

Stock Code : 5443



Gallant Precision Machining Co., Ltd.

Annual Report 2017

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I. Letter to Shareholders

Dear Shareholders: :

First of all, we would like to thank you for your continuous and unwavering support to Gallant Precision Machining Co., Ltd. ("GPM" or "the Company"). Hereafter is the operating result of 2017.

In 2017, GPM standalone revenue totaled NT\$3,771,317 thousand, an increase of 45.26% compared with that in 2016. Consolidated revenue was NT\$4,839,887 thousand, an increase of 32% from that in 2016. In terms of profitability, GPM standalone net income was NT\$200,252 thousand, a decrease of 23.19% compared with a year earlier. Gross profit ratio was a decrease of 1.84% from the prior year. EPS was NT\$1.21.

1.The overview of receipt/expense and profitability of Gallant Precision Machining Group ("GPM Group"):

Financial analysis data		2017
Debt to asset ratio (%)	(%)	58.99
Long-term funds to fixed assets ratio (%)	(%)	469.43
Return on total assets	(%)	3.93
Return on shareholders' equity	(%)	8.96
Percentage of paid-in capital (%)	Operating profit	28.20
	Pre-tax net profit	20.48
Net profit margin	(%)	4.76
Earnings Per Share	(NT\$)	1.21

2.Products that have been developed by the Company in 2017

R&D Items (Processing Technology)	Names of machine developed
	● G10.5 Array TEG Probe.
	● Flexible display Full Contact Type Array Probe
	● 12" Wafer 2D Defect Inspection & Metrology
	● Strip Panel Fan-out Planarization
	● 12" Chip Box Auto-feed AGV System
	● GM-1200 LAMINATION SYSTEM
	● PLM-2000 PANEL MOLD SEMI AUTO SYSTEM
	● 6S Inspection Chip Sorter
	● High speed Fan Out Die Bonder
	● SU51 Fully automatic four side forming machine
	● TF2700 Fully automatic FPC punch machine

Overview of 2018

1. Annual Operating Policy

1.1 Business Aspect

- Strengthen the competitive power in display industry
- Expand presence in intelligent industry
- Explore the semiconductor industry

- (1) Incorporate foreign technology and improve the high value-added prober and wet process etching equipment of the FPD array segment .
- (2) Seize the trend of FPD plant construction and arrange the Company's production capacity to carefully select business opportunities with reasonable gross profits and profit-centered.
- (3) Continue the efforts of intelligent automation development in 2017 to centralize the resources and provide the strategic partners and important customers from key industries with automation integration solutions to achieve their intelligent manufacturing goals.
- (4) Continue the cooperation with world-class companies to become their long-term automation equipment partners to ensure the stability of business development sources.
- (5) Aggressively cut into the high value-added semiconductor front-end advanced detection technology development and the detection and grinding process of middle-to-back end of the packaging process through technology importation and cooperation.
- (6) Improve the performance of existing IC panel products to enhance the product line and expand the customer base.
- (7) Adopt a close-to-the-market strategy and continue the development of health reagents for In Vitro Diagnostic(IVD) and testing equipments.

1.2. R&D Aspect

Strengthen the development of the Company's eight core technologies: (1) grinding technology; (2) wet process technology; (3) AOI technology; (4) lamination and peeling; (5) precision pick and place technology; (6) precision mold technology; (7) laser technology; (8) intelligent automation technology.

Integrate products in different fields and create value-added, expand the core technology in application in displays, semiconductors, IC panel and intelligent automation industries.

The Company plans to develop following products in 2018:

R&D Item (Processing Technology)	Names of machine to be developed
	● Picosecond Imaging Circuit Analysis, PICA
	● G8.5/G10.5 Wet Etching
	● 12" Wafer 2D/3D Defect Inspection & Metrology
	● High-Throughput Wafer Glass Surface Defect Inspection
	● High-precision fan-out packaging and grinding equipment
	● Panel Temporary Bonding coating and laminating equipment
	● 3D on-line machining system
	● vSLAM(AGV vision guiding system)
	● Smart machinery-IOT process monitor and diagnostic system
	● Complete blood microfluidic immune analyzer
	● 3D IC/Fan Out Bonder
	● Tape Reel Chip Sorter
	● Flip Chip Bonder
	● D/B Post Inspection System
● Panel Fan Out Bonder	

	● Panel Laser System
	● Panel Molding System
	● IC automatic laser Marking System
	● High speed dual heads pick & place machine
	● Micro LED Die Transfer machine

2.The Company's forecast on sales volume and its basis for 2018:

unit: set	
Main products	2018 budget
Display Process Equipment	279
Semiconductor Process Equipment	294
Intelligent automation equipment	11
Other equipments	24

Note: The forecast is based on the customers' forecast and taking into account the market conditions.

3.Important production and marketing policies

- 3.1 Integrate cross-strait operating systems and resources to enhance the synergy of the division of labor in order to increase the competitiveness in mainland China.
- 3.2 Enter into alliances with material supplier, academic and research institution and end-customers to strengthen the developing and marketing performance of new products.
- 3.3 Reinforce the cost control mechanism of orders, improve design and reduce the number of main suppliers to ensure a reasonable profit of the orders.
- 3.4 Promote continuously the standardization of core modules to simplify manufacturing, improve product reliability and reduce costs.
- 3.5 Make rapid deliveries, reduce inventory valuation loss and increase inventory turnover rate.
- 3.6 Speed up installation and inspection performance to raise account receivable turnover rate and enhance the after-sale service quality to ensure customer satisfactory.

Strategies for Future Development

- 1.Transforming with creativity and sustainability are the first priority of development strategy.
 - Business Aspect
 - Strengthen foothold in display industry, semiconductor industry and intelligent automation industry
- 2.Product Aspect
 - Core technology (equipment & process) development
 - Create value-added by integrating cross-field products.
- 3.International strategy that aims at cultivating talents

Impact from Competition, Legislation and Overall Business Environment

1. External Competitive Environment and Overall Business Environment:

With the rise of mainland China's panel industry, competition brought by South Korea, and China government's initiative of using equipments that produced domestically, the Company's display business, which is the main source of business in the past, is facing an increasingly fierce competition. The Company will continue strengthening its own product technology and import advanced foreign technology to enhance its product level in order to get rid of the low-price competition. On top of that,

the Company will speed up the pace the expansion in semiconductor and smart production industry and new markets outside the mainland China. Concerning the changes in the industry and business environment, the Company will also respond in a quick, reliable and accurate manner and establish a diversified business layout and industry development goals.

2. Regulatory Environment:

Integrity is deep rooted in the Company's core culture. As a result, the Company has been complying with legal norms, honest, and self-disciplined in its business. In addition to collecting information concerning external regulatory changes at any time for the management's reference, the Company is establishing, reviewing, updating or adjusting its internal management and operational rules and regulations in order to actively respond to various changes in the regulatory environment.

3. Overall Business Environment:

Mainland China has been transforming from the world's factory to the world's largest consumer market. Labor shortage and soaring costs has become an irreversible trend in the world. Therefore, the needs for industry automation has becoming urgent. The Company has the application technology for cross-industry automation equipment. In recent years, the Company has been working with renowned customers around the world and has successfully integrated intelligent automation solutions into client's processes. Therefore, the Company is confident in future development.

Last but not least, we wish our shareholders health and success!



Nick Yeh
Chairman



Jason Chen
President

II. Company Profile

Date of Establishment : December 22, 1978

Milestones

1978	<ul style="list-style-type: none">● GPM was founded with a capital of NT\$2 million. Engaged in the design, manufacture and sales of semiconductor precision molds and components. Sales began under the proprietary brand name of GPM.
1980	<ul style="list-style-type: none">● Became the first manufacturer in the country to complete the production of IC molding.
1982	<ul style="list-style-type: none">● First company in Taiwan to manufacture a semi-automatic dejunk/trim system.● Kingroup Systems was founded, engaging in robot manufacturing and automation equipment. The company was merged into GPM in 2006.
1983	<ul style="list-style-type: none">● Fully automatic dejunk/trim system was adopted by AT&T and BNS, officially launching the company onto the international market.
1989	<ul style="list-style-type: none">● Reinvested in Malaysia's FORMOSA Engineering and withdrew our investment in 1995.
1993	<ul style="list-style-type: none">● First in the country to launch smart IC molding and laser markers.
1995	<ul style="list-style-type: none">● IPO
1996	<ul style="list-style-type: none">● Launched the first semi-automatic IC molding machine
1997	<ul style="list-style-type: none">● Gallant Precision Industries (Suzhou) CO., Ltd.
1998	<ul style="list-style-type: none">● Attained OTC status Launched the first fully automated IC molding machine in Taiwan.● Established Walton Advanced Engineering, Inc. (joint venture with TOSHIBA), officially engaging in IC packaging equipment manufacturing. The company was merged into GPM in 2002.● Received MOEA's "6th New Innovation Accomplishment Awards".
1999	<ul style="list-style-type: none">● Passed ISO-9001 certification.● Walton Advanced Engineering, Inc. was established in Hsinchu Science Park.
2000	<ul style="list-style-type: none">● Received MOEASMEA's "Taiwan SMEs Innovation Award".
2001	<ul style="list-style-type: none">● Passed ISO 2000 certification.● Received MOEA's "9th New Innovation Accomplishment Awards"● Established Apex-i Optoelectronics.
2002	<ul style="list-style-type: none">● Acquired Walton Advanced Engineering, Inc.● Received MOEA's "The 9th Innovation Research Awards".
2003	<ul style="list-style-type: none">● Established the FPD BU, transferring technology from TOSHIBA ROBOT● Established Gallant Micro. Machining (Suzhou) Co., Ltd., involving in the production of precision IC molds and IC packaging equipment.
2004	<ul style="list-style-type: none">● Received 13th "National Award of Outstanding SMEs" .● Received science park's "Outstanding Manufacturer and Innovative Product Awards" .● Entered Commonwealth Magazine's 2006 Top 1,000 enterprises in the manufacturing industry for the first time, ranking 822nd.● Apex-i Optoelectronics was renamed as Apex-i International Co., Ltd.
2005	<ul style="list-style-type: none">● Ranked 539th in Commonwealth Magazine's 2006 Top 1,000 enterprises in the manufacturing industry.● Received "Excellent Enterprise Innovation Award" from MOEA for industry technology development.● Received Hsinchu Science Park's "Outstanding Manufacturer and Innovative Product Awards".

