# U.D. ELECTRONIC CORP. and Subsidiaries

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

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

The entities that are required to be included in the consolidated financial statements of U.D. Electronic Corp. and its affiliates as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standard No. 10, "Consolidated Financial Statements." Information required to be disclosed in the consolidated financial statements of affiliates has all been included in the consolidated financial statements. Thus, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

U.D. ELECTRONIC CORP.

By:

GARY CHEN
Chairman

March 9, 2017

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
U.D. ELECTRONIC CORP.

### Opinion

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

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

### Basis for Opinion

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

### Key Audit Matters

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

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

Revenue Recognition

One of the U.D. ELECTRONIC CORP. sales procedures is to place inventory purchased by customers in their designated warehouses per their instruction. Then, the customer can claim the inventory directly from the warehouses. We deemed the authenticity of the revenue recognition to be a key audit matter due to the risk identified above. Refer to Note 4, l. to the consolidated financial statements for the detailed information on the revenue recognition.

We verified the rationality of the sales through the understanding and implementation of the internal control. We tested the internal control of the sales cycle and examined the change in customers and accounts receivable turnover rate. We also evaluated the authenticity of the sales by reviewing the appropriate samples from selling journals, validating its original purchase order, third party carrier documentation, and customer agreements, and checking the beneficiaries and receipt procedures. In addition, we performed tests and examined significant subsequent sales returns and allowances to ensure whether the revenue recognitions are free of material misstatement.

Inventory Valuation

As disclosure in Note 9 of the consolidated financial statements, the carrying amount of inventories was $1,141,289 thousand, accounted for 26% of the consolidated total assets as of December 31, 2016. U.D. ELECTRONIC CORP. and its subsidiaries mainly sell electronic connectors which are produced mainly by the subsidiaries thereof. Because the amount of inventories was material to the Company and the assessment of the net realizable value of the inventories was subject to the judgment of the management, we focused on the reasonableness of the management's valuation of the year end inventories, the adequacy of NRV, and inventories provisions. Refer to Note 4, f. and 5 for the accounting policy and estimation of inventories.

We confirmed that all the inventories were included for the assessment, based on the lower of cost or net realizeable value (LCNRV), by obtaining the schedule of inventories assessed by the management, and sampled from the schedule thereof to ensure the reasonableness of the assessment. We validated whether the change in inventories conformed to the record in the aging analysis table by obtaining the table to perform appropriate sampling. Also, we observed the annual inventory count of the subcontractors to validate, in comparison with the inventory aging table, whether the inventories were stagnant, obsolete, defected, or broken.

**Other Matter**

We have also audited the patent company only financial statements of U.D. ELECTRONIC CORP. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

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

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

Those charged with governance (including supervisors) are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered 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 a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chao-Mei Chen and Jung-Cheng Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 9, 2017

<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.*

## U.D. ELECTRONIC CORP. AND SUBSIDIARIES

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | $ 360,780 | 8 | $ 394,355 | 9 |
| Notes receivable (Notes 4 and 8) | 15,680 | - | 74,742 | 2 |
| Trade receivables (Notes 4 and 8) | 1,209,321 | 27 | 1,053,528 | 23 |
| Trade receivables from related parties (Notes 4 and 28) | 7,614 | - | - | - |
| Other receivables (Note 8) | 29,548 | 1 | 29,750 | 1 |
| Inventories (Notes 4, 5 and 9) | 1,141,829 | 26 | 1,471,833 | 32 |
| Other current assets (Notes 14, 15 and 29) | 182,893 | 4 | 154,867 | 3 |
| Total current assets | 2,947,665 | 66 | 3,179,075 | 70 |
| NON-CURRENT ASSETS | | | | |
| Financial assets measured at cost - non-current (Notes 4 and 7) | 92,796 | 2 | 89,608 | 2 |
| Property, plant and equipment (Notes 4, 11 and 28) | 1,026,641 | 23 | 971,034 | 21 |
| Other intangible assets (Notes 4 and 13) | 9,208 | - | 6,595 | - |
| Goodwill (Notes 4 and 12) | 6,103 | - | 6,103 | - |
| Deferred tax assets (Notes 4 and 23) | 22,101 | 1 | 4,717 | - |
| Long-term prepayments for lease (Note 14) | 62,579 | 1 | 69,618 | 2 |
| Other non-current assets (Notes 15 and 28) | 323,001 | 7 | 207,387 | 5 |
| Total non-current assets | 1,542,429 | 34 | 1,355,062 | 30 |
| TOTAL | $ 4,490,094 | 100 | $ 4,534,137 | 100 |
| **LIABILITIES AND EQUITY** | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Notes 4 and 16) | $ 836,625 | 19 | $ 761,820 | 17 |
| Trade payables (Note 18) | 461,403 | 10 | 528,820 | 12 |
| Trade payables from related parties (Notes 4 and 28) | 2,649 | - | - | - |
| Other payables (Note 19) | 548,452 | 12 | 508,424 | 11 |
| Current tax liabilities (Notes 4 and 23) | 9,379 | - | 12,956 | - |
| Current portion of long-term bonds payable (Notes 4 and 17) | - | - | 17,015 | - |
| Other current liabilities (Note 19) | 12,989 | 1 | 21,712 | 1 |
| Total current liabilities | 1,871,497 | 42 | 1,850,747 | 41 |
| NON-CURRENT LIABILITIES | | | | |
| Deferred tax liabilities (Notes 4 and 23) | - | - | 12,512 | - |
| Guarantee deposits received (Note 19) | 4,910 | - | 5,014 | - |
| Total non-current liabilities | 4,910 | - | 17,526 | - |
| Total liabilities | 1,876,407 | 42 | 1,868,273 | 41 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 21) | | | | |
| Share capital | | | | |
| Ordinary shares | 696,758 | 16 | 696,758 | 15 |
| Capital surplus (Note 17) | 726,551 | 16 | 726,715 | 16 |
| Retained earnings | | | | |
| Legal reserve | 258,686 | 6 | 241,124 | 6 |
| Special reserve | 7,778 | - | 7,778 | - |
| Unappropriated earnings | 988,245 | 22 | 920,109 | 20 |
| Total retained earnings | 1,254,709 | 28 | 1,169,011 | 26 |
| Other equity | | | | |
| Exchange differences on translating foreign operations (Notes 4 and 21) | (87,468) | (2) | 50,262 | 1 |
| Total equity attributable to owners of the parent | 2,590,550 | 58 | 2,642,746 | 58 |
| NON-CONTROLLING INTERESTS (Note 21) | 23,137 | - | 23,118 | 1 |
| Total equity | 2,613,687 | 58 | 2,665,864 | 59 |
| TOTAL | $ 4,490,094 | 100 | $ 4,534,137 | 100 |

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

## U.D. ELECTRONIC CORP. AND SUBSIDIARIES

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OPERATING REVENUE (Notes 4 and 28) | | | | |
| Sales | $ 4,473,806 | 100 | $ 4,490,717 | 100 |
| OPERATING COSTS (Notes 9, 22 and 28) | | | | |
| Cost of goods sold | (3,593,076) | (80) | (3,597,645) | (80) |
| GROSS PROFIT | 880,730 | 20 | 893,072 | 20 |
| OPERATING EXPENSES (Notes 22 and 28) | | | | |
| Selling and marketing | (173,388) | (4) | (213,928) | (5) |
| General and administrative | (307,463) | (7) | (322,055) | (7) |
| Research and development | (239,278) | (5) | (186,055) | (4) |
| Total operating expenses | (720,129) | (16) | (722,038) | (16) |
| PROFIT FROM OPERATIONS | 160,601 | 4 | 171,034 | 4 |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Other income (Note 22) | 32,898 | - | 30,174 | - |
| Other gains and losses (Notes 4 and 22) | 37,691 | 1 | 48,975 | 1 |
| Finance costs (Notes 4 and 22) | (11,709) | - | (12,630) | - |
| Total non-operating income and expenses | 58,880 | 1 | 66,519 | 1 |
| PROFIT BEFORE INCOME TAX | 219,481 | 5 | 237,553 | 5 |
| INCOME TAX EXPENSE (Notes 4 and 23) | (43,086) | (1) | (72,996) | (1) |
| NET PROFIT FOR THE YEAR | 176,395 | 4 | 164,557 | 4 |
| OTHER COMPREHENSIVE INCOME (Note 4) | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating foreign operations (Note 21) | (166,437) | (4) | (22,974) | (1) |
| Income tax relating to components of other comprehensive income that may be reclassified subsequently (Notes 21 and 23) | 28,210 | 1 | 3,906 | - |
| Other comprehensive income for the period, net of income tax | (138,227) | (3) | (19,068) | (1) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 38,168 | 1 | $ 145,489 | 3 |

