Adlink Technology Inc. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016 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, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2017 and 2016, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial 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, 2017 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 a 100% equity interest in PrismTech Group Limited with a premium of $544,895 thousand, recognizing goodwill of $494,546 thousand in accordance with the acquisition cost and price allocation report issued by external experts. Since the management’s assessment of impairment of goodwill was based on the management’s judgment 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 responsive 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 the relevant cash-generating units in order to evaluate the process and the basis of the sales growth rate and rate of return predicted for the future business plans. We further obtained the impairment assessment report from external experts to assess whether the assumptions used by the management (i.e. the discount rate) were consistent with the current situation of the Group and its industry. We performed our own calculations for impairment to verify the assumptions afterwards.

Evaluation of Write-down of Inventories

Inventories of the Group are stated at the lower of cost or net realizable value. Since the net realizable value is subject to the management’s experience and judgment, 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 the write-down of inventories.

Our responsive audit procedures performed in respect of the abovementioned write-down evaluation included obtaining the computation table of the lower of cost or net realizable value method and testing the estimated sales prices and the recent sales records used to compute the net realizable value in order to evaluate and perform our own calculation to verify the reasonableness of the estimated value for the LCM. We also reviewed and observed the annual inventory count, obtaining the list of slow moving inventories, so as to evaluate the appropriateness of the overall allowance for the reduction of inventory to market as estimated by the management.

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, 2017 and 2016 on which we have issued an unqualified opinion.

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

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

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

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

The engagement partners on the audit resulting in this independent auditors, report are Chien-Liang Liu and Wen-Chin Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 8, 2018

<u>*Notice to Readers*</u>

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 1,402,574	18	$ 1,526,598	19
Financial assets at fair value through profit or loss (Note 7)	372	-	-	-
Debt investments with no active market (Note 9)	1,488	-	330,563	4
Notes receivable (Note 10)	91,115	1	64,852	1
Trade receivables (Note 10)	1,689,176	22	1,867,528	23
Trade receivables from related parties (Note 33)	13,803	-	33,269	1
Other receivables (Note 10)	41,884	1	35,246	1
Current tax assets	-	-	24,420	-
Inventories (Note 11)	2,274,525	29	1,727,854	21
Prepayments (Notes 16, 17 and 34)	108,221	1	187,314	2
Other current assets	10,041	-	5,898	-
Total current assets	5,633,199	72	5,803,542	72
NON-CURRENT ASSETS				
Investments accounted for using the equity method (Note 13)	52,594	1	64,726	1
Property, plant and equipment (Notes 14, 33 and 34)	889,272	11	1,024,813	13
Intangible assets (Note 15)	911,594	12	974,314	12
Deferred tax assets (Note 26)	155,413	2	96,670	1
Refundable deposits	40,353	-	38,320	-
Prepayments for leases (Notes 16 and 34)	57,559	1	60,416	1
Other non-current assets (Note 17)	59,685	1	7,161	-
Total non-current assets	2,166,470	28	2,266,420	28
TOTAL	$ 7,799,669	100	$ 8,069,962	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 18)	$ 526,222	7	$ 506,965	6
Notes payable (Note 19)	2,227	-	-	-
Trade payables (Note 19)	1,444,930	19	1,472,731	18
Trade payables to related parties (Note 33)	4,895	-	6,527	-
Other payables (Notes 20 and 33)	810,457	10	840,103	11
Current tax liabilities	108,550	1	66,251	1
Provisions (Note 21)	54,827	1	52,893	1
Current portion of long-term liabilities (Note 18)	-	-	32,500	-
Other current liabilities (Note 20)	131,345	2	153,484	2
Total current liabilities	3,083,453	40	3,131,454	39
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 18)	-	-	167,500	2
Provisions (Note 21)	39,226	-	32,688	-
Deferred tax liabilities (Note 26)	-	-	7,131	-
Net defined benefit liabilities (Note 22)	51,011	1	45,157	1
Total non-current liabilities	90,237	1	252,476	3
Total liabilities	3,173,690	41	3,383,930	42
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 23)				
Share capital				
Ordinary shares	2,174,827	28	2,175,579	27
Advance receipts for share capital	405	-	40	-
Total share capital	2,175,232	28	2,175,619	27
Capital surplus	1,575,041	20	1,575,678	19
Retained earnings				
Legal reserve	522,524	7	479,434	6
Special reserve	74,736	1	-	-
Unappropriated earnings	427,151	5	554,287	7
Total retained earnings	1,024,411	13	1,033,721	13
Other equity				
Exchange differences on translating foreign operations	(154,353)	(2)	(74,736)	(1)
Unearned employee benefits	(4,148)	-	(33,089)	-
Total other equity	(158,501)	(2)	(107,825)	(1)
Total equity attributable to owners of the Company	4,616,183	59	4,677,193	58
NON-CONTROLLING INTERESTS	9,796	-	8,839	-
Total equity	4,625,979	59	4,686,032	58
TOTAL	$ 7,799,669	100	$ 8,069,962	100

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 24 and 33)	$ 10,667,894	100	$ 9,569,741	100
OPERATING COSTS (Notes 11, 25 and 33)	6,704,114	63	5,402,609	57
GROSS PROFIT	3,963,780	37	4,167,132	43
UNREALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES	(310)	-	(647)	-
REALIZED OPERATING PROFIT	3,963,470	37	4,166,485	43
OPERATING EXPENSES (Notes 25 and 33)				
Selling and marketing	1,026,915	9	1,056,306	11
General and administrative	889,637	8	961,609	10
Research and development	1,571,932	15	1,552,679	16
Total operating expenses	3,488,484	32	3,570,594	37
PROFIT FROM OPERATIONS	474,986	5	595,891	6
NON-OPERATING INCOME AND EXPENSES (Note 25)				
Other income	89,016	1	75,743	1
Other gains and losses	(30,012)	(1)	(119,848)	(1)
Finance costs	(18,001)	-	(15,656)	-
Share of loss of associates (Note 13)	(10,390)	-	(4,588)	-
Total non-operating income and expenses	30,613	-	(64,349)	-
PROFIT BEFORE INCOME TAX	505,599	5	531,542	6
INCOME TAX EXPENSE (Note 26)	115,384	1	100,393	1
NET PROFIT FOR THE YEAR	390,215	4	431,149	5
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 22)	(6,816)	-	2,690	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 26)	1,159	-	(457)	-
	(5,657)	-	2,233	-

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ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

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

	2017		2016	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 23)	$ (96,323)	(1)	$ (228,048)	(2)
Unrealized loss on available-for-sale financial assets (Note 23)	-	-	(1,021)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 23 and 26)	16,306	-	38,781	-
	(80,017)	(1)	(190,288)	(2)
Other comprehensive loss for the year, net of income tax	(85,674)	(1)	(188,055)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 304,541	3	$ 243,094	3
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	$ 388,858	4	$ 430,896	5
Non-controlling interests	1,357	-	253	-
	$ 390,215	4	$ 431,149	5
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	$ 303,584	3	$ 242,770	3
Non-controlling interests	957	-	324	-
	$ 304,541	3	$ 243,094	3
EARNINGS PER SHARE (Note 27)				
Basic	$ 1.79		$ 2.00	
Diluted	$ 1.78		$ 1.97	

