

**GALLANT PRECISION MACHINING CO.,  
LTD. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS  
DECEMBER 31, 2017 AND 2016**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## **REPRESENTATION LETTER**

The entities that are required to be included in the combined financial statements of Gallant Precision Machining Co., Ltd. as of and for the year ended December 31, 2017, 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 the International Financial Reporting Standards No. 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Gallant Precision Machining Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

GALLANT PRECISION MACHINING CO., LTD.

By

Chairman

March 27, 2018

## REPORT OF INDEPENDENT ACCOUNTANTS

To Gallant Precision Machining Co., Ltd.

### **Opinion**

We have audited the accompanying consolidated balance sheets of Gallant Precision Machining Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the audit reports of the other independent accountants, as described in the other matters section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2017 and 2016, in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

### **Basis for opinion**

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the section of Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements of our report. We are independent of the Group in accordance with the Codes of Professional Ethics for Certified Public Accountants in the Republic of China (the “Codes”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the audits report of the other independent accountants, 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 of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements in the current period are stated as follow:

### **Evaluation of inventories**

#### Description

Gallant Precision Machining Co., Ltd. and its subsidiaries are primarily engaged in the manufacture and sale of flat panel display testing equipment, semiconductor assembly equipment, intelligent automated equipment, and related parts. Inventories are stated at the lower of cost and net realizable value and regarding the accounting policy on the evaluation of inventories are disclosed in Note 4(13) of the consolidated financial statements. The uncertainty of accounting estimations and assumptions for valuation of inventories are disclosed in Note 5(2) of the consolidated financial statements. The allowance for inventory valuation loss amounting to NT1,593,706 thousand and NT83,077 thousand as of December 31, 2017 and 2016, respectively are disclosed in Note 6(5) of the consolidated financial statements.

As the amount of inventory is significant, and the estimation of net realizable value of inventories for exceeded specific age, and individually identified out of date or damaged inventories are subject to management's judgement, the evaluation of inventories has been identified a key audit matters.

#### **How our audit addressed the matter**

Our audit procedures performed included the following:

Our audit procedures performed for the above matter included the following: assessed the reasonableness of the policy of the allowance for inventory valuation loss. Tested the accuracy of inventory aging report, included tested whether the quantity and amount of inventory is consistent with inventory ledger and verify the accuracy of the inventory age classification. Assessed and confirmed the reasonableness in estimation of net realizable value and tested the reasonableness in accrual of the allowance for inventory valuation loss.

## **Cut-off of revenue recognition**

### Description

Gallant Precision Machining Co., Ltd. and its subsidiaries are primarily engaged in the manufacture and sale of flat panel display testing equipment, semiconductor assembly equipment, intelligent automated equipment, and related parts. Main revenue recognition is based on customer's confirmation for acceptance. Since the transferred timing of the risks and rewards of goods ownerships are subject to judgment and the result could affect sales revenue significantly in the consolidated financial statement. Thus, revenue recognition has been identified a key audit matter.

### How our audit addressed the matter

Our audit procedures performed included the following:

Our audit procedures performed included assessed the appropriateness of the policy of sales revenue recognition. Assessed and tested the design and operating effectiveness of the key controls over sales revenue recognition. Sampled and tested the sales transactions included check customer purchase order, evidence of the goods risks and rewards have been transferred and issued bill. We also performed cut-off test on sales transactions for the period before and after the balance sheet date.

### **Other matter - Reference to the audits of other independent auditors**

We did not audit the financial statements of certain consolidated subsidiaries and investments accounted for under the equity method that are included in the consolidated financial statements. Total assets of the subsidiary amounted to NT\$0 thousand and NT\$2,901 thousand, constituting 0% and 0.05% of consolidated total assets as of December 31, 2017 and 2016, respectively and operating income was NT\$0 thousand and NT\$0 thousand, constituting 0% and 0% of consolidated total operating income for the years ended December 31, 2017 and 2016, respectively. The balance of investment accounted for under equity method was NT\$66,761 thousand and NT\$189,608 thousand, constituting 1.07% and 3.03% of consolidated total assets as of December 31, 2017 and 2016, respectively, and the share of profit (loss) of associates and joint ventures accounted for under equity method was NT(\$122,847) thousand and NT(\$59,216) thousand, constituting (59.69%) and (29.24%) of consolidated total comprehensive income for the years ended December 31, 2017 and 2016, respectively. Those financial statements and information disclosed in Note 13 were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.

### **Other matter - Parent company only financial statements**

We have audited and expressed an unqualified opinion on the parent company only financial statements of Gallant Precision Machining Co., Ltd. as of and for the years ended December 31, 2017 and 2016.

### **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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 audit committee, are responsible for overseeing the Group’s financial reporting process.

### **Independent Accountant’s 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 auditor’s 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 ROC GAAS 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 ROC GAAS, 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 auditor's 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 auditor's 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 appropriate audit evidence regarding the financial information of the 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 auditor's 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.

PricewaterhouseCoopers, Taiwan  
March 27, 2018

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31**  
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
<b>Current assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 1,071,799	17	\$ 910,191	15
1110	Financial assets at fair value through profit or loss - current	6(2)	32,676	1	383,125	6
1147	Investments in debt instrument without active markets	6(3)	963,980	15	1,013,293	16
1150	Notes receivable, net		38,138	1	54,554	1
1170	Accounts receivable, net	6(4)	1,546,436	25	1,633,982	26
1180	Accounts receivable - related parties	7	-	-	293	-
1200	Other receivables		8,076	-	14,262	-
130X	Inventories, net	6(5)	1,510,629	24	1,187,872	19
1410	Prepayments		55,068	1	43,084	1
1470	Other current assets	8	27,589	-	32,109	-
11XX	<b>Current Assets</b>		<u>5,254,391</u>	<u>84</u>	<u>5,272,765</u>	<u>84</u>
<b>Non-current assets</b>						
1523	Available-for-sale financial assets - non-current	6(6)	12,908	-	19,702	-
1543	Financial assets carried at cost - non-current	6(7)	66,419	1	66,419	1
1550	Investments accounted for using equity method	6(8)	66,761	1	189,608	3
1600	Property, plant and equipment, net	6(9) and 8	624,659	10	478,669	8
1780	Intangible assets, net		96,768	2	122,286	2
1840	Deferred income tax assets	6(26)	78,425	1	64,503	1
1900	Other non-current assets	8	24,375	1	36,262	1
15XX	<b>Non-current assets</b>		<u>970,315</u>	<u>16</u>	<u>977,449</u>	<u>16</u>
1XXX	<b>Total assets</b>		<u>\$ 6,224,706</u>	<u>100</u>	<u>\$ 6,250,214</u>	<u>100</u>

(Continued)

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>						
2100	Short-term loans	6(10)	\$ 734,730	12	\$ 542,153	9
2170	Accounts payable	6(11)	1,633,421	26	1,514,273	24
2180	Accounts payable - related parties	7	4,416	-	-	-
2200	Other payables	6(12)	336,968	6	394,050	6
2230	Current income tax liabilities		60,667	1	33,343	1
2250	Provisions for liabilities-current		187,573	3	195,510	3
2300	Other current liabilities	6(13)	207,150	3	528,962	8
21XX	<b>Current Liabilities</b>		<u>3,164,925</u>	<u>51</u>	<u>3,208,291</u>	<u>51</u>
<b>Non-current liabilities</b>						
2540	Long-term loans	6(13)	391,641	6	310,256	5
2570	Deferred income tax liabilities	6(26)	42,299	1	36,326	1
2600	Other non-current liabilities	6(14)	85,134	1	87,958	1
25XX	<b>Non-current liabilities</b>		<u>519,074</u>	<u>8</u>	<u>434,540</u>	<u>7</u>
2XXX	<b>Total Liabilities</b>		<u>3,683,999</u>	<u>59</u>	<u>3,642,831</u>	<u>58</u>
<b>Equity attributable to owners of parent company</b>						
<b>Share capital</b>						
3110	Share capital-common stock	6(16)	1,651,361	27	1,651,361	26
<b>Capital surplus</b>						
3200	Capital surplus	6(17)	186,765	3	242,949	4
<b>Retained earnings</b>						
3310	Legal reserve	6(18)	66,921	1	40,850	1
3320	Special reserve		178,169	3	132,987	2
3350	Unappropriated retained earnings		197,905	3	305,550	5
<b>Other equity interest</b>						
3400	Other equity interest	6(19)	( 63,079 )	( 1 )	( 45,182 )	( 1 )
31XX	<b>Equity attributable to owners of the parent company</b>		<u>2,218,042</u>	<u>36</u>	<u>2,328,515</u>	<u>37</u>
36XX	<b>Non-controlling interest</b>		<u>322,665</u>	<u>5</u>	<u>278,868</u>	<u>5</u>
3XXX	<b>Total equity</b>		<u>2,540,707</u>	<u>41</u>	<u>2,607,383</u>	<u>42</u>
<b>Contingent liabilities and unrecognised contract commitments</b>						
3X2X	<b>Total liabilities and equity</b>		<u>\$ 6,224,706</u>	<u>100</u>	<u>\$ 6,250,214</u>	<u>100</u>

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

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

		Years ended December 31					
		2017		2016			
Items	Notes	AMOUNT	%	AMOUNT	%		
4000	<b>Operating revenue</b>	\$ 4,839,887	100	\$ 3,666,700	100		
5000	<b>Operating costs</b>	( 3,527,537)	( 73)	( 2,578,090)	( 70)		
5900	<b>Net operating margin</b>	1,312,350	27	1,088,610	30		
	<b>Operating expenses</b>	6(24)(25)					
6100	Selling expenses	( 204,158)	( 4)	( 211,209)	( 6)		
6200	General and administrative expenses	( 299,240)	( 6)	( 366,670)	( 10)		
6300	Research and development expenses	( 343,153)	( 7)	( 203,699)	( 6)		
6000	<b>Total operating expenses</b>	( 846,551)	( 17)	( 781,578)	( 22)		
6900	<b>Operating profit</b>	465,799	10	307,032	8		
	<b>Non-operating income and expenses</b>						
7010	Other income	84,099	2	122,870	3		
7020	Other gains and losses	( 70,584)	( 2)	25,411	1		
7050	Finance costs	( 18,154)	-	( 13,175)	-		
7060	Share of profit of associates and joint ventures accounted for under equity method	( 122,847)	( 3)	( 59,216)	( 2)		
7000	<b>Total non-operating income and expenses</b>	( 127,486)	( 3)	75,890	2		
7900	<b>Profit before tax</b>	338,313	7	382,922	10		
7950	Income tax expense	( 107,632)	( 2)	( 83,863)	( 2)		
8200	<b>Profit for the year</b>	\$ 230,681	5	\$ 299,059	8		
	<b>Other comprehensive income for the year</b>						
	<b>Items that will not be reclassified subsequently to profit or loss:</b>						
8311	Actuarial gain on defined benefit plan	( \$ 5,453)	-	( \$ 2,498)	-		
8310	<b>Items that will not be reclassified subsequently to profit or loss:</b>	( \$ 5,453)	-	( \$ 2,498)	-		
	<b>Items that may be reclassified subsequently to profit or loss:</b>						
8361	Cumulative translation differences of foreign operations	( 14,362)	( 1)	( 94,722)	( 2)		
8362	Unrealized loss on valuation of available-for-sale financial assets	( 5,046)	-	675	-		
8360	<b>Summary of Components of other comprehensive income that will be reclassified to profit or loss</b>	( 19,408)	( 1)	( 94,047)	( 2)		
8300	<b>Other comprehensive (loss) income for the year</b>	( \$ 24,861)	( 1)	( \$ 96,545)	( 2)		
8500	<b>Total comprehensive income for the year</b>	\$ 205,820	4	\$ 202,514	6		
	<b>Profit attributable to:</b>						
8610	Equity holders of the parent company	\$ 200,252	4	\$ 260,709	7		
8620	Non-controlling interest	30,429	1	38,350	1		
	<b>Profit for the year</b>	\$ 230,681	5	\$ 299,059	8		
	<b>Total comprehensive income attributable to:</b>						
8710	Equity holders of the parent company	\$ 176,902	3	\$ 179,570	5		
8720	Non-controlling interest	28,918	1	22,944	1		
	<b>Total comprehensive income for the year</b>	\$ 205,820	4	\$ 202,514	6		
	<b>Basic earnings per share</b>	6(27)					
9750	<b>Profit for the year</b>	\$	1.21	\$	1.58		
	<b>Diluted earnings per share</b>	6(27)					
9850	<b>Profit for the year</b>	\$	1.20	\$	1.56		