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# U.D. ELECTRONIC CORP. AND SUBSIDIARIES

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| NET PROFIT ATTRIBUTABLE TO: | | | | |
| Owners of the parent | $ 190,212 | 4 | $ 175,615 | 4 |
| Non-controlling interests | (13,817) | - | (11,058) | - |
| | $ 176,395 | 4 | $ 164,557 | 4 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the parent | $ 52,482 | 1 | $ 156,547 | 3 |
| Non-controlling interests | (14,314) | - | (11,058) | - |
| | $ 38,168 | 1 | $ 145,489 | 3 |
| EARNINGS PER SHARE (NTD; Note 24) | | | | |
| Basic | $ 2.73 | | $ 2.52 | |
| Diluted | $ 2.71 | | $ 2.45 | |

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

## U.D. ELECTRONIC CORP. AND SUBSIDIARIES

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

| | Equity Attributable to Owners of the Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Retained Earnings | | | Exchange Differences on Translating Foreign Operations | | |
| | Share Capital | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings | | Non-controlling Interests | Total Equity |
| BALANCE AT JANUARY 1, 2015 | $ 696,758 | $ 726,715 | $ 190,273 | $ 30,887 | $ 1,071,842 | $ 69,330 | $ 34,176 | $ 2,819,981 |
| Appropriation of the 2014 earnings (Note 21) | | | | | | | | |
| Legal reserve | - | - | 50,851 | - | (50,851) | - | - | - |
| Special reserve reversed | - | - | - | (23,109) | 23,109 | - | - | - |
| Cash dividends | - | - | - | - | (299,606) | - | - | (299,606) |
| Net profit for the year ended December 31, 2015 | - | - | - | - | 175,615 | - | (11,058) | 164,557 |
| Other comprehensive income for the year ended December 31, 2015, net of income tax | - | - | - | - | - | (19,068) | - | (19,068) |
| Total comprehensive income for the year ended December 31, 2015 | - | - | - | - | 175,615 | (19,068) | (11,058) | 145,489 |
| BALANCE, DECEMBER 31, 2015 | 696,758 | 726,715 | 241,124 | 7,778 | 920,109 | 50,262 | 23,118 | 2,665,864 |
| Non-controlling interests (Note 21) | - | - | - | - | - | - | 14,333 | 14,333 |
| Appropriation of the 2015 earnings (Note 21) | | | | | | | | |
| Legal reserve | - | - | 17,562 | - | (17,562) | - | - | - |
| Cash dividends | - | - | - | - | (104,514) | - | - | (104,514) |
| Other changes in capital surplus (Notes 17 and 21) | - | (164) | - | - | - | - | - | (164) |
| Net profit for the year ended December 31, 2016 | - | - | - | - | 190,212 | - | (13,817) | 176,395 |
| Other comprehensive income for the year ended December 31, 2016, net of income tax | - | - | - | - | - | (137,730) | (497) | (138,227) |
| Total comprehensive income for the year ended December 31, 2016 | - | - | - | - | 190,212 | (137,730) | (14,314) | 38,168 |
| BALANCE, DECEMBER 31, 2016 | $ 696,758 | $ 726,551 | $ 258,686 | $ 7,778 | $ 988,245 | $ (87,468) | $ 23,137 | $ 2,613,687 |

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

# U.D. ELECTRONIC CORP. AND SUBSIDIARIES

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

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 219,481 | $ 237,553 |
| Adjustments for: | | |
| Depreciation expenses | 212,197 | 206,956 |
| Amortization expenses | 7,738 | 11,897 |
| Amortization of prepayments for lease | 1,513 | 1,217 |
| (Reversal of impairment loss) impairment loss recognized on trade receivables | (4,072) | 4,097 |
| Net loss on fair value change of financial assets at fair value through profit or loss | 360 | 21,176 |
| Finance costs | 11,709 | 12,630 |
| Interest income | (1,137) | (6,138) |
| Dividend income | - | (8,663) |
| Impairment loss recognized on non-financial assets | 20 | 1,982 |
| Loss on disposal of property, plant and equipment | 3,502 | 2,081 |
| Net unrealized gain on foreign currency exchange, net | (16,265) | (9,998) |
| Changes in operating assets and liabilities | | |
| Financial assets held for trading | (360) | (21,357) |
| Notes receivable | 58,715 | (11,773) |
| Trade receivables | (122,484) | (4,748) |
| Trade receivables from related parties | (7,614) | 58,276 |
| Other receivables | (651) | 38,287 |
| Inventories | 230,684 | (187,638) |
| Prepayment | (59,103) | 32,806 |
| Other current assets | (25,139) | 210 |
| Financial liabilities held for trading | - | (1,646) |
| Trade payables | (30,921) | 25,407 |
| Trade payables from related parties | 2,649 | - |
| Other payables | 63,340 | (209,108) |
| Other current liabilities | (7,562) | (4,585) |
| Cash generated from operations | 536,600 | 188,921 |
| Interest received | 1,110 | 6,011 |
| Dividend received | - | 8,663 |
| Interest paid | (11,723) | (8,999) |
| Income tax paid | (47,859) | (128,731) |
| Net cash generated from operating activities | 478,128 | 65,865 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for property, plant and equipment | (302,348) | (339,902) |
| Proceeds from disposal of property, plant and equipment | 17,212 | 1,374 |
| Increase in refundable deposits | (1,017) | (6,189) |
| Payments for intangible assets | (10,462) | (3,034) |
| Increase in prepayments for equipment | (133,628) | (56,671) |

(Continued)

# U.D. ELECTRONIC CORP. AND SUBSIDIARIES

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

| | 2016 | 2015 |
|---|---|---|
| Purchase of financial assets measured at cost | $ (3,188) | $ (40,000) |
| Increase in other non-current assets | (12,521) | (62,895) |
| Net cash used in investing activities | (445,952) | (507,317) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash dividends | (104,514) | (299,606) |
| Increase in short-term borrowings | 81,715 | 186,812 |
| Repayment of convertible bonds | (17,200) | (111,961) |
| Guarantee deposits received | - | 2,972 |
| Proceeds from guarantee deposits | (35) | - |
| Ordinary shares from subsidiary | 14,333 | - |
| Net cash used in financing activities | (25,701) | (221,783) |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | (40,050) | 44,183 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (33,575) | (619,052) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 394,355 | 1,013,407 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 360,780 | $ 394,355 |

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

# U.D. ELECTRONIC CORP. AND SUBSIDIARIES

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

## 1. GENERAL INFORMATION

U.D. ELECTRONIC CORP. (the "Company") was incorporated in the Republic of China (ROC) on March 18, 2005 with a share capital $10,000 thousand, and the accumulated share capital was $696,758 thousand as of December 31, 2016. The Company is a trading enterprise and mainly engaged in the selling of electronic connectors for telecommunications, data communications, and computers.

The Company's shares have been listed on the Taipei Exchange since October 2012. The shares are widely distributed; therefore, there is no ultimate parent company or ownership interest. The consolidated financial statements are presented in the Company's functional currency, the New Taiwan dollar.

## 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on March 9, 2017.

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

a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

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

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

(Continued)

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

(Concluded)

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

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

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

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group's accounting policies.