2006	<ul style="list-style-type: none"> ● Acquired Kingroup Systems. ● Received Hsinchu Science Park's "2006 Outstanding Manufacturer and Innovative Product Awards".
2007	<ul style="list-style-type: none"> ● Headquarters moved to Hsinchu Science Park ● Ranked 330th in Commonwealth Magazine's 2006 Top 1,000 enterprises in the manufacturing industry. Ranked 12th in the Top 100 for best operating performance. Ranked 25th among the 50 fastest growing companies in the manufacturing industry. ● GMP won first place for equipment localization from MOEA when the flat panel display industry production exceeded the NT\$1 trillion mark. ● Won first place for III-V compound semiconductor research alliance from DOIT, MOEA in 2007. ● Won second place for FPD research alliance from DOIT, MOEA in 2007.
2008	<ul style="list-style-type: none"> ● Plant in CTSP completed. ● Received CTSP's Innovation Awards.
2009	<ul style="list-style-type: none"> ● Received "Excellent Enterprise Innovation Award" from MOEA for industry technology development. ● Outstanding annual integrated project "Large flat panel display equipment development program".
2010	<ul style="list-style-type: none"> ● Received CTSP's Innovation Awards ● Founded Gallant Precision Machining Co., Ltd.
2011	<ul style="list-style-type: none"> ● Divided semiconductor-related operations and long-term investment into Gallant Precision Machining Co., Ltd.
2012	<ul style="list-style-type: none"> ● Registered for MOEAIDB's technical service energy. In total, four items were registered: 1. AU1 product design; 2. AU2 automated materials transportation; 3. AU3 automated production; 4. AU4 automated system integration and planning technical service. ● Received an outstanding manufacturer award from the Central Taiwan Science Park (CTSP) for "High-Tech Equipment and Advanced Technology Development Project".
2013	<ul style="list-style-type: none"> ● Received an outstanding manufacturer award from the Central Taiwan Science Park (CTSP) for "High-Tech Equipment and Advanced Technology Development Project".
2014	<ul style="list-style-type: none"> ● MOEA's 2nd Taiwan Mittelstand Award and key assisted manufacturer. ● Outstanding manufacturer for CTSP's 2014 "High-Tech Equipment Prospective Technology Development Project". ● Rank 823 of 2013 Top 2000 Survey: Manufacturing-CommonWealth Magazine.. ● Awarded healthy workplace certification: Health promotion label.
2015	<ul style="list-style-type: none"> ● Received TDUA "Gold Panel Awards 2015-Display Component Product Technology Award". ● Signed technology transfer contract with MICRONICS JAPAN CO., LTD. ● Rank 841 of 2014 Top 2000 Survey: Manufacturing-CommonWealth Magazine. ● Top 6%~20% company in 2015 TWSE Corporate Governance Evaluation.
2016	<ul style="list-style-type: none"> ● Signed technology cooperation contract with Sumitomo Precision Products CO., LTD. ● Signed technology transfer and cooperative development contract with International Business Machines Corporation. ● Rank 623 of 2015 Top 2000 Survey: Manufacturing-CommonWealth Magazine. ● Top 6%~20% company in 2016 TWSE Corporate Governance Evaluation. ● Gold Panel Awards 2016 - Smart Manufacturing and Equipment" – TDUA.

-
- Innovative Product Awards" - Central Taiwan Science Park Bureau.
 - Development of Advanced Technologies for High-Tech Equipment Award -Talent Excellence" - Central Taiwan Science Park Bureau.
 - Development of Advanced Technologies for High-Tech Equipment Award - Industry Technology" - Central Taiwan Science Park Bureau.
 - 2016 Workplace Equality Model Company - Hsinchu Science Park Bureau.
 - 2016 Work-Life Balance Awards - Ministry of Labor.
 - 2016 "Excellent Enterprise, Happy Labors" 2-Star Awards - Taichung City Government.

2017

- Investment to Suzhou Gallant Precision Intelligence Technology Co., Ltd. through Gallant Precision Industries (Suzhou) Co., Ltd.
- Subsidiary Gallant Micro. Machining Co., Ltd. registering on TPEx Emerging Stock Board.
- 1st Industry 4.0 Excellence Awards, Academia-Industry Consortium, Central Taiwan Science Park
- Passed OHSAS18001: 2007&TOSHMS qualification
- 2017 "Excellent Enterprise, Happy Workplace" 2-Star Awards- Taichung City Government
- Taichung Factory received excellent award from "2017 Taichung City Government Workplace Dynamic Innovation Golden Point Award"
- Hsinchu Factory received Top 10 from "2017 Ministry of Health and Welfare Workplace Dynamic Innovation Golden Point Award"
- Rank 619 of 2016 Top 2000 Survey: Manufacturing-CommonWealth Magazine.
- Top 6%~20% company in 2016 TWSE Corporate Governance Evaluation.

Jan. 1 to March
31, 2018

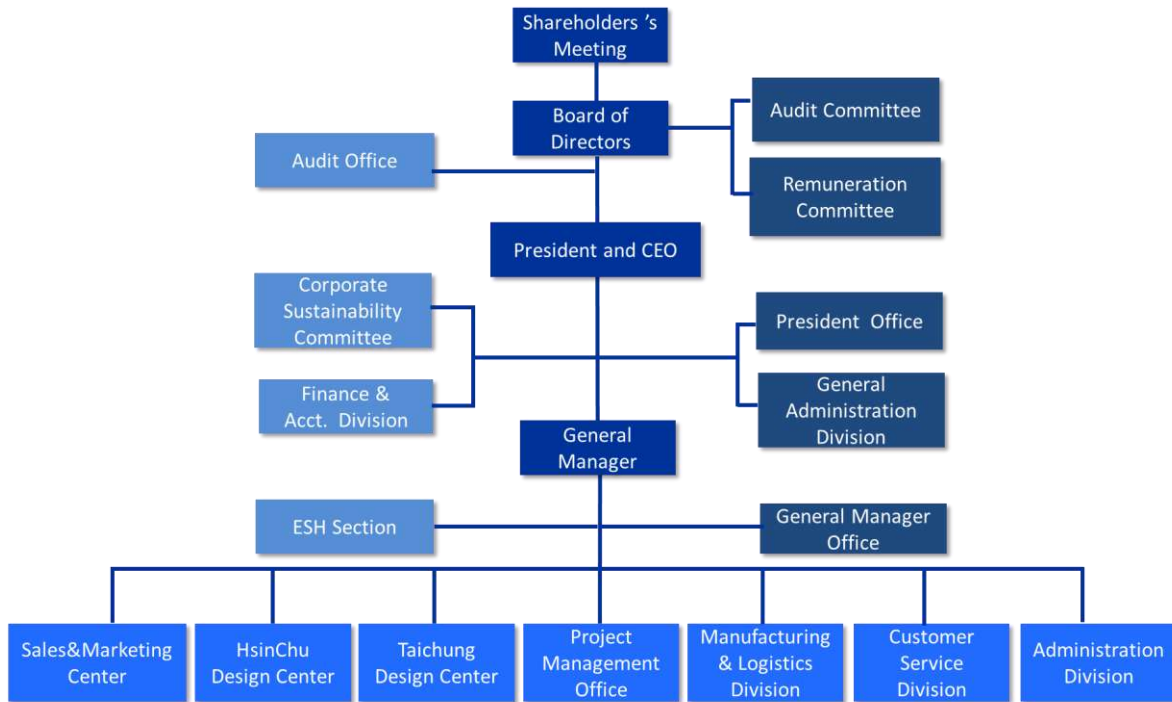
- Rank 532 of 2017 Top 2000 Survey: Manufacturing-CommonWealth Magazine.
-

III. Corporate Governance

1. Organization

1.1 Organization Chart

As of March 31, 2018



1.2 Major Corporate Functions

Department	Functions
President and CEO	<ul style="list-style-type: none"> Execute short-term to long-term project development
Audit Office	<ul style="list-style-type: none"> Audit the implementation of management system
General Administration Division	<ul style="list-style-type: none"> Design computer program, maintain the operation of computer, engage in computerized management Manage remuneration and HR-related work
Finance & Acct. Division	<ul style="list-style-type: none"> Manage capital, budget, investment, accounting treatment and cost calculation.
ESH Section	<ul style="list-style-type: none"> Extinguish working environment hazardous factors and lower risk in order to keep employees operational safety Execute pollution prevention in lowering environmental burden
General Manager Office	<ul style="list-style-type: none"> Execute short-term to long-term development policy and corporate business management Management comprehensively the Company's operation and management Plan, monitor and analyze internal risk management
Sales & Marketing Center	<ul style="list-style-type: none"> Plan, develop, and manage all the product sales plan Research on market conditions and assist in new product development evaluation Explore domestic and international market and maintain existing customers

Department	Functions
HsinChu Design Center 、 Taichung Design Center	<ul style="list-style-type: none"> • Provide various equipment and design of machining, software development and programming in catering client's specification
Project Management Office	<ul style="list-style-type: none"> • Processing development and planning for whole factory and production line, contact lens and solar energy equipments • Project Progress Management • Science project application and management
Manufacturing & Logistics Division	<ul style="list-style-type: none"> • Integrating and executing of cross-factory material purchase, outsourcing, purchase examination, logistic and storage and machine assembling
Customer Service Division	<ul style="list-style-type: none"> • After-sales service of improvement on equipment that did not meet the specification • Machine relocation/remodeling/execution • Overdue receivables management
Administration Division	<ul style="list-style-type: none"> • Recruitment, training, employee relations, public affairs, plant affairs and general administration related affairs
Remuneration Committee	<ul style="list-style-type: none"> • Establishment and periodic examination of performance evaluation and remuneration policy, standard, system and framework of Directors and Managers of the Company • Periodic assessment and determination of the remuneration of Directors and Managers
Audit Committee	<ul style="list-style-type: none"> • Establishment or revision the assessment of the effectiveness of the internal control system and the internal control system • Establishment or revision of the following handling procedure: major financial and operational behaviors such as acquisition and disposal of assets, trading of derivatives, loaning of funds, and making of endorsements/guarantees. • Matters involved Directors' self interest • Evaluation of material asset or derivatives transactions • Evaluation of material lending funds, endorsements or guarantees • Evaluation of offering, issuance, or private placement of any equity-type securities • Evaluation of hiring or dismissal of an attesting CPA, or the compensation given thereto • Evaluation appointment or discharge of financial, accounting, or internal auditing officers; • Review of financial reports
Corporate Sustainability Committee	<ul style="list-style-type: none"> • Promotion of Corporate Social Responsibility ("CSR"), ethical management, and corporate governance affairs