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

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)

Equity attributable to owners of the parent										
Notes	Retained Earnings					Other equity interest		Total	Non-controlling interest	Total equity
	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets			
<b>For the year ended December 31, 2016</b>										
	\$ 1,651,361	\$ 275,976	\$ 20,859	\$ 132,987	\$ 200,820	\$ 46,982	(\$ 13,521 )	\$ 2,315,464	\$ 252,259	\$ 2,567,723
Distribution of 2015 earnings:										
	-	-	19,991	-	( 19,991 )	-	-	-	-	-
	-	-	-	-	( 132,109 )	-	-	( 132,109 )	-	( 132,109 )
	-	( 33,027 )	-	-	-	-	-	( 33,027 )	-	( 33,027 )
	-	-	-	-	260,709	-	-	260,709	38,350	299,059
	-	-	-	-	( 2,496 )	( 79,380 )	737	( 81,139 )	( 15,406 )	( 96,545 )
	-	-	-	-	( 1,383 )	-	-	( 1,383 )	-	( 1,383 )
	-	-	-	-	-	-	-	-	3,665	3,665
	<u>\$ 1,651,361</u>	<u>\$ 242,949</u>	<u>\$ 40,850</u>	<u>\$ 132,987</u>	<u>\$ 305,550</u>	<u>(\$ 32,398 )</u>	<u>(\$ 12,784 )</u>	<u>\$ 2,328,515</u>	<u>\$ 278,868</u>	<u>\$ 2,607,383</u>
<b>For the year ended December 31, 2017</b>										
	\$ 1,651,361	\$ 242,949	\$ 40,850	\$ 132,987	\$ 305,550	(\$ 32,398 )	(\$ 12,784 )	\$ 2,328,515	\$ 278,868	\$ 2,607,383
Distribution of 2016 earnings:										
	-	-	26,071	-	( 26,071 )	-	-	-	-	-
	-	-	-	45,182	( 45,182 )	-	-	-	-	-
	-	-	-	-	( 231,191 )	-	-	( 231,191 )	-	( 231,191 )
	-	( 66,055 )	-	-	-	-	-	( 66,055 )	-	( 66,055 )
	-	-	-	-	200,252	-	-	200,252	30,429	230,681
	-	-	-	-	( 5,453 )	( 12,789 )	( 5,108 )	( 23,350 )	( 1,511 )	( 24,861 )
	-	9,871	-	-	-	-	-	9,871	27,332	37,203
	-	-	-	-	-	-	-	-	( 12,453 )	( 12,453 )
	<u>\$ 1,651,361</u>	<u>\$ 186,765</u>	<u>\$ 66,921</u>	<u>\$ 178,169</u>	<u>\$ 197,905</u>	<u>(\$ 45,187 )</u>	<u>(\$ 17,892 )</u>	<u>\$ 2,218,042</u>	<u>\$ 322,665</u>	<u>\$ 2,540,707</u>

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

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Consolidated profit before tax for the year		\$ 338,313	\$ 382,922
Adjustments			
Income and expenses having no effect on cash flow			
Depreciation	6(9) (24)	38,253	27,644
Amortization	6(24)	30,997	16,272
Gain on financial assets or liabilities at fair value through profit or loss, net	6(22)	( 2,538 )	( 4,841 )
Gain on disposal of financial liabilities at fair value through profit or loss		-	( 870 )
Gain on disposal of financial assets	6(22)	694	( 1,983 )
Provision for doubtful accounts	6(4)	43,442	44,294
Interest income	6(21)	( 14,662 )	( 15,054 )
Interest expense	6(23)	18,154	13,175
Dividend income		-	( 3 )
(Gain)/loss on disposal of property, plant and equipment, net	6(22)	678	745
Share of profit of associates and joint ventures accounted for using equity method		122,847	59,216
Gain on disposal of investments accounted for using equity method, net	6(22)	-	( 31,568 )
Impairment loss on investments accounted for using equity method	6(22)	-	12,308
Share-based payments	6(15)	-	114
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial assets at fair value through profit or loss - current		352,987	( 326,134 )
Notes receivable		16,333	( 26,879 )
Accounts receivable		41,349	( 65,465 )
Accounts receivable - related parties		293	( 4,670 )
Other receivables		6,188	( 3,862 )
Other receivables- related parties		-	51,287
Inventories		( 323,427 )	( 604,572 )
Prepayments		( 11,792 )	( 12,661 )
Other current assets		( 946 )	49,612
Other non-current assets		( 9 )	( 11,906 )
Net changes in liabilities relating to operating activities			
Financial liabilities at fair value through profit or loss - current		-	( 443 )
Accounts payable		120,701	660,274
Accounts payable - related parties		4,725	-
Other payables		( 64,295 )	96,608
Provisions for liabilities		( 7,698 )	( 3,847 )
Unearned receipts		( 340,082 )	410,665
Other current liabilities		( 1,401 )	( 1,531 )
Accrued pension liabilities		( 7,950 )	( 5,252 )
Cash generated from operations		361,154	703,595
Interest received		14,576	19,309
Interest paid		( 17,553 )	( 12,363 )
Income tax paid		( 87,671 )	( 96,275 )
Dividends received		-	3
Net cash provided by operating activities		270,506	614,269

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**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Increase in other financial assets - current		\$ 5,331	\$ -
Increase in other financial assets – non-current		949	17,513
Acquisition of bond investments without active markets		-	( 212,943 )
Proceeds from disposal of bond investments without active markets		41,816	-
Proceeds from disposal of available-for-sale financial assets		1,054	-
Proceeds from disposal of financial assets measured at cost		-	1,983
Proceeds from disposal of investments accounted for using equity method		-	43,641
Acquisition of property, plant and equipment	6(30)	( 167,682 )	( 15,000 )
Proceeds from disposal of property, plant and equipment		531	2,026
Acquisition of intangible assets		( 6,428 )	( 99,742 )
Refundable deposits refunded (paid)		( 636 )	2,689
Net cash used in investing activities		<u>( 125,065 )</u>	<u>( 259,833 )</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITY</u></b>			
Increase in short-term loans		2,118,999	1,597,314
Decrease in short-term loans		( 1,926,422 )	( 1,413,443 )
Proceeds from long-term loan		129,000	30,000
Repayment of long-term loan		( 27,772 )	( 27,005 )
Guarantee deposits refunded		( 23 )	( 68 )
Proceeds from transaction with non-controlling interests	6(28)	( 3,833 )	-
Acquisition of transaction with non-controlling interests	6(28)	41,036	-
Increase in non-controlling interests		17,944	30,875
Decrease in non-controlling interests		( 29,809 )	( 28,708 )
Cash dividends paid		( 297,246 )	( 165,136 )
Net cash provided by (used in) financing activities		<u>21,874</u>	<u>23,829</u>
Effect of fluctuations in exchange rate		( 5,707 )	( 22,786 )
Net increase (decrease) in cash and cash equivalents		161,608	355,479
Cash and cash equivalents at beginning of year	6(1)	910,191	554,712
Cash and cash equivalents at end of year	6(1)	<u>\$ 1,071,799</u>	<u>\$ 910,191</u>

GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

**1. HISTORY AND ORGANIZATION**

Gallant Precision Machining Co., Ltd. (the “Company”).

The Company was incorporated on December 22, 1978. The Company and its subsidiaries (collectively referred herein as the “Group”) are engaged in the design, manufacture and sale of molds and machinery, metal parts and mold parts, stamping parts and die-cast parts, and automated manufacturing systems and their unit equipment, as well as the management and investment in the relevant business.

The Company’s stock was listed on the Taipei Exchange (formerly named GreTai Securities Market), effective from February, 1998.

The Company merged with Syntran Co., Ltd. (the “Syntran Company”) on August 3, 2007 (merger effective date). The Company was a surviving company and Syntran Company was a dissolved company. Syntran Company was incorporated in November 1994, mainly engaged in the research, development, manufacture and sale of DWDM automatic optical testing machines, DWDM module packaging machines, digital safety monitoring systems and nano functional powder and films.

The special shareholders' meeting of the Company resolved to spin-off its semiconductor business on December 15, 2010 and the GreTai Securities Market approved the spin-off and the Company’s stock listed on January 13, 2011. The Company transferred its semiconductor business and related investment to the Company's subsidiary – Gallant Micro. Machining Co., Ltd. on the spin-off effective day March 1, 2011. The equity interest in Gallant Micro. Machining Co., Ltd. held by the Company as of December 31, 2017 was 62.88%.

**2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION**

These consolidated financial statements were authorized for issuance by the Board of Directors on March 27, 2018.

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

**(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission("FSC")**

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Company assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of international financial reporting'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the followings, the above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment.

#### A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance).
- (c) When adopting the new standards endorsed by the FSC effective from 2018, the Company will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the new standards as of January 1, 2018 are summarized below:

In accordance with IFRS 9, the Group's expects to reclassify available-for-sale financial assets and financial assets at cost in the amounts of \$12,908 and \$66,419, respectively, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, increasing retained earnings and other equity interest in the amounts of \$129,003, \$5,032 and \$44,644, respectively.

In accordance with IFRS 9, the Group expects to reclassify financial assets at fair value through profit or loss in the amounts of \$32,676, by increasing financial assets at fair value through profit or loss, increasing retained earnings and other equity interest in the amounts of \$32,676, \$0 and \$0, respectively.

In accordance with IFRS 9, the Group expects to reclassify investments in debt instruments without active market of \$963,980, by increasing financial assets at amortised cost in the amount of \$963,980.

#### B. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

#### (3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance Contracts'	January 1, 2021
IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRS 23, 'Uncertainty over Income Tax Treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the followings, the above standards and interpretations have no significant impact to the Company financial condition and operating result based on the Company assessment. The quantitative impact will be disclosed when the assessment is complete.

#### IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for

lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) .

##### (2) Basis of preparation

A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

##### (3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with

the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

- (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

#### B. Subsidiaries included in the consolidated financial statements:

<u>Name of Investor</u>	<u>Name of subsidiary</u>	<u>Main Business Activities</u>	<u>Percentage of Ownership</u>		<u>Note</u>
			<u>December 31, 2017</u>	<u>December 31, 2016</u>	
Gallant Precision Machining Co., Ltd.	Gallant Micro. Machining Co., Ltd.	Manufacturing and selling of semiconductor related equipment and parts	62.88	66.88	
Gallant Precision Machining Co., Ltd.	Gallant-Rapid Corporation Ltd. (the "GRC")	Investing in Gallant Precision Industries (Suzhou) Co., Ltd.	100	100	
Gallant Precision Machining Co., Ltd.	Gallant Precision Machinery (BVI) Ltd.(the GPM(BVI))	Investing in Gallant Precision Machinery (Xiamen) Co., Ltd.	100	100	

Gallant Precision Machining Co., Ltd.	APEX-I International Co., Ltd.	Marketing and selling of process equipment of LCD and related parts.	100	94.12	note
Gallant Precision Machining Co., Ltd.	Chun-Zhun Enterprise Corporation Ltd. (the "CZE")	Investing in Gallant Technology (Shenzhen) Co., Ltd.	100	100	
Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd. (the "KMC")	Investing in Gallant Micro. Machining (Suzhou) Co., Ltd.	100	100	
Gallant Micro. Machining Co., Ltd.	Gallant Micro Machining (Malaysia) Sdn. Bhd. (the "GMMM")	Engaged in the import and export and trading business of semiconductor substrate machines and related parts	100	100	
GRC	Gallant Precision Industries (Suzhou) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	100	100	
KMC	Gallant Micro. Machining (Suzhou) Co., Ltd.	Manufacturing and selling of precision mold and related parts	100	100	
GPM(BVI)	Gallant Precision Machinery (Xiamen) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	100	100	
CZE	Gallant Technology (Shenzhen) Co., Ltd.	Manufacturing of medical and mechanical related equipment	100	100	
Gallant Precision Industries (Suzhou) Co., Ltd.	Gallant International Trading Co., Ltd.	Engaged in selling of mechanical equipment	100	100	
Gallant Precision Industries (Suzhou) Co., Ltd.	Gallant Precision Intelligence Technology Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	60	-	
Gallant International Trading Co., Ltd.	Suzhou Jianmeifu Optical Co., Ltd.	Engaged in wholesale and retail of contact lenses and related care products	100	100	

Note: The change of equity interest are disclosed in note 6(28).