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

ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company														
	Total Share Capital				Retained Earnings				Other Equity						
	Ordinary Shares	Advance Receipts for Share Capital	Total Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total Retained Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unearned Employee Benefit	Total Other Equity	Total Equity Attributable to Owners of the Company	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2016	$ 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 (loss) 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
Appropriation of 2016 earnings															
Legal reserve	-	-	-	-	43,090	-	(43,090)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	74,736	(74,736)	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company - NT$1.8 per share	-	-	-	-	-	-	(392,511)	(392,511)	-	-	-	-	(392,511)	-	(392,511)
Compensation costs of share-based payments recognized by the Company	-	-	-	(1,945)	-	-	-	-	-	-	28,941	28,941	26,996	-	26,996
Issue of ordinary shares under employee share options	100	365	465	456	-	-	-	-	-	-	-	-	921	-	921
Retirement of restricted shares for employees	(852)	-	(852)	852	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2017	-	-	-	-	-	-	388,858	388,858	-	-	-	-	388,858	1,357	390,215
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	-	-	(5,657)	(5,657)	(79,617)	-	-	(79,617)	(85,274)	(400)	(85,674)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	-	383,201	383,201	(79,617)	-	-	(79,617)	303,584	957	304,541
BALANCE AT DECEMBER 31, 2017	$ 2,174,827	$ 405	$ 2,175,232	$ 1,575,041	$ 522,524	$ 74,736	$ 427,151	$ 1,024,411	$ (154,353)	$ -	$ (4,148)	$ (158,501)	$ 4,616,183	$ 9,796	$ 4,625,979

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 505,599	$ 531,542
Adjustments for:		
Depreciation expenses	189,456	191,774
Amortization expenses	108,290	99,192
(Reversal of) impairment loss recognized on trade receivables	(942)	1,021
Net gain on fair value changes of financial assets at fair value through profit or loss	(372)	-
Finance costs	18,001	15,656
Interest income	(10,641)	(6,936)
Dividend income	(265)	-
Compensation costs of share-based payments	26,996	81,600
Share of loss of associates	10,390	4,588
(Gain) loss on disposal of property, plant and equipment	(143)	1,006
Gain on disposal of financial assets	(69)	(1,117)
Gain on disposal of subsidiaries	-	(31,853)
Impairment loss recognized on intangible assets	9,604	47,733
Write-down of inventories	154,448	96,275
Unrealized gain on the transactions with associates	310	647
Net loss on foreign currency exchange	51,073	13,764
Payables for investments transferred to other income	-	(36,113)
Amortization of prepayments for leases	1,611	1,738
Changes in operating assets and liabilities		
Notes receivable	(26,263)	(1,870)
Trade receivables	140,806	(426,203)
Trade receivables from related parties	19,466	(27,481)
Other receivables	(6,638)	(7,470)
Inventories	(700,161)	(72,450)
Prepayments	79,059	(65,552)
Other current assets	(4,143)	(463)
Notes payable	2,227	-
Trade payables	(9,901)	366,435
Trade payables to related parties	(1,632)	4,823
Other payables	(33,237)	51,541
Provisions	8,472	(1,667)
Other current liabilities	(22,139)	4,151
Net defined benefit liabilities	(962)	(811)
Cash generated from operations	508,300	833,500
Interest received	10,641	6,936
Interest paid	(15,692)	(16,935)
Income tax paid	(97,074)	(135,631)
Net cash generated from operating activities	406,175	687,870

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ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

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

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	$ (250,000)	$ (50,000)
Proceeds from sale of available-for-sale financial assets	250,069	250,847
Purchase of debt investments with no active market	(152,160)	(609,771)
Proceeds from sale of debt investments with no active market	462,566	281,062
Acquisition of associate	-	(70,442)
Increase in prepayments for investments	(9,171)	-
Net cash inflow on acquisition of subsidiary (Note 29)	-	12,782
Payments for property, plant and equipment	(66,141)	(115,494)
Proceeds from disposal of property, plant and equipment	1,442	318
(Increase) decrease in refundable deposits	(2,033)	761
Payments for computer software	(63,803)	(65,191)
Increase in prepayments for equipment	(45,645)	(3,082)
Dividends received	265	-
Net cash generated from (used in) investing activities	125,389	(368,210)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	949,097	1,182,925
Repayments of short-term borrowings	(937,686)	(2,161,447)
Proceeds from long-term borrowings	-	300,000
Repayments of long-term borrowings	(200,000)	(100,000)
Cash dividends paid	(392,511)	(521,716)
Proceeds from issuance of ordinary shares	-	960,000
Proceeds from issuance of ordinary shares under employee share options	921	16,062
Net cash used in financing activities	(580,179)	(324,176)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(75,409)	(40,850)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(124,024)	(45,366)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,526,598	1,571,964
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 1,402,574	$ 1,526,598

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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 were previously listed on the Taipei Exchange (TPEx) Mainboard starting in March 2002 and then became listed on the Taiwan Stock Exchange (TWSE) in November 2004.

The consolidated financial statements of the Company and its subsidiaries, collectively referred to as the "Group", 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, 2018.

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

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

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

   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 Company or another entity in the same group or the market price of the equity instruments of the Company 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 are accounted for differently, and the aforementioned amendment should 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 should 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 should be applied retrospectively starting from January 1, 2017.

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 and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Group, 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, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transactions should be separately disclosed by the name of each related party.

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

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions and impairment of goodwill are enhanced. Refer to Note 15 and Note 33 for the related disclosures.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
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
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

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

1) IFRS 9 "Financial Instruments" and related amendments

Classification, measurement and impairment of financial assets

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

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

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

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the 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 Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

a) Unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss.

b) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". A loss allowance is required for financial assets measured at amortized cost and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

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

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

The Group has assessed the retrospective application of IFRS 9, the requirement for the classification, measurement and impairment of financial assets, and does not expect to have a material anticipated impact on assets, liabilities and equity as of January 1, 2018.

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

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

When applying IFRS 15, the Group recognizes 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 Group 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.

The Group has assessed the retrospective application of IFRS 15 and does not expect to have a material impact on assets, liabilities and equity as of January 1, 2018.

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

Except for the above impact, as of the date the 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.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

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

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

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

1) IFRS 16 "Leases"

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

Under IFRS 16, if the 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 leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities.

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

2) IFRIC 23 "Uncertainty Over Income Tax Treatments"

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

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

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the 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 which are measured at fair value.

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

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 an 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 an 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 dates 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 7 and 8 for the detailed information of subsidiaries (including percentages of ownership and main businesses).

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are 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 or gains on bargain purchases. 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 depends on how the contingent consideration is classified. Contingent consideration is remeasured at fair value at the end of subsequent reporting period with any gain or loss recognized in profit or loss.

Foreign Currencies

In preparing the financial statements of 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 from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and not retranslated.

