	<u><u>863</u></u>	<u><u>1,026</u></u>

The above transaction was approved under Order No. 1040024448 issued by the FSC on June 29, 2015. The issuance base date was determined at November 2, 2015, February 18 and June 28, 2016, and the Company issued 1,220 thousand, 140 thousand and 140 thousand shares, respectively. Compensation costs of employee restricted shares recognized were \$24,848 thousand and 54,577 thousand for the year ended December 31, 2015 and 2016, respectively.

### **Cash Capital Increase Reserved for Employees**

On November 2, 2015, the Company's board of directors resolved to issue 15,000 thousand ordinary shares, with a par value of NT\$10, for consideration of NT\$64 per share. 2,250 thousand shares of the cash capital increase are reserved for subscription by the employees according to the "Regulation Governing Cash Capital Increase Reserved for Employees" adopted by the Company. Shares will be purchased by persons authorized by the Chairman if the shares are under subscription or withdrawal of employees.

	<b>For the Year Ended December 31 Number of Options (In Thousands)</b>
Balance at January 1	-
Options granted	2,250
Options exercised	(1,467)
Options forfeited	<u>(783)</u>
Balance at December 31	<u><u>-</u></u>

The cash capital increase reserved for employees granted on January 4, 2016 was priced using the Black-Scholes model and the inputs to the model were as follows:

Exercise price per share (\$)	\$ 64.00
Grant-date share price (\$)	76.00
Expected price volatility	41.21%
Risk-free interest rate	0.38%
Expected dividend yield	-

The shares of cash capital increase reserved for employees mentioned above have been measured at the fair value at the grant date according with IFRS 2 “Share-based Payment”. The Company recognized compensation cost of \$27,023 thousand at the grant date of January 4, 2016. Share capital was received at January 11, 2016 and recognized “capital surplus - options exercised” \$17,619 thousand, shares under subscription or withdrawal of employees were purchased by persons arranged by the Chairman and the Company recognized “capital surplus -options forfeited” \$9,404 thousand.

## 29. BUSINESS COMBINATION

### a. Subsidiary acquired

The Group entered into a share purchase agreement and acquired 100% equity interest in PrismTech Group Limited for US\$16,600 thousand (including contingent considerations) in December 2015 in order to expand the “Industrial Internet of Things” market. The Group acquired control over PrismTech Group Limited that was included in the consolidated financial statements since January 2016.

### b. Considerations transferred

	<b>PrismTech Group Limited</b>
Cash	\$ 508,865
Contingent consideration arrangement*	<u>36,030</u>
	<u>\$ 544,895</u>

\* Under the contingent consideration arrangement, the Group is required to pay the vendors an additional \$1,100 thousand if PrismTech Group Limited’s software authorization and service revenue of specific brand in 2016 exceed \$10,000. Since the actual operating result of the entity in 2016 failed to achieve the aforementioned revenue target, the Group transferred the payables for investments to other income as of December 31, 2016.

### c. Assets acquired and liabilities assumed on the date of acquisition

	<b>PrismTech Group Limited</b>
Current assets	
Cash and cash equivalents	\$ 12,782
Trade receivables	43,723
Prepayments	20,736
	(Continued)

**PrismTech  
Group Limited**

Non-current assets	
Property, plant and equipment	\$ 1,543
Customer relationship	72,420
Technological expertise	107,075
Refundable deposits	800
Current liabilities	
Short-term borrowings	(25,472)
Trade and other payables	(95,007)
Receipts in advance	<u>(88,251)</u>
	<u>\$ 50,349</u>
	(Concluded)

d. Goodwill arising from acquisition

**PrismTech  
Group Limited**

Consideration transferred	\$ 544,895
Less: Fair value of identifiable net assets acquired	<u>(50,349)</u>
Goodwill arising from acquisition	<u>\$ 494,546</u>

e. Net cash outflow due to acquisition of subsidiaries

**For the Year  
Ended  
December 31,  
2016**

Consideration paid in cash	\$ 508,865
Less: Prepayments for investment	(508,865)
Add: Cash and cash equivalent balance acquired	<u>12,782</u>
	<u>\$ 12,782</u>

### 30. OPERATING LEASE ARRANGEMENTS

Operating leases relate to leases of plants and offices with lease terms between 1 and 9 years.