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

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

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

| 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 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures" | January 1, 2018 |
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" | To be determined by IASB |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendment to IFRS 15 Clarifications to IFRS 15 | January 1, 2018 |
| IFRS 16 "Leases" | January 1, 2019 |
| Amendment to IAS 7 "Disclosure Initiative" | January 1, 2017 |

(Continued)

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| 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 |

(Concluded)

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

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

- IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

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

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the 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.

Impairment of financial assets

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

For purchased or originated credit-impaired financial assets, the 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.

Transition

IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required.

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

a. Statement of compliance

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

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

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

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

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

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

Current assets include:

1) Assets held primarily for the purpose of trading;

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

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

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

d. 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 or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, 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 10 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

In preparing the financial statements of each 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 of monetary items are recognized in profit or loss in the period:

Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

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

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

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

f. Inventories

Inventories consist of raw materials, finished goods and work-in-process 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 on the balance sheet date.

g. Property, plant and equipment

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

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

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

h. 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 is 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 for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

i. Intangible assets

1) Intangible assets acquired separately

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

2) Derecognition of intangible assets

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

j. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated 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. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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

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

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

k. 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.

1) Financial assets

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

a) Measurement category

Financial assets held by the Group are classified into available-for-sale financial assets and loans and receivables.

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 or financial assets at fair value through profit or loss.

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

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

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

Loans and receivables

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

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

b) Impairment of financial assets

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

For financial assets carried at amortized cost, such as trade receivables, other trade receivables and assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, 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 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 financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) 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.

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 28.

b) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4) Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds.

5) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its market risk exposure to foreign exchange rate, including forward exchange contracts and convertible options.

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 derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

l. Revenue recognition

1) Sale of goods

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

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

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

c) The amount of revenue can be measured reliably;

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

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue was measured by the fair value of price received or receivables subtracting estimated sales returns, sales discounts, and other similar allowances. Sales returns and allowance were recorded by the amount expected to occur in the future based on experiences before and other relating factors.

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.

2) Interest income

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

m. Leasing

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

<u>The Group as lessee</u>

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

n. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

o. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

p. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, except where the 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 profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

3) Current and deferred tax for the year

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

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

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

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

**Write-down of Inventory**

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

## 6. CASH AND CASH EQUIVALENTS

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Cash on hand | $ 2,190 | $ 2,914 |
| Demand deposits | 337,193 | 376,441 |
| Cash equivalents | | |
| Time deposits | 21,397 | 15,000 |
| | $ 360,780 | $ 394,355 |

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

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Bank balance | 0.01%-1.035% | 0.01%-0.74% |

## 7. FINANCIAL ASSETS MEASURED AT COST

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Non-current | | |
| Domestic investment - unlisted shares | $ 92,796 | $ 89,608 |
| Classification | | |
| Available-for-sale | $ 92,796 | $ 89,608 |

Management believed that the fair value of the above unlisted equity investments cannot be reliably measured due to the very significant range of reasonable fair value estimates and cannot be assessed by any probability estimates. Therefore, they were measured at cost less impairment at the end of reporting period.

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

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Notes receivable | | |
| Notes receivable - operating | $ 15,680 | $ 74,742 |
| Less: Allowance for impairment loss | - | - |
| | $ 15,680 | $ 74,742 |

(Continued)

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Trade receivables | | |
| Accounts receivable | $ 1,209,391 | $ 1,057,640 |
| Less: Allowance for impairment loss | (40) | (4,112) |
| | $ 1,209,351 | $ 1,053,528 |
| Other receivables | | |
| The reserved portion of receivables factoring | $ 16,104 | $ 16,698 |
| Tax refund receivable | 12,390 | 12,023 |
| Others | 1,054 | 1,029 |
| | $ 29,548 | $ 29,750 |

(Concluded)

a. Notes receivable

The average credit period for notes receivable is 30 to 180 days. In determining the recoverability of a note receivable, the Group considered any change in the credit quality of the note receivables since the date credit was initially granted to the end of the reporting period. Due to historical experience had been shown that all note receivables were recoverable, the allowance for impairment loss was recognized based on estimated irrecoverable amounts determined by reference to past default experience and current financial condition of customers.

There was no note receivable that was past due at the end of the reporting period; in addition, the Group had not recognized an allowance for impairment loss for these receivables.

b. Trade receivables

The Group has no material irrecoverable trade receivables and it periodically evaluates the reasons for overdue receivables individually. After evaluating and confirming unusual amounts, the Group estimates the allowance for impairment loss rate by dividing overdue receivables by the net sales, and irrecoverable amounts are calculated by multiplying the rate and the current receivables together.

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 the credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Not overdue | $ 1,065,158 | $ 960,998 |
| Less than 60 days | 144,233 | 96,374 |
| 61-90 days | - | 219 |
| 91-120 days | - | 8 |
| Over 121 days | - | 41 |
| | $ 1,209,391 | $ 1,057,640 |

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

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

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Less than 60 days | $ 144,193 | $ 92,262 |
| 61-90 days | - | 219 |
| 91-120 days | - | 8 |
| Over 121 days | - | 41 |
| | $ 144,193 | $ 92,530 |

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

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

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|---|---|---|---|
| Balance at January 1, 2015 | $ 15 | $ - | $ 15 |
| Add: Impairment losses recognized on receivables | 4,097 | - | 4,097 |
| Balance at December 31, 2015 | $ 4,112 | $ - | $ 4,112 |
| Balance at January 1, 2016 | $ 4,112 | $ - | $ 4,112 |
| Add: Impairment losses recognized on receivables | (4,072) | - | (4,072) |
| Balance at December 31, 2016 | $ 40 | $ - | $ 40 |

Factored trade receivables for the years ended December 31, 2016 and 2015 were as follows:

| Counter-parties | Receivables Sold | Amounts Collected | Advances Received at Period-end | Interest Rates on Advances Received (%) | Credit Line |
|---|---|---|---|---|---|
| December 31, 2016 | | | | | |
| Yuanta Commercial Bank | $ 38,170 | $ 54,076 | $ - | 1.25-1.45 | US$ 6,000 |
| Taipei Fubon Commercial Bank Co., Ltd. | 560,681 | 550,720 | 144,930 | 1.1628-2.1142 | US$ 12,000 |
| | $ 598,851 | $ 604,796 | $ 144,930 | | |
| December 31, 2015 | | | | | |
| Yuanta Commercial Bank | $ 131,899 | $ 132,137 | $ 14,315 | 0.95-1.25 | US$ 16,000 |
| Taipei Fubon Commercial Bank Co., Ltd. | 764,349 | 888,255 | 135,966 | 0.9514-1.1041 | US$ 17,500 |
| | $ 896,248 | $ 1,020,392 | $ 150,281 | | |

The above credit lines may be used on a revolving basis.

Under the Group's factoring agreements, losses from commercial disputes (such as sales returns or allowances) were borne by the Group, while losses from the credit risks were borne by the banks. As of December 31, 2016, the Group had issued promissory notes consisting of checks for US$18,000 thousand. As of December 31, 2015, the Group had issued promissory notes consisting of checks for $33,500 thousand, respectively.

c. Other receivables

Other receivables are tax refund receivables and trade receivables factoring with reserve. Due to historical experience shows that the majority of other receivables are recoverable and after considering past default experience and current financial condition of customers, there is no need to recognize the allowance for impairment loss for other receivables.

## 9. INVENTORIES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Finished goods | $ 322,781 | $ 377,508 |
| Work in progress | 679,475 | 948,300 |
| Raw materials and supplies | 139,573 | 146,025 |
| | $ 1,141,829 | $ 1,471,833 |

The costs of inventories recognized as cost of goods sold was $3,587,058 thousand for 2016 and $3,597,645 thousand for 2015, which included inventory write-downs of $20 thousand and $1,982 thousand, respectively.