For the purpose 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 from 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' 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.

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

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

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 categories

      Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

      a) Financial assets at fair value through profit or loss

         Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 32.

         Investments in equity instruments under financial assets at fair value through profit or loss 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 instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets measured 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 the carrying amount and the fair value is recognized in profit or loss.

      b) 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 such investments are disposed of or are 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 presented in a separate line item as financial assets measured 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 the carrying amount and the fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

c) 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 at amortized cost 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, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

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, as a result of one or more events that occurred after the initial recognition of the financial assets, that 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 for a portfolio of receivables could include the Group's past experience of collecting 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 what the amortized cost would have been had the impairment not been recognized.

For any 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, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets 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 is 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 measured at cost, the amount of the impairment loss is measured as the difference between such an 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 a 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. When trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables 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 carried at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

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

c. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

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 best estimate by the management's 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 other similar allowances.

a. Sale of goods

   Revenue from the sale of goods is recognized when all 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. Dividend and Interest income

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

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

Leasing

Leases are classified as finance leases whenever the terms of a 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 relevant 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 attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the 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 services.

b. Retirement benefits

   Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

   Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liabilities are recognized as employee benefits expense in the period in which 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 it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

   Net defined benefit liabilities represent the actual deficit in the Group's defined benefit plans.

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 benefits 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 benefits. 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 is 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/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 expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options/capital surplus - restricted shares for employees.

Taxation

Income tax expense represents the sum of the tax currently 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 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 and unused tax credits for research and development expenditures to the extent that it is probable that taxable profit 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 only recognized to the extent that it is probable that there will be sufficient taxable profit 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 profit will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

   Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the 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 relate 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 estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

a. Write-down of inventory

The net realizable value of inventories 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 was based on current market conditions and historical experience with product sale of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

b. Impairment of goodwill

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	**2016**
Cash on hand	$ 342	$ 522
Checking accounts and demand deposits	1,402,232	1,139,076
Cash equivalents		
Time deposits with original maturities less than 3 months	-	387,000
	$ 1,402,574	$ 1,526,598

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

	December 31	
	2017	**2016**
Time deposits	-	1.00%-1.32%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	**2016**
Financial assets held for trading		
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts	$ 372	$ -

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	**Maturity Date**	**Notional Amount (In Thousands)**
December 31, 2017			
Sell	USD/NTD	January 2018	USD3,300/NTD98,728

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. However, those contracts did not meet the criteria of hedge effectiveness and, therefore, were not accounted for using hedge accounting.

8. FINANCIAL ASSETS MEASURED AT COST

For details of the unlisted equity investments held by the Group, which are classified as available-for-sale financial assets, refer to Table 3 following the notes to consolidated financial statements. Management believed that the above unlisted equity investments held by the Group had fair values which cannot be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of the reporting period.

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2017	**2016**
Current		
Time deposits with original maturities more than 3 months	$ 1,488	$ 330,563

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

	December 31	
	2017	**2016**
Time deposits	0.60%	0.60%-2.10%

10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2017	2016
Notes receivable		
Notes receivable	$ 91,115	$ 64,852
Less: Allowance for impairment loss	-	-
	$ 91,115	$ 64,852
Trade receivables		
Trade receivables	$ 1,695,471	$ 1,876,162
Less: Allowance for impairment loss	(6,295)	(8,634)
	$ 1,689,176	$ 1,867,528
Other receivables		
Tax refund receivables	$ 39,306	$ 29,680
Others	2,578	5,566
	$ 41,884	$ 35,246

The average credit period of 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:

	December 31	
	2017	2016
Not past due	$ 1,380,004	$ 1,618,676
Less than and including 30 days	248,746	205,315
31-90 days	41,897	46,786
Over 90 days	24,824	5,385
	$ 1,695,471	$ 1,876,162

The above aging schedule was based on the number of days past due 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:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	$ 1,218	$ 6,792	$ 8,010
Impairment losses recognized (reversed) on receivables	1,912	(891)	1,021
Foreign exchange translation gains and losses	3	(400)	(397)
Balance at December 31, 2016	3,133	5,501	8,634
Impairment losses recognized (reversed) on receivables	132	(1,074)	(942)
Amounts written off during the year as uncollectible	(1,147)	-	(1,147)
Foreign exchange translation gains and losses	(123)	(127)	(250)
Balance at December 31, 2017	$ 1,995	$ 4,300	$ 6,295

The Group recognized an impairment loss on trade receivables amounting to $1,995 thousand and $3,133 thousand as of December 31, 2017 and 2016, respectively. These amounts mainly related to customers that were in liquidation or experiencing severe financial difficulties. The Group did not hold any collateral over these balances.

11. INVENTORIES

	December 31	
	2017	2016
Raw materials	$ 1,049,551	$ 849,200
Supplies	9,402	8,212
Work in progress	328,656	284,702
Finished goods	751,878	491,126
Merchandise	135,038	94,614
	$ 2,274,525	$ 1,727,854

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 included inventory write-downs of $154,448 thousand and $96,275 thousand, and unallocated manufacturing expenses of $21,078 thousand and $30,225 thousand, respectively.

12. SUBSIDIARIES

a. Subsidiaries included in consolidated financial statements

			% of Ownership December 31		
Investor	Investee	Main Business	2017	2016	Remark
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	100.0	Note 2

(Continued)

Investor	Investee	Main Business	% of Ownership December 31 2017	2016	Remark
Adlink International Co., Ltd.	Ampro Adlink Technology 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 3
Ampro Adlink Technology Inc.	Adlink Technology Canada Inc. (formerly named PrismTech Canada Inc.)	Software development	100.0	-	Notes 2, 4 and 5
Ampro Adlink Technology Inc.	Adlink Technology Corporation (formerly named PrismTech Corporation)	Software authorization and service	100.0	-	Notes 2, 4 and 6
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 (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	100.0	Note 2
PrismTech Holdings Limited	Adlink Technology Limited (formerly named PrismTech Limited)	Software development, authorization and service	100.0	100.0	Notes 2 and 7
PrismTech Limited	PrismTech Canada Inc.	Software development	-	100.0	Notes 2 and 4
PrismTech Limited	PrismTech Corporation	Software authorization and service	-	100.0	Notes 2 and 4
PrismTech Limited	Adlink Technology SARL (formerly named PrismTech France SARL)	Software development, authorization and service	100.0	100.0	Notes 2 and 8
PrismTech Group Limited and PrismTech Limited	Adlink Technology OpenSplice B.V. (formerly named OpenSplice BV)	Software development	100.0	100.0	Notes 2 and 9

(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: 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 3: 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.

Note 4: In order to integrate the American market, the Group restructured the organization and sold PrismTech Corporation and PrismTech Canada Inc., the subsidiaries of PrismTech Group Limited, to Ampro Adlink Technology Inc. in 2017.

Note 5: PrismTech Canada Inc. was renamed as ADLINK Technology Canada Inc. in the fourth quarter of 2017.