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

As of December 31, 2017 and 2016, the non-controlling interest amounted to \$322,665 and \$278,868, respectively. The information of non-controlling interest and respective subsidiaries is

as follows:

Name of subsidiary	Principal place of business	Non-controlling interest				Description
		December 31, 2017		December 31, 2016		
		Amount	Ownership (%)	Amount	Ownership (%)	
Gallant Micro. Machining Co., Ltd.	Taiwan	\$296,647	37.12	\$275,034	33.12	

Summarised financial information of the subsidiaries:

Balance sheets

	Gallant Micro. Machining Co., Ltd. and its subsidiary	
	December 31, 2017	December 31, 2016
Current assets	\$ 1,209,735	\$ 1,120,513
Non-current assets	269,893	112,029
Current liabilities	( 498,910)	( 335,800)
Non-current liabilities	( 181,561)	( 66,326)
Total net assets	<u>\$ 799,157</u>	<u>\$ 830,416</u>

Statements of comprehensive income

	Gallant Micro. Machining Co., Ltd. and its subsidiary	
	Year ended December 31, 2017	Year ended December 31, 2016
Revenue	\$ 976,727	\$ 949,393
Profit before income tax	\$ 86,967	\$ 161,268
Income tax expense	( 22,210)	( 42,894)
Profit for the year from continuing operations	64,757	118,374
Loss from discontinued operations	-	-
Profit for the year	64,757	118,374
Other comprehensive income, net of tax	( 6,005)	( 45,525)
Total comprehensive income for the year	<u>\$ 58,752</u>	<u>\$ 72,849</u>
Comprehensive income attributable to non-controlling interest	<u>\$ 21,055</u>	<u>\$ 22,914</u>
Dividends paid to non-controlling interest	<u>\$ 29,809</u>	<u>\$ 28,708</u>

## Statements of cash flows

	Gallant Micro. Machining Co., Ltd. and its subsidiary	
	Year ended December 31, 2017	Year ended December 31, 2016
Net cash provided by (used in) operating activities	\$ 174,315	\$ 113,016
Net cash provided by (used in) investing activities	( 218,999)	( 16,935)
Net cash provided by (used in) financing activities	198,989	( 5,811)
Effect of exchange rates on cash and cash equivalents	( 6,858)	( 16,127)
Increase (decrease) in cash and cash equivalents	147,447	74,143
Cash and cash equivalents, beginning of year	348,077	273,934
Cash and cash equivalents, end of year	<u>\$ 495,524</u>	<u>\$ 348,077</u>

### (4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency" ). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency and the Group's presentation currency.

#### A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All foreign exchange gains and losses are presented in the statement of comprehensive income within "other gains and losses".

B. Translation of foreign operations

The operating results and financial position of all the group entities, associates and jointly controlled entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that periods; and

(c) All resulting exchange differences are recognized in other comprehensive income.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be settle within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settle within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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.

(6) Cash and cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(8) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(9) Loans and receivables

A. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the

entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, since short-term accounts receivable without bearing interest, are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

**B. Bond investments without active market**

- (a) Bond investments without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:
  - i . Not designated on initial recognition as at fair value through profit or loss;
  - ii . Not designated on initial recognition as available-for-sale;
  - iii. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.
- (b) On a regular way purchase or sale basis, bond investments without active market are recognized and derecognized using trade date accounting.
- (c) Investments in debt instruments without active market held by the Group are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

**(10) Impairment of financial assets**

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event' ) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
  - (a) Significant financial difficulty of the issuer or debtor;
  - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
  - (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
  - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

- (e) The disappearance of an active market for that financial asset because of financial difficulties;
  - (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
  - (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
  - (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(a) Financial assets measured at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognized in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(c) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization ) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) Derecognition of financial assets

The Group derecognizes a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(12) Operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(13) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads. It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(14) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 per cent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.

- B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognized in profit or loss.
- G. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

H. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss. If it still retains significant influence over this associate, then the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures      10 ~ 50 years

Machinery and equipment      5 ~ 10 years

Furniture and fixtures      3~ 10 years

Other equipment      5 ~ 15 years

(16) Leased assets/ leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term

(17) Intangible assets

A. Computer software

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 1 to 3 years.

B. Other intangible assets

Other intangible assets mainly technical royalties, are amortized on a straight-line basis over its estimated useful life of 3 years.

(18) Impairment of non-financial assets

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.

C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(19) Borrowings

A. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

B. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan

to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(20) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(21) Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognized in profit or loss.

(22) Provisions

Provisions (including warranties, after-sales service ) are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognized as interest expense. Provisions are not recognized for future operating losses.

(23) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when

they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i . Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.
- ii . Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognized immediately in profit or loss.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(24) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(25) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(26) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; Stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(27) Revenue recognition

The Group manufactures and sells automated manufacturing systems and related parts. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(28) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate.

(29) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chairman of Board that makes strategic decisions.

## 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

### (1) Critical judgements in applying the Group's accounting policies

None.

### (2) Critical accounting estimates and assumptions

#### Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2017, the carrying amount of inventories was \$1,510,629.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand and revolving funds	\$ 570	\$ 578
Checking accounts	26	26
Demand deposits	1,071,203	894,637
Time deposits	-	14,950
Total	<u>\$ 1,071,799</u>	<u>\$ 910,191</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. Cash and cash equivalents pledged to Customs and others as collateral, and were classified as other financial assets in Note 8.

(2) Financial assets / liabilities at fair value through profit or loss

Items	December 31, 2017	December 31, 2016
Current items:		
Financial assets held for trading		
Beneficiary certificates	\$ 29,850	\$ 382,347
Valuation adjustment of financial assets held for trading	2,826	778
	\$ 32,676	\$ 383,125

A. The Group recognized net gain of \$2,538 and \$4,841 on financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2017 and 2016, respectively.

B. The Group has no financial assets at fair value through profit or loss pledged to others.

(3) Investments in debt instrument without active markets

Items	December 31, 2017	December 31, 2016
Current items:		
Time deposits	\$ 963,980	\$ 1,013,293

A. The Group listed time deposits for 3 to 9 months in this item.

B. The Group transacts with financial institutions with high credit quality

C. As of December 31, 2017 and 2016, the Group has no investments in debt instrument without active markets pledged to others.

(4) Accounts receivable

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 1,740,994	\$ 1,787,677
Less: allowance for bad debts	( 194,558 )	( 153,695 )
	\$ 1,546,436	\$ 1,633,982

A. The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

	December 31, 2017	December 31, 2016
Group 1	\$ 90,983	\$ 20,610
Group 2	912,859	995,760
Group 3	341,711	291,924
	\$ 1,345,553	\$ 1,308,294

Group 1: New customers (less than 6 months from the first transaction).

Group 2: Existing customers (more than 6 months from the first transaction) which were listed companies.

Group 3: Existing customers (more than 6 months from the first transaction) which were private companies.

B. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Up to 30 days	\$ 43,462	\$ 76,380
31 to 90 days	34,578	92,757
91 to 180 days	93,564	96,247
Over 181 days	<u>29,279</u>	<u>60,304</u>
	<u>\$ 200,883</u>	<u>\$ 325,688</u>

The above ageing analysis was based on past due date.

C. Movement analysis of financial assets that were impaired is as follows:

(a) As of December 31, 2017 and 2016, the Group's accounts receivable that were impaired amounted to \$194,558 and \$153,695, respectively.

(b) Movements in the provision for impairment of accounts receivable are as follows:

	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 394	\$ 153,301	\$ 153,695
Provision for impairment	707	42,735	43,442
Write-offs during the year period	-	( 2,071)	( 2,071)
Effect of foreign exchange	-	( 508)	( 508)
At December 31	<u>\$ 1,101</u>	<u>\$ 193,457</u>	<u>\$ 194,558</u>
	<u>2016</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 1,999	\$ 110,343	\$ 112,342
Provision for impairment	25	58,710	58,735
Reversal for impairment	( 1,630)	( 12,811)	( 14,441)
Effect of foreign exchange	-	( 2,941)	( 2,941)
At December 31	<u>\$ 394</u>	<u>\$ 153,301</u>	<u>\$ 153,695</u>

D. The Group does not hold any collateral as security.

(5) Inventories

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 83,871	(\$ 13,693)	\$ 70,178
Work in progress	770,188	( 49,221)	720,967
Finished goods	727,549	( 20,163)	707,386
Inventory in transit	12,098	-	12,098
Total	<u>\$ 1,593,706</u>	<u>(\$ 83,077)</u>	<u>\$ 1,510,629</u>

  

	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 59,393	(\$ 15,393)	\$ 44,000
Work in progress	479,574	( 32,989)	446,585
Finished goods	713,198	( 25,397)	687,801
Inventory in transit	9,486	-	9,486
Total	<u>\$ 1,261,651</u>	<u>(\$ 73,779)</u>	<u>\$ 1,187,872</u>

The cost of inventories recognized as expense for the year:

	Year ended December 31, 2017	Year ended December 31, 2016
Cost of goods sold	\$ 3,515,517	\$ 2,564,811
Gain on reversal of decline in market value	9,439	( 12,334)
Loss on disposal inventory	2,146	25,613
Loss on physical inventory	435	-
	<u>\$ 3,527,537</u>	<u>\$ 2,578,090</u>

The Group reversed from a previous inventory write-down and accounted for as reduction of cost of goods sold because of disposal and sold inventory.

(6) Available-for-sale financial assets

	December 31, 2017	December 31, 2016
Non-current items:		
Listed stocks	\$ 28,345	\$ 123
Emerging stocks	-	30,046
Non-listed and emerging stocks	7,487	7,487
Subtotal	35,832	37,656
Valuation adjustment	( 17,892)	( 12,846)
Accumulated impairment	( 5,032)	( 5,108)
Total	<u>\$ 12,908</u>	<u>\$ 19,702</u>

A. The Group recognized (\$5,046) and \$675 in other comprehensive income for fair value change and reclassified \$0 and \$0 from equity to profit or loss for the years ended December 31, 2017 and 2016, respectively.

(7) Financial assets measured at cost

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Non-current items:		
Phoenix Pioneer Technology Co., Ltd. (note)	\$ 29,988	\$ 29,988
Power Ever Enterprises Limited	36,431	36,431
Total	<u>\$ 66,419</u>	<u>\$ 66,419</u>

NOTE: Phoenix Pioneer Technology Co., Ltd. has conducted equity restructuring in 2016. The shares of Phoenix Pioneer Technology Co. Ltd. owned by the Company were exchanged for the shares of Phoenix & Corporation.

According to the Group's intention, its investment in above corporation stocks should be classified as 'available-for-sale financial assets'. However, as the above corporation stocks are not traded in active market, and no sufficient industry information of companies similar to the above companies or no financial information of the above companies can be obtained, the fair value of the investment in above corporation stocks cannot be measured reliably. The Group classified those stocks as 'financial assets measured at cost'.

(8) Investments accounted for using equity method

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates		
Sunengine Co., Ltd.	\$ 66,761	\$ 189,608
	<u>\$ 66,761</u>	<u>\$ 189,608</u>

A. Associates

(a) The basic information of the associates that are material to the Group is as follows:

Company name	Principal place of business	Shareholding ratio		Nature of relationship	Methods of measurement
		December 31, 2017	December 31, 2016		
Sunengine Co., Ltd. ( NOTE)	Taiwan	37.84%	37.84%	Business strategy	Equity method
Hitachi Zosen GPM Technology ( Suzhou ) Co., Ltd.	China	30.00%	30.00%	Business strategy	Equity method

(b) The summarized financial information of the associates that are material to the Group is as below:

Balance sheet

	Sunengine Co., Ltd.	
	December 31, 2017	December 31, 2016
Current assets	\$ 162,599	\$ 221,961
Non-current assets	4,412	431,602
Current liabilities	( 12,522)	( 103,312)
Non-current liabilities	( 38)	( 71,153)
Total net assets	<u>\$ 154,451</u>	<u>\$ 479,098</u>
Share in associate's net assets	\$ 58,443	\$ 181,290
Goodwill	8,318	8,318
Carrying amount of the associate	<u>\$ 66,761</u>	<u>\$ 189,608</u>

Statement of comprehensive income

	Sunengine Co., Ltd.	
	Year ended December 31, 2017	Year ended December 31, 2016
Revenue	\$ 344,061	\$ 992,660
Profit for the year from continuing operations	(\$ 325,109)	(\$ 119,328)
Profit or loss for the year from discontinued operations	-	-
Other comprehensive income, net of tax	-	-
Total comprehensive income	<u>(\$ 325,109)</u>	<u>(\$ 119,328)</u>
Dividends received from associates	-	-

(c) The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results are summarized: none

B. The Group disposed of the investment on Shaoxing Pushkang Biotechnology Co., Ltd. for the year ended December 31, 2016.