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

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
Not later than 1 year	\$ 130,110	\$ 97,491
Later than 1 year and not later than 5 years	109,733	133,321
Over 5 years	<u>677</u>	<u>-</u>
	<u>\$ 240,520</u>	<u>\$ 230,812</u>



### 31. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy is expected to be unchanged for the year ahead.

Key management personnel of the Group review the capital structure on a quarterly 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 Group may adjust the amount of dividends paid to shareholders, the number of new shares, and the amount of new debt issued.

The Group's target current ratio, debt ratio and times interest earned are set to be no less than 100%, no more than 120% and no less than 5 times, respectively.

#### Current ratio

The current ratio at the end of reporting period was as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Current assets	<u>\$ 5,803,542</u>	<u>\$ 5,215,363</u>
Current liabilities	<u>\$ 3,143,954</u>	<u>\$ 3,583,939</u>
Current ratio	<u>184.59%</u>	<u>145.52%</u>

#### Debt ratio

The debt ratio at the end of reporting period was as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Total liabilities	<u>\$ 3,383,930</u>	<u>\$ 3,694,302</u>
Total equity	<u>\$ 4,686,032</u>	<u>\$ 3,906,992</u>
Debt ratio	<u>72.21%</u>	<u>94.56%</u>

#### Times interest earned

The times interest earned during the reporting period was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Profit before income tax	\$ 531,542	\$ 768,851
Interest expense	<u>15,656</u>	<u>20,570</u>
Earnings before interest and tax	<u>\$ 547,198</u>	<u>\$ 789,421</u>
Interest expense	<u>\$ 15,656</u>	<u>\$ 20,570</u>
Times interest earned (times)	<u>34.95</u>	<u>38.38</u>

## 32. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments

#### 1) Fair value of financial instruments not measured at fair value

Except for fair value of unlisted shares (reported as financial assets measured at cost) that cannot be reliably measured, the management considers that the carrying amounts of the financial instruments recognized in the consolidated financial statements approximate their fair values.

#### 2) Fair value of financial instruments measured at fair value

December 31, 2015

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Mutual funds	\$ 200,751	\$ -	\$ -	\$ 200,751

There were no transfers between Levels 1 and 2 for the year ended December 31, 2016 and 2015.

### b. Categories of financial instruments

	<u>December 31</u>	
	2016	2015
<u>Financial assets</u>		
Loans and receivables (i)	\$ 3,896,376	\$ 3,186,898
Available-for-sale financial assets (ii)	-	200,751
<u>Financial liabilities</u>		
Amortized cost (iii)	3,026,654	3,386,144

i) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable, trade and other receivables and refundable deposits.

ii) The balances included the carrying amount of available-for-sale financial assets measured at cost.

iii) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, trade and other payables, long-term borrowings and guarantee deposits received.

### c. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, trade receivable, trade payables and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

## 1) Market risk

The Group's activities are exposed primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

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

### a) Foreign currency risk

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) are set out in Note 36.

#### Sensitivity analysis

The Group was mainly exposed to USD, RMB and EUR.

The following table details the Group's sensitivity to a 1% increase and decrease in the functional currency of the group entities against the relevant foreign currencies. Sensitivity of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and their translation at the end of the reporting period is adjusted for a 1% change in foreign currency rates.

A positive number below indicates an increase in pre-tax profit that would result if the functional currency strengthened by 1% against the relevant currency. For a 1% weakening of the functional currency against the relevant currency, there would be an equal and opposite impact that will cause pre-tax profit to be negative.

	<b>Profit or Loss</b>	
	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
USD Impact	\$ 7,777	\$ (6,764)
RMB Impact	2,825	3,759
EUR Impact	2,802	1,828

The impact listed above is mainly attributable to the exposure of outstanding USD, RMB and EUR demand deposits, receivables, payables and borrowings.

The increase of sensitivity analysis to USD is mainly caused by decrease in USD borrowings, increase in time deposits and receivables; the increase of sensitivity analysis to EUR is mainly caused by increase in EUR receivables; and the decrease of sensitivity analysis to RMB is mainly caused by decrease in RMB time deposits.

### b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates.

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Fair value interest rate risk		
Financial assets	\$ 717,563	\$ 175,675
Financial liabilities	584,848	1,271,545
Cash flow interest rate risk		
Financial assets	931,176	1,243,454
Financial liabilities	122,117	262,600

The Group was exposed to fair value interest rate risk in relation to fixed-rate bank borrowing. The risk is managed by the Group by maintaining floating-rate borrowings.