2.Directors and Management Team

2.1 Information Regarding Board Members

As of March 31, 2018.;U:nit:Shares

Title/Name	Nationality or Registry	Date Elected	Gender	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies
						Shares	%	Shares	%	Shares	%	Shares	%		
Chairman & CEO Nick Yeh	R.O.C.	2017/06/16	Male	3	2002/05/14	1,756,793	1.06%	1,756,793	1.06%	0	0%	0	0%	Master of Business, City University of Seattle, U.S.A. Vice President, Kunghua Technology Co. President, King Ultrasonic Co., Ltd Chairman & CEO, Walton Advanced Engineering, Inc. Chairman, Syntran Co., Ltd. Chairman, Pute Technology Co. Chairman, Gallant Precision Machining Co., Ltd.	Director, Apex-I International Co., Ltd. Chairman, Chun Zhun Enterprise Corporation Chairman, Gallant Precision Machinery (BVI) Ltd. Director, Gallant Precision Industries (Suzhou) Co., Ltd. Chairman, Gallant Precision Machining (Xiamen) Co., Ltd. Chairman, Gallant Precision Machining (Shenzhen) Co., Ltd. Director, King Ultrasonic Co., Ltd. Director, Hitachi Zosen GPM Technology (Suzhou) Co., Ltd. Director, Gallant International Trading CO., Ltd. Chairman, Sunengine Co., Ltd. Chairman, Suzhou Jianmeifu Optical Co.,Ltd. Independent director, member of Remuneration Committee and member of Audit Committee, Zhong Yang Technology Co., Ltd.

Title/Name	Nationality or Registry	Date Elected	Gender	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies
						Shares	%	Shares	%	Shares	%	Shares	%		
Director Jason Chen (Note2)	R.O.C.	2017/06/16	Male	3	2017/06/16	109,607	0.07%	129,607	0.08%	0	0%	0	0%	Director of Design Division, Chungwa Picture Tubes Ltd. Vice President, Gallant Precision Machining Co., Ltd. President, Gallant Precision Machining Co., Ltd. Chairman, Apex-I International Co., Ltd. Chairman, Gallant International Trading Co., Ltd. Director, Suzhou Jianmeifu Optical Co., Ltd. Chairman, Gallant-Rapid Corporation Limited Director, Gallant Precision Machinery (BVI) Ltd. Director, Chun Zhun Enterprise Corporation. Director, Gallant Precision Machining (Xiamen) Co., Ltd. Chairman, SuZhou Gallant Precision Intelligence Technology Co., Ltd	President, Gallant Precision Machining Co., Ltd. Director, Shinyu Light Co., LTD Chairman, Gallant Precision Industries (Suzhou) Co., Ltd. Chairman, Apex-I International Co., Ltd. Chairman, Gallant International Trading Co., Ltd. Director, Suzhou Jianmeifu Optical Co., Ltd. Chairman, Gallant-Rapid Corporation Limited Director, Gallant Precision Machinery (BVI) Ltd. Director, Chun Zhun Enterprise Corporation. Director, Gallant Precision Machining (Xiamen) Co., Ltd. Chairman, SuZhou Gallant Precision Intelligence Technology Co., Ltd
Director Hsu, Hung-Ming (Note2)	R.O.C.	2017/06/16	Male	3	2017/06/16	1,000	0.00%	1,000	0.00%	0	0%	0	0%	B.Sc. in Electronic and Computer Engineering, National Taiwan University of Science and Technology President, Gallant Micro Machining Co., Ltd. Vice President, Gallant Micro (Suzhou) Machining Co., Ltd.	President, Gallant Micro Machining CO., Ltd. Deputy President, Gallant Micro (Suzhou) Machining Co., Ltd.
Director Ching-hua Tsai	R.O.C.	2014/06/20	Male	3	2006/05/22	—	—	—	—	—	—	—	—	Bachelor's degree Engineer, Automatic Technology Service Team from MOEA Chairman, Kingroup Systems Corporation Vice President, Gallant Precision Machining Co., Ltd.	—

Title/Name	Nationality or Registry	Date Elected	Gender	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies
						Shares	%	Shares	%	Shares	%	Shares	%		
Director CDIB Capital Corp. Representative: James Yin	R.O.C.	2014/06/20	Male	3	2007/06/13	—	—	—	—	—	—	—	—	Master's Degree from California State University, Los Angeles Principal Investment Assistant Vice President of China Development Industrial Bank Legal representative of K Laser Technology Inc. Legal representative of Macroblock, Inc. Legal representative of Dynamic Electronics Co., Ltd.	—
Director C SUN MFG. LTD. Representative: Frank Liang	R.O.C.	2017/06/16	Male	3	2014/06/20	17,177,827	10.40%	23,065,827	13.97%	0	0%	0	0%	Master of Law, School of Law, Northwestern Univ. Certificate in Business Admin., Kellogg School of Management, Northwestern Univ. Univ. of Washington MBA Special assistant to the Chairman, C SUN Mfg., Ltd. Chairman, Suzhou Top Creation Machines Co., Ltd. Chairman, Top Creation Machines Co., Ltd. Special assistant to the Chairman, C SUN Mfg., Ltd. Chairman, POWER EVER ENTERPRISES LIMITED. Chairman, Huashun Technology Co. Director, ViewMove Technologies, Inc. Director, Powei Technology Co. Director, Sunengine Co., Ltd. Director, Huata Investment Co. Executive Secretary, Taiwan Satellite Development Education and Promotion Association	Chairman, Gallant Micro-Machining CO., Ltd. Vice Chairman, Gallant Precision Machining Co., Ltd. Special assistant to the Chairman, C SUN Mfg., Ltd. Chairman, Suzhou Top Creation Machines Co., Ltd. Chairman, Top Creation Machines Co., Ltd. Chairman, POWER EVER ENTERPRISES LIMITED. Chairman, Huashun Technology Co. Director, ViewMove Technologies, Inc. Director, Powei Technology Co. Director, Sunengine Co., Ltd. Director, Huata Investment Co. Executive Secretary, Taiwan Satellite Development Education and Promotion Association

Title/Name	Nationality or Registry	Date Elected	Gender	Term (Yrs)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies
						Shares	%	Shares	%	Shares	%	Shares	%		
Independent Director Chia-Chin Tong	R.O.C.	2017/06/16	Male	3	2014/06/20	0	0%	0	0%	0	0%	0	0%	Bachelor's degree from Department of Chemistry, National Chung Hsing University. President, Hungsheng Technology Co. Chairman, Taiwan Printed Circuit Association Vice Chairman, Compeq Manufacturing Co., Ltd. Consultant, Taiwan Printed Circuit Association Supervisor, Kaolu Technology Co.	Director, Kaolu Technology Co. Independent director, member of Remuneration Committee and member of Audit Committee, Hing Materials Co., Ltd. Director, Waffer Technology Corp.
Independent Director William Hung	R.O.C.	2017/06/16	Male	3	2014/06/20	0	0%	0	0%	0	0%	0	0%	M.Sc., Immunology, Medical School, National Taiwan University Assistant Vice President, IBT Management Co. Vice President, H&Q Biomedical Corp. (Taiwan) President, Tanvex Biologics Corp. CEO, PT Navi	COO, Gloria NCKU Distinguished Visiting Chair
Independent Director Bill Chen	R.O.C.	2017/06/16	Male	3	2015/06/17	0	0%	0	0%	0	0%	0	0%	Ph.D. of Science and Technology, Keio University, Japan Deputy Director, Mechanical and Mechatronics Systems Research Laboratories, ITRI Precision Machinery Development Team. Vice Chairman of MPI Corporation Independent director, Kenly Precision Industrial Co., Ltd Chairman, Setco Precision Solutions	Director of Remuneration Committee, Mirle Automation Corporation Honorary Chairman, Secto Precision Solutions. Independent director, Easy Field Corporation Supervisor, Kenly Precision Industrial Co., Ltd.

Remarks:

1. No member of the Board of Directors had a spouse or relative within two degrees of consanguinity serving as a manager or director at GPM.
2. Tsai, Ching-Hua and CDIB Capital International Corp. dismissed from the position after election of new Directors across the board at Board Meeting dated June 16, 2017; China Development Industrial Bank had renamed as CDIB Capital International Corp. under Official Letter No.10601034940 issued by Ministry of Economic Affairs.

Major shareholders of institutional shareholders

Names of institutional shareholders	Main shareholders of the institutional shareholders
C SUN Mfg., Ltd.	Chen Liang, Chin-Jung 6.47%, Haihsing Investment Co. C SUN Mfg., Ltd. treasury stock account 6.01% Mao-Chung Liang 5.27% Mao-Sheng Liang 4.97% Liang,Pi-Ju 4.28%, Pinchin Investment Co. Chin-Tu Chien 1.93% Shih-Chuan Wang 1.66% Emerging market small cap stock fund of Ever Trust Bank 1.51% Hsiu-Hung Fu Liang 0.84% Shen,Hsien-Ho 0.82% ,Chiayuan Investment Co.

Note 1: Data is based on March 31, 2018, the book closure date of the Company.