(9) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Office equipment	Leased assets	Others	Construction in progress and equipment under installation	Total
At January 1, 2017								
Cost	\$ -	\$ 429,156	\$ 113,337	\$ 16,979	\$ 116,753	\$ 48,377	\$ -	\$ 724,602
Accumulated depreciation and impairment	-	(104,138)	(84,811)	(10,576)	(23,172)	(23,236)	-	(245,933)
	<u>\$ -</u>	<u>\$ 325,018</u>	<u>\$ 28,526</u>	<u>\$ 6,403</u>	<u>\$ 93,581</u>	<u>\$ 25,141</u>	<u>\$ -</u>	<u>\$ 478,669</u>
2017								
Opening net book amount as at January 1	\$ -	\$ 325,018	\$ 28,526	\$ 6,403	\$ 93,581	\$ 25,141	\$ -	\$ 478,669
Additions	-	-	375	7,358	-	11,309	155,512	174,554
Disposals	-	-	(2)	(876)	-	(331)	-	(1,209)
Reclassifications	39,130	109,024	480	-	-	11,299	(148,635)	11,298
Depreciation charge	-	(9,320)	(4,650)	(2,443)	(2,418)	(19,422)	-	(38,253)
Net exchange differences	-	32	(334)	(42)	-	(56)	-	(400)
Closing net book amount as at December 31	<u>\$ 39,130</u>	<u>\$ 424,754</u>	<u>\$ 24,395</u>	<u>\$ 10,400</u>	<u>\$ 91,163</u>	<u>\$ 27,940</u>	<u>\$ 6,877</u>	<u>\$ 624,659</u>
At December, 31, 2017								
Cost	\$ 39,130	\$ 538,222	\$ 105,260	\$ 21,238	\$ 116,753	\$ 65,825	\$ 155,032	\$ 1,041,460
Accumulated depreciation and impairment	-	(113,468)	(80,865)	(10,838)	(25,590)	(37,885)	(148,155)	(416,801)
	<u>\$ 39,130</u>	<u>\$ 424,754</u>	<u>\$ 24,395</u>	<u>\$ 10,400</u>	<u>\$ 91,163</u>	<u>\$ 27,940</u>	<u>\$ 6,877</u>	<u>\$ 624,659</u>

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Leased assets</u>	<u>Others</u>	<u>Total</u>
At January 1, 2016						
Cost	\$ 430,424	\$ 123,855	\$ 26,556	\$ 116,753	\$ 73,071	\$ 770,659
Accumulated depreciation and impairment	( 96,368)	( 86,490)	( 20,077)	( 20,755)	( 48,822)	( 272,512)
	<u>\$ 334,056</u>	<u>\$ 37,365</u>	<u>\$ 6,479</u>	<u>\$ 95,998</u>	<u>\$ 24,249</u>	<u>\$ 498,147</u>
2016						
Opening net book amount as at January 1	\$ 334,056	\$ 37,365	\$ 6,479	\$ 95,998	\$ 24,249	\$ 498,147
Additions	-	125	3,219	-	10,765	14,109
Disposals	-	( 200)	( 783)	-	( 1,788)	( 2,771)
Depreciation charge	( 8,951)	( 6,482)	( 2,255)	( 2,417)	( 7,539)	( 27,644)
Net exchange differences	( 87)	( 2,282)	( 257)	-	( 546)	( 3,172)
Closing net book amount as at December 31	<u>\$ 325,018</u>	<u>\$ 28,526</u>	<u>\$ 6,403</u>	<u>\$ 93,581</u>	<u>\$ 25,141</u>	<u>\$ 478,669</u>
At December, 31, 2016						
Cost						
Accumulated depreciation and impairment	\$ 429,223	\$ 113,337	\$ 16,912	\$ 116,753	\$ 48,377	\$ 724,602
	( 104,205)	( 84,811)	( 10,509)	( 23,172)	( 23,236)	( 245,933)
	<u>\$ 325,018</u>	<u>\$ 28,526</u>	<u>\$ 6,403</u>	<u>\$ 93,581</u>	<u>\$ 25,141</u>	<u>\$ 478,669</u>

A. Amount of borrowing costs capitalized as part of property, plant and equipment were \$0 and \$0 for the years ended December 31, 2017 and 2016, respectively.

B. The significant components of buildings include main plants improvement and structure, which are depreciated over 10 to 50 years.

C. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(10) Short-term borrowings

Type of borrowings	December 31, 2017	Interest rate range	Collateral
Unsecured Banking Loan	\$ 734,730	1.07%~2.91%	None
Type of borrowings	December 31, 2016	Interest rate range	Collateral
Unsecured Banking Loan	\$ 542,153	1.12%~2.35%	None

(11) Accounts payable

	December 31, 2017	December 31, 2016
Accounts payable	\$ 1,416,533	\$ 1,089,138
Accrued accounts payable	216,888	425,135
	<u>\$ 1,633,421</u>	<u>\$ 1,514,273</u>

(12) Others accounts payable

	December 31, 2017	December 31, 2016
Accrued salaries	\$ 192,151	\$ 216,308
Accrued employees' bonuses and directors' remuneration	55,921	77,721
Payables on equipment - Fixed assets	8,675	1,803
Payables on equipment - Intangible assets	-	51
Others	80,221	98,167
	<u>\$ 336,968</u>	<u>\$ 394,050</u>

(13) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2017
Mortgage borrowings - Cathay United Commercial Bank Co., Ltd.	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.22%	Note A	\$ 36,240
Unsecured borrowings - Cathay United Commercial Bank Co., Ltd.	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.32%	None	9,667
Unsecured borrowings - Cathay United Commercial Bank Co., Ltd.	Borrowing period is from January 25, 2017 to January 25, 2019; interest is repayable monthly and principal is repayable in January 2019.	1.88%	None	20,000
Mortgage borrowings - CTBC Bank Co., Ltd.	Borrowing period is from September 15, 2014 to September 15, 2019; interest is repayable monthly and principal is repayable through December, 2014 to September, 2019.	1.39%	Note A 、 Note B	235,000
Unsecured borrowings - E.SUN Bank	Borrowing period is from July 25, 2016 to July 25, 2018; interest is repayable monthly and principal is repayable in July, 2018.	1.60%	None	20,000
Unsecured borrowings - Taishin International Bank.	Borrowing period is from August 26, 2016 to August 26, 2018; interest is repayable monthly and principal is repayable in August 2018.	2.02%	None	10,000

Unsecured borrowings - E.SUN Bank	Borrowing period is from June 14, 2017 to June 14, 2032; interest is repayable monthly and principal is repayable monthly through June, 2018 to June, 2032.	1.45%	NoneA	86,000
KGI Bank.	Borrowing period is from July 13, 2017 to July 13, 2022; The principal is repayable every 6 months in 8 installments.	1.20%	NoneA	23,000
				<u>439,907</u>
Less: current portion				( <u>48,266</u> )
				<u>\$ 391,641</u>

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2016</u>
Mortgage borrowings - Cathay United Commercial Bank Co., Ltd.	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.22%	Note A	\$ 42,379
Unsecured borrowings - Cathay United Commercial Bank Co., Ltd.	Borrowing period is from July 31, 2008 to July 31, 2023; interest is repayable monthly and principal is repayable through August, 2010 to July, 2023.	1.32%	None	11,299
Mortgage borrowings - CTBC Bank Co., Ltd.	Borrowing period is from September 15, 2014 to September 15, 2019; interest is repayable monthly and principal is repayable through December, 2014 to September, 2019.	1.40%	Note A 、 Note B	255,000
Unsecured borrowings - E.SUN Bank	Borrowing period is from July 25, 2016 to July 25, 2018; interest is repayable monthly and principal is repayable through July, 2017 to July, 2018.	1.55%	None	20,000
Unsecured borrowings - Taishin International Bank.	Borrowing period is from August 26, 2016 to August 26, 2018; interest is repayable monthly and principal is repayable in August 2018.	2.02%	None	<u>10,000</u>
				<u>338,678</u>
Less: current portion				( <u>28,422</u> )
				<u>\$ 310,256</u>

Note A: Details of long-term borrowings pledged as collateral are provided in Note 8.

Note B:

- (a) In order to repay the existing financial liabilities and enrich the medium-term working capital, the Company entered into a comprehensive credit contract amounting to \$720 million with China Trust Commercial Bank on September 3, 2014. The Company also applied for a drawdown of \$300,000 from the credit line granted by China Trust Commercial Bank in September 2014.
- (b) According to the notice of credit between the Company and China Trust Commercial Bank, the financial ratios in the Company's annual and semi-annual consolidated financial statements should be maintained as follows:
  - i . Current ratio: the ratio of current assets divided by current liabilities shall be maintained above 120% (inclusive).

- ii . Gearing ratio: the ratio of total liabilities divided by tangible net worth shall not be more than 120%.
- iii. Financial gearing ratio: the total of short-term borrowings, corporate bonds due within one year, mid and long-term borrowings due within one year and long-term borrowings, divided by the tangible net worth shall not exceed 60%.
- iv. Net tangible net worth: the shareholders' equity after deducting intangible assets shall not be less than NT\$2,200,000 (inclusive).

(14) Pensions

A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contributes monthly an amount equal to 2% and 7% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method, to the labors expected to be qualified for retirement next year, the Company and its domestic subsidiaries will make contribution for the deficit by next March.

(b) The amounts recognized in the balance sheet are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	(\$ 73,123)	(\$ 69,396)
Fair value of plan assets	<u>18,942</u>	<u>12,525</u>
Net defined benefit liability	<u>(\$ 54,181)</u>	<u>(\$ 56,871)</u>

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of Plan assets	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	(\$ 68,874)	\$ 12,166	(\$ 56,708)
Current service cost	( 857)	-	( 857)
Interest (expense) income	( 1,025)	234	( 791)
Past service cost	2,937	-	2,937
	<u>( 67,819)</u>	<u>12,400</u>	<u>( 55,419)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	( 105)	( 105)
Change in demographic assumptions	( 1,992)	-	( 1,992)
Change in financial assumptions	( 942)	-	( 942)
Experience adjustments	( 2,370)	-	( 2,370)
	<u>( 5,304)</u>	<u>( 105)</u>	<u>( 5,409)</u>
Pension fund contribution	-	6,647	6,647
Paid pension	-	-	-
Balance at December 31	<u>(\$ 73,123)</u>	<u>\$ 18,942</u>	<u>(\$ 54,181)</u>
	Present value of defined benefit obligations	Fair value of Plan assets	Net defined benefit liability
Year ended December 31, 2016			
Balance at January 1	(\$ 65,413)	\$ 5,786	(\$ 59,627)
Current service cost	( 815)	-	( 815)
Interest (expense) income	( 973)	183	( 790)
	<u>( 67,201)</u>	<u>5,969</u>	<u>( 61,232)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	( 119)	( 119)
Change in demographic Assumptions	( 327)	-	( 327)
Change in financial Assumptions	-	-	-
Experience adjustments	( 2,051)	-	( 2,051)
	<u>( 2,378)</u>	<u>( 119)</u>	<u>( 2,497)</u>
Pension fund contribution	-	6,858	6,858
Paid pension	183	( 183)	-
Balance at December 31	<u>(\$ 69,396)</u>	<u>\$ 12,525</u>	<u>(\$ 56,871)</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan assets fair value in accordance with IAS19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.
- (e) The principal actuarial assumptions used were as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Discount rate	1.25%	1.50%
Future salary increases	2.00%	2.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31,2017				
Effect on present value of defined benefit obligation	(\$ 1,904)	\$ 1,987	\$ 1,967	(\$ 1,895)
December 31,2016				
Effect on present value of defined benefit obligation	(\$ 1,942)	\$ 2,030	\$ 2,014	(\$ 1,938)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (f) Expected contributions to the defined benefit pension plans of the Group in the year ended December 31, 2018 amount to \$8,031.