Note 6: PrismTech Corporation was renamed as ADLINK Technology Corporation in the fourth quarter of 2017.

Note 7: PrismTech Limited was renamed as ADLINK Technology Limited in the fourth quarter of 2017.

Note 8: PrismTech France SARL was renamed as ADLINK Technology SARL in the fourth quarter of 2017.

Note 9: OpenSplice BV was renamed as ADLINK Technology OpenSplice B.V. in the fourth quarter of 2017.

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	
	2017	**2016**
Unlisted shares		
JY Technology (Shanghai)	$ 52,594	$ 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 2017	Proportion of Ownership and Voting Rights December 31 2016
JY Technology (Shanghai)	Selling of industrial automatic control cards, industrial motherboards, industrial computers and peripheral devices	Shanghai, China	45.45%	45.45%

Aggregate Information of Associates That are Not Individually Material

	For the Year Ended December 31	
	2017	**2016**
The Group's share of:		
Loss from continuing operations	$ 10,390	$ 4,588

The amount of the recognized share of loss for the years ended December 31, 2017 and 2016 from the investments in associates accounted for using the equity method as of December 31, 2017 and 2016 was $10,390 thousand and $4,588 thousand, respectively. 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
Cost							
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	$ 131,362	$ 856,260	$ 580,470	$ 2,069	$ 127,922	$ 301,964	$ 2,000,047
Accumulated depreciation							
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	$ -	$ (315,667)	$ (365,183)	$ (1,434)	$ (89,462)	$ (203,488)	$ (975,234)
Carrying amounts at December 31, 2016	$ 131,362	$ 540,593	$ 215,287	$ 635	$ 38,460	$ 98,476	$ 1,024,813
Cost							
Balance at January 1, 2017	$ 131,362	$ 856,260	$ 580,470	$ 2,069	$ 127,922	$ 301,964	$ 2,000,047
Additions	-	7,147	11,111	535	9,827	38,803	67,423
Disposals	-	-	(8,376)	-	(268)	(10,475)	(19,119)
Reclassification	-	-	-	-	8	144	152
Transfer from prepayments for equipment	-	-	704	-	-	1,588	2,292
Effect of foreign currency exchange differences	-	(14,897)	(3,578)	(94)	(1,922)	(3,163)	(23,654)
Balance at December 31, 2017	$ 131,362	$ 848,510	$ 580,331	$ 2,510	$ 135,567	$ 328,861	$ 2,027,141
Accumulated depreciation							
Balance at January 1, 2017	$ -	$ (315,667)	$ (365,183)	$ (1,434)	$ (89,462)	$ (203,488)	$ (975,234)
Depreciation expense	-	(50,324)	(61,164)	(375)	(21,470)	(56,213)	(189,456)
Disposals	-	-	8,354	-	225	9,241	17,820
Reclassification	-	-	-	-	(54)	(98)	(152)
Effect of foreign currency exchange differences	-	5,002	1,549	56	765	1,781	9,153
Balance at December 31, 2017	$ -	$ (360,899)	$ (416,444)	$ (1,753)	$ (109,996)	$ (248,777)	$ (1,137,869)
Carrying amounts at December 31, 2017	$ 131,362	$ 487,611	$ 163,887	$ 757	$ 25,571	$ 80,084	$ 889,272

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

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

Property, plant and equipment pledged by the Group as collateral for bank borrowing facilities is set out in Note 34.

15. INTANGIBLE ASSETS

	Computer Software	Goodwill	Trademarks	Customer Relationship	Technological Expertise	Total
Cost						
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	(1,457)	(104,176)	(5,348)	(22,540)	(22,225)	(155,746)
Balance at December 31, 2016	$ 123,430	$ 640,043	$ 168,455	$ 344,079	$ 126,400	$ 1,402,407
Accumulated amortization and impairment						
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	1,216	3,909	1,692	6,605	2,262	15,684
Balance at December 31, 2016	$ (71,057)	$ (49,687)	$ (41,010)	$ (237,065)	$ (29,274)	$ (428,093)
Carrying amounts at December 31, 2016	$ 52,373	$ 590,356	$ 127,445	$ 107,014	$ 97,126	$ 974,314
Cost						
Balance at January 1, 2017	$ 123,430	$ 640,043	$ 168,455	$ 344,079	$ 126,400	$ 1,402,407
Additions	63,803	-	-	-	-	63,803
Disposals	(47,914)	-	-	-	-	(47,914)
Effect of foreign currency exchange differences	(315)	(7,458)	(5,704)	(8,887)	3,031	(19,333)
Balance at December 31, 2017	$ 139,004	$ 632,585	$ 162,751	$ 335,192	$ 129,431	$ 1,398,963
Accumulated amortization and impairment						
Balance at January 1, 2017	$ (71,057)	$ (49,687)	$ (41,010)	$ (237,065)	$ (29,274)	$ (428,093)
Amortization expense	(72,370)	-	-	(17,915)	(18,005)	(108,290)
Disposals	47,914	-	-	-	-	47,914
Impairment losses recognized	-	(446)	(9,158)	-	-	(9,604)
Effect of foreign currency exchange differences	(26)	721	(301)	11,779	(1,469)	10,704
Balance at December 31, 2017	$ (95,539)	$ (49,412)	$ (50,469)	$ (243,201)	$ (48,748)	$ (487,369)
Carrying amounts at December 31, 2017	$ 43,465	$ 583,173	$ 112,282	$ 91,991	$ 80,683	$ 911,594

The above items of intangible assets are amortized on a straight-line basis over their following estimated useful lives as follows:

Computer software	1-10 years
Customer relationship	7-11 years
Technological expertise	7 years

Goodwill and trademarks are considered to have indefinite useful lives, and will be tested for impairment annually and whenever there is an indication that they may be impaired.

The actual operating performance of PrismTech Group Limited, the Group's subsidiary in the UK, failed to achieve the expected target in 2017. However, the management has a plan for their products and expects to take advantage of industrial computer products in order to continue developing in the industry of the Industrial Internet of Things. The management also assessed that the expected recoverable amount of goodwill was higher than the related carrying amount, and no impairment loss was recognized for the year ended December 31, 2017.

Since the actual operating performance of PrismTech Group Limited, the Group's subsidiary in the UK, failed to achieve the expected target in 2016, the Company transferred the payables for investments to other income and simultaneously recognized an impairment loss of $36,113 thousand under contingent consideration for the arrangement for the year ended December 31, 2016.

16. PREPAYMENTS FOR LEASES

	December 31	
	2017	**2016**
Current assets (included in prepayments)	$ 1,629	$ 1,663
Non-current assets	57,559	60,416
	$ 59,188	$ 62,079

Prepayments for leases include land use rights for land located in Zhangjiang, 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	
	2017	**2016**
Current		
Prepayments		
Prepaid input tax	$ 58,724	$ 135,921
Prepaid expenses	49,497	50,824
Payments for purchase of goods	-	569
	$ 108,221	$ 187,314
Non-current		
Other non-current assets		
Prepayments for equipment	$ 50,514	$ 2,924
Prepayments for investments	9,171	-
Others	-	4,237
	$ 59,685	$ 7,161

18. BORROWINGS

a. Short-term borrowings

	December 31	
	2017	2016
Unsecured borrowings		
Line of credit borrowings	$ 184,203	$ 407,725
Secured borrowings (Note 34)		
Bank loans	342,019	99,240
	$ 526,222	$ 506,965

1) The range of effective interest rates on short-term borrowings was 1.38%-4.79% and 0.84%-3.95% per annum as of December 31, 2017 and 2016, respectively.