## 10. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

| | | | % of Ownership December 31 | | |
|---|---|---|---|---|---|
| Investor | Investee | Investee's Company Type/Main Business | 2016 | 2015 | Remark |
| U.D. Electronic Corp. | Global Connection (Samoa) Holding Inc. | Holding company | 100 | 100 | Foreign exchange risk is the major operational risk |
| U.D. Electronic Corp. | CDE Corp. | Manufacturing and selling of electronic materials | 50 | 50 | Market risk is the major operational risk |
| Global Connection (Samoa) Holding Inc. | Sunderland Inc. | Holding company | 100 | 100 | Foreign exchange risk is the major operational risk |
| Global Connection (Samoa) Holding Inc. | San Francisco Inc. | Holding company | 100 | 100 | Foreign exchange risk is the major operational risk |
| Global Connection (Samoa) Holding Inc. | All First International Co., Ltd. | International trading | 100 | 100 | Foreign exchange and market risks are major operational risks |
| Global Connection (Samoa) Holding Inc. | Ta Yang UDE Limited | Holding company | 55 | - | Foreign exchange risk is the major operational risk (Note 1) |

(Continued)

| Investor | Investee | Investee's Company Type/Main Business | % of Ownership December 31 2016 | % of Ownership December 31 2015 | Remark |
|---|---|---|---|---|---|
| Sunderland Inc. | Dongguan Jian Guan P.E. Co, Ltd. | Manufacturing and selling of electronic components | 100 | 100 | Political, foreign exchange, and market risks are major operational risks |
| Sunderland Inc. | Dongguan U.D.E. Electronics Corp. | Researching and selling of electronic components | 100 | - | Political, foreign exchange, and market risks are major operational risks (Note 2) |
| San Francisco Inc. | Zhong Jiang U.D.E. Electronics Corp. | Manufacturing and selling of electronic components | 100 | 100 | Political, foreign exchange, and market risks are major operational risks |
| Zhong Jiang U.D.E. Electronics Corp. | Zhong Jiang U.D.E. Networking Electronics Corp. | Selling of electronic components | 100 | 100 | Political, foreign exchange, and market risks are major operational risks |
| Ta Yang UDE Limited | Dongguan TY U.D.E. Precision Co., Ltd. | Manufacturing and sale of electronic components | 100 | - | Political, foreign exchange, and market risks are major operational risks (Note 3) |

(Concluded)

Note 1: Acquired in April 2016.

Note 2: Established in October 2016.

Note 3: Established in April 2016.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Machinery and Equipment | Transportation Equipment | Office Equipment | Mold Equipment | Leasehold Improvements | Other Equipment | Property under Construction | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | | |
| Balance at January 1, 2015 | $ 155,218 | $ - | $ 900,125 | $ 23,414 | $ 15,421 | $ 389,896 | $ 105,140 | $ 62,646 | $ - | $ 1,651,860 |
| Additions | 3,945 | 88,182 | 59,533 | 75 | 1,889 | 41,192 | 6,800 | 16,151 | 84,225 | 301,992 |
| Disposals | - | - | (18,710) | - | (1,662) | (110,203) | (4,104) | (1,539) | - | (136,218) |
| Reclassification (Note) | - | - | (57,883) | - | (52) | (20,949) | - | - | - | (78,884) |
| Effect of exchange rate changes | - | (724) | (17,577) | (476) | (251) | (8,203) | (2,152) | (1,630) | (669) | (31,682) |
| Other - transfer from prepayments | - | - | 10,196 | - | - | 15,698 | 2,313 | 17,255 | - | 45,462 |
| Balance at December 31, 2015 | $ 159,163 | $ 87,458 | $ 875,684 | $ 23,013 | $ 15,345 | $ 307,431 | $ 107,997 | $ 92,883 | $ 83,556 | $ 1,752,530 |
| Accumulated depreciation | | | | | | | | | | |
| Balance at January 1, 2015 | $ - | $ - | $ 383,862 | $ 12,678 | $ 9,356 | $ 280,766 | $ 65,736 | $ 20,005 | $ - | $ 772,403 |
| Disposals | - | - | (16,611) | - | (1,554) | (109,784) | (4,104) | (710) | - | (132,763) |
| Depreciation | - | 5,509 | 112,242 | 3,644 | 2,862 | 49,348 | 17,209 | 16,142 | - | 206,956 |
| Reclassification (Note) | - | - | (37,950) | - | (52) | (11,330) | - | - | - | (49,332) |
| Effect of exchange rate changes | - | (45) | (7,644) | (262) | (162) | (5,762) | (1,367) | (526) | - | (15,768) |
| Balance at December 31, 2015 | $ - | $ 5,464 | $ 433,899 | $ 16,060 | $ 10,450 | $ 203,238 | $ 77,474 | $ 34,911 | $ - | $ 781,496 |
| Carrying amounts at December 31, 2015 | $ 159,163 | $ 81,994 | $ 441,785 | $ 6,953 | $ 4,895 | $ 104,193 | $ 30,523 | $ 57,972 | $ 83,556 | $ 971,034 |

(Continued)

| | Land | Buildings | Machinery and Equipment | Transportation Equipment | Office Equipment | Mold Equipment | Leasehold Improvements | Other Equipment | Property under Construction | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | | |
| Balance at January 1, 2016 | $ 159,163 | $ 87,458 | $ 875,684 | $ 23,013 | $ 15,345 | $ 307,431 | $ 107,997 | $ 92,883 | $ 83,556 | $ 1,752,530 |
| Additions | - | 3,220 | 86,092 | 664 | 249 | 46,557 | 1,005 | 7,335 | 154,815 | 299,937 |
| Disposals | - | - | (49,622 ) | (781 ) | (4,302 ) | (45,316 ) | (4,662 ) | (822 ) | - | (105,505 ) |
| Reclassification | 375 | - | (258 ) | - | - | - | (49,820 ) | 50,078 | (375 ) | - |
| Effect of exchange rate changes | - | (7,521 ) | (65,040 ) | (1,842 ) | (876 ) | (24,725 ) | (6,265 ) | (10,447 ) | (9,428 ) | (126,144 ) |
| Other - transfer from prepayments | - | 8,284 | 11,311 | - | 9,297 | - | - | 12,870 | 7,400 | 49,162 |
| Balance at December 31, 2016 | $ 159,538 | $ 91,441 | $ 858,167 | $ 21,054 | $ 19,713 | $ 283,947 | $ 48,255 | $ 151,897 | $ 235,968 | $ 1,869,980 |
| Accumulated depreciation | | | | | | | | | | |
| Balance at January 1, 2016 | $ - | $ 5,464 | $ 433,899 | $ 16,060 | $ 10,450 | $ 203,238 | $ 77,474 | $ 34,911 | $ - | $ 781,496 |
| Disposals | - | - | (34,350 ) | (759 ) | (4,147 ) | (42,133 ) | (3,051 ) | (351 ) | - | (84,791 ) |
| Depreciation | - | 7,006 | 108,300 | 2,943 | 4,456 | 51,276 | 12,491 | 25,725 | - | 212,197 |
| Reclassification | - | - | - | - | - | - | (35,095 ) | 35,095 | - | - |
| Effect of exchange rate changes | - | (742 ) | (35,618 ) | (1,385 ) | (638 ) | (16,703 ) | (5,065 ) | (5,412 ) | - | (65,563 ) |
| Balance at December 31, 2016 | $ - | $ 11,728 | $ 472,231 | $ 16,859 | $ 10,121 | $ 195,678 | $ 46,754 | $ 89,968 | $ - | $ 843,339 |
| Carrying amounts at December 31, 2016 | $ 159,538 | $ 79,713 | $ 385,936 | $ 4,195 | $ 9,592 | $ 88,269 | $ 1,501 | $ 61,929 | $ 235,968 | $ 1,026,641 |

(Concluded)

Note: Machinery and equipment, office equipment and mold equipment are reclassified to other current assets in 2015.