- (h) As of December 31, 2017, the weighted average duration of that retirement plan is 10 year. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	1,409
1-2 year(s)		2,425
2-5 years		20,875
Over 5 years		57,822
	\$	<u>82,531</u>

- B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries (APEX-I International Co., Ltd. and Gallant Micro. Machining Co., Ltd.) have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) Gallant Precision Industries (Suzhou) Co., Ltd., Gallant Micro. Machining (Suzhou) Co., Ltd., Gallant Precision Machinery (Xiamen) Co., Ltd., Gallant Technology (Shenzhen) Co., Ltd., Gallant Precision Intelligence Technology Co.,Ltd., Gallant International Trading Co., Ltd. and Suzhou Jianmeifu Optical Co., Ltd., have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC.) are based on certain percentage of employees’ monthly salaries and wages. The contribution percentage was 10% to 20%. The funds are operated and managed by the government’s designated authorities.
- (c) Gallant-Rapid Corporation Ltd., Gallant Micro Machining (Malaysia) Sdn. Bhd. Ltd., King Mechatronics Co., Ltd., Chun-Zhun Enterprise Corporation Ltd., and Gallant Precision Machinery (BVI) Ltd. did not have a pension plan.
- (d) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2017 and 2016 were \$34,681 and \$44,269, respectively.

(15) Share-based payment

- A. For the years ended December 31, 2017 and 2016, respectively, the Group’s share-based payment arrangements were as follows(The employee stock options plan was issued by Gallant Micro. Machining Co., Ltd.):

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Employee stock options plan for the year ended December 31, 2016	105.03.22	950	1 year	NOTE

NOTE: 100% of the stock options rights were vested since grant date. The right will be expired if the stock options were not exercised after contract period.

The above share-based payment arrangements are settled by equity.

B. Details of the share-based payment arrangements are as follows: (Gallant Micro. Machining Co., Ltd. shall issue the stock for the share-based payment)

For the year ended December 31, 2017: None.

	2016	
	No. of options (shares in thousands)	Weighted-average exercise price (in dollars)
Options outstanding opening balance at January 1	-	-
Options granted	950	32.5
Options exercised	( 950)	32.5
Options outstanding at December 31	-	-
Options exercisable at December 31	-	-

C. The expiry date and exercise price of stock options outstanding at balance sheet date are as follows: none

D. The fair value of stock options granted on grant date is measured using the Binomial option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price	Exercise price	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit
Employee stock options plan for the year ended December 31, 2016	105.3.22	25.10 (in dollars)	32.5 (in dollars)	39.92% NOTE)	0.172 (years)	50%	0.67%	0.12 (in dollars)

E. Expenses incurred on share-based payment transactions are shown below:

	Year ended December 31, 2017	Year ended December 31, 2016
Equity-settled	\$ -	\$ 114

(16) Share capital

A. As of December 31, 2017, the Company's authorized capital was \$2,500,000, consisting of 250,000 thousand shares of ordinary stock, and the paid-in capital was \$1,651,361 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	Unit: shares in thousands	
	Year ended	Year ended
	December 31, 2017	December 31, 2016
At January 1/At December 31	165,136	165,136

(17) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	<u>Share premium</u>	<u>Treasury share transactions</u>	<u>Difference between consideration and carrying amount of subsidiaries acquired or disposed</u>	<u>Net change in equity of associates</u>	<u>Employee stock option</u>	<u>Total</u>
At January 1, 2017	\$ 193,222	\$ 31,399	\$ 1,879	\$ 12,003	\$ 4,446	\$ 242,949
Capital surplus used to issue cash to shareholders	( 66,055 )	-	-	-	-	( 66,055 )
Difference between consideration and carrying amount of subsidiaries acquired or disposed	<u>-</u>	<u>-</u>	<u>9,871</u>	<u>-</u>	<u>-</u>	<u>9,871</u>
At December 31, 2017	<u>\$ 127,167</u>	<u>\$ 31,399</u>	<u>\$ 11,750</u>	<u>\$ 12,003</u>	<u>\$ 4,446</u>	<u>\$ 186,765</u>
	<u>Share premium</u>	<u>Treasury share transactions</u>	<u>Difference between consideration and carrying amount of subsidiaries acquired or disposed</u>	<u>Net change in equity of associates</u>	<u>Employee stock option</u>	<u>Total</u>
At January 1, 2016	\$ 226,249	\$ 31,399	\$ 1,879	\$ 12,003	\$ 4,446	\$ 275,976
Capital surplus used to issue cash to shareholders	( 33,027 )	-	-	-	-	( 33,027 )
At December 31, 2016	<u>\$ 193,222</u>	<u>\$ 31,399</u>	<u>\$ 1,879</u>	<u>\$ 12,003</u>	<u>\$ 4,446</u>	<u>\$ 242,949</u>

(18) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve and set aside a special reserve in accordance with applicable legal and regulatory requirement. Distributing the remaining amount plus prior year's retained earnings in the following order, but the ratios of the distribution of the aforementioned retained earnings and the cash dividend distribution shall be proposed by the Board of Directors based on the actual profit and capital situation of the current year, and proposed to the shareholders' meeting for resolution:

The ratio of cash dividend shall not be less than 10% of the shareholders' dividend.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

C. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land. As of the date of transition, the Company recognized \$132,987 special reserve.

D. The Company recognized dividends distributed to owners amounting to \$231,191 (\$1.4 (in dollars) per share) and \$132,109 (\$0.8 (in dollars) per share) for the years ended December 31, 2017 and 2016, respectively. On March 27, 2018, the Board of Directors meeting resolved that total dividends for the distribution of earning for the year of 2017 was \$200,967 with \$1.217 (in dollars) per share. Information about the distribution of earning of the Company resolved by the meeting of resolved by the shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

E. The shareholders' meeting resolved that capital surplus used to distribute cash was \$66,055(\$0.4 (in dollars) per share) and \$33,027 (\$0.2 (in dollars) per share), on June 16, 2017 and June 27, 2016, respectively.

F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration please refer to Note 6(25).

(19) Other equity items

	Year ended December 31, 2017		
	Available-for-sale investment	Currency translation	Total
At January 1	(\$ 12,784)	(\$ 32,398)	(\$ 45,182)
Revaluation – gross	( 5,108)	-	( 5,108)
Currency translation differences: –Group	-	( 12,789)	( 12,789)
At December 31	<u>(\$ 17,892)</u>	<u>(\$ 45,187)</u>	<u>(\$ 63,079)</u>

	Year ended December 31, 2016		
	Available-for-sale investment	Currency translation	Total
At January 1	(\$ 13,521)	46,982	33,461
Revaluation – gross	737	-	737
Currency translation differences: –Group	-	( 79,380)	( 79,380)
At December 31	<u>(\$ 12,784)</u>	<u>(\$ 32,398)</u>	<u>(\$ 45,182)</u>

(20) Operating revenue

	Year ended December 31, 2017	Year ended December 31, 2016
Sales revenue	\$ 4,604,973	\$ 3,447,794
Technology service revenue	234,914	218,906
Total	<u>\$ 4,839,887</u>	<u>\$ 3,666,700</u>

(21) Other income

	Year ended December 31, 2017	Year ended December 31, 2016
Interest income	\$ 14,662	\$ 15,054
Rental revenue	25,848	24,152
Government subsidy income	31,681	77,761
Dividends income	-	3
Others	11,908	5,900
Total	<u>\$ 84,099</u>	<u>\$ 122,870</u>

(22) Other gains and losses

	Year ended December 31, 2017	Year ended December 31, 2016
Net gains on financial assets and liabilities at fair value through profit or loss	\$ 2,538	\$ 4,841
Net currency exchange (losses) gains	( 70,752)	( 533)
Losses on disposal of property, plant and equipment	( 678)	( 745)
Gains on disposal of investments	-	31,568
Gain (loss) on disposal of financial assets	( 694)	1,983
Gain on disposal of financial liabilities	-	870
Impairment losses	-	( 12,308)
Others	( 998)	( 265)
Total	(\$ 70,584)	(\$ 25,411)

(23) Finance costs

	Year ended December 31, 2017	Year ended December 31, 2016
Interest expense	\$ 18,154	\$ 13,175

(24) Expenses by nature

	Year ended December 31, 2017	Year ended December 31, 2016
Employee benefit expense	\$ 801,472	\$ 850,424
Depreciation charges on property, plant and equipment	38,253	27,644
Amortization charges on intangible assets	30,997	16,272
	\$ 870,722	\$ 894,340

(25) Employee benefit expense

	Year ended December 31, 2017	Year ended December 31, 2016
Wages and salaries	\$ 688,178	\$ 733,597
Labour and health insurance fees	54,759	42,920
Pension costs	33,394	45,874
Other personnel expenses	25,141	28,033
	\$ 801,472	\$ 850,424

A. In accordance with the Company's Articles of Incorporation, the Company shall distribute not less than 1% and not more than 12% of its annual profit as the employee compensation, and not more than 3% of its annual profit as the director remuneration. However, if the Company has an accumulated deficit, then it should be offset first.

Employee remuneration could be paid by cash or shares, and entitled to receive the cash or shares may include the employees of subsidiaries of the Company meeting certain specific requirements.

The term "profit" used in the first paragraph refers to the profit before tax before deducting the employee compensation and director remuneration. The distribution of employee compensation and director remuneration shall be in a board meeting that registers two-thirds of directors in attendance, and the resolution must receive support from half of participating members. The resolution should be reported to the shareholders at shareholders' meeting.

B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$24,301 and \$40,665, respectively; while directors' and supervisors' remuneration was accrued at \$4,832 and \$8,133, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 10% and 3% of distributable profit of current year for the year ended December 31, 2017.

On March 27, 2018, the amount of the employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$24,301 and \$4,832, respectively.

Employees' compensation and directors' and supervisors' remuneration of 2016 as resolved by the meeting of Board of Directors were in agreement with those amounts recognized in the 2016 financial statements.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors and resolved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Year ended December 31, 2017	Year ended December 31, 2016
Current tax:		
Current tax on profits for the period	\$ 101,338	\$ 68,744
Tax on undistributed surplus earnings	1,963	6,536
Prior year income tax (over) underestimation	12,280	11,240
Total current tax	<u>115,581</u>	<u>86,520</u>
Deferred tax:		
Origination and reversal of temporary differences	( 7,949 )	( 2,657 )
Total deferred tax	( 7,949 )	( 2,657 )
Income tax expense	<u>\$ 107,632</u>	<u>\$ 83,863</u>

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows: None

B. Reconciliation between income tax expense and accounting profit

	Year ended December 31, 2017	Year ended December 31, 2016
Tax calculated based on profit before tax and statutory tax rate	\$ 73,250	\$ 91,344
Expenses disallowed by tax regulation	-	( 25,268)
Tax exempt income by tax regulation	117	-
Prior year income tax (over) underestimation	12,280	11,240
Temporary difference not recognized as deferred tax assets	20,022	11
Tax on undistributed earnings	1,963	6,536
Tax expenses	<u>\$ 107,632</u>	<u>\$ 83,863</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

	Year ended December 31, 2017			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred tax assets:				
Allowance for bad debt	\$ 15,619	\$ 7,472	\$ -	\$ 23,091
Inventory obsolescence and market price decline	10,669	1,805	-	12,474
Warranty provision	30,037	( 950)	-	29,087
Accrued pension cost	7,023	( 1,349)	-	5,674
Unrealized exchange gain	( 1,317)	7,228	-	5,911
Others	1,155	1,033	-	2,188
Subtotal	<u>\$ 63,186</u>	<u>\$ 15,239</u>	<u>\$ -</u>	<u>\$ 78,425</u>
Deferred tax liabilities:				
Foreign investment income using equity method	( 36,326)	( 5,973)	-	( 42,299)
Others	1,317	( 1,317)	-	-
Subtotal	<u>(\$ 35,009)</u>	<u>(\$ 7,290)</u>	<u>\$ -</u>	<u>(\$ 42,299)</u>
Total	<u>\$ 28,177</u>	<u>\$ 7,949</u>	<u>\$ -</u>	<u>\$ 36,126</u>

	Year ended December 31, 2016			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred tax assets:				
Allowance for bad debt	\$ 11,982	\$ 3,637	\$ -	\$ 15,619
Inventory obsolescence and market price decline	11,695	( 1,026)	-	10,669
Warranty provision	31,742	( 1,705)	-	30,037
Accrued pension cost	5,417	1,606	-	7,023
Others	3,659	( 2,504)	-	1,155
Subtotal	<u>\$ 64,495</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 64,503</u>
Deferred tax liabilities:				
Unrealized exchange gain	( 3,294)	1,977	-	( 1,317)
Foreign investment income using equity method	( 34,605)	( 1,721)	-	( 36,326)
Others	( 1,076)	2,393	-	1,317
Subtotal	<u>(\$ 38,975)</u>	<u>\$ 2,649</u>	<u>\$ -</u>	<u>(\$ 36,326)</u>
Total	<u>\$ 25,520</u>	<u>\$ 2,657</u>	<u>\$ -</u>	<u>\$ 28,177</u>

D. The amounts of deductible temporary difference that are not recognized as deferred tax assets are as follows:

	December 31, 2017	December 31, 2016
Deductible temporary differences	<u>\$ 56,061</u>	<u>\$ 40,283</u>

E. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

F. The amendments to the Income Tax Act were promulgated and became effective on February 7, 2018. As the Integrated Income Tax System were abrogated, the information of the amount of unappropriated retained earnings, the balance of imputation tax credit account as of December 31, 2017 and the estimated creditable ration for distribution of the Company's earnings of 2017 would not be disclosed.