The Group was also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimize the fair value interest rate risk. The Group's cash flow interest rate risk was mainly concentrated in the fluctuation of LIBOR arising from the Group's US dollar denominated borrowings.

#### Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2016 and 2015 would increase/decrease by \$4,045 thousand and \$4,904 thousand, respectively.

#### c) Other price risk

The Group was exposed to equity price risk arising from available-for-sale investments. The fluctuations in market value would result in changes in fair value of available-for-sale investments. The Group's equity price risk was mainly concentrated on domestic open-end funds.

#### 2) Credit risk

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

The Group adopted a policy of only dealing with creditworthy counterparties. Before accepting any new customer, the relevant departments perform credit evaluation and internal credit scoring, sales and administration departments assess the potential customers' credit quality and define credit limits for customer. Limits and scoring attributed to customers are reviewed on an annual basis.

In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are recognized on irrecoverable amounts.

Apart from the two largest customers, the Group did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk to customers mentioned above accounted for 14% and 15% of total gross trade receivables as of December 31, 2016 and 2015, respectively.

The Group's concentration of credit risk by geographical locations was mainly in the U.S.A., Mainland China and Europe. The proportion of trade receivables from those mentioned above to total trade receivables were as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
U.S.A.	32%	27%
Mainland China	19%	32%
Europe	26%	19%

### 3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group'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.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2016 and 2015, the Group had available unutilized bank facilities as set out in (b) below.

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

The following tables detail the Group'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 Group can be required to pay. 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

	<b>On Demand or Less than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1+ Years</b>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 251,766	\$ 180,262	\$ 1,885,423	\$ 2,238
Variable interest rate liabilities	-	2,312	39,805	80,000
Fixed interest rate liabilities	<u>338,146</u>	<u>99,240</u>	<u>59,962</u>	<u>87,500</u>
	<u>\$ 589,912</u>	<u>\$ 281,814</u>	<u>\$ 1,985,190</u>	<u>\$ 169,738</u>

December 31, 2015

	<b>On Demand or Less than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1+ Years</b>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 282,188	\$ 120,279	\$ 1,449,532	\$ -
Variable interest rate liabilities	-	98,475	164,125	-
Fixed interest rate liabilities	<u>760,999</u>	<u>510,546</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,043,187</u>	<u>\$ 729,300</u>	<u>\$ 1,613,657</u>	<u>\$ -</u>

b) Financing facilities

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
Unsecured bank facilities:		
Amount used	\$ 607,725	\$ 1,211,575
Amount unused	<u>2,203,977</u>	<u>915,242</u>
	<u>\$ 2,811,702</u>	<u>\$ 2,126,817</u>
Secured bank facilities:		
Amount used	\$ 99,240	\$ 322,570
Amount unused	<u>437,760</u>	<u>221,330</u>
	<u>\$ 537,000</u>	<u>\$ 543,900</u>

### 33. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Sales of goods

	<u>For the Year Ended December 31</u>	
	<b>2016</b>	<b>2015</b>
Investors that have significant influence over the Group	\$ 17,924	\$ 13,271
Associates	32,844	-
Others	<u>16</u>	<u>1,857</u>
	<u>\$ 50,784</u>	<u>\$ 15,128</u>

b. Purchases of goods

		<b>For the Year Ended December 31</b>	
		<b>2016</b>	<b>2015</b>
Investors that have significant influence over the Group		\$ 1,452	\$ -
Others		<u>13,610</u>	<u>13,768</u>
		<u>\$ 15,062</u>	<u>\$ 13,768</u>

c. Operating expenses

		<b>For the Year Ended December 31</b>	
<b>Line Items</b>	<b>Related Party Categories</b>	<b>2016</b>	<b>2015</b>
Rent expense	Others	<u>\$ 8,341</u>	<u>\$ 8,749</u>

The rentals were paid semi-annually based on local normal commercial rates.

Transactions with related parties were made at prices and terms comparable to those that would be obtained in similar transactions with non-related parties.

d. Receivables from related parties

		<b>December 31</b>	
<b>Line Items</b>	<b>Related Party Categories</b>	<b>2016</b>	<b>2015</b>
Trade receivables	Investors that have significant influence over the Group	\$ 8,496	\$ 5,788
	Associates	<u>24,773</u>	<u>-</u>
		<u>\$ 33,269</u>	<u>\$ 5,788</u>
Other receivables (loans to related parties)	Others	<u>\$ -</u>	<u>\$ 19,695</u>

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

The annual interest rate of loans to a related party was 2.00%.