Major Shareholders of Institutional Shareholders

Name of corporate shareholders	Major shareholders of institutional shareholders
Haihsing Investment Co.	Chin-Jung Chen Liang 2.53% Hsiu-Chieh Chang Liang 7.24% Hsiu-Hung Fu Liang 7.24% Chun-Mei Tsou 16.67% LIEN,SHENG
Pinchin Investment Co.	Pi-Ju Liang 33.33%
Chiayuan Investment Co.	Hsien-Ho Shen 30.85%

2.2 Professional qualifications and independence analysis of directors

As of March 31, 2018

Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note1)										Number of other public companies concurrently serving as an independent director
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8	9	10	
Name														
Nick Yeh			✓				✓	✓	✓	✓	✓	✓	✓	1
Jason Chen			✓			✓	✓	✓	✓	✓	✓	✓	✓	0
Frank Liang			✓			✓	✓		✓	✓	✓	✓	✓	0
Hsu, Hung-Ming			✓			✓	✓	✓	✓	✓	✓	✓	✓	0
Chia-chin Tong			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
William Hung			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Bill Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note1: Directors or Supervisors with a "√" sign meets the following criteria:

- (1). Not an employee of the Company or any of its affiliates.
- (2). Not a director or supervisor of the Company's affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds in accordance of Taiwan government or local government laws.
- (3). Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4). Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5). Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
- (6). Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
- (7). Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the Remuneration Committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX".
- (8). Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9). Not been a person of any conditions defined in Article 30 of the Company Law.
- (10). Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

2.3 Management Team :

As of March 31, 2018.;Unit:Shares

Title/Name	Nationality or Registry	Date Elected	Gender	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
				Shares	%	Shares	%	Shares	%			Title	Name	Relation
President Jason Chen	R.O.C.	2006/10/01	Male	129,607	0.08%	0	0%	0	0%	Master's graduate. Director of Design Division, Chungghwa Picture Tubes Ltd. Vice President of Gallant Precision Machining Co., Ltd. President, Gallant Precision Machining Co., Ltd.	Director and Chairman, APEX-I International CO., LTD. Director, Shiny U Light CO., LTD. Director and Chairman, Gallant International Trading Co.,LTD. Director and Chairman, Gallant Precision Industries (Suzhou) CO., LTD. Director and Chairman, Gallant-Rapid Corporation Limited Director, Gallant Precision Machingery(BVI) LTD. Director, Chun Zhun Enterprise Corporation. Director, Gallant Precision Machinery (Xiamen) Co., LTD. Director and Chairman Gallant Precision Intelligence Technology Co.,LTD.			None
Associate Vice President Mufa Chen	R.O.C.	2013/07/01	Male	90,000	0.05%	11,000	0.01%	—	—	Master's graduate. Senior engineer, Chungghwa Picture Tubes Ltd. Associate Vice President, Gallant Precision Machining Co., Ltd.	None			None
Associate Vice President H.M. Lee	R.O.C.	2013/07/01	Male	103,404	0.06%	0	0%	0	0%	Master's graduate. Engineer, Chungghwa Picture Tubes Ltd. Associate Vice President, Gallant Precision Machining Co., Ltd.	None			None
Associate Vice President Tu-Cheng Wang	R.O.C.	2013/07/01	Male	0	0%	0	0%	0	0%	Junior college graduate. Manager, Ji Feng Automation. Manager, Kingroup Automation. Associate Vice President, Gallant Precision Machining Co., Ltd.	None			None
Associate Vice President Roger Lin	R.O.C.	2010/10/01	Male	45,000	0.03%	0	0%	0	0%	Master's graduate. Manager, Walton Advanced Engineering, Inc. Associate Vice President, Gallant Precision Machining Co., Ltd.	None			None
Associate Vice President (Note 1) Angela Huang	R.O.C.	2016/08/08	Female	—	—	—	—	—	—	Bachelor's degree from Nihon University. Director, KROMAX International Corporation. Sales Manager, TECO Corporation.	—			None

Title/Name	Nationality or Registry	Date Elected	Gender	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Selected Education & Experiences	Selected Current Positions at GPM and Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
				Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chief Financial Officer Sandy Ning	R.O.C.	2008/08/22	Female	61,800	0.04%	0	0%	0	0%	Master's graduate. Manager, ProMOS Technologies. Manager, Space Shuttle High-Tech Co., Ltd. Manager, Condel Technology Co., Ltd. Director, Gallant Precision Machining Co., Ltd.	Supervisor , APEX-I International CO., Ltd. Supervisor , Hitachi Zosen GPM Technology (Suzhou) Co.,Ltd. Director, Gallant Precision Industries (Suzhou) CO., Ltd. Supervisor , Gallant International Trading Co.,Ltd. Supervisor , Gallant Precision Machinery (Xiamen) Co., Ltd. Supervisor , Sunengine Co., Ltd. Director, Gallant Precision Intelligence Technology Co.,Ltd.			None

Note1: Associate Vice President, Mrs. Angela Huang, was transferred to a subsidiary on May 1, 2017.

2.4 Remunerations Paid to Directors

Unit: Share / NT\$ thousands

Title/Name	Remunerations Paid to Directors								Total Compensation (A+B+C+D) as a % of 2016 Net Income		Employees' Profit Sharing Bonus								(A+B+C+D+E+F+G) as % of Net Income		Other Compen sations from nonsu bsidia ry affilia tes
	Salary (A)		Severance Pay and Pensions (B)		Compensation to Directors (C)		Allowances (D)				Salary, Bonus, etc. (E)		Severance Pay and Pensions (F)		Employee Compensation (G)						
	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM	From All Consolid ated Entities	From GPM		From All Consolidated Entitie		From GPM	From All Consoli dated Entitie	
														Cash	Stock	Cash	Stock				
Chairman Nick Yeh																					
Director Jason Chen																					
Director Hsu, Hung-Ming																					
Director C SUN MFG. LTD. Representative: Frank Liang																					
Director CDIB Capital Corp. Representative: James Yin	720	736	0	0	4,832	5,383	324	456	2.93	3.28	13,329	17,624	0	108	2,967	0	4,167	0	11.07	14.22	644
Director Ching-hua Tsai																					
Independent Director Chia-chin Tong																					
Independent Director William Hung																					
Independent Director Bill Chen																					

*Other than disclosure in the above table, Directors remunerations earned by providing services (i.e. non-employee consulting services) to companies which are listed in financial reports in 2017: None.

Remunerations Paid to Directors

Range of Remuneration	Name of Directors			
	Compensation Paid to Directors (A+B+C+D)		Total Compensation Paid to Directors (A+B+C+D+E+F+G)	
	From GPM	From All Consolidated Entities	From GPM	From All Consolidated Entities
NT\$0 ~ NT\$2,000,000	Nick Yeh / Jason Chen /Hsu, Hung-Ming/ C SUN MFG. LTD. /Frank Liang/ CDIB Capital LTD. /James Yin/ Ching-hua Tsai/ Chia-chin Tong/ William Hung/ Bill Chen	Nick Yeh / Jason Chen /Hsu, Hung-Ming/ C SUN MFG. LTD. /Frank Liang/ CDIB Capital LTD. /James Yin/ Ching-hua Tsai/ Chia-chin Tong/ William Hung/ Bill Chen	Hsu, Hung-Ming/ C SUN MFG. LTD. /Frank Liang/ CDIB Capital LTD. /James Yin/ Ching-hua Tsai/ Chia-chin Tong/ William Hung/ Bill Chen	Hsu, Hung-Ming/ C SUN MFG. LTD. /Frank Liang/ CDIB Capital LTD. /James Yin/ Ching-hua Tsai/ Chia-chin Tong/ William Hung/ Bill Chen
NT\$2,000,001 ~ NT\$5,000,000				
NT\$5,000,001 ~ NT\$10,000,000			Jason Chen	Jason Chen
NT\$10,000,001 ~ NT\$15,000,000			Nick Yeh	Nick Yeh
NT\$15,000,001 ~ NT\$30,000,000				
NT\$30,000,001 ~ NT\$50,000,000				
NT\$50,000,001 ~ NT\$100,000,000				
Over NT\$100,000,000				
Total	9(Contains 2 legal entities)	9(Contains 2 legal entities)	9(Contains 2 legal entities)	9(Contains 2 legal entities)

2.5 Remuneration of the President and Vice President

Unit: Share / NT\$ thousands

Title	Name	Salary (A)		Severance Pay and Pensions (B)		Salary, Bonus, etc. (C)		Employees' Profit Sharing Bonus (D)				(A+B+C+D+E+F+G) as % of Net Income	Other Compensations from nonsubsidiary affiliates	
		From GPM	From All Consolidated Entities	From GPM	From All Consolidated Entities	From GPM	From All Consolidated Entities	From GPM		From All Consolidated Entities				
								Cash	Stock	Cash	Stock			
Chairman	Nick Yeh	6,364	7,344	0	0	6,965	6,965	2,967	0	2,967	0	8.14	8.63	None
President	Jason Chen													

Note1: The policies, standards, combinations, decision procedures and performance linkage of remunerations paid to managers: The compensations are determined in accordance with managers' position, responsibility, contribution, performance and uncertainties and risks of the Company.

Note2: Pensions funded/paid according to applicable law.

Compensation Paid to President & CEO and Vice Presidents

Range of Remuneration	Name of President and Vice President	
	From GPM	From All Consolidated Entities
NT\$0 ~ NT\$2,000,000		
NT\$2,000,001 ~ NT\$5,000,000		
NT\$5,000,001 ~ NT\$10,000,000	Jason Chen	Jason Chen
NT\$10,000,001 ~ NT\$15,000,000	Nick Yeh	Nick Yeh
NT\$15,000,001 ~ NT\$30,000,000		
NT\$30,000,001 ~ NT\$50,000,000		
NT\$50,000,001 ~ NT\$100,000,000		
Over NT\$100,000,000		
Total	2	2

2.6 Employees' Profit Sharing Bonus Paid to Management Team :

Unit: Share / NT\$ thousands

Title	Name	Stock (Fair Market Value)	Cash Total Employees' Profit Sharing Bonus	Cash Total Employees' Profit Sharing Bonus	Cash Total Employees' Profit Sharing Bonus
Chairman	Nick Yeh	0	5,832	5,832	2.91%
President	Jason Chen				
Associate Vice President	Roger Lin				
Associate Vice President	H.M. Lee				
Associate Vice President	Mufa Chen				
Associate Vice President	Tu-cheng Wang				
Associate Vice President	Angela Huang(Note1)				
Chief Financial Officer	Sandy Ning				

Note1: Associate Vice President, Mrs. Angela Huang, transferred to a subsidiary on May 1, 2017.

2.7 Comparison of Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents

Year	Ratio of total remuneration paid to directors to net income (%)		Ratio of total remuneration paid to presidents and vice presidents to net income (%)	
	From GPM	From All Consolidated Entities	From GPM	From All Consolidated Entities
2016	3.52%	3.97%	7.31%	7.71%
2017	2.93%	3.28%	8.14%	8.63%

Note 1: The above remuneration to directors and supervisors includes salary, remunerations and allowances (excluding compensations earned as employee of GPM or of GPM Affiliates); The remuneration to president and vice president includes salary, bonus, pension, and employee compensation.

1. The Remuneration Committee sets up and reviews the performance evaluation and remuneration policy, standard, system and framework of Directors and Officers of the Company. Remuneration Committee will make proposal for Board Meeting discussion.
2. "Board of Directors performance evaluation, compensation and remuneration" is a guidance for the Company to review the performance of board members and for the Remuneration Committee to evaluate individual director's compensation. Among the indicators, law and regulation compliance accounts for 60% and the level of participation to the Company's operation accounts for 40%. The reasonableness of performance review and remuneration shall be review by Remuneration Committee and Board of Directors. The remuneration system shall be changed, subject to actual business condition and law, to strike a balance between corporate sustainability and risk control.