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

| | |
|---|---|
| Buildings | 12-20 years |
| Machinery and equipment | 1-10 years |
| Transportation equipment | 4-6 years |
| Office equipment | 3-5 years |
| Mold equipment | 2-4 years |
| Leasehold improvements | 2-3 years |
| Other equipment | 3-8 years |

## 12. GOODWILL

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Cost | | |
| Balance, beginning of year | $ 6,103 | $ 6,103 |
| Additions | - | - |
| Balance, end of year | $ 6,103 | $ 6,103 |
| Accumulated impairment losses | | |
| Balance, beginning of year | $ - | $ - |
| Impairment losses recognized in the year | - | - |
| Balance, end of year | $ - | $ - |
| Carrying amounts, beginning of year | $ 6,103 | $ 6,103 |
| Carrying amounts, end of year | $ 6,103 | $ 6,103 |

In February 2013, the Company acquired 50% equity in CDE Corp. 5,000 thousand ordinary shares, with par value of NT$10, for an increase in this associate's paid-in capital to $50,000 thousand. The value of goodwill was recognized when the cost of acquisition is higher than the net fair value of the identifiable assets and liabilities recognized at the date of acquisition. As of December 31, 2016, the present value of future cash flows of CDE Corp. exceeded carrying amount, so the Company did not identify any impairment of the goodwill.

## 13. OTHER INTANGIBLE ASSET

| | **Computer Software** |
|---|---|
| Cost | |
| Balance at January 1, 2015 | $ 44,249 |
| Additions | 3,034 |
| Disposal | (4,191) |
| Effect of exchange rate changes | (689) |
| Balance at December 31, 2015 | $ 42,403 |
| Accumulated amortization and impairment | |
| Balance at January 1, 2015 | $ (28,640) |
| Amortization expense | (11,897) |
| Disposal | 4,191 |
| Effect of exchange rate changes | 538 |
| Balance at December 31, 2015 | $ (35,808) |
| Carrying amounts at December 31, 2015 | $ 6,595 |
| Cost | |
| Balance at January 1, 2016 | $ 42,403 |
| Additions | 10,462 |
| Disposal | (16,865) |
| Effect of exchange rate changes | (2,100) |
| Balance at December 31, 2016 | $ 33,900 |
| Accumulated amortization and impairment | |
| Balance at January 1, 2016 | $ (35,808) |
| Amortization expense | (7,738) |
| Disposal | 16,865 |
| Effect of exchange rate changes | 1,989 |
| Balance at December 31, 2016 | $ (24,692) |
| Carrying amounts at December 31, 2016 | $ 9,208 |

The above intangible asset, computer software with a definite useful life, was depreciated on a straight-line basis over its estimated useful life of 1 to 3 years.

## 14. PREPAYMENTS FOR LEASE

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current asset (included in other current assets) | $ 1,448 | $ 1,574 |
| Non-current asset | 62,579 | 69,618 |
| | $ 64,027 | $ 71,192 |

As of December 31, 2016 and 2015, the carrying amount of the land use right located in Mainland China was $64,027 thousand and $71,192 thousand, respectively. Moreover, the Group has obtained the certificates of the land use right.

## 15. OTHER ASSETS

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current | | |
| Prepayments | $ 69,518 | $ 55,354 |
| Input tax | 41,825 | 36,664 |
| Overpaid tax | 67,142 | 54,427 |
| Other financial assets - current (Note 29) | 100 | 100 |
| Others | 4,308 | 8,322 |
| | $ 182,893 | $ 154,867 |
| Non-current | | |
| Prepayments for equipment (Note 28) | $ 196,374 | $ 111,908 |
| Refundable deposits | 13,485 | 13,503 |
| Deferred expense - non-current | 113,142 | 81,976 |
| | $ 323,001 | $ 207,387 |

## 16. BORROWINGS

### Short-term Borrowings

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Bank loans | $ 836,625 | $ 761,820 |

The range of the weighted average effective interest rates for bank loans were 0.63%-2.03% and 0.95%-2.025% per annum as of December 31, 2016 and 2015, respectively.

## 17. BONDS PAYABLE

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Unsecured domestic convertible bonds | $ - | $ 17,015 |
| Current portion of long-term bonds payable | - | (17,015) |
| | $ - | $ - |

a. Unsecured domestic convertible bonds

On November 29, 2013, the Group issued 3,000 thousand New Taiwan dollar-denominated unsecured convertible bonds with effective interest rate of 2.15%. The aggregate principal of the bonds is $300,000 thousand. The issue period is three years from November 29, 2013 to November 29, 2016.

The coupon rate is 0%; therefore, no interest payment term was determined. Unless there is bond conversion and/or early redemption by the Group, the bonds will be redeemable at the option of bondholders after two years of the issuance at the principal amount, with interest compensation in cash.

Other bond terms and conditions are as follows: The conversion price is set based on the simple arithmetic mean of the closing prices of 1, 3, or 5 trading days prior to November 21, 2013, the conversion price setting date, times 101.70 %, the conversion premium rate. The conversion price will be adjusted for the effect of cash and stock dividends. On the issuance date, the conversion price was set at NT$85.40 per share. The conversion price was adjusted to NT$75.10 after distribution of dividend on July 22, 2015.

The convertible bonds contain both liability and equity components. The equity component was presented in equity under capital surplus - option. The effective interest rate for the liability component was 2.15% per annum on initial recognition.

| | |
|---|---|
| Proceeds from issue (less transaction costs of $5,000 thousand) | $ 295,000 |
| Equity component | (18,759) |
| Liability component at the date of issue | 276,241 |
| Interest charged at 2.15% effective interest rate | 8,850 |
| Convertible bonds converted into common shares | (162,421) |
| Repayment of convertible bonds | (105,655) |
| Liability component at December 31, 2015 | 17,015 |
| Interest charged at a 2.15% effective interest rate | 21 |
| Repayment of convertible bonds | (17,036) |
| Liability component at December 31, 2016 | $ - |

b. For the nine months ended September 30, 2016, the Company redeemed convertible bonds with par value of $17,200 thousand. Because of the redemption, capital surplus - option decreased by $781 thousand, and the discount on bonds payable decreased by $164 thousand. For the year ended December 31, 2015, bondholders sold convertible bonds with par value of $108,700 thousand back to the Company. Because of exercised put option of convertible bonds, capital surplus - option decreased by $4,935 thousand, the discount on bonds payable decreased by $3,045 thousand, and the net value of financial assets and liabilities at fair value through profit or loss decreased by $6,305 thousand. The amortization of discount on bonds payable classified under interest expense was $3,302 thousand.

## 18. TRADE PAYABLES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Trade payables | | |
| Operating | $ 461,403 | $ 528,820 |

## 19. OTHER LIABILITIES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current | | |
| Other payables | | |
| Payable for purchase of equipment (Note 25) | $ 49,885 | $ 52,296 |
| Commissions | 11,841 | 19,065 |
| Salaries and bonus (including bonus to employees and remuneration to directors and supervisors) | 120,658 | 167,438 |
| Processing fee | 123,881 | 172,055 |
| Import/export (customs) expense | 7,092 | 3,826 |
| Social security payments (Mainland China) | 33,929 | 38,962 |
| Others | 201,166 | 54,782 |
| | $ 548,452 | $ 508,424 |
| Other liabilities | | |
| Receipts in advance | $ 1,319 | $ 4,236 |
| Others | 11,670 | 17,476 |
| | $ 12,989 | $ 21,712 |
| Non-current | | |
| Other liabilities | | |
| Guarantee deposits received | $ 4,910 | $ 5,014 |

## 20. RETIREMENT BENEFIT PLANS

### Defined Contribution Plans

The Company and CDE Corp. have a pension plan under the Labor Pension Act (LPA), a state-managed defined contribution plan. Under the LPA, the Company and CDE Corp. make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. The employees of the Group in China are members of state-managed retirement benefit plans operated by the government of China. The subsidiaries in China are required to contribute amounts calculated at a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

## 21. EQUITY

a. Share capital

Ordinary shares

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Number of shares authorized (in thousands) | 100,000 | 100,000 |
| Share capital authorized | $ 1,000,000 | $ 1,000,000 |
| Number of shares issued and fully paid (in thousands) | 69,676 | 69,676 |
| Share capital issued | $ 696,758 | $ 696,758 |

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

b. Capital surplus

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1) | | |
| Arising from issuance of common shares | $ 568,037 | $ 568,037 |
| Arising from conversion of bonds | 152,962 | 152,962 |
| May be used to offset a deficit only | | |
| Redemption/repayment of convertible bonds (2) | 5,552 | 4,935 |
| May not be used for any purpose | | |
| Arising from share warrants | - | 781 |
| | $ 726,551 | $ 726,715 |

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) Redemption or repayment of convertible bonds may only be utilized to offset deficits.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 16, 2016 and, in that meeting, had resolved amendments to the 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, please refer to employee benefits expense in Note 22,e.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing 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.