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

		<b>December 31</b>	
<b>Line Items</b>	<b>Related Party Categories</b>	<b>2016</b>	<b>2015</b>
Trade payables	Investors that have significant influence over the Group	\$ 389	\$ -
	Others	<u>6,138</u>	<u>1,704</u>
		<u>\$ 6,527</u>	<u>\$ 1,704</u>
Other payables	Investors that have significant influence over the Group	<u>\$ 586</u>	<u>\$ 492</u>

f. Property, plant and equipment acquired

Related Party Categories	Price	
	For the Year Ended December 31 2016	2015
Investors that have significant influence over the Group	\$ <u>258</u>	\$ <u>8,285</u>

g. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	\$ 34,984	\$ 39,303
Post-employment benefits	442	514
Share-based payments	<u>4,057</u>	<u>-</u>
	<u>\$ 39,483</u>	<u>\$ 39,817</u>

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

### 34. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The assets pledged as collaterals for bank facilities were as follows:

	December 31	
	2016	2015
Land	\$ 66,478	\$ 66,478
Buildings	499,859	587,180
Land use right (reported as prepayments for lease obligations)	<u>62,079</u>	<u>69,308</u>
	<u>\$ 628,416</u>	<u>\$ 722,966</u>

### 35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments of the Group were as follows:

Information on the endorsement or guarantee for subsidiaries was as follows:

	December 31	
	2016	2015
Adlink Technology (China) Co., Ltd.	\$ <u>80,625</u>	\$ <u>344,663</u>
ADLINK Technology GmbH	<u>\$ 339,000</u>	<u>\$ 107,640</u>
PENTA GmbH	<u>-</u>	<u>\$ 125,580</u>
PrismTech Group Limited	<u>\$ 158,440</u>	<u>-</u>
All subsidiaries directly or indirectly owned by the Company (facilities shared)	<u>\$ 343,500</u>	<u>\$ 412,600</u>



### 36. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2016

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 58,736	32.25 (USD:NTD)	\$ 1,894,227
USD	7,201	6.94 (USD:RMB)	232,240
USD	2,611	0.95 (USD:EUR)	84,218
USD	3,040	0.81 (USD:GBP)	98,036
RMB	62,628	4.65 (RMB:NTD)	291,157
JPY	204,013	0.28 (JPY:NTD)	56,226
EUR	7,963	33.90 (EUR:NTD)	269,961
EUR	1,703	0.86 (EUR:GBP)	57,736
GBP	650	1.17 (GBP:EUR)	<u>25,734</u>
			<u>\$ 3,009,535</u>
Non-monetary items			
Subsidiaries accounted for using equity method			
RMB	2,007	32.25 (USD:NTD)	\$ 64,726
<u>Financial liabilities</u>			
Monetary items			
USD	19,277	32.25 (USD:NTD)	\$ 621,696
USD	23,488	6.94 (USD:RMB)	757,493
USD	1,160	0.95 (USD:EUR)	37,422
USD	3,547	0.81 (USD:GBP)	114,401
RMB	1,869	4.65 (RMB:NTD)	8,688
JPY	4,340	0.28 (JPY:NTD)	1,196
EUR	1,262	33.90 (EUR:NTD)	42,785
EUR	139	0.86 (EUR:GBP)	4,703
GBP	1,735	1.23 (GBP:USD)	68,727
GBP	563	1.17 (GBP:EUR)	22,285
GBP	378	1.66 (GBP:CAD)	<u>14,990</u>
			<u>\$ 1,694,386</u>

December 31, 2015

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 24,357	32.83 (USD:NTD)	\$ 799,630
USD	7,359	6.49 (USD:RMB)	241,594
USD	1,445	0.91 (USD:EUR)	47,451
RMB	75,062	5.05 (RMB:NTD)	379,437
JPY	179,760	0.27 (JPY:NTD)	49,020
EUR	5,868	35.88 (EUR:NTD)	<u>210,542</u>
			<u>\$ 1,727,674</u>
<u>Financial liabilities</u>			
Monetary items			
USD	17,128	32.83 (USD:NTD)	\$ 562,313
USD	34,819	6.49 (USD:RMB)	1,143,095
USD	1,818	0.91 (USD:EUR)	59,686
RMB	704	5.05 (RMB:NTD)	3,560
JPY	983	0.27 (JPY:NTD)	268
EUR	773	35.88 (EUR:NTD)	<u>27,746</u>
			<u>\$ 1,796,668</u>