3. Corporate Governance Report :

3.1 Operation of the Board

3.1.1 Board of Directors' Meeting Status :

The Company's shareholders elected the 14th Board of Directors in Annual General Meeting on June 16, 2017, effective immediately. (From June 16, 2017 to June 15, 2020)

The 14th Board of Directors held 8 sessions in 2017. The attendance of the Directors is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chairman	Nick Yeh	8	0	100%	Re-elected
Director	Jason Chen	6	0	100%	Newly-elected
Director	Hsu, Hung-Ming	6	0	100%	Newly-elected
Director	C SUN MFG. LTD. Representative: Frank Liang	7	1	88%	Re-elected
Director	China Development Industrial Bank Representative: James Yin	2	0	100%	Retired after tenure expired.
Director	Ching-hua Tsai	2	0	100%	Retired after tenure expired.
Independent Director	Chia-chin Tong	7	1	88%	Re-elected
Independent Director	William Hung	8	0	100%	Re-elected
Independent Director	Bill Chen	8	0	100%	Re-elected

3.1.2 Other Required Notes for the Board Meetings:

(1) Items listed in Article 14-3 in Securities and Exchange Act or Board resolutions independent directors have dissenting opinions or qualified opinions with notes in minutes of the directors meetings:

A. The Company has set up audit committee, therefore, Article 14-3 in Securities and Exchange Act is not applicable. Regarding Article 14-5 in Securities and Exchange Act, please refer to "Audit Committee Meeting Status" on page 25 of this Annual report.

B. Besides items listed in Article 14-3 in Securities and Exchange Act, board resolutions that independent directors have dissenting opinions or qualified opinions with notes in minutes of the directors meetings: None.

(2) For execution status regarding matters bearing on the personal interests and recusal of directors due to conflict of interests, the name of the director, proposal, the reason for recusal and board resolution shall be stated:

Date	Name of Director	Agenda	Reason for recusal	Voting results	Resolution
2017.07.13	Nick Yeh	Proposal of a raise to officers	Has conflict of interest with the director	Did not vote	Other attending directors agreed accordingly
2017.07.13	Jason Chen	Proposal of a raise to officers	Has conflict of interest with the director	Did not vote	Other attending directors passed accordingly

(3) For the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report, Measures taken to strengthen the functions of the Board (such as setting up Audit Committee, improve information transparency) and the results:

A. The Company is endeavoring to improve the transparency of information. GPM discloses real-time information MOPS website to maintain shareholder equity.

- B. The Company set up Remuneration Committee on December 22, 2011. Remuneration Committee is in charge of assisting Board Meeting in reviewing the performance evaluation and remuneration policy, standard, system and framework for board of directors and officers.
- C. Three of the Seven Directors are Independent Directors. The Independent Directors have expertise in different areas, in accordance with the policy of diversification.
- D. The Company voluntarily set up Audit Committee. The Audit Committee's primary duty is to supervisor the fair presentation of financial statement, the hiring, dismissal, independence and performance review of the independent auditor, effectiveness of internal control, compliance of law and regulations, and risk control of existing or potential risk factors.
- E. The Company set up Corporate Sustainability Committee in 2016 August. Corporate Sustainability Committee is in charge of promoting CSR, ethical management and corporate governance affairs and reports to Board of Directors periodically.

Note 1: The Board of Directors convened eight meetings in 2017. During January 1 to June 15, 2017, two meetings were convened; after the shareholders' meeting on June 15, 2017 one meeting was convened; another five meetings were convened during June 17 to December 31, 2017.

Note 2: The directors' attendance status for 2017 V: Attendance in Person ☉ : By Proxy

2017	The first meeting	The second meeting	The third meeting	The fourth meeting	The fifth meeting	The sixth meeting	The seventh meeting	The eighth meeting
Chia-chin Tung	V	V	V	V	V	☉	V	V
William Hung	V	V	V	V	V	V	V	V
Bill Chen	V	V	V	V	V	V	V	V

3.2 Operation of Audit Committee

3.2.1 Audit Committee Meeting

The Audit Committee held 6 sessions in 2017. The attendance of the Independent Directors is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Independent Director	William Hung	6	0	100%	
Independent Director	Chia-chin Tong	5	1	83%	
Independent Director	Bill Chen	6	0	100%	

3.2.2 Other Required Notes for Audit Committee Meeting

- Any action regulated by Securities and Exchange Act 14-5, or any resolution not approved by the Audit Committee but approved by two thirds or more of all directors instead:
 - Any action regulated by Securities and Exchange Act 14-5: Audit Committee's opinion or resolution on material items, please see Attachment 1.
 - There was no other resolution which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2017.
- Any recusal of Independent Directors due to conflicts of interests: None

3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors (which should include the material items, channels, and results of the audits on the corporate finance and/or operations, etc.):

- (1) The Company convenes Audit Committee regularly and invites external auditors, chief internal auditor and relevant person in charge if necessary.
- (2) According to annual internal audit plan, the internal auditor officer reports to Audit Committee periodically.
- (3) The member of Audit Committee make periodic communications regarding quarterly review or audit of financial statements and other discussion required by laws and review the selection and independence of independent auditor.
- (4) For the communication history between audit committee, external auditor, and internal audit supervisor, please visit the Company's website.

Attachment 1: Any action regulated by Securities and Exchange Act 14-5: Audit Committee's opinion or resolution on material items

The date of Audit Committee meeting	Proposals and Follow-up Actions	Any resolution not approved by the Audit Committee but approved by two thirds or more of all directors instead
2017.03.17	1. 2016 Statement of Internal Control System 2. Amendment to GPM's "Handling Procedure of Internal Material Information and Prevention of Insider Trading Management " 3. Amendments to GPM's "Procedures for Acquisition or Disposal of Assets" 4. Proposal of Directors' remuneration of 2016 5. 2016 Financial Reports and Business Report 6. Transfer of part of the shares of Gallant Micro. Machining Co., Ltd. to key talents 7. Endorsement of the guarantee through the Company to its subsidiaries	None
	Resolution: Resolutions adopted by all the votes represented by the attending directors of audit committee.	
	Action taken by the Company in response to the audit committee's resolution: After proposed to board meeting's discussion, resolutions adopted by all the votes represented by the attending directors.	
2017.05.05	1. Proposal of Directors' remuneration of 2016 2. Acquisition of equity from Apex-I International Co., Ltd. 3. Endorsement of the guarantee through the Company to its subsidiaries	None
	Resolution: Resolutions adopted by all the votes represented by the attending directors of audit committee.	
	Action taken by the Company in response to the audit committee's resolution: After proposed to board meeting's discussion, resolutions adopted by all the votes represented by the attending directors.	
2017.07.13	1. Approval of the Company's disposal of its shareholding for Gallant Micro. Machining Co., Ltd. registration on TPEX Emerging Stock Board.	None
	Resolution: Resolutions adopted by all the votes represented by the attending directors of audit committee.	
	Action taken by the Company in response to the Audit Committee's resolution: After proposed to board meeting's discussion, resolutions adopted by all the votes represented by the attending directors.	
2017.08.10	1. 2017 Q2 consolidated financial statements 2. Providing a loan to Sunengine Co., Ltd.	None
	Resolution: The proposal of making loan to Sunengine Co., Ltd. that has been rejected by all the attending members of Audit Committee and Chia-chin Tung used proxy to give up his right to vote. Except for the proposal of making loan to Sunengine Co., Ltd, all the other proposals were agreed and approved by all the attending members of Audit Committee.	
	Action taken by the Company in response to the Audit Committee's resolution: Except for the proposal of making loan to Sunengine Co., Ltd. that has been rejected by the Board Meeting resolution, the same as Audit Committee resolution, all the other proposals were agreed and approved by all the attending members Board of Directors to Audit Committee's resolution after Board Meeting's discussion.	
2017.11.06	1. Amendment to rules and procedures of Board meetings	None

	2. Amendment of Audit Committee Charter	
	Resolution: Resolutions adopted by all the votes represented by the attending directors of Audit Committee.	
	Action taken by the Company in response to the Audit Committee's resolution: After proposed to board meeting's discussion, resolution adopted by all the votes represented by the attending directors.	
2017.12.21	1. The evaluation of current external auditor's independence and adequacy 2. The change of external auditor and evaluation of its independence and adequacy 3. Endorsement of the guarantee through the Company to its affiliates	None
	Resolution: Resolutions adopted by all the votes represented by the attending directors of Audit Committee.	
	Action taken by the Company in response to the Audit Committee's resolution: After proposed to board meeting's discussion, resolution adopted by all the votes represented by the attending directors.	

3.3 Taiwan Corporate Governance Implementation as Required by Taiwan Financial Supervisory Commission

Assessment Items		Implementation Status			Gaps from the "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and their root causes
		Yes	No	Summary Description	
Does Company follow "Taiwan Corporate Governance Implementation" to establish and disclose its corporate governance practices?		√		The company has stipulated "Corporate Governance Practice" and disclosed on the Company's website: http://172.16.1.182/zh-tw/investor/index/64	No difference
Shareholding Structure & Shareholders' Rights	Does the company have Internal Operation Procedures for handling shareholders' suggestions, concerns, disputes and litigation matters. If yes, has these procedures been implemented accordingly?	√		The Company established "Corporate Governance Practice" and the corporate spokesperson system in place. There are also Investor Contact and Common Stock Transfer Agent in charge of related business, which are disclosed on the Company's website.	No difference
	Does the company possess a list of major shareholders and beneficial owners of these major shareholders?	√		According to applicable rules, GPM publishes the shareholdings of insiders and tracks its variation in order to renew the list of major shareholders and beneficial owners of these major shareholders.	No difference
	Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates?	√		The Company established internal control guidance such as "Handling Procedures of transacting with related parties" and "Operating Procedures of monitoring on the business management of subsidiaries" to build the risk control and firewall mechanism between its affiliates. Each year the internal audit team audit the compliance results in accordance with its audit plan.	No difference
	Has the Company established internal rules prohibiting insider trading on undisclosed information?	√		The Company published "Handling Procedure of Internal Material Information and Prevention of Insider Trading Management", prohibiting staffs and managers from insider trading with material nonpublic information. The handling procedure can be found on the internal website and the Company's website. Training course will be held if necessary.	No difference
Composition and Responsibilities of the Board of Directors	Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?	√		The Company established GPM's "Corporate Governance Practice". The composition of Board of Directors shall take into account the policy of diversification. Currently, Board of Directors are equipped with operation judgment ability, business management, leading and decision making ability, accounting and financial analysis ability, international view and industry knowledge. They are from various industries areas thus in accordance with the policy of diversification. The academic record and experience of the Board of Directors can be found on the attachment page 10-13 of this Annual Report.	No difference
	Other than the Remuneration Committee and the Audit Committee which are required by law, does the Company set up other functional Board committees?	√		Besides the Remuneration Committee, the Company voluntarily set up the Audit Committee. Both of the committees are composed entirely of independent directors. Moreover, the company has also formed the Corporate Sustainability Committee that reports its status and achievements to the Board of Directors from time to time. The duties of Corporate Sustainability Committee can be found on page 239 the Annual Report.	No difference