The Company's dividend policy will consider its operating environment, the sufficiency of its cash for future expansion, its long-term financial plan and the shareholders' cash flow requirements in determining the stock or cash dividends to be paid. For a steady profitability, a healthy financial structure, and the stability of earnings per share, the Company stipulated a dividend policy that at least 10% of income after tax may be distributed as cash dividends or stock dividends, and cash dividends should not be lower than 10% of total bonus to shareholders.

Under Article 237 of Company Law, a company should appropriate 10% of net income to legal reserve. Legal reserve should be appropriated until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 issued by the Financial Supervisory Commission and the directive entitled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs," the Company should appropriate or reverse a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

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

The appropriations of earnings for 2015 and 2014 were approved in the shareholders' meetings on June 16, 2016 and June 17, 2015, respectively. The appropriations and dividends per share were as follows:

| | **Appropriation of Earnings For the Year Ended December 31** | | **Dividends Per Share (NT$) For the Year Ended December 31** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Legal reserve | $ 17,562 | $ 50,851 | $ - | $ - |
| Special reserve (reversal) | - | (23,109) | - | - |
| Cash dividends | 104,514 | 299,606 | 1.5 | 4.3 |

The appropriations of earnings for 2016 had been proposed by the Company's board of directors on March 9, 2017. The appropriations and dividends per share were as follows:

| | **Appropriation of Earnings** | **Dividends Per Share (NT$)** |
|---|---|---|
| Legal reserve | $ 19,021 | $ - |
| Special reserve | 87,468 | - |
| Cash dividends | 111,481 | 1.6 |

The appropriations of earnings for 2016 are subject to the resolution of the shareholders' meeting to be held on June 15, 2017.

d. Others equity items

Exchange differences on translating the financial statements of foreign operations

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Balance, beginning of year | $ 50,262 | $ 69,330 |
| Exchange differences arising on translating the financial statements of foreign operations | (165,940) | (22,974) |
| Income tax related to gains arising on translating the financial statements of foreign operations | 28,210 | 3,906 |
| Balance, end of year | $ (87,468) | $ 50,262 |

e. Non-controlling interests

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Balance, beginning of period | $ 23,118 | $ 34,176 |
| Actual acquisition of interest in subsidiaries - Ta Yang UDE Limited | 14,333 | - |
| Attributable to non-controlling interests - share of losses for the period | (13,817) | (8,915) |
| Exchange differences arising on translating the financial statements of foreign operations | (497) | - |
| Balance, end of period | $ 23,137 | $ 25,261 |

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

The components of net income as follows:

a. Other income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Interest income | | |
| Bank deposits | $ 1,137 | $ 6,138 |
| Dividend income | - | 8,663 |
| Others | 31,761 | 15,373 |
| | $ 32,898 | $ 30,174 |

b. Other gains and losses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Loss on disposal of property, plant and equipment | $ (3,502) | $ (2,081) |
| Net (loss) gain arising on financial assets designated as at FVTPL | (360) | 21,176 |
| Net gain arising on financial liabilities designated as at FVTPL | - | - |
| Net foreign exchange gain | 42,214 | 31,623 |
| Others | (661) | (1,743) |
| | $ 37,691 | $ 48,975 |

c. Finance costs

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Interest on bank loans | $ 11,688 | $ 9,328 |
| Interest on convertible bonds (Note 17) | 21 | 3,302 |
| | $ 11,709 | $ 12,630 |

d. Depreciation and amortization

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Property, plant and equipment | $ 212,197 | $ 206,956 |
| Intangible assets | 7,738 | 11,824 |
| | $ 219,935 | $ 275,645 |
| An analysis of deprecation by function | | |
| Operating costs | $ 171,790 | $ 174,084 |
| Operating expenses | 40,407 | 32,872 |
| | $ 212,197 | $ 206,956 |
| An analysis of amortization by function | | |
| Operating costs | $ - | $ 103 |
| Selling and marketing expenses | 1,244 | 1,040 |
| General administrative expenses | 5,346 | 8,517 |
| Research and development expense | 1,148 | 2,237 |
| | $ 7,738 | $ 11,897 |

e. Employee benefits expense

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Post-employment benefits (Note 20) | | |
| Defined contribution plans | $ 49,179 | $ 50,430 |
| Other employee benefits | 1,041,363 | 1,131,094 |
| Total employee benefits expense | $ 1,090,542 | $ 1,181,524 |
| An analysis of employee benefits expense by function | | |
| Operating costs | $ 744,458 | $ 845,473 |
| Operating expenses | 346,084 | 336,051 |
| | $ 1,090,542 | $ 1,181,5 |

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

In compliance with the Company Act as amended in May 2015, the shareholders' meeting in June 2016 resolved the amendments to the Company's Articles; the amendments stipulate distribution of employees' compensation and remuneration to directors and supervisors at the rates 3%-15% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. The bonuses to employees and remuneration to directors and supervisors for 2016 and 2015 which have been approved in the shareholders' meetings on March 9, 2017 and March 7, 2016, respectively, were as follows:

Accrual rate

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Employees' compensation | 7.40% | 6.60% |
| Remuneration of directors and supervisors | 2.22% | 1.98% |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| | Cash Dividends | Cash Dividends |
| Employees' compensation | $ 17,000 | $ 16,000 |
| Remuneration of directors and supervisors | 5,100 | 4,800 |

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

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

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

The bonus to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meeting on June 17, 2015 were as follows:

| | For the Year Ended December 31, 2014 | |
|---|---|---|
| | **Cash** | **Share** |
| Bonus to employees | $ 52,000 | $ - |
| Remuneration of directors and supervisors | 13,000 | - |

There was no difference between the amounts of the bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meeting on June 17, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

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

f. Gain or loss on foreign currency exchange

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Foreign exchange gains | $ 99,742 | $ 94,673 |
| Foreign exchange losses | (57,528) | (63,050) |
| | $ 42,214 | $ 31,623 |

## 23. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Current tax | | |
| Current year | $ 35,404 | $ 53,631 |
| Income tax expense of unappropriated earnings | 5,354 | 15,805 |
| Prior years | 4,014 | 1,374 |
| | 44,772 | 70,810 |
| Deferred tax | | |
| Current year | (1,686) | 2,186 |
| Income tax expense recognized in profit or loss | $ 43,086 | $ 72,996 |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Profit before tax from continuing operations | $ 219,481 | $ 237,553 |
| Income tax expense calculated at the statutory rate | 37,312 | 40,384 |
| Nondeductible expenses in determining taxable income | (14,702) | 11,478 |
| Income tax on unappropriated earnings | 5,354 | 15,805 |
| Effect of different tax rate of group entities operating in other jurisdictions | 7,818 | (5,114) |
| Adjustments for prior years' tax | 4,014 | 1,374 |
| Unrecognized loss carryforwards/deductible temporary differences | 3,290 | 9,069 |
| Income tax expense recognized in profit or loss | $ 43,086 | $ 72,996 |

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

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

b. Income tax recognized in other comprehensive income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current tax | $ - | $ - |
| Deferred tax | | |
| In respect of current year: | | |
| Translation of foreign operations | (28,210) | 3,906 |
| Total income tax recognized in other comprehensive income | $ (28,210) | $ 3,906 |

c. Current tax liabilities

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current tax liabilities | | |
| Income tax payable | $ 9,379 | $ 12,956 |