2) The expected repayment dates of unsecured borrowings were January to September 2018 and January to June 2017 as of December 31, 2017 and 2016, respectively.

3) The expected repayment period of secured borrowings were January 2018 and February to March 2017 as of December 31, 2017 and 2016, respectively.

4) Refer to Note 32 for related information about utilized and unutilized bank loan facilities.

b. Long-term borrowings

	December 31	
	2017	2016
Unsecured borrowings		
Bank loans	$ -	$ 200,000
Less: Current portions	-	(32,500)
Long-term borrowings	$ -	$ 167,500

1) The range of effective interest rate on long-term borrowings was 1.21%-1.28% per annum.

2) The bank loans is repaid early in September 2017.

3) Refer to Note 32 for related information about utilized and unutilized bank loan facilities.

19. NOTES PAYABLE AND TRADE PAYABLES

Notes payable and 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 2017	December 31 2016
Current		
Other payables		
Payable for salaries and bonuses	$ 357,398	$ 391,267
Compensation to employees	78,000	77,320
Payable for annual leave	35,833	42,480
Payable for output tax	27,403	22,739
Payable for outsourcing costs	22,938	20,648
Payable for research and design expenses	18,910	10,192
Payable for indirect materials	13,129	11,248
Payable for purchases of equipment	6,382	5,100
Remuneration of directors and supervisors	5,000	5,155
Others	245,464	253,954
	$ 810,457	$ 840,103
Other current liabilities		
Receipts in advance	$ 118,584	$ 137,335
Others	12,761	16,149
	$ 131,345	$ 153,484

21. PROVISIONS

	December 31 2017	December 31 2016
Warranties		
Current	$ 54,827	$ 52,893
Non-current	39,226	32,688
	$ 94,053	$ 85,581

	Warranties
Balance at January 1, 2017	$ 85,581
Additional provisions recognized	40,533
Usage	(83)
Reversed un-usage balances	(30,869)
Effect of foreign currency exchange differences	(1,109)
Balance at December 31, 2017	$ 94,053

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 of the Group 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 of the Group in accordance with the Labor Standards Law is operated by the government of the ROC. 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:

	December 31	
	2017	**2016**
Present value of defined benefit obligation	$ 98,494	$ 90,059
Fair value of plan assets	(47,483)	(44,902)
Net defined benefit liabilities	$ 51,011	$ 45,157

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities (Assets)**
Balance at January 1, 2016	$ 91,081	$ (42,423)	$ 48,658
Service cost			
Current service cost	933	-	933
Past service cost and gain on settlements	(287)	-	(287)
Net interest expense (income)	1,366	(652)	714
Recognized in profit or loss	2,012	(652)	1,360

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	$ -	$ 344	$ 344
Actuarial loss - changes in demographic assumptions	47	-	47
Actuarial gain - experience adjustments	(3,081)	-	(3,081)
Recognized in other comprehensive income	(3,034)	344	(2,690)
Contributions from the employer	-	(2,171)	(2,171)
Balance at December 31, 2016	90,059	(44,902)	45,157
Service cost			
Current service cost	970	-	970
Past service cost and gain on settlements	(456)	-	(456)
Net interest expense (income)	1,346	(683)	663
Recognized in profit or loss	1,860	(683)	1,177
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	241	241
Actuarial loss - changes in demographic assumptions	1,543	-	1,543
Actuarial loss - changes in financial assumptions	3,254	-	3,254
Actuarial loss - experience adjustments	1,778	-	1,778
Recognized in other comprehensive income	6,575	241	6,816
Contributions from the employer	-	(2,139)	(2,139)
Balance at December 31, 2017	$ 98,494	$ (47,483)	$ 51,011

(Concluded)

Through the defined benefit plans under the Labor Standards Law, the Company 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 plans' debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2017	2016
Discount rate(s)	1.25%	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:

	December 31	
	2017	2016
Discount rate(s)		
0.25% increase	$ (3,305)	$ (3,142)
0.25% decrease	$ 3,456	$ 3,290
Expected rate(s) of salary increase		
0.25% increase	$ 3,354	$ 3,201
0.25% decrease	$ (3,227)	$ (3,075)

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 changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2017	2016
Expected contributions to the plan for the next year	$ 2,023	$ 1,994
Average duration of the defined benefit obligation	13 years	14 years

23. EQUITY

a. Ordinary shares

	December 31	
	2017	2016
Number of shares authorized (in thousands)	250,000	250,000
Shares authorized	$ 2,500,000	$ 2,500,000
Number of shares issued and fully paid (in thousands)	217,483	217,558
Shares issued	$ 2,174,827	$ 2,175,579

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, 2017, the Company issued 10 thousand shares under employee share options and 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, 2017, the number of ordinary shares issued through private placements was 14,708 thousand shares.

b. Capital surplus

	December 31	
	2017	**2016**
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Issuance of ordinary shares	$ 1,197,631	$ 1,197,175
Conversion of bonds	207,034	207,034
Treasury share transactions	17,579	17,579
May be used to offset a deficit only (2)		
Arising from employee share options exercised	43,453	42,983
Arising from employee share options expired	11,328	11,328
May not be used for any purpose		
Employee share options	745	1,215
Employee restricted shares	97,271	98,364
	$ 1,575,041	$ 1,575,678

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

	Premium of Ordinary Shares	Premium of Conversion of Bonds	Treasury Share Transactions	Share Options Exercised	Share Options Expired	Employee Share Options	Employee Restricted Shares	Total
Balance at January 1, 2016	$ 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	1,197,175	207,034	17,579	42,983	11,328	1,215	98,364	1,575,678
Retirement of restricted shares for employees	-	-	-	-	-	-	852	852
Compensation costs of share-based payments recognized by the Company	-	-	-	-	-	-	(1,945)	(1,945)
Issue of ordinary shares under employee share options	456	-	-	470	-	(470)	-	456
Balance at December 31, 2017	$ 1,197,631	$ 207,034	$ 17,579	$ 43,453	$ 11,328	$ 745	$ 97,271	$ 1,575,041

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, 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 and remuneration of directors and supervisors.

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 after amendment, refer to "Employees' compensation and remuneration of directors and supervisors" in Note 25-f.

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.