Assessment Items	Implementation Status			Gaps from the "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and their root causes
	Yes	No	Summary Description	
Has the Company established methodology for evaluating the performance of its Board of Directors, on an annual basis?	√		<p>The Company has established "Board of Directors performance evaluation, compensation and remuneration" to conduct a periodic performance evaluation toward Board of Directors. At the end of each year, after taking into account the control of company's goal and mission, Director duty recognition, level of involvement to the Company's business, internal relationship and communication, Director's profession and continuing education and internal control, conduct the performance review by means of questionnaire.</p> <p>The evaluation procedure shall be started after year end and ended no later than the latest Board Meeting. The results shall be reported in the Board Meeting in order to improve the function of Board of Directors.</p> <p>The Company has completed its performance evaluation toward the Board of Director in 2018 March and reported in the Board Meeting dated March 27, 2018.</p>	No difference
Composition and Responsibilities of the Board of Directors	Does the Company regularly evaluate the independence of its external auditors?	√	<p>The Company establishes " Rules for Examination of the Selection of External Auditor". Each year Audit Committee and Board of Directors review the independence and adequacy of its external auditor. Before the selection, the external auditor issue a statement of independence. The accounting and finance department make sure that the external auditor receive no other financial interest and has no other business relationship with the Company beside the audit of financial statement and tax return. The accounting and finance department also send a request to the Common Stock Transfer Agent to ensure the shareholding of the external auditor before making a judgment of its independence and adequacy and send a proposal to Audit Committee and Board of Director resolution. For 2017, the external auditor's review has been proposed and approved to Audit Committee and Board of Directors on December 21, 2017. The company's assessment requirements on external auditor are listed as follows:</p> <ul style="list-style-type: none"> ➢The external auditor or his or her spouse or minor child shall not have the investment or financial interests relations with the company. ➢The external auditor or his or her spouse or minor child shall not have borrowings from the company. ➢The external auditor or the audit service team members are not involved in the promotion or brokerage of the stocks or other securities issued by the company. ➢The external auditor or the audit service team members do not currently serve or had served within the past two years as the company's director, manager, or other positions that could seriously impact the audit. ➢The external auditor or the audit service team members are not a spouse, direct relative, directive relative by marriage or collateral blood relative within two generations of the company's director, manager or an individual whose duties may post considerable impacts to the audit case. ➢The external auditor is not hired by the consignor or the audit company for a regular job with regular salary or serving as a director or a controller. ➢The CPA does not have disciplinary records from the CPA Discipline Committee within the past two years 	

Assessment Items		Implementation Status			Gaps from the "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and their root causes
		Yes	No	Summary Description	
Composition and Responsibilities of the Board of Directors	Does the Company regularly evaluate the independence of its external auditors?	√		➤When the CPA offers his or her check, inspection, review, or professional investigation and produces a report, has he or she maintains his or her independence substantially as well as the formal independence?	No difference
	Does the Company established a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnish information required for business execution by directors, handle matters relating to board meetings and shareholders' meetings according to laws, handle corporate registration and amendment registration, produce minutes of board meetings and shareholders meetings, etc.?)	√		The corporate governance team under Corporate Sustainability Committee is in charge of affairs related to corporate governance. The head of accounting and finance department is in charge of supervision. The investor relation department is responsible for Board Meeting and Shareholders' Meeting details, make the minutes of Board Meeting and Shareholders' Meeting, handling corporate registration and amendment registration, training arrangement for Directors.	No difference
	Has the Company established a means of communicating with its Stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.) or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on CSR?	√		The Company set up stakeholder section on its website. Depending on the identity of stakeholder (employee, client, supplier, investor, government and social), the Company discloses the communication points and CSR execution topics.	No difference
	Has the Company appointed a professional registrar for its Shareholders' Meetings?	√		We have appointed President Securities Corp. as our Common Stock Transfer Agent for our Shareholders' Meetings.	No difference
Information Disclosure	Has the Company established a corporate website to disclose information regarding its financials, business and corporate governance status?	√		The Company has disclosed its financials, business and corporate governance status on its website (http://172.16.1.182/en-global/investor/index).	No difference
	Does the Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investors conference, etc.)?	√		<p><u>Disclosure of financial information</u></p> <p>The Company's website (http://172.16.1.182/en-global/investor/index) features an investor relations section in Chinese, English, and Japanese. The Company's financial information is updated regularly for our investors' reference.</p> <p><u>Disclosure of business information</u></p> <p>The company's website features company introduction in Chinese, English and Japanese, and the company's financial information is updated regularly for our investors' reference.</p> <p><u>Disclosure of corporate governance information</u></p> <p>The company has disclosed the following information in accordance with regulations: internal audit organization and function, articles of incorporation, procedure for handling, acquisition and disposal of assets, procedures for loaning of funds to others, and endorsements or guarantees for others, rules of Audit Committee and rules of Remuneration Committee etc.. The Company also has the corporate spokesperson in place. There is also designated personnel in charge of information collection and disclosure.</p> <p><u>Investor relations</u></p> <p>In accordance with the law, the company has created a dedicated unit to disclose financial and sales-related information on MOPS and our company website in a bid to achieve information transparency.</p>	No difference

Assessment Items	Implementation Status			Gaps from the "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and their root causes
	Yes	No	Summary Description	
Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors)?	√		<p><u>Employee rights and Employee Care</u> The company values the rights and future developments of our employees, therefore we have established an Employee Welfare Committee to offer them with various fringe benefits. Furthermore, we have formulated the "The Handbook of Educational Training Quality" to encourage our employees to participate in a variety of training and skill cultivation courses. In addition, we have implemented a pension plan and labor-capital communication channels, and our benefit/learning & development/employee communication/balanced life measures are disclosed on the HR section of the company website.</p> <p><u>Supplier and Contractor Relations</u> The company has established the "Supplier Management Protocols" and "Contractor management regulations" to keep the business conduct of the company and our suppliers in check, thereby avoiding jeopardizing the reputation and interests of both parties. Furthermore, prior to cooperation with our suppliers after the screening process is complete, they are required to sign an NDA (Non-disclosure agreement) with the company to protect the rights and obligations of both parties.</p> <p>Each year the Company convenes supplier meeting. In addition to delivering of GPM's core idea of sustainability, the Company also gives awards to suppliers who are extraordinary in the dimensions of quality improvement, lowering cost, assured delivery and sustainability.</p> <p>The Company convenes periodic contractor meeting to have dual negotiation. Each year the Company gives award to contractor with good performance.</p> <p>In 2017, four contractors won the HSE awards. The Company signs " Contractor's Commitment to HSE" with contractors to secure and regulate the construction safety at the clients and factory side.</p> <p><u>Rights of stakeholders</u> The company's website has a stakeholders' section to act as a communication channel in order to protect the legal rights of both parties. Furthermore, we have stipulated the "Contract review procedure" to protect the company's interests and ensure reasonableness of the contract.</p> <p><u>Continuing Education/Training of Directors</u> Directors are having continuing education in accordance with "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies". The record of the continuing education can be found on both MOPS and Attachment 1.</p> <p><u>For details of risk management policy and execution result of risk measurement standard,</u> please go to page 239 this Annual Report.</p>	No difference

Assessment Items	Implementation Status			Gaps from the "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and their root causes
	Yes	No	Summary Description	
Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors)?	√		<p><u>Execution of customer policies</u> The Company maintains close contact with clients and has assembled a professional customer service team as well as comprehensive after sales service system to provide outstanding service. As a result, GPM is able to help clients improve competitiveness and create value-adding.</p> <p><u>The Company's liability insurance for its directors</u> The Company has purchased liability insurance for Directors and Supervisors to minimize and disperse the risk of heavy loss sustained by the Company and its shareholders due to erroneous or negligent conduct of the Directors. The details of the liability insurance were published on MOPS and reported to the Board of Directors on March 27, 2018.</p>	No difference
<p>Please list the improved status for the results of Corporate Governance Evaluation announced by Taiwan Stock Exchange, and also list the procedures for improvement for the issues which have not improved:</p> <p>The Company is named one of the top 20% companies in 2016 TWSE Corporate Governance Evaluation</p> <p>The Company has been following its core value of sustainability. In 2016, the Corporate Sustainability Committee was set up with aims of corporate sustainability, building long-term partnership with clients and society group and fulfill its corporate citizen duties. The Corporate Sustainability Committee is in charge of promoting CSR, ethical management and corporate governance affairs and reports to Board of Directors periodically.</p> <p>Improvement measures taken by the company to respond to the corporate governance evaluation results:</p> <ul style="list-style-type: none"> ➢ In 2017, the Company introduced OHSAS18001&TOHSMS occupation safety and health system. Through the management cycle mechanism, "Plan", "Do", "Check", and "Act", the Company established a comprehensive occupation safety and health system, in order to perform all-round management and create a safe and comfortable working environment. The Company has passed OHSAS18001&TOHSMS qualification. ➢ Since 2017, Electronic shareholder voting system has adopted for Shareholders' Meeting. ➢ Itemize material items of external auditor independence assessment in Annual Report. ➢ Highlight the diversification of Board of Directors in the Company's Annual Report and Company Website ➢ The Company will improve its disclosure of Audit Committee's resolution to material items and action taken by the Company in response to the Audit Committee's resolution. ➢ The results of performance evaluation for Board of Directors is disclosed on the company's website. 				