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2016

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Temporary differences | | | | |
| Allowance for impairment loss on receivables | $ 697 | $ (697) | $ - | $ - |
| Unrealized loss on inventories | 422 | - | - | 422 |
| Unrealized exchange gain and loss | - | 188 | - | 188 |
| Financial assets measured at cost | 66 | (66) | - | - |
| Share of profit or loss of associates and joint ventures accounted for using equity method | 3,532 | 1,636 | - | 5,168 |
| Exchange differences on translation of foreign operations | - | - | 16,323 | 16,323 |
| | $ 4,717 | $ 1,061 | $ 16,323 | $ 22,101 |
| Deferred tax liability | | | | |
| Temporary differences | | | | |
| Unrealized exchange gains and losses | $ 625 | $ (625) | $ - | $ - |
| Exchange differences on translation of foreign operations | 11,887 | - | (11,887) | - |
| | $ 12,512 | $ (625) | $(11,887) | $ - |

For the year ended December 31, 2015

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Temporary differences | | | | |
| Allowance for impairment loss on receivables | $ - | $ 697 | $ - | $ 697 |
| Unrealized loss on inventories | 291 | 131 | - | 422 |

(Continued)

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Financial assets measured at cost | $ 66 | $ - | $ - | $ 66 |
| Share of profit or loss of associates and joint ventures accounted for using equity method | 1,653 | 1,879 | - | 3,532 |
| | 2,010 | 2,707 | - | 4,717 |
| Operating loss carryforward | 6,460 | (6,460) | - | - |
| | $ 8,470 | $ (3,753) | $ - | $ 4,717 |
| Deferred tax liability | | | | |
| Temporary differences | | | | |
| Unrealized exchange gains and losses | $ 2,192 | $ (1,567) | $ - | $ 625 |
| Exchange differences on translation of foreign operations | 15,793 | - | (3,906) | 11,887 |
| | $ 17,985 | $ (1,567) | $ (3,906) | $ 12,512 |

(Concluded)

e. Deductible temporary differences, unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

| | December 31, 2016 | Tax | December 31, 2015 | Tax |
|---|---|---|---|---|
| Loss carryforwards | | | | |
| Expire in 2021 | $ 4,597 | $ 781 | $ 4,597 | $ 781 |
| Expire in 2022 | 8,985 | 1,527 | 8,985 | 1,527 |
| Expire in 2023 | 11,100 | 1,887 | 11,100 | 1,887 |
| Expire in 2024 | 12,510 | 2,127 | 12,510 | 2,127 |
| Expire in 2025 | 16,075 | 2,733 | 16,075 | 2,733 |
| Expire in 2026 | 19,355 | 3,290 | - | - |
| | $ 72,622 | $ 12,345 | $ 53,267 | $ 9,055 |
| Deductible temporary differences | $ (25) | $ (4) | $ 81 | $ 14 |

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

As of December 31, 2016 and 2015, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were $837,887 thousand and $696,107 thousand, respectively.

g. Integrated income tax

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unappropriated earnings | | |
| Generated on and after January 1, 1998 | $ 988,245 | $ 920,109 |
| Shareholder - imputed credits accounts | $ 189,263 | $ 189,929 |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 (Expected) | 2015 |
| Creditable ratio for distribution of earnings | 19.59% | 21.10% |

h. Income tax assessments

The Company's tax returns through 2014 have been assessed by the tax authorities, and there is no lawsuit or claim regarding tax assessments. Other subsidiaries did not have any significant unjudged taxes litigation.

## 24. EARNINGS PER SHARE

**Unit: NT$ Per Share**

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Basic earnings per share | $ 2.73 | $ 2.52 |
| Diluted earnings per share | $ 2.71 | $ 2.45 |

The earnings and weighted average number of ordinary shares outstanding that were used in the computation of earnings per share from continuing operations were as follows:

**Net Profit for the Year**

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Net profit for the year | $ 190,212 | $ 175,615 |
| Profit for the year attributable to owners of the Company | $ 190,212 | $ 175,615 |
| Effect of potentially dilutive ordinary shares: | | |
| Convertible bonds | 18 | 2,740 |
| Earnings used in the computation of diluted earnings per share | $ 190,230 | $ 178,355 |

**Shares**

**Unit: Thousand Shares**

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Weighted average number of ordinary shares in computation of basic earnings per share | 69,676 | 69,676 |
| Effect of potentially dilutive ordinary shares: | | |
| Convertible bonds | 35 | 1,569 |
| Employee share option | 609 | 1,586 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 70,320 | 72,831 |

If the Group offers to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonus 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.

## 25. NON-CASH TRANSACTIONS

For the years ended December 31, 2016 and 2015, the Group entered into the following non-cash investing activities which were not reflected in the consolidated statement of cash flows:

As of December 31, 2016 and 2015, the amounts unpaid for acquiring property, plant and equipment were $49,885 thousand and $52,296 thousand, respectively, which were included in other payables.

## 26. OPERATING LEASE ARRANGEMENTS

**The Group as Lessee**

Operating leases relate to lease of plants and business premises with lease term between 3 to 10 years.

The future minimum lease payments for non-cancelable operating lease commitments were as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| 1 year | $ 17,235 | $ 23,835 |
| More than 1 year to 5 years | 68,341 | 80,094 |
| More than 5 years | 12,529 | 34,584 |
| | $ 98,105 | $ 138,513 |

For the years ended December 31, 2016 and 2015, the total lease payment were $26,607 thousand and $31,335 thousand, respectively.

## 27. FINANCIAL INSTRUMENTS

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

December 31, 2015

| | Carrying Amount | Fair Value Level 1 | Fair Value Level 2 | Fair Value Level 3 | Fair Value Total |
|---|---|---|---|---|---|
| Financial liabilities | | | | | |
| Financial liabilities measured at amortized cost | | | | | |
| Convertible bonds | $ 17,015 | $ - | $ - | $ 17,159 | $ 17,159 |

The fair values of the financial liabilities included in Level 3 categories above was determined by binary tree model. The significant unobservable inputs used for fair value evaluation reflected the credit risk of the Company.

According to the practical guidance and example named "Guidance of Disclosures about Fair Value Measurement" released by TWSE in 2013, for those financial instruments not measured by fair value, if it belongs to the instruments whose book value are similar to the fair value or the instruments which are measured by the cost, then it may be exempted from disclosing information about its Level 3 fair value due to the guidance mentioned above.

b. Categories of financial instruments

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Financial assets | | |
| Loans and receivables (1) | $ 1,624,138 | $ 1,553,955 |
| Available-for-sale financial assets (3) | 92,796 | 89,608 |
| Financial liabilities | | |
| Fair value through profit or loss (FVTPL) | | |
| Amortized cost (2) | 1,699,452 | 1,614,693 |

1) The balances included cash and cash equivalents, notes receivable, trade (including receivables from related parties) and other receivables (including receivables from related parties, but excluding tax refund receivable), other assets - restricted assets and refundable deposits.

2) The balances included short-term loans, trade (including payables from related parties) and other payables (except salaries, bonuses and social security), bonds payable and guarantee deposit received.

3) The balances included financial assets measured at cost.

c. Financial risk management objectives and policies

The Group's major financial instruments include financial assets (liabilities) at fair value through profit or loss, notes receivable, trade receivables, financial assets measured at cost, trade payables, borrowings and bonds payable.

Risks on the financial instruments include market risk (such as currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

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

a) Foreign currency risk

The Group has foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group assesses the net risk position of non-functional currency sales and purchases periodically and adjusts its non-functional cash position on the basis of its assessment.

Please reference Note 32 for both monetary assets and monetary liabilities held by the Group in non-functional currencies (including both monetary assets and monetary liabilities which were offset in the consolidated financial statements).

Sensitivity analysis

The Group was mainly exposed to the exchange movements in USD and RMB.