As of December 31, 2016 unappropriated retained earnings:

	December 31, 2016
Earnings generated in and after 1998	<u>\$ 305,550</u>

G. As of December 31, 2016, the balance of the imputation tax credit account was \$80,348. The creditable tax rate was 22.55% for the year ended December 31, 2016.

(27) Earnings per share

	Year ended December 31, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 200,252	165,136	\$ <u>1.21</u>
Assumed conversion of all dilutive potential ordinary shares Employees' bonus	-	1,495	
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>200,252</u>	<u>166,631</u>	\$ <u>1.20</u>
	Year ended December 31, 2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 260,709	165,136	\$ <u>1.58</u>
Assumed conversion of all dilutive potential ordinary shares Employees' bonus	-	2,222	
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>260,709</u>	<u>167,358</u>	\$ <u>1.56</u>

(28) Transactions with non-controlling interest

- A. The Group did not participate in the capital increase raised by a subsidiary proportionally to its interest to the subsidiary

Subsidiary Gallant Micro. Machining Co., Ltd. of the Group increased capital by issuing new shares on May 20, 2016. The Group did not acquire shares proportionally to its interest. As a result, the Group decreased 2.57% interest of shares. The transaction increased non-controlling interest by \$32,372 and decreased the equity attributable to owners of parent by \$1,383. The effect of changes in interests in Gallant Micro. Machining Co., Ltd. on the equity attributable to owners of the parent for the year ended December 31, 2016 is shown below:

	Year ended December 31, 2016	
Cash	\$	30,875
Increase in the carrying amount of non-controlling interest	(	32,372)
Capital surplus (compensation cost of employees stock options)		<u>114</u>

Capital surplus- recognition of changes in ownership interest in subsidiaries (unappropriated retained earnings)	( \$ <u>1,383</u> )
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B. Acquisition of additional equity interest in a subsidiary

On May 12, 2017, the Group acquired an additional 5.88% shares of its subsidiary—APEX-I International Co., Ltd. for a total cash consideration of \$3,833. The carrying amount of non-controlling interest in APEX-I International Co., Ltd. was \$3,035 at the acquisition date. This transaction resulted in a decrease in the non-controlling interest by \$3,035 and an increase in the equity attributable to owners of the parent by (\$798). The effect of changes in interests in APEX-I International Co., Ltd. on the equity attributable to owners of the parent for the years ended December 31, 2017 is shown below:

	Year ended December 31, 2017
Carrying amount of non-controlling interest acquired	\$ 3,035
Consideration paid to non-controlling interest	( <u>3,833</u> )
Capital surplus	
- difference between proceeds on actual acquisition of or disposal of equity interest in a subsidiary and its carrying amount	( \$ <u>798</u> )

C. Disposal of equity interest in a subsidiary (that did not result in a loss of control)

On August 7, 2017, the Group disposed of 4% of shares of its subsidiary—Gallant Micro Machining Co., Ltd. for a total cash consideration of \$41,036. The carrying amount of non-controlling interest in Gallant Micro Machining Co., Ltd. was \$251,441 at the disposal date. This transaction resulted in an increase in the non-controlling interest by \$30,367 and an increase in the equity attributable to owners of the parent by \$10,669. The effect of changes in interests in Gallant Micro Machining Co., Ltd. on the equity attributable to owners of the parent for the year ended December 31, 2017 is shown below:

	Year ended December 31, 2017
Carrying amount of non-controlling interest disposed	\$ 30,367
Consideration received from non-controlling interest	( <u>41,036</u> )
Capital surplus	
- difference between proceeds on actual acquisition of or disposal of equity interest in a subsidiary and its carrying amount	( \$ <u>10,669</u> )

(29) Operating leases

A. The Group leases Central Taiwan Science Park plant and Hsinchu Science Park office assets to others under non-cancellable operating lease agreements. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2017	December 31, 2016
Not later than one year	\$ 15,336	\$ 11,616
Later than one year but not later than five years	49,871	-
Later than five years	-	-
	<u>\$ 65,207</u>	<u>\$ 11,616</u>

B. The Group leases in plant assets under non-cancellable operating lease agreements. The lease

terms are between 2013 and 2036 years. The Group recognized rental expenses of \$25,629 and \$23,011 for the years ended December 31, 2017 and 2016, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Not later than one year	\$ 17,451	\$ 20,030
Later than one year but not later than five years	47,855	42,627
Later than five years	<u>40,729</u>	<u>44,509</u>
	<u>\$ 106,035</u>	<u>\$ 107,166</u>

(30) Supplemental cash flow information

Investing activities with partial cash payments

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Purchase of property, plant and equipment	\$ 174,554	\$ 14,110
Add: opening balance of payable on equipment	1,803	2,693
Less: ending balance of payable on equipment	( 8,675)	( 1,803)
Cash paid during the year	<u>\$ 167,682</u>	<u>\$ 15,000</u>

7. RELATED-PARTY TRANSACTIONS

(1) Names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Hitachi Zosen GPM Technology ( Suzhou ) Co.,Ltd.	Associate
Sunengine Co., Ltd.	Associate
Fujian Chengzhe Automation Technology Co.Ltd	Substantive related party

(2) Significant related party transactions

A. Operating revenue:

	<u>Year ended December 31, 2017</u>	<u>Year ended December 31, 2016</u>
Sales of goods:		
Associate	<u>\$ 1,166</u>	<u>\$ 2,310</u>

The transactions of the Group and its subsidiaries with related parties and non-related parties are subject to the terms and conditions agreed upon by both parties. The receivables to the related parties are due 90 days after the date of shipment, made on a monthly basis.

B. Purchases:

	<u>Year ended December 31, 2017</u>	<u>Year ended December 31, 2016</u>
Purchases of goods:		
Substantive related party	<u>\$ 7,103</u>	<u>\$ -</u>

C. Receivables from related parties:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable:		

Associate	\$	-	\$	293
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D. Loans to /from related parties:

Loans to related parties:

Interest income

	Year ended December 31, 2017	Year ended December 31, 2016
Associate	\$ -	\$ 341

The loans to associates are repayable monthly over 1 year and carry interest at 2% and 2% per annum for the years ended December 31, 2017 and 2016, respectively.

E. Payables to related parties:

	December 31, 2017	December 31, 2016
Accounts payable:		
Substantive related party	\$ 4,416	\$ -

(3) Key management compensation

	Year ended December 31, 2017	Year ended December 31, 2016
Salaries and other short-term employee benefits	\$ 36,885	\$ 33,907
Post-employment benefits	1,274	1,240
Total	\$ 38,159	\$ 35,147

8. PLEGDED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	Book value		Purpose
	December 31, 2017	December 31, 2016	
Time deposits (shown as "other current assets")	\$ 13,987	\$ 17,519	Exercise guarantee for construction
Time deposits (shown as "other non-current assets")	18,388	19,338	Exercise guarantee for construction and customs deposit
Property, plant and equipment	553,666	417,214	Long-term borrowings
Construction in progress and equipment under installation	6,877	-	Long-term borrowings
	\$ 592,918	454,071	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingent liabilities

A. As of December 31, 2017 and December 31, 2016, the bank open a guarantee letter for the

Company due to business tender and guarantee for construction amounting to \$106,124 and \$113,174, respectively.

B. The Company's customer, China Chongqing Chongmei Huashixin Electronic Manufacturing Co., Ltd., purchased equipment products from the Company. However the customer was unwilling to sign the confirmation of acceptance and pay the rest payment to the Company and its subsidiary due to operation issues. The case has been submitted to China Chongqing Arbitration Commission for judgment in November, 2017, the arbitration result has not be determined yet.

(2) Unrecognized contract commitments

A. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

None.

B. Operating lease commitments: please refer to note 6 (29).

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The amendments to the Income Tax Act were promulgated and became effective on February 7, 2018. Under the amendments, the corporate income tax rate will be raised from 17% to 20% retroactively effective from January 1, 2018. Such change will increase the deferred income tax assets and liabilities by \$13,840 and \$7,465, respectively. The amount of effect will be adjusted in the financial statement for the three-month period ended March 31, 2019.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

During year ended December 31, 2017, the Group's strategy, which was unchanged from 2016, was to maintain the gearing ratio within reasonable risk level. The gearing ratios at December 31, 2017 and 2016 were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total borrowings	\$ 1,174,637	\$ 880,831
Less: cash	( 1,071,799)	( 910,191)
Net debt	102,838	( 29,360)
Total equity	<u>2,540,707</u>	<u>2,607,383</u>
Total capital	<u>\$ 2,643,545</u>	<u>\$ 2,578,023</u>
Gearing ratio	<u>3.89%</u>	<u>(1.13%)</u>

## (2) Financial instruments

### A. Fair value information of financial instruments

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, equity investment without active market-deposit account, notes receivable, accounts receivable, other receivables, other current assets, other non-current assets, short-term borrowings, notes payable, accounts payable, other payables, long-term borrowings, deposits received) approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

### B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

### C. Significant financial risks and degrees of financial risks

#### (a) Market risk

##### Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, JPY, EUR, SGD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use forward foreign exchange contracts, transacted with Group treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.
- iii. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB and USD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2017			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 42,936	29.76	\$ 1,277,786
JPY:NTD	712,360	0.2642	188,205
RMB:NTD	41,781	4.565	190,732
SGD:NTD	128	22.26	2,847
EUR:NTD	61	35.57	2,158
USD: RMB	9,973	6.5192	296,783
<u>Non-monetary items:None</u>			
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	\$ 18,351	29.76	\$ 546,117
JPY:NTD	182,675	0.2642	48,263
RMB:NTD	963	4.565	4,398
EUR:NTD	156	35.57	5,537
USD: RMB	142	6.5192	4,235
<u>Non-monetary items :None</u>			

December 31, 2016			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 37,731	32.25	\$ 1,216,837
JPY:NTD	119,798	0.2756	33,016
RMB:NTD	36,665	4.617	169,283
SGD:NTD	1,120	22.29	24,965
EUR:NTD	32	33.9	1,069
USD: RMB	6,137	6.9851	197,907
<u>Investments accounted for using equity method</u>			
RMB:NTD	2,538	4.617	11,718
<u>Non-monetary items :None</u>			
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	\$ 20,479	32.25	\$ 660,442
JPY:NTD	170,666	0.2756	47,036
RMB:NTD	1,076	4.617	4,969
EUR:NTD	39	33.9	1,321
USD: RMB	515	6.9851	16,615
<u>Non-monetary items :None</u>			

- D. Total exchange gain, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2017 and 2016, amounted (\$70,752) and (\$533), respectively.
- E. Analysis of foreign currency market risk arising from significant foreign exchange variation:

		Year ended December 31, 2017		
		Sensitivity analysis		
		Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	12,778	\$ -
JPY:NTD	1%		1,882	-
RMB:NTD	1%		1,907	-
SGD:NTD	1%		28	-
EUR:NTD	1%		22	-
USD: RMB	1%		297	-
<u>Financial liability</u>				
<u>Monetary items</u>				
USD:NTD	1%	(\$	5,461)	\$ -
JPY:NTD	1%	(	483)	-
RMB:NTD	1%	(	44)	-
EUR:NTD	1%	(	55)	-
USD: RMB	1%	(	42)	-
		Year ended December 31, 2016		
		Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	12,168	\$ -
JPY:NTD	1%		330	-
RMB:NTD	1%		1,693	-
SGD:NTD	1%		250	-
EUR:NTD	1%		11	-
USD: RMB	1%		1,979	-
<u>Investments accounted for using equity method</u>				
RMB:NTD	1%		-	117
<u>Financial liability</u>				
<u>Monetary items</u>				
USD:NTD	1%	(\$	6,604)	\$ -
JPY:NTD	1%	(	470)	-
RMB:NTD	1%	(	50)	-
EUR:NTD	1%	(	13)	-
USD: RMB	1%	(	166)	-

### Price risk

- A. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- B. The Group's investments in financial assets at fair value through profit or loss mainly were mutual fund. The prices of financial instruments would change due to the change of the future value of investment companies. If the prices of these financial instruments had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2017 and 2016 would have increased/decreased by \$327 and \$3,831, respectively.
- C. The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, other components of equity for the years ended December 31, 2017 and 2016 would have increased/decreased by \$129 and \$197, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

### Interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the years ended December 31, 2017 and 2016, the Group's borrowings at variable rate were denominated in the NTD, USD. If the interest rate had increased/decreased by 1%, the amount of cash flow out for the years ended December 31, 2017 and 2016 would have increased/decreased by \$9,432 and \$7,505, respectively.