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

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

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

The appropriations of earnings for 2016 and 2015 approved in the shareholders' meetings on June 19, 2017 and June 20, 2016, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31		**Dividends Per Share (NT$) For the Year Ended December 31**	
	2016	**2015**	**2016**	**2015**
Legal reserve	$ 43,090	$ 60,715		
Special reserve	74,736	-		
Cash dividends	392,511	521,716	$1.8	$2.4

The appropriation of earnings for 2017 were proposed by the Company's board of directors on March 8, 2018. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 38,886	
Special reserve	79,617	
Cash dividends	304,532	$1.4

The Company's board of directors also proposed to issue cash dividends from capital surplus of $21,752 thousand at $0.1 per share.

The appropriation of earnings for 2017 was resolved in the shareholders' meeting held on June 13, 2018.

d. Special reserves

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ -	$ -
Appropriation in respect of:		
Debit to other equity items	74,736	-
Balance at December 31	$ 74,736	$ -

e. Other equity items

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

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ (74,736)	$ 114,602
Exchange differences on translating foreign operations	(95,923)	(228,119)
Related income tax	16,306	38,781
Balance at December 31	$ (154,353)	$ (74,736)

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

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ -	$ 1,021
Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets	-	(1,021)
Balance at December 31	$ -	$ -

3) Employee unearned benefits

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ (33,089)	$ (71,399)
Issuance of shares	-	(18,561)
Share-based payment compensation costs recognized	28,941	56,871
Balance at December 31	$ (4,148)	$ (33,089)

f. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 8,839	$ 8,515
Attributable to non-controlling interests:		
Share of profit for the year	1,357	253
Exchange differences on translating foreign operations	(400)	71
Balance at December 31	$ 9,796	$ 8,839

24. REVENUE

	For the Year Ended December 31	
	2017	2016
Revenue from the sale of goods	$ 10,495,290	$ 9,231,068
Software authorization and service revenue	172,604	338,673
	$ 10,667,894	$ 9,569,741

25. NET PROFIT FOR THE YEAR

a. Other income

	For the Year Ended December 31	
	2017	2016
Grant revenue	$ 29,396	$ 2,979
Interest income	10,641	6,936
Rental income	8,388	7,757
Income from clearance of overdue debts	678	6,863
Payables for investments transferred to other income (Note 29)	-	36,113
Others	39,913	15,095
	$ 89,016	$ 75,743

b. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Net foreign exchange losses	$ (20,585)	$ (82,933)
Impairment losses	(9,604)	(47,733)
Gain (loss) on disposal of property, plant and equipment	143	(1,006)
Gain on disposal of available-for-sale financial assets	69	1,117
Gain on disposal of subsidiaries	-	31,853
Others	(35)	(21,146)
	$ (30,012)	$ (119,848)

c. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest on bank loans	$ 18,001	$ 15,656

d. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	$ 189,456	$ 191,774
Computer software	72,370	60,003
Technological expertise	18,005	19,665
Customer relationship	17,915	19,524
	$ 297,746	$ 290,966
An analysis of depreciation by function		
Cost of goods sold	$ 64,974	$ 69,722
Operating expenses	124,482	122,052
	$ 189,456	$ 191,774
An analysis of amortization by function		
Cost of goods sold	$ 894	$ 701
Operating expenses	107,396	98,491
	$ 108,290	$ 99,192

e. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Post-employment benefits		
Defined contribution plans	$ 96,671	$ 85,889
Defined benefit plans (Note 22)	1,177	1,360
	97,848	87,249
Equity-settled share-based payments	26,996	81,600
Other employee benefits	2,562,597	2,189,765
	$ 2,687,441	$ 2,358,614
An analysis of employee benefits expense by function		
Cost of goods sold	$ 406,332	$ 360,528
Operating expenses	2,281,109	1,998,086
	$ 2,687,441	$ 2,358,614

f. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at 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, 2017 and 2016 which have been approved by the Company's board of directors on March 8, 2018 and March 8, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	2016
Employees' compensation	14.31%	12.94%
Remuneration of directors and supervisors	0.92%	0.86%

Amount

	For the Year Ended December 31	
	2017	2016
	Cash	Cash
Employees' compensation	$ 78,000	$ 77,320
Remuneration of directors and supervisors	$ 5,000	$ 5,155

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

There is 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 years ended December 31, 2016 and 2015.

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

26. INCOME TAXES

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

	For the Year Ended December 31	
	2017	**2016**
Current tax		
In respect of the current year	$ 172,989	$ 128,908
Income tax on unappropriated earnings	-	1,832
Adjustments for prior years	(8,799)	(18,315)
	164,190	112,425
Deferred tax		
In respect of the current year	(48,806)	(12,032)
Income tax expense recognized in profit or loss	$ 115,384	$ 100,393

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

	For the Year Ended December 31	
	2017	**2016**
Profit before tax	$ 505,599	$ 531,542
Income tax expense calculated at the statutory rate (17%)	$ 85,952	$ 90,362
Tax-exempt income	(36)	(190)
Nondeductible expenses in determining taxable income	456	695
Income tax on unappropriated earnings	-	1,832
Unrecognized temporary differences	34,082	10,184
Unrecognized loss carryforwards	(10,093)	(12,841)
Effect of different tax rate of group entities operating in other jurisdictions	13,822	28,666
Adjustments for prior years' tax	(8,799)	(18,315)
Income tax expense recognized in profit or loss	$ 115,384	$ 100,393

The applicable corporate income tax rate used by the group entities in ROC is 17%, 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.

In February 2018, it was announced that the Income Tax Act in the ROC was amended, and starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets recognized as at December 31, 2017 are expected to be adjusted and increase by $17,818 thousand in 2018.

In December 2017, the United States amended the Income Tax Law, which reduces the federal corporate tax rate from 35% to 21%, effective from January 1, 2018.

As the status of the 2018 appropriation of earnings is uncertain, the potential income tax consequences of the 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
Deferred tax		
In respect of the current year:		
Translation of foreign operations	$ 16,306	$ 38,781
Remeasurement on defined benefit plans	1,159	(457)
Total income tax recognized in other comprehensive income	$ 17,465	$ 38,324

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, 2017

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Temporary differences					
Unrealized intercompany gains	$ 10,001	$ 3,266	$ -	$ -	$ 13,267
Defined benefit obligation	7,677	(164)	1,159	-	8,672
Payable for annual leave	2,411	(2,411)	-	-	-
Allowance for write-down of inventories	39,532	27,972	-	(311)	67,193
Property, plant and equipment	3,551	(127)	-	(73)	3,351
Warranties	8,920	1,058	-	-	9,978
Exchange differences on translating foreign operations	15,320	-	16,306	-	31,626
Unrealized exchange losses	-	1,463	-	-	1,463
Others	9,258	10,618	-	(13)	19,863
	$ 96,670	$ 41,675	$ 17,465	$ (397)	$ 155,413
Deferred tax liabilities					
Temporary differences					
Unrealized exchange gains	$ 438	$ (438)	$ -	$ -	$ -
Others	6,693	(6,693)	-	-	-
	$ 7,131	$ (7,131)	$ -	$ -	$ -

For the year ended December 31, 2016

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
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 write-down of inventories	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 differences on translating foreign operations	-	-	15,320	-	15,320
Others	3,212	6,134	-	(88)	9,258
	$ 68,090	$ 16,063	$ 14,863	$ (2,346)	$ 96,670