For the years ended December 31, 2016 and 2015, realized and unrealized net foreign exchange losses were \$82,933 thousand and \$23,272 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

### 37. SEGMENT INFORMATION

#### a. General information

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the regions where the Group operates. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

Asia Pacific - Adlink Technology Inc., Adlink Technology Japan Corporation, Adlink Technology Singapore Pte Ltd, and Systemworks Incorporated.

Mainland China - Adlink Technology (China) Co., Ltd., Adlink Technology (Beijing) Co., Ltd., Adlink Technology (Shanghai) Co., Ltd., Adlink Technology (Shenzhen) Co., Ltd. and Dong Guan Ling Yao.

America - Ampro Computers Inc., PrismTech Corporation and PrismTech Canada Inc. (Note 29).

Europe - Adlink Technology (Europe) GmbH, Adlink Technology GmbH, PrismTech Group Limited, PrismTech Limited, PrismTech France SARL and OpenSplice BV (Note 29).

b. Information about reportable segments

For the Year Ended December 31, 2016						
	Asia Pacific	Mainland China	America	Europe	Elimination	Total
Sales						
Revenues from external customers	\$ 3,434,870	\$ 1,540,072	\$ 2,318,660	\$ 2,276,139	\$ -	\$ 9,569,741
Inter-segment revenues	<u>2,925,567</u>	<u>2,340,007</u>	<u>311</u>	<u>56,789</u>	<u>(5,322,674)</u>	<u>-</u>
Segment revenues	<u>\$ 6,360,437</u>	<u>\$ 3,880,079</u>	<u>\$ 2,318,971</u>	<u>\$ 2,332,928</u>	<u>\$ (5,322,674)</u>	<u>\$ 9,569,741</u>
Interest income	\$ 4,871	\$ 1,899	\$ 161	\$ 5	\$ -	\$ 6,936
Finance costs	1,567	10,559	-	3,530	-	15,656
Depreciation expense	83,553	94,987	7,783	5,451	-	191,774
Amortization expense	48,830	6,474	2,808	41,080	-	99,192
Other significant non-cash items						
Impairment losses	-	-	-	47,733	-	47,733
Segment income	<u>\$ 1,793,802</u>	<u>\$ 43,616</u>	<u>\$ 78,306</u>	<u>\$ (85,802)</u>	<u>\$ -</u>	<u>1,829,922</u>
Unallocated amounts:						
Headquarters' administration costs and remuneration of directors and supervisors						<u>1,298,380</u>
Profit before income tax						<u>\$ 531,542</u>

For the Year Ended December 31, 2015						
	Asia Pacific	Mainland China	America	Europe	Elimination	Total
Sales						
Revenues from external customers	\$ 3,025,430	\$ 1,627,620	\$ 2,570,002	\$ 1,845,071	\$ -	\$ 9,068,123
Inter-segment revenues	<u>2,969,430</u>	<u>1,657,315</u>	<u>406</u>	<u>72,475</u>	<u>(4,699,626)</u>	<u>-</u>
Segment revenues	<u>\$ 5,994,860</u>	<u>\$ 3,284,935</u>	<u>\$ 2,570,408</u>	<u>\$ 1,917,546</u>	<u>\$ (4,699,626)</u>	<u>\$ 9,068,123</u>
Interest income	\$ 5,315	\$ 4,631	\$ 222	\$ 27	\$ -	\$ 10,195
Finance costs	2,404	16,532	-	1,634	-	20,570
Depreciation expense	72,693	100,317	4,148	4,322	-	181,480
Amortization expense	43,131	389	8,123	18,076	-	69,719
Other significant non-cash items						
Impairment losses	45	-	9,624	7,421	-	17,090
Segment income	<u>\$ 1,964,658</u>	<u>\$ 11,883</u>	<u>\$ 69,885</u>	<u>\$ (37,720)</u>	<u>\$ -</u>	<u>2,008,706</u>
Unallocated amounts:						
Headquarters' administration costs and remuneration of directors and supervisors						<u>1,239,855</u>
Profit before income tax						<u>\$ 768,851</u>