#### (b) Credit risk

- i . Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to customers, including outstanding receivables. For banks and financial institutions, only companies with transparency finance are accepted.
- ii . For the years ended December 31, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from nonperformance by these counterparties.
- iii. The credit quality information of financial assets that are neither past due nor impaired please refer to Note 6 (4).

- iv. The ageing analysis of financial assets that were past due but not impaired please refer to Note 6 (4).
- v. The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial assets in Note 6.

(c) Liquidity risk

- i . Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii . Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, beneficiary certificates and no active market of debt securities investment (Later than three month but not later than one years of deposit account) , choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As at December 31, 2017 and 2016, the Group held money market position of \$2,067,859 and \$2,291,055, respectively, that are expected to readily generate cash inflows for managing liquidity risk.
- iii. The Company has the following undrawn borrowing facilities:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Floating rate:		
Expiring within one year	1,423,902	1,236,924
Expiring beyond one year	84,093	56,321
	<u>\$ 1,507,995</u>	<u>\$ 1,293,245</u>

The facilities expiring within one year are annual facilities subject to review at various dates during 2017. The other facilities have been arranged to help finance the proposed equipment manufacturing and research and development business activities of the Group. Please refer to note 12.

- iv. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

December 31, 2017	<u>Less than 3 months</u>	<u>3 months and 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 499,030	\$ 235,700	\$ -	\$ -	\$ -
Accounts payable	762,763	305,928	-	564,730	-
Other payables	272,923	62,272	1,773	-	-
Long-term borrowings (including current portion)	9,351	38,456	278,983	61,988	69,406

Non-derivative financial liabilities:

December 31, 2016	Less than 3 months	3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	\$ 416,378	\$ 125,775	\$ -	\$ -	\$ -
Accounts payable	531,408	562,701	-	420,164	-
Other payables	300,591	93,459	-	-	-
Long-term borrowings (including current portion)	8,987	23,879	62,389	242,262	13,290
<u>Derivative financial liabilities:</u>					
December 31, 2017	Less than 3 months	3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Derivative financial liabilities:</u>					
December 31, 2016	Less than 3 months	3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ -

(3) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12 (2)A.

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks, beneficiary certificates, is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in most derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2017 and 2016 is as follows:

December 31, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 32,676	\$ -	\$ -	\$ 32,676
Available-for-sale financial assets				
Equity securities	-	11,627	1,281	12,908
Total	<u>\$ 32,676</u>	<u>\$ 11,627</u>	<u>\$ 1,281</u>	<u>\$ 45,584</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Options	\$ -	\$ -	\$ -	\$ -
December 31, 2016	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 383,125	\$ -	\$ -	\$ 383,125
Available-for-sale financial assets				
Equity securities	47	18,261	1,394	19,702
Total	<u>\$ 383,172</u>	<u>\$ 18,261</u>	<u>\$ 1,394</u>	<u>\$ 402,827</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Options	\$ -	\$ -	\$ -	\$ -

D. The methods and assumptions the Group used to measure fair value are as follows:

(a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Closed-end fund</u>	<u>Open-end fund</u>
Market quoted price	Closing price	Closing price	Net asset value

(b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted

from Reuters).

- (c) When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- (d) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models.
- (e) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- (f) The Group takes into account adjustments for credit risks to measure the fair value of financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

E. For the years ended December 31, 2017 and 2016, there was no transfer into or out from Level 3.

F. The following chart is the financial instruments movement of Level 3 for the years ended December 31, 2017 and 2016:

	Year ended December 31, 2017	Year ended December 31, 2016
	<u>equity instrument</u>	<u>equity instrument</u>
At January 1	\$ 1,394	\$ 2,455
Sold in the period	-	-
Gains and losses recognized in profit or loss	-	-
Gains and losses recognized in other comprehensive income	( 113)	( 1,061)
At December 31	<u>\$ 1,281</u>	<u>\$ 1,394</u>

G. For the years ended December 31, 2017 and 2016, there was no transfer into or out from Level 3.

H. Finance segment is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

I. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December, 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Equity instrument:					
Unlisted shares	\$ 1,281	Market comparable companies	Price to book ratio multiple	1.13~1.15	The higher the multiple, the higher the fair value
	Fair value at December, 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Equity instrument:					
Unlisted shares	\$ 1,394	Market comparable companies	Price to book ratio multiple	1.17~1.19	The higher the multiple, the higher the fair value

J. The Group has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in difference measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets categorized within Level 3 if the inputs used to valuation models have changed:

		December 31, 2017			
		Recognized in profit or loss		Recognized in other comprehensive income	
Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets					
Equity instrument	Price to book ratio multiple	±1%	\$ -	\$ -	\$ 12 (\$ 13)
		December 31, 2016			
		Recognized in profit or loss		Recognized in other comprehensive income	
Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets					
Equity instrument	Price to book ratio multiple	±1%	\$ -	\$ -	\$ 14 (\$ 13)

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: Please refer to table 1.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.

- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: Please refer to table 3.
- G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid in capital or more: Please refer to table 4.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 6.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 7.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 8.

14. SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

There is no material change in the Group's segment, classified basis and measurement of segment information.

(2) Measurement of segment information

Management assess the segment performance based on the income (loss) before tax in the consolidated financial statements. The accounting policies of segment are the same with the summary of significant accounting policy in notes 4.

(3) Information about segment

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

Year ended December 31, 2017

	Gallant Precision Machining Co., Ltd.	Gallant-Rapid Corporation Ltd.	Gallant Micro. Machining Co., Ltd.	Gallant Precision Machinery (BVI) Ltd.	Chun-Zhun Enterprise Corporation (BVI)Ltd.	APEX-I International Co., Ltd.	elimination	Amount
Revenue from external customers	\$ 3,768,814	\$ 52,811	\$ 976,727	\$ -	\$ -	\$ 41,535	\$ -	\$ 4,839,887
Inter-segment revenue	\$ 33,586	\$ 231,201	\$ -	\$ -	\$ -	\$ -	(\$ 264,787)	\$ -
Segment income	\$ 269,264	(\$ 67,818)	\$ 160,827	\$ 6,206	(\$ 502)	\$ 1,221	(\$ 30,885)	\$ 338,313
Total segment assets	\$ 5,118,667	\$ 425,636	\$ 1,479,628	\$ 386,314	\$ 14,299	\$ 71,571	(\$ 1,271,409)	\$ 6,224,706

Year ended December 31, 2016

	Gallant Precision Machining Co., Ltd.	Gallant-Rapid Corporation Ltd.	Gallant Micro. Machining Co., Ltd.	Gallant Precision Machinery (BVI)Ltd.	Chun-Zhun Enterprise Corporation (BVI)Ltd.	APEX-I International Co., Ltd.	elimination	Amount
Revenue from external customers	\$ 2,589,460	\$ 100,605	\$ 949,182	\$ -	\$ -	\$ 27,453	\$ -	\$ 3,666,700
Inter-segment revenue	\$ 54,632	\$ 232,985	\$ -	\$ -	\$ -	\$ -	(\$ 287,617)	\$ -
Segment income	\$ 301,347	(\$ 27,681)	\$ 161,267	\$ 6,619	(\$ 505)	\$ 1,931	(\$ 60,056)	\$ 382,922
Total segment assets	\$ 5,530,404	\$ 501,033	\$ 1,232,542	\$ 384,350	\$ 14,544	\$ 71,943	(\$ 1,484,602)	\$ 6,250,214

(4) Reconciliation for segment income (loss)

Sales between segments are carried out at arm's length. The revenue from external customers reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income.

A reconciliation of reportable segment income or loss to the income/(loss) before tax from continuing operations for the years ended December 31, 2017 and 2016 is provided as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Reportable segments income/(loss)	\$ 369,198	\$ 442,978
Other	( 30,885)	( 60,056)
Income/(loss) before tax from continuing operations	<u>\$ 338,313</u>	<u>\$ 382,922</u>

The amounts provided to the chief operating decision-maker with respect to total assets are measured in a manner consistent with that of the financial statements.

A reconciliation of assets of reportable segment and total assets is as follow:

	December 31, 2017	December 31, 2016
Assets of reportable segments	\$ 7,496,115	\$ 7,734,816
Elimination of intersegment assets	( 1,271,409)	( 1,484,602)
Total assets	<u>\$ 6,224,706</u>	<u>\$ 6,250,214</u>

(5) Information on product and service

Revenue from external customers is mainly from manufacturing and selling of Display process equipment, semiconductor process equipment and intelligent automated equipment. Detail of revenue balance is as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Display process equipment	\$ 2,687,214	\$ 2,162,288
Semiconductor process equipment	751,096	836,910
Intelligent automated transportation equipment	847,170	223,209
Other	554,407	444,293
Total	<u>\$ 4,839,887</u>	<u>\$ 3,666,700</u>

(6) Geographical information

The Company and its subsidiaries geographical information for the years ended December 31, 2017 and 2016 is as follows:

	<u>Year ended December 31, 2017</u>		<u>Year ended December 31, 2016</u>	
	<u>Revenue</u>	<u>Non-current assets (note)</u>	<u>Revenue</u>	<u>Non-current assets (note)</u>
Taiwan	\$ 1,448,372	\$ 699,484	\$ 1,425,651	\$ 577,976
China	2,655,277	44,934	1,973,861	57,853
Others	736,238	1,382	267,188	1,388
Total	<u>\$ 4,839,887</u>	<u>\$ 745,800</u>	<u>\$ 3,666,700</u>	<u>\$ 637,217</u>

Note: not included available-for-sale financial assets-non-current, financial assets measured at cost-non-current, investments accounted for under equity method and deferred income tax assets.

(7) Major customer information

Revenue from specific customers that represent over 10% of total revenues of the Group for the years ended December 31, 2017 and 2016 is as follows:

	<u>Year ended December 31, 2017</u>		<u>Segment</u>
	<u>Revenue</u>	<u>Percentage(%)</u>	
Customer B	\$ 707,420	15%	The whole Group
Customer E	698,932	14%	The whole Group
Customer F	588,065	12%	The whole Group
Customer G	498,822	10%	The whole Group

  

	<u>Year ended December 31, 2016</u>		<u>Segment</u>
	<u>Revenue</u>	<u>Percentage(%)</u>	
Customer B	\$ 870,113	24%	The whole Group
Customer A	406,873	11%	The whole Group

Table 1

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**ENDORSEMENTS/GUARANTEES PROVIDED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party(Note1)	Maximum Balance for the Period (Note2)	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Footnote
		Name	Nature of Relationship											
0	Gallant Precision Machining Co., Ltd.	APEX-I International Co., Ltd.	Subsidiary	\$ 443,609	\$ 261,448	\$ 260,115	\$ -	\$ -	11.73	\$ 1,109,021	Y	N	N	

Note1: Total endorsement/ guarantee amount limits shall not exceed 50% of the net worth of the Company. The total endorsement/ guarantee amount to a company shall not exceed 20% of the net worth of the Company.