Attachment 1: 2017 Directors and Independent Directors training record

Title	Name	Date of training	Host by	Training / Speech title	Hours	Total training hours during the year
Director	Nick Yeh	2017/10/12	Taiwan Corporate Governance Association	Corporate Governance and Securities Regulations	3	6
		2017/07/27	Taipei Exchange	Seminar on Insiders' Equity in Companies Listed on the General Stock Board or the Emerging Stock Board	3	
Director	Jason Chen (Note 1)	2017/12/29	Taiwan Corporate Governance Association	Merger and Acquisition from a Director's perspective	3	18
		2017/12/08	Accounting Research and Development Foundation	In the New Era of The Trump administration, the Major Change of Economic and Tax Policy and Response Available for Taiwanese Companies	3	
		2017/11/01	Accounting Research and Development Foundation	Case study of Legal Responsibility of Joint Principal Offenders, Aider and Abettor in Economic Crimes	3	
		2017/08/25	Taiwan Academy of Banking and Finance	Corporate Governance Forum-Corporate Sustainability	3	
		2017/08/16	Taiwan Printed Circuit Association	The Role of Board of Directors in Corporate Governance	3	
		2017/07/27	Taipei Exchange	Insider Shareholding Meeting for TPEX Listed and ESB registered Companies	3	

Title	Name	Date of training	Host by	Training / Speech title	Hours	Total training hours during the year
Director	James Yin (Note1)	2017/06/08	Taiwan Corporate Governance Association	Shareholders' Meeting and Shareholder Equity Management	3	3
Director	Hsu, Hung-Ming (Note 1)	2017/09/29	Taiwan Institute of Directors	Board of Directors Major Decision Series 5 - Case Study on M&A strategy that leads to corporate growth	3	12
		2017/09/06	Taiwan Corporate Governance Association	Monitoring on Information Security Risk Management from Directors and Supervisor's perspective	3	
		2017/07/24	Securities & Future Institute	Corporate Governance and Securities Regulations	3	
		2017/07/07	Taiwan Corporate Governance Association	Fraud Detection and Prevention and Reinforcement of Corporate Governance	3	
Director representative of the corporation	Frank Liang	2017/12/29	Taiwan Corporate Governance Association	Merger and Acquisition from a Director' s perspective	3	58
		2017/11/17	Taiwan Institute of Directors	The 6th Annual Chinese Family Business Forum	3	
		2017/09/29	Taiwan Institute of Directors	Board of Directors Major Decision Series 5 - Case Study on M&A strategy that leads to corporate growth	3	
		2017/09/06	Taiwan Corporate Governance Association	Monitoring on Information Security Risk Management from Directors and Supervisor's perspective	3	
		2017/08/25	Taiwan Academy of Banking and Finance	Corporate Governance Forum-Corporate Sustainability	3	
		2017/07/24	Securities & Future Institute	Corporate Governance and Securities Regulations	3	
		2017/07/07	Taiwan Corporate Governance Association	Fraud Detection and Prevention and Reinforcement of Corporate Governance	3	
		2017/05/24	Accounting Research and Development Foundation	The supervision, audit rights and legal responsibilities of Directors, Supervisors and Officers.	3	
		2017/05/23	Taiwan Corporate Governance Association	Responsibility of Directors and Supervisors on Information Disclosure and Financial Statement Fraud	3	
		2017/05/19	Accounting Research and Development Foundation	An update on the legal system of criminal forfeiture	3	
		2017/05/18	Taiwan Corporate Governance Association	Group Governance	1	
		2017/05/09	Taiwan Corporate Governance Association	Review on Financial Report for Directors and Supervisors with Non-Financial Background	3	
		2017/04/11	Taiwan Corporate Governance Association	Sharing of experiences related the function of Independent Directors and the operation of Audit Committees	3	
		2017/03/30	Securities & Future Institute	A General Discussion on Issuance illegality of Stock and Corporate Bond	3	
		2017/03/28~2017/03/29	Securities & Future Institute	The Study of Directors and Supervisors (including Independent Directors) Practice	12	
		2017/03/22	Securities & Future Institute	Corporate Governance and Corporate Social Responsibility	3	
2017/03/16	Securities & Future Institute	Study of Legal Issues Regarding Insider Trading	3			

Title	Name	Date of training	Host by	Training / Speech title	Hours	Total training hours during the year
Independent Director	Chia-chin Tung	2017/05/09	Taiwan Corporate Governance Association	Review on Financial Report for Directors and Supervisors with Non-Financial Background	3	6
		2017/04/11	Taiwan Corporate Governance Association	The role of Independent Directors and Audit Committee practice	3	
Independent Director	William Hung	2017/09/05	Securities & Future Institute	The Practice of Corporate Governance and Independent Director	3	6
		2017/08/25	Taiwan Academy of Banking and Finance	Corporate Governance Forum-Corporate Sustainability	3	
Independent Director	Bill Chen	2017/12/08	Accounting Research and Development Foundation	The Securities Exchange Examination Status in the U.S. and Taiwan and Highlight of Legal Obligations	3	6
		2017/07/24	Securities & Future Institute	Corporate Governance and Securities Regulation	3	

Note 1: After the Board Meeting dated June 16, 2017, Yin, Chih-Cho, the representative of CDIB Capital International Corp. was dismissed from the position after election of new Directors across the board; Jason Chen and Hsu, Hung-Ming took office after election of new Directors across the board.

3.4 Operation of the Company's Remuneration Committee

3.4.1 Responsibilities of the Company's Remuneration Committee:

The Remuneration Committee aims at establishing and regularly reviewing the performance evaluation procedure for directors and managers as well as establishing compensation policy, system, standard and structure and regularly reviewing the compensation of directors and managers.

3.4.2 Composition of the Company's remuneration committee:

The Company's remuneration committee was established on December 22, 2011. According to related regulations of the Securities and Futures Bureau, Financial Supervisory Commission, the professional qualification and independence criteria of the 3rd Remuneration Committee's members are below:

Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note1)										Number of Other Taiwanese Public Companies Concurrently Serving as a Compensation Committee Member in Taiwan	
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8	9	10		
Independent Director Chia-chin Tong			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Independent Director William Hung			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Independent Director Bill Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note :

Compensation Committee Members, during the two years before being elected or during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

1. Not an employee of the company or any of its affiliates;
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent

- director of the company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary;
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
 4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
 5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as of its top five shareholders;
 6. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company;
 7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof;
 8. Not been a person of any conditions defined in Article 30 of the Company Law.

3.4.3 Remuneration Committee Meeting Status

The tenure of the Company's 3rd remuneration committee is from June 26, 2017 to June 15, 2020. The convener, Mr. Chia-chin Tong held three sessions in 2017 and the attendance of members is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Independent Director	Chia-chin Tong	3	0	100%	
Independent Director	William Hung	3	0	100%	
Independent Director	Bill Chen	3	0	100%	

- (1) In cases the Board doesn't adopt or revise Remuneration Committee's proposals, the Company shall list date/number of the Board meeting, agenda, the Board's resolution and the Company's response to Remuneration Committee's proposal: None.
- (2) In cases Remuneration Committee members have dissenting opinions or qualified opinions against the resolution and recorded with notes in paper, the Company shall list date, number of the Remuneration Committee meeting, agenda, all members' opinion and the follow-up of the members' opinion: None.

3.5 Taiwan Corporate Social Responsibility Implementation as Required by the Taiwan Financial Supervisory Commission :

Assessment Items	Situation			Gaps from the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies" and their root causes	
	Yes	No	Summary Description		
Commitment in Corporate Governance	Does the company declare its corporate social responsibility policy and examine the results of the implementation?	√		The Company establishes "Code of Corporate Social Responsibility". Through the operation and management of Corporate Sustainability Committee, the execution and result shall be reported to Board of Directors at least once annually.	No difference
	Does the company provide educational training on corporate social responsibility on a regular basis?	√		The Company holds periodic training in CSR and employee assembly, such as new employee training, promotion of CSR mission, vision, and core value.	No difference
	Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?	√		The Corporate Sustainability Committee is in charge of promoting CSR, which involves the execution of each item in the CSR plan and comprehensively, setting up company level goals and sustainable strategy and reporting to the Board of Directors. The Company has reported in the Board Meeting dated December 21, 2017 regarding actual execution in 2017. The implementation and processing details were disclosed on the company's website.	No difference
	Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	√		According to Article 30-1 of the Company's Article of Incorporation, The Company shall distribute employees' remuneration of not less than 1 percent and not more than 12 percent of the profit of the Company for the current year. The Company also has very competitive remuneration policy and take talent retention as an very human resource policy. The Company conducts peer industry compensation investigation in order to set up reasonable and competitive remuneration system. Based on target accomplishment rate and profitability and employees' individual performance., the Company is able to differentiate and identify employees with special contribution and give them better bonus. The Company has employee stimulating measures in place such as innovative research award, improvement rewards, special performance team rewards, and special employee rewards to sparkle employees' enthusiasm and spirit of teamwork. This enables the sharing of employees' works. Meanwhile, the Company also set up reward and punishment system. If any violation comes to the Company's attention, actions will be taken, depending on the seriousness of the violations.	No difference
Environmentally Sustainable Development	Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	√		In designing machines, the Company select components with smaller power transmission to lighten the machine or power supply components with higher efficient exchanger to achieve energy saving. The water circulating system takes into account the source allocation of cooling water and commonly used filter. Reusing of water in front and back processing could effectively re-filter the waste water produced by the cleaner, saving up to 60% of water.	No difference
Environmentally Sustainable Development	Does the company establish proper environmental management systems based on the characteristics of their industries?	√		The Company establishes has completed the environmental safety and health and energy policy and taken into account the EICC Code of Conduct. For example, the Company may request suppliers not to use conflict mineral in the products rendered to the Company and to select toxic-free material to environment in order to lower the usage of material and reduce the resource impairment of on Earth. In the process of using materials, be mindful for safety and energy saving design, reuse waste water and lower the emission of greenhouse gas. When scrapping products, they must be easy to disassemble; in addition, the product function and	No difference