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax liabilities					
Temporary differences					
Exchange differences on translating foreign operations	$ 23,461	$ -	$ (23,461)	$ -	$ -
Unrealized exchange gains	1,080	(642)	-	-	438
Others	2,018	4,673	-	2	6,693
	$ 26,559	$ 4,031	$ (23,461)	$ 2	$ 7,131

(Concluded)

d. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Generated on and after January 1, 1998	$ 427,151 Note	$ 554,287
Shareholder-imputed credits account	$ 56,179 Note	$ 76,523

	For the Year Ended December 31	
	2017	2016
Creditable ratio for distribution of earnings	(Note)	20.00%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

e. Income tax assessments

The Company's income tax returns through 2015 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

	For the Year Ended December 31	
	2017	2016
Earnings used in the computation of basic and diluted earnings per share	$ 388,858	$ 430,896

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

	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in computation of basic earnings per share	216,714	215,857
Effect of potentially dilutive ordinary shares:		
Employees’ compensation	1,413	1,684
Employee share options	18	49
Employee restricted shares	117	673
Weighted average number of ordinary shares used in the computation of diluted earnings per share	218,262	218,263

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

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 ordinary 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:

	Grant Date	
	September 9, 2010	December 22, 2011
Number of options granted	2,000	500
Exercise price per share granted (equal to the closing price of the Company’s ordinary 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)	$26.15	$19.73

There was no employee share options granted for the year ended December 31, 2017 and 2016. 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			
	2017		2016	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	72	$ 20.30	680	$ 26.10
Options exercised	(47)	19.80	(608)	26.42
Balance at December 31	25	19.73	72	20.30
Options exercisable, end of year	25		72	

b. Information about outstanding options as of December 31, 2017 and 2016 was as follows:

	December 31, 2017	
	Outstanding Options	
Range of Exercise Price (NT$)	**Unit**	**Weighted-average Remaining Contractual Life (Years)**
$ 26.15	-	-
19.73	25	-
	25	

	December 31, 2016	
	Outstanding Options	
Range of Exercise Price (NT$)	**Unit**	**Weighted-average Remaining Contractual Life (Years)**
$ 26.90	-	-
20.30	72	-
	72	

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

	Grant Date					
	September 9, 2010			December 22, 2011		
Vested Time (from the Grant Date)	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 (in 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.

	Grant Date					
	September 9, 2010			December 22, 2011		
Vested Time (from the Grant Date)	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

Restricted Share Plan for Employees of the Company

In the shareholders' meeting on June 11, 2015, the shareholders approved a restricted share 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 share 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 share plan for employees was as follows:

	For the Year Ended December 31	
	2017	2016
	Number of Options (In Thousand)	Number of Options (In Thousand)
Balance at January 1	863	1,026
Options granted	-	280
Options exercised	(599)	(358)
Options retired	(85)	(85)
Balance at December 31	179	863

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 $26,996 thousand and $54,577 thousand for the year ended December 31, 2017 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.

	For the Year Ended December 31, 2016
	Number of Options (In Thousands)
Balance at January 1	-
Options granted	2,250
Options exercised	(1,467)
Options forfeited	(783)
Balance at December 31	-

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	-
Expected life (in years)	0.02

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. Consideration transferred

	PrismTech Group Limited
Cash	$ 508,865
Contingent consideration arrangement*	36,030
	$ 544,895

* Under the contingent consideration arrangement, the Group is required to pay the vendors an additional US$1,100 thousand if PrismTech Group Limited's software authorization and service revenue of specific brand in 2016 exceed US$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

	PrismTech Group Limited
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	(88,251)
	$ 50,349

(Concluded)

d. Goodwill recognized on acquisition

	PrismTech Group Limited
Consideration transferred	$ 544,895
Less: Fair value of identifiable net assets acquired	(50,349)
Goodwill recognized on acquisition	$ 494,546

e. Net cash inflow on 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	12,782
	$ 12,782

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:

	December 31	
	2017	2016
Not later than 1 year	$ 111,969	$ 130,110
Later than 1 year and not later than 5 years	105,281	109,733
Later than 5 years	17,473	677
	$ 234,723	$ 240,520

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 total assets balance. The Group's overall strategy is expected to remain 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:

	December 31	
	2017	**2016**
Current assets	$ 5,633,199	$ 5,803,542
Current liabilities	$ 3,083,453	$ 3,131,454
Current ratio	182.69%	185.33%

Debt ratio

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

	December 31	
	2017	**2016**
Total liabilities	$ 3,173,690	$ 3,383,930
Total equity	$ 4,625,979	$ 4,686,032
Debt ratio	68.61%	72.21%

Times interest earned

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

	For the Year Ended December 31	
	2017	**2016**
Profit before income tax	$ 505,599	$ 531,542
Interest expense	18,001	15,656
Earnings before interest and tax	$ 523,600	$ 547,198
Interest expense	$ 18,001	$ 15,656
Times interest earned (times)	29.09	34.95

32. FINANCIAL INSTRUMENTS

a. 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.

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

1) Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets - foreign currency forward contracts	$ -	$ 372	$ -	$ 372

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

2) Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

c. Categories of financial instruments

	December 31 2017	December 31 2016
Financial assets		
Loans and receivables (1)	$ 3,280,393	$ 3,896,376
Fair value through profit or loss (FVTPL)		
Held for trading	372	-
Financial liabilities		
Amortized cost (2)	2,788,994	3,026,654

1) The balances include 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.

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

d. Financial risk management objectives and policies

The Group's major financial instruments include 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, 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 foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

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

There has 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.

<u>Sensitivity analysis</u>

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 adjusts their translation at the end of the reporting period 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 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 on pre-tax profit and the balances below would be negative.

	Profit or Loss	
	For the Year Ended December 31	
	2017	**2016**
USD Impact	$ 1,689	$ 7,777
RMB Impact	2,623	2,825
EUR Impact	3,584	2,802

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

The decrease of sensitivity analysis to USD is mainly caused by decrease in time deposits and increase in borrowings.

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:

	December 31	
	2017	**2016**
Fair value interest rate risk		
Financial assets	$ 1,488	$ 717,563
Financial liabilities	526,222	584,848
Cash flow interest rate risk		
Financial assets	1,280,464	931,176
Financial liabilities	-	122,117

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 New Taiwan dollar denominated borrowings.

Sensitivity analysis

The sensitivity analysis 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 each 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, 2017 and 2016 would increase/decrease by $6,402 thousand and $4,045 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to failure of counterparties to discharge an obligation, could arise from 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 from any single counterparty or any group of counterparties with similar characteristics. Concentration of credit risk for the customers mentioned above accounted for 16% and 14% of the total gross trade receivables as of December 31, 2017 and 2016, 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:

	December 31	
	2017	**2016**
U.S.A.	33%	32%
Mainland China	21%	19%
Europe	18%	26%

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, 2017 and 2016, the Group had available unutilized bank facilities as set out in (b) below.