Note2: Limits on endorsement/ guarantee amount is based on the amount of the endorsement/ guarantee contract or notes were signed between guaranteed party and financial institutions.

Table 1

Table 2

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**MARKETABLE SECURITIES HELD (NOT INCLUDING SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES)**  
**DECEMBER 31, 2017**

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2017				Footnote
				Shares/Units	Carrying Value	Percentage of Ownership	Fair Value	
Gallant Precision Machining Co., Ltd.	Power Fund-class A	-	Financial assets at fair value through profit-current	422,903	\$ 32,676	-	\$ 32,897	
Gallant Precision Machining Co., Ltd.	Unicon Optical Co., Ltd.	-	Available-for-sale financial assets	1,011,000	11,627	0.78	11,627	
Gallant-Rapid Corporation Ltd.	Phoenix & Corporation	-	Financial assets carried at cost-noncurrent	669,375	29,988	1.02	-	
King Mechatronics Co., Ltd.	POWER EVER ENTERPRISES LIMITED	-	Financial assets carried at cost-noncurrent	624,726	36,431	10.15	-	
APEX-I International Co., Ltd.	Shinyu Light Co., Ltd.	-	Available-for-sale financial assets	286,891	1,281	2.73	1,281	

Table 2

Table 3

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES**  
**AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
Gallant Micro Machining Co., Ltd.	Manufacture factory and office building	2017.3.27	\$ 152,600	\$ 152,600	WINSOME development Co.,Ltd.	-	N/A	N/A	N/A	N/A	Price comparison and price negotiation	For future operating purpose	None

Table 3

Table 4

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**PURCHASES OR SALES OF GOODS FROM OR TO RELATED PARTIES**  
**REACHING NT\$100 MILLION OR 20% OF PAID IN CAPITAL OR MORE**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction			Differences in transaction term compared to third party transactions(note1)		Notes/accounts receivable (payable)		Footnote (note2)
			Purchases(sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	
Gallant Precision Machining Co., Ltd.	Gallant Precision Intelligence Technology Co., Ltd.	The Company holds indirectly 60% of the investee.	Purchases	151.031	4.36%	Similar to third parties	Similar to third parties	\$ 4,417	0.27%	

Note1: If the transaction term are different compared to third party, please describe the differences terms on column of credit term and unit price.

Note2: If the transaction have prepayment or received in advance, please describe the reason, term, amount and differences compared to third party on column of footnote.

Table 4

Table 5

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
	Gallant Precision Machining Co., Ltd.	Gallant Precision Industries (Suzhou) Co., Ltd.	1	Purchases	\$ 34,178	subject to the terms and conditions agreed upon by both parties	0.71
	Gallant Precision Machining Co., Ltd.	Gallant Precision Intelligence Technology Co., Ltd.	1	Purchases	151,031	subject to the terms and conditions agreed upon by both parties	3.12
1	Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd.	3	Accounts payable	11,863	subject to the terms and conditions agreed upon by both parties	0.19
	Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd.	3	Purchases	43,357	subject to the terms and conditions agreed upon by both parties	0.90
	Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd.	3	Sales	33,798	subject to the terms and conditions agreed upon by both parties	0.70
	Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd.	3	Accounts receivable	17,897	subject to the terms and conditions agreed upon by both parties	0.29
	Gallant Micro. Machining Co., Ltd.	Gallant Micro. Machining (Suzhou) Co., Ltd.	3	Sales	13,846	subject to the terms and conditions agreed upon by both parties	0.29
2	King Mechatronics Co., Ltd.	Gallant Micro. Machining (Suzhou) Co., Ltd.	3	Accounts payable	42,751	subject to the terms and conditions agreed upon by both parties	0.69
	King Mechatronics Co., Ltd.	Gallant Micro. Machining (Suzhou) Co., Ltd.	3	Purchases	71,373	subject to the terms and conditions agreed upon by both parties	1.47

Note 1: The information of transactions between the Company and the consolidated subsidiaries should be noted in "Number" column.

(1) Number 0 represents the Company.

(2) The consolidated subsidiaries are numbered in order from number 1.

Note 2: The transaction relationships with the counterparties are as follows:

(1) The Company to the consolidated subsidiaries.

(2) The consolidated subsidiaries to the Company.

(3) The consolidated subsidiaries to another consolidated subsidiaries.

Note3: In calculating the ratio, the transaction amount is divided by consolidated total assets for balance sheet accounts and is divided by consolidated total revenues for income statement accounts.

Note4: The information only disclosing for the amount of transactions are more than \$10,000 and counter parties shall not disclose.

Table 5

Table 6

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES**  
**SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investor Company	Investee Company(note1、2)	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2017			Net Income (Losses) of the Investee(note2(2))	Share of Profits/Losses of Investee(note2(3))	Footnote
				December 31, 2017	December 31, 2016	Shares	Percentage of Ownership	Carrying Value			
Gallant Precision Machining Co., Ltd.	Gallant-Rapid Corporation Ltd.	British Virgin Islands	Investing in Gallant Precision Industries (Suzhou) Co., Ltd.	\$ 517,940	\$ 487,570	15,560,000	100.00	\$ 302,516	(\$ 91,725)	(\$ 91,725)	
Gallant Precision Machining Co., Ltd.	Gallant Precision Machinery (BVI) Ltd.	British Virgin Islands	Investment Gallant Precision Machinery ( Xiamen ) Co., Ltd.	660,506	660,506	20,289,000	100.00	383,643	6,207	6,207	
Gallant Precision Machining Co., Ltd.	APEX-I International Co., Ltd.	Taiwan	Marketing and selling of process equipment of LCD and related parts.	46,657	42,824	6,600,000	100.00	66,010	959	915	
Gallant Precision Machining Co., Ltd.	Chun-Zhun Enterprise Corporation Ltd.	British Virgin Islands	Investing in Gallant Technology (Shenzhen) Co., Ltd. and Chun-Zhun Precision Machining (Guang Zhou Nan Sha) Corporation	125,671	125,671	3,576,000	100.00	12,516	(\$ 502)	(\$ 502)	
Gallant Precision Machining Co., Ltd.	Sunengine Co., Ltd.	Taiwan	Manufacturing and selling of battery and energy technology services business	366,877	366,877	18,062,672	37.84	66,761	(\$ 324,648)	(\$ 122,847)	
Gallant Precision Machining Co., Ltd.	Gallant Micro. Machining Co., Ltd.	Taiwan	Manufacturing and selling of semiconductor related equipment and parts	379,182	420,218	16,171,750	62.88	502,510	64,757	42,130	
Gallant Micro. Machining Co., Ltd.	King Mechatronics Co., Ltd.	British Virgin Islands	Investment Gallant Micro. Machining (Suzhou) Co., Ltd.	393,508	393,508	2,780,645	100.00	645,288	35,242	-	
Gallant Micro. Machining Co., Ltd.	Gallant Micro Machining (Malaysia) Sdn. Bhd.	Malaysia	Engaged in the import and export and trading business of semiconductor substrate machines and related parts	3,992	3,992	500,000	100.00	2,835	(\$ 108)	-	

Note: Original investment amount has translated to New Taiwan Dollars at the closing exchange rate.

Table 6

Table 7

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**INFORMATION ON INVESTMENT IN MAINLAND CHINA**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Net Income (Losses) of the Investee Company(note2(2)c)	Percentage of Ownership	Share of Profits/Losses (note 2(2)B)	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017	Footnote
					Outflow	Inflow							
Gallant Precision Industries (Suzhou) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	\$ 277,363	2	\$ 245,252	\$ -	\$ -	\$ 245,252	(\$ 54,339)	100.00	(\$ 54,339)	\$ 241,331	\$ -	Note3- 2.B
Gallant Precision Machinery ( Xiamen ) Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	568,416	2	568,416	-	-	568,416	6,298	100.00	6,298	384,762	-	Note3- 2.B
Gallant Technology (Shenzhen) Co., Ltd.	Manufacturing of medical and mechanical related equipment	62,079	2	62,079	-	-	62,079	( 418)	100.00	( 418)	12,293	-	Note3- 2.B
CHUN-ZHUN Precision Machining(Guang Zhou Nan Sha)Corporation	-	-	2	48,420	-	-	48,420	-	-	-	-	-	Note3- 2.B
Suzhou Top Creation Machines Co.,Ltd.	PCB / FPC Wet Process Equipments	163,680	3	35,861	-	-	35,861	-	10.15	-	36,431	-	Note3- 2.B
Gallant Micro. Machining (Suzhou) Co., Ltd.	Manufacturing and selling of precision mold and related parts	135,408	2	239,360	-	-	239,360	38,726	62.88	24,351	614,523	-	Note3- 2.B
Hitachi Zosen GPM Technology ( Suzhou ) Co., Ltd.	Manufacturing and selling of kinds of film forming system, filling and packaging system and related services.	173,470	3	-	-	-	( 17,758)	30.00	-	-	-	-	Note3- 2.B
Gallant International Trading Co., Ltd.	Engaged in selling of mechanical equipment	31,955	3	-	-	-	( 4,309)	100.00	( 4,309)	11,920	-	-	Note3- 2.B
Suzhou Jianmeifu Optical Co., Ltd.	Engaged in wholesale and retail of contact lenses and related care products	18,260	3	-	-	-	( 3,670)	100.00	( 3,670)	4,724	-	-	Note3- 2.B
Gallant Precision Intelligence Technology Co., Ltd.	Manufacturing of optoelectronic products equipment, mechanical equipment and related parts	45,650	3	-	-	-	19,396	60.00	( 11,638)	39,178	-	-	Note3- 2.B

Table 7

Investee Company	Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
Gallant Precision Machining Co., Ltd.	\$ 924,167	\$ 1,084,395	\$ 1,330,825
Gallant Micro. Machining Co., Ltd.	275,221	275,221	479,494

Note1: The amounts of paid-in capital and accumulated beginning and ending balance have translated to New Taiwan Dollars at the closing exchange rate.

Note2: There are three methods of investment as follows

(1) Directly invest in Mainland China.

(2) Indirectly invest in Mainland China.

A. Through investing in an existing company in the third area, which then invested in investee in Mainland China: Invest through Gallant-Rapid Corporation Ltd. and then invest in Mainland China.

B. Through investing in an existing company in the third area, which then invested in investee in Mainland China: Invest through Gallant Precision Machinery (BVI) Ltd. and then invest in Mainland China.

C. Through investing in an existing company in the third area, which then invested in investee in Mainland China: Invest through Chun-Zhun Enterprise Corporation Ltd. and then invest in Mainland China.

D. Through investing in an existing company in the third area, which then invested in investee in Mainland China: Invest through King Mechatronics Co., Ltd. and then invest in Mainland China.

(3) Others.

Note3: Share of Profits/Losses recognized for the year ended December, 2016:

(1) No investment income (loss) recognition.

(2) There are three basis for investment income (loss) recognition.

A. The basis for investment income (loss) recognition is from the financial statements which were based on the audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.

B. The basis for investment income (loss) recognition is from the financial statements which were based on the audited and attested by R.O.C. parent company's CPA.

C. Others (The basis for investment income (loss) recognition is from the non-audited financial statements prepared by the investees.

Table 7-1

Table 8

**GALLANT PRECISION MACHINING CO., LTD. AND SUBSIDIARIES**  
**INFORMATION ON INVESTMENT IN MAINLAND CHINA (SIGNIFICANT TRANSACTIONS CONDUCTED WITH INVESTEEES IN**  
**MAINLAND CHINA DIRECTLY OR INDIRECTLY THROUGH OTHER COMPANIES IN THE THIRD AREAS)**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investee Company	Sales		Purchases		Procurement service revenue	Provision of Endorsements/ Guarantees or Collaterals		Financing				Other
	Amount	%	Amount	%	Amount	Ending Balance	Purpose	Maximum balance	Ending Balance	Interest Rate	Interest expense	
Gallant Precision Industries (Suzhou) Co., Ltd.	\$ -	-	\$ 34,178	0.71	\$ 11,899	-	-	-	-	-	-	-
Gallant Precision Intelligence Technology Co., Ltd.	-	-	151,031	3.12	12,516	-	-	-	-	-	-	-

Table 8