Assessment Items		Situation		Gaps from the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies" and their root causes	
		Yes	No		Summary Description
				reusable option as well as recyclable design should be considered so as to reuse the resource and lessen the burden of landfill site.	
	Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	√		<p>In the face of climate change, the Company actively promotes and revises the measures of its greenhouse gas reduction management(including energy conservation and efficiency improvement), such as light management, energy management and water resource management.</p> <p>Carbon Reduction Plan</p> <p>In carbon reduction management, the Company is dedicated to using renewable energy and replacement of energy saving lights.</p> <ul style="list-style-type: none"> ● In 2017, the Company purchased 2,291,160 kWh of electricity has emitted CO₂ totaling 1,212,024kg. ● The growth in revenue caused the electricity usage increased by 41,740 kWh compared with that in 2015. ● The Company built a solar plant for self-use. From January to July 2017, the total volume of electricity generated was 15,416 kWh, with the reduction of CO₂ emission amounting 8,155 kg. ● In 2017, NT\$600,000 was spent in installation of energy saving lights. The result has shown a reduction of 64,301 kWh of electricity and 34,016 kg of CO₂ emission. ● The Company purchased 10,000 kWh of electricity from Taipower company (Official Letter No. 1061003020) <p>Waste management</p> <p>GPM aims at "Garbage Reduction, Resource Recycling" and puts first priority on recycling and reusing waste. This measure can increase the effect of waste management and lower the environmental impact during waste processing. In 2017, the volume of waste generation has reduced 4.77% (630kg) as compared with 2016. The Company disclosed the execution of waste management on the Company's website.</p>	No difference
Preserving Public Welfare	Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	√		<p>The Company abides by the rules, policies, and procedures of the Labor Standards Act and international human rights agreements to protect the legitimate rights and interests of employees. The Company provides labor insurance, National Health Insurance (NHI), life insurance, accident insurance, disease and cancer insurance and set up pension fund.</p>	No difference
Preserving Public Welfare	Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	√		<p>There are five channels for employees to voice a complaint:</p> <ol style="list-style-type: none"> 1. Employees assembly (held periodically and questions raised on the spot) 2. "Labor-Management conference" (Convened regularly and question raised by labor representative) 3. HSE Member Meeting (held periodically and questions raised by HSE members) 4. Management Review Meeting (held periodically and questions raised by members) 5. "General Manager Office's Mailbox" (Employees can raise question in the system at any time. The identity of the person who raises the question is confidential. The response will be published in intranet.) <p>The employees are able to make proposal to the management team through the above channels. The question and suggestion raised by the employees will be track and feedback.</p>	No difference

Assessment Items	Situation		Gaps from the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies" and their root causes	
	Yes	No		Summary Description
Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	√		<p>The Company has passed OHSAS18001:2007&TOSHMS qualification in December 2017, providing employee with a fair, reasonable, safe and healthy working environment.</p> <ul style="list-style-type: none"> ●All areas of our office and factory are non-smoking area. The Company also devoted to the improvement of employees' working environment and provide software and hardware with good quality. In 2017, the Company received several awards from Competent Authorities, such as: <ul style="list-style-type: none"> ➢In 2017, GPM received Top 10 award from "2017 Ministry of Health and Welfare Workplace Dynamic Innovation Golden Point Award" (Hsinchu Factory) ➢2017 Receiving two-star award from "Taichung City Government Excellent Corporation Happy Workplace Competition" (Taichung Factory) ➢Receiving award "2017 Workplace Dynamic Innovation Golden Point Award" (Taichung Factory) ●The Company is equipped with AED and provides CPR and AED trainings to employees. ●The Company establishes "Measures of Prevention, Correction, Complaint and Punishment of Sexual Harassment at Workplace" to maintain gender working equality and dignity and provide a friendly working environment. 	No difference
Does the company offer a safe and healthy working environment for its employees and conduct safety and health education for employees on a regular basis?	√		<ul style="list-style-type: none"> ●There are Safety and Health on-the-job training in each factory, emergency response exercises (such as: emergency evacuation, fire drill, response to chemical leakage), health forums and a series of health promotion activities in an attempt to create and maintain a healthy and safe working environment. ●In terms of working environment, the Company continues to examine the operating environment biannually so as to evaluate personnel exposure and improve the working environment accordingly. Each year the Company provide employees with periodic health checkup and request new employees to have physical examinations (the frequency and items are better than regulation). For working labors that exposed to special hazards, there are some tailored items in their health checkup. The Company discloses the implementation and status on the Company Website. 	No difference
Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	√		When there is any significant changes in operations that may have an impact on the employees' rights, the Company uses formal communicating channel such as employee symposium or labor-management conference to negotiate with employees in a hope to provide the best working environment for all the employees.	No difference
Does the company provide its employees with career development and training sessions?	√		The Company has created benign environment for employees' careers and established career development and training sessions. For the status of educational training, please see page 71 of Annual Report.	No difference
Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	√		GPM follows the quality polity "Quality first, Customer First, Better than better, Value Creating" and constructs professional customer service and impeccable after sales system. There is a 24-hour direct line 0800-387-387 in place. From the Company website, there is email for business center and client service center, a transparent channel for filing a complaint for product and service. The Company follows strictly the "Rulings regarding Personal	No difference

Assessment Items	Situation		Gaps from the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies" and their root causes
	Yes	No		Summary Description
			Information Management" and shows respect to clients' privacy. The Company treasures marketing ethics and take responsibility for its products and service. Unfair business behavior of any form is not allowed. The R&D, procurement, production, operation and service process shall ensure the information transparency and safety of its product and service. The Company shall formulate, publish the Company's client right policy and apply them in the business activities so as to prevent the damage of consumer rights and help clients improve competitiveness and create value-adding.
Does the company advertise and label its goods and services in accordance with relevant regulations and international standards?	√		GPM's advertisement and label to our product and servers shall adhere to related laws and international standards. There shall be no cheating, misleading, fraud or any act that destroy clients' trust and right.
Does the company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships?	√		According to "Supplier Management Protocols", the Company establishes supplier evaluation system and a review group will perform physical review at the suppliers' place of business. Information such as capacity, quality system and R&D capability shall be obtained according to "Form of Supplier Physical Review". In the annual meeting with Supply Chain, except for delivery GPM's spirit of sustainability, GPM also gives award to supplier that excel in the dimensions of quality improvement, cost reduction, assured delivery and sustainability. Review for suppliers shall take into account trading history, product quality and its reputation (regarding HSE) and adjust the grading accordingly. In 2017, We give awards to 45 suppliers with outstanding performance. During our review, if we find out and condition that violates CSR policy and have huge negative impact on the environment and society, the cooperation will be suspended or terminated immediately. We also assist our suppliers in improving and enhancing product quality, promoting green procurement and environmental protection.
Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	√		According to "Supplier Management Protocols", during the period of cooperation, the suppliers are required to sign an NDA (Non-disclosure agreement) with the company to protect the rights and obligations of both parties. If anything that damages the Company's interest, reserves the right to take legal actions. The suppliers of the Company are required to sign "Supplier CSR and Integrity Commitment". If there is any violation that imposed significant negative effect on environment and society, the Company can terminate or suspend the contract.
Enhancing Information Disclosure Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	√		The Company has disclosed its CSR policy and implementation on Company's website and updated from time to time for the public's reference (http://172.16.1.182/en-global/csr/index)
If the Company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies", please describe any discrepancy between the Principles and their implementation: The Company establishes "Code of Corporate Social Responsibility". There is no gap between the aforementioned code and "The Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies. The "Code of Corporate Social Responsibility" can be downloaded from the Company Website or MOPS. With regards to CSR implementations, please refer to Annual Report or the Company Website.			
Other important information to facilitate better understanding of the company's corporate social responsibility practices : (I) Environmental Protection Affairs:			

Assessment Items	Situation		Gaps from the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies" and their root causes
	Yes	No		Summary Description
			<p>1. To reduce the waste of water, the Company's installs water saving devices. In addition, the Company replaces the lights to electricity saving type and uses solar energy to lower the emission of CO₂.</p> <p>(1) Using solar energy to generate electricity: From January to July 2017, total electricity generated were 15,416 kWh, reducing a totaling of 8,155 kg CO₂ emission.</p> <p>(2) High-bay 400W mercury lamps replaced with 150W LED: a total of 52 sets. This represents 41,184 kWh of electricity were saved and 21,784 kg CO₂ emission reduced annually</p> <p>(3) T8 lights were replaced by T5 lights: a total of 63 sets. This represents 11,848 kWh of electricity were saved and 6,268 kg CO₂ emission reduced annually</p> <p>(4) T8 lights were replaced by LED: a total of 226 sets. This represents 11,269 kWh of electricity were saved and 5,962 kg CO₂ emission reduced annually</p> <p>2. Continue to promote office greening and increase the coverage of green plants. This year the Company grows 31 new trees.</p> <p>(II) Public Welfare</p> <p>The Company is also a front runner when it comes to CSR and hosts CSR activities from time to time. Employees are encouraged to take part in philanthropic activities.</p> <p><u>Caring for schools in Hsinchu County's remote area</u></p> <p>1. Offered scholarship to Taoshan Elementary School/Garden Elementary School/ Wufeng Junior High School/ Chienshih Junior High School For students whose grades meet the standard, there will be NT\$600 for each elementary school students and NT\$1,000 for junior high school students. "Progression Award" are for those who doesn't meet the requirement but have improved most in their grades. Combining two semesters, there were 345 students benefited from this measure, representing a total of NT\$264,400.</p> <p><u>Cooperation with non-for-profit group</u></p> <p>1. Sponsor International Volunteer Group to Kenya of National Tsing Hua University 2. Showing support to gifts produced by non-for-profit group. The Company ordered lunar festival gift box to employees and suppliers from Yu An Children's Home R.O.C. 3. Through Puren Foundation, donated NT\$30,000 to the project of cycling around the island 4. Host blood donation activities jointly with Pixart Imaging Inc. and donate 100 bags of blood. 5. Other than purchase for use in office, the employees purchased 95 hand made soap from Taiwan Foundation for the Blind and 30 bags of coffee bean from Man Fair Sheltered Workshop.</p> <p><u>Fund raising</u></p> <p>1. Accumulated steps from all employees were 92,048,377, breaking the goal of 90 million. A total of NT\$39,000 were donated to Yu An Children's Home R.O.C. 2. Donation of invoice: The Company hosted "Donate invoice, devote to public welfare" event and donated all the invoices gathered to public welfare groups. 3. From time to time, Make donation to Genesis Social Welfare Foundation 4. Donate 360 kg of rice to Yu An Children's Home R.O.C. and Genesis Social Welfare Foundation Hsinchu Branch</p> <p><u>Campus and Corporation visiting</u></p> <p>College students visiting: 23 times. The Company gave detail introduction of the optoelectronic equipment to facilitate their understanding. The Company also assigned personnel from the production line to guide them through the operation environment so as to promote industry-university cooperation.</p> <p><u>Industry-university cooperation</u></p> <p>1. Sponsor to Chung Yuan Christian University Project Competition 2. Intelligent Automation Equipment Creation Award: To encourage students from national university/college participating in the cross-domain design, production of intelligent automation