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has 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, 2017

	On Demand or Less than 1 Month	**1-3 Months**	**3 Months to 1 Year**	**1+ Years**
Non-derivative financial liabilities				
Non-interest bearing liabilities	$ 203,126	$ 258,257	$ 1,788,812	$ 12,577
Fixed interest rate liabilities	420,271	40,110	65,841	-
	$ 623,397	$ 298,367	$ 1,854,653	$ 12,577

December 31, 2016

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

b) Financing facilities

	December 31 2017	2016
Unsecured bank facilities:		
Amount used	$ 184,203	$ 607,725
Amount unused	2,258,319	2,203,977
	$ 2,442,522	$ 2,811,702
Secured bank facilities:		
Amount used	$ 342,019	$ 99,240
Amount unused	165,101	437,760
	$ 507,120	$ 537,000

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. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related party name and relationship

Related Party Name	Related Party Categories
Chroma ATE Inc.	Investors with significant influence over the Group
JY Technology (Shanghai)	Associates
Zenitron Corporation	Other related parties
eeWare SAS	Other related parties
Harn-Fen Ni	Other related parties

b. Sales of goods

	For the Year Ended December 31	
	2017	2016
Investors with significant influence over the Group	$ 21,311	$ 17,924
Associates	28,333	32,844
Others	1,898	16
	$ 51,542	$ 50,784

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

c. Purchases of goods

	For the Year Ended December 31	
	2017	2016
Investors with significant influence over the Group	$ 58	$ 1,452
Others	19,518	13,610
	$ 19,576	$ 15,062

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. Operating expenses

		For the Year Ended December 31	
Line Items	Related Party Categories	2017	2016
Rental expenses	Others	$ 9,023	$ 8,341

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

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

		December 31	
Line Items	Related Party Categories	2017	2016
Trade receivables	Investors with significant influence over the Group	$ 3,822	$ 8,496
	Associates	9,981	24,773
		$ 13,803	$ 33,269

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

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

Line Items	Related Party Categories	December 31 2017	December 31 2016
Trade payables	Investors with significant influence over the Group	$ -	$ 389
	Others	4,895	6,138
		$ 4,895	$ 6,527
Other payables	Investors with significant influence over the Group	$ 277	$ 586
	Others	6	-
		$ 283	$ 586

The outstanding trade payables to related parties are unsecured.

g. Property, plant and equipment acquired

Related Party Categories	Price For the Year Ended December 31 2017	Price For the Year Ended December 31 2016
Investors with significant influence over the Group	$ 313	$ 258

h. Compensation of key management personnel

	For the Year Ended December 31 2017	For the Year Ended December 31 2016
Short-term employee benefits	$ 31,409	$ 34,984
Post-employment benefits	391	442
Share-based payments	5,063	4,057
	$ 36,863	$ 39,483

The remuneration of directors and key executives was determined by the remuneration committee based on 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 2017	December 31 2016
Land	$ 66,478	$ 66,478
Buildings	447,958	499,859
Land use right (reported as prepayments for lease obligations)	59,188	62,079
	$ 573,624	$ 628,416

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 endorsements or guarantees for subsidiaries was as follows:

	December 31	
	2017	2016
ADLINK Technology GmbH	$ 320,130	$ 339,000
Adlink Technology Limited	$ 280,770	$ -
PrismTech Group Limited	$ 160,440	$ 158,440
All subsidiaries directly or indirectly owned by the Company (facilities shared)	$ 59,520	$ 343,500
Adlink Technology (China) Co., Ltd.	$ -	$ 80,625

36. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2017

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 32,992	29.76 (USD:NTD)	$ 981,846
USD	9,217	6.53 (USD:RMB)	274,304
USD	6,029	0.84 (USD:EUR)	179,432
USD	825	0.74 (USD:GBP)	24,552
RMB	59,891	4.55 (RMB:NTD)	272,775
JPY	340,668	0.26 (JPY:NTD)	90,005
EUR	10,683	35.57 (EUR:NTD)	380,011
EUR	27	0.89 (EUR:GBP)	975
GBP	1,408	1.13 (GBP:EUR)	56,480
GBP	334	1.35 (GBP:USD)	13,411
			$ 2,273,791

(Continued)

Financial liabilities	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Monetary items			
USD	$ 20,917	29.76 (USD:NTD)	$ 622,497
USD	16,665	6.53 (USD:RMB)	495,950
USD	4,246	0.84 (USD:EUR)	126,348
USD	1,560	0.74 (USD:GBP)	46,419
RMB	2,301	4.55 (RMB:NTD)	10,479
JPY	4,912	0.26 (JPY:NTD)	1,298
EUR	635	35.57 (EUR:NTD)	22,596
CAD	60	0.59 (CAD:USD)	1,421
GBP	27	1.35 (GBP:USD)	1,069
			$ 1,328,077

(Concluded)

December 31, 2016

Financial assets	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
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)	25,734
			$ 3,009,535
Financial liabilities			
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)	14,990
			$ 1,694,386

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange losses were $20,585 thousand and $82,933 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 Adlink Technology Inc., ADLINK Technology Corporation and ADLINK Technology Canada Inc.

Europe - Adlink Technology (Europe) GmbH, Adlink Technology GmbH, PrismTech Group Limited, ADLINK Technology Limited, ADLINK Technology SARL and ADLINK Technology OpenSplice B.V.

b. Information about reportable segments

	For the Year Ended December 31, 2017					
	Asia Pacific	Mainland China	America	Europe	Elimination	Total
Sales						
Revenues from external customers	$ 4,338,150	$ 1,444,277	$ 2,806,159	$ 2,079,308	$ -	$ 10,667,894
Inter-segment revenue	4,255,660	2,938,461	-	58,224	(7,252,345)	-
Segment revenue	$ 8,593,810	$ 4,382,738	$ 2,806,159	$ 2,137,532	$ (7,252,345)	$ 10,667,894
Interest income	$ 7,402	$ 1,937	$ 274	$ 1,028	$ -	$ 10,641
Finance costs	2,024	12,851	-	3,126	-	18,001
Depreciation expense	80,137	93,241	10,093	5,985	-	189,456
Amortization expense	66,390	1,090	2,867	37,943	-	108,290
Other significant non-cash items						
Impairment losses	-	-	-	9,604	-	9,604
Segment income (loss)	$ 2,106,076	$ 48,316	$ 38,664	$ (242,367)	$ -	1,950,689
Unallocated amounts:						
Headquarters' administration costs and remuneration of directors and supervisors						1,445,090
Profit before income tax						$ 505,599

	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 revenue	2,925,567	2,340,007	311	56,789	(5,322,674)	-
Segment revenue	$ 6,360,437	$ 3,880,079	$ 2,318,971	$ 2,332,928	$ (5,322,674)	$ 9,569,741
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 (loss)	$ 1,793,802	$ 43,616	$ 78,306	$ (85,802)	$ -	1,829,922
Unallocated amounts:						
Headquarters' administration costs and remuneration of directors and supervisors						1,298,380
Profit before income tax						$ 531,542