The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The 1% sensitivity rate is used in reporting foreign currency risk internally to key management 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. Sensitivity analysis includes trade receivables and payables to entities outside of the Group, and trade receivables and payables to its foreign operations. A positive number below indicates an increase in pretax profit and other equity associated with a 1% weakening of the New Taiwan dollars against the relevant currency. For a 1% strengthening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pretax profit and other equity, and the balances below would be negative.

| | **U.S. Dollar Impact** | | **RMB Impact** | |
|---|---|---|---|---|
| | **For the Year Ended December 31** | | **For the Year Ended December 31** | |
| | **2016** | **2015** | **2016** | **2015** |
| Profit or loss* | $ (3,209) | $ 361 | $ (1,410) | $ (2,012) |

* This was mainly attributable to the exposure on outstanding trade receivable and payable and unrealized forward exchange contract on a financial asset or financial liability at FVTPL in both USD and RMB, which were not hedged at the end of the reporting period.

The Group's sensitivity to foreign currency decreased during the current year mainly due to accounts receivable valuated by U.S. dollars had increased which resulted in the reduction of net liability in U.S. dollars.

b) Interest rate risk

The Group was exposed to interest rate risk because some Group entities borrowed funds from banks and issued convertible bonds 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 | |
|---|---|---|
| | **2016** | **2015** |
| Fair value interest rate risk | | |
| Financial assets | $ 21,497 | $ 15,100 |
| Financial liabilities | - | 19,510 |
| Cash flow interest rate risk | | |
| Financial assets | 337,193 | 376,441 |
| Financial liabilities | 836,625 | 759,325 |

Sensitivity analysis

The sensitivity analysis below was based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates been 1% higher/lower and all other variables held constant, the Group's pretax profits for the years ended December 31, 2016 and 2015 would had (decreased) increased by $(4,994) thousand and $(3,829) thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings and bank deposits.

The Group's sensitivity to interest rates increased during the current year mainly due to the increase in variable rate debt instruments.

2) Credit risk

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

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group continues to monitor its credit exposure and the credit ratings of its counterparties. Credit exposure is controlled by setting a counterparty credit limit, which is approved and periodically reviewed by the risk management committee.

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

The Group did transactions with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

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 negative fluctuations in cash flows.

For the Group, bank loan is an important resource for liquidity. Please refer to below section (b) to see more information about unused amount of financing facilities at December 31, 2016 and 2015.

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

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

December 31, 2016

| Non-derivative financial liabilities | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years |
|---|---|---|---|---|
| Short-term borrowings | $ 786,987 | $ 50,020 | $ - | $ - |
| Trade payables | 171,183 | 292,869 | - | - |
| Other payables | 152,949 | 240,916 | - | - |
| Guarantee deposit received | - | - | - | 4,910 |
| | $ 1,111,119 | $ 583,805 | $ - | $ 4,910 |

December 31, 2015

| Non-derivative financial liabilities | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years |
|---|---|---|---|---|
| Short-term borrowings | $ 689,450 | $ 72,590 | $ - | $ - |
| Trade payables | 212,563 | 316,257 | - | - |
| Other payables | 182,293 | 119,731 | - | - |
| Bonds payable | 17,200 | - | - | - |
| Guarantee deposit received | - | - | - | 5,014 |
| | $ 1,101,506 | $ 508,578 | $ - | $ 5,014 |

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

b) Financing facilities

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unsecured bank overdraft facility (reviewed annually) | | |
| Amount used | $ 836,625 | $ 761,820 |
| Amount unused | 831,875 | 1,018,580 |
| | $ 1,668,500 | $ 1,780,400 |
| Secured bank overdraft facility | | |
| Amount used | $ - | $ - |
| Amount unused | 1,400,000 | - |
| | $ 1,400,000 | $ - |

## 28. TRANSACTIONS WITH RELATED PARTIES

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

a. Sales of goods

| | | For the Year Ended December 31 | |
|---|---|---|---|
| Line Items | Related Party Categories | 2016 | 2015 |
| Sales | Associates | $ 16,114 | $ 35,590 |

The selling prices to related parties were not comparable with those in the market. The selling prices and terms were based on contracts. The collection terms to related parties were open account between 30 and 60 days. The collection terms to third parties were open account between 30 and 120 days by T/T.

b. Purchases of goods

| | | For the Year Ended December 31 | |
|---|---|---|---|
| Line Items | Related Party Categories | 2016 | 2015 |
| Purchases | Associates | $ 4,420 | $ - |

The cost of purchases from related parties was negotiated case by case with agreed purchase price and terms. The payment terms to related parties were open account 30 days. The cost of purchases from related parties was not significantly different from those purchases from third parties. The payment terms to third parties were open account between 30 and 90 days.

c. Accounts receivable from related parties (excluding loans to related parties)

| Line Items | Related Party Categories | December 31 2016 | December 31 2015 |
|---|---|---|---|
| Accounts receivable from related parties | Associates | $ 7,614 | $ - |

No guarantee for outstanding receivables from related parties had been collected. There was also no allowance for impairment loss for these receivables.

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

| Line Items | Related Party Categories | December 31 2016 | December 31 2015 |
|---|---|---|---|
| Accounts payables from related parities | Associates | $ 2,649 | $ - |

e. Prepayments

| Line Items | Related Party Categories | December 31 2016 | December 31 2015 |
|---|---|---|---|
| Prepayments for equipment | Associates | $ 30,290 | $ - |

f. Property, plant and equipment acquired

| Line Items | Related Party Categories | December 31 2016 | December 31 2015 |
|---|---|---|---|
| Property, plant and equipment acquired | Associates | $ 460 | $ - |

g. Compensation of key management personnel

The remunerations of directors and other members of key management personnel were as follows:

| | For the Year Ended December 31 2016 | For the Year Ended December 31 2015 |
|---|---|---|
| Short-term employee benefits | $ 43,019 | $ 48,011 |
| Post-employment benefits | 435 | 508 |
| | $ 43,454 | $ 48,519 |

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

## 29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets had been provided as collateral for sales tax of imported inventory and society insurance provident fund schemes of reserve account:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Other financial assets - current | | |
| Time deposits - restricted | $ 100 | $ 100 |

## 30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

**Significant Commitments**

Unrecognized commitments were as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Acquisition of property, plant and equipment | | |
| RMB | $ 5,294 | $ 9,104 |
| NTD | $ 75,015 | $ 10,800 |

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

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

December 31, 2016

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 37,953 | 32.2500 (USD:NTD) | $ 1,223,982 |
| USD | 22,830 | 6.9370 (USD:RMB) | 736,276 |
| RMB | 27,880 | 0.1441 (RMB:USD) | 129,614 |
| RMB | 13,779 | 4.6490 (RMB:NTD) | 64,058 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 40,479 | 32.2500 (USD:NTD) | 1,305,436 |
| USD | 10,353 | 6.9370 (USD:RMB) | 333,884 |
| RMB | 11,337 | 0.1441 (RMB:USD) | 52,707 |

December 31, 2015

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 33,134 | 32.8250 (USD:NTD) | $ 1,087,639 |
| USD | 19,655 | 6.4936 (USD:RMB) | 645,156 |
| RMB | 25,766 | 0.1539 (RMB:USD) | 130,249 |
| RMB | 17,167 | 5.0550 (RMB:NTD) | 86,776 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 39,051 | 32.8250 (USD:NTD) | 1,281,865 |
| USD | 14,838 | 6.4936 (USD:RMB) | 487,032 |
| RMB | 3,130 | 0.1539 (RMB:USD) | 15,823 |

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

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| Foreign Currencies | Exchange Rate | Net Foreign Exchange Gain (Loss) | Exchange Rate | Net Foreign Exchange Gain (Loss) |
| USD | 32.2627 (USD:NTD) | $ 2,573 | 31.7390 (USD:NTD) | $ 3,605 |
| USD | 6.6401 (USD:RMB) | (17,204) | 6.2272 (USD:RMB) | (8,476) |
| RMB | 0.1506 (RMB:USD) | (3,108) | 0.1605 (RMB:USD) | (2,754) |
| RMB | 4.8588 (RMB:NTD) | (410) | 5.0968 (RMB:NTD) | 59 |
| | | $ (18,149) | | $ (7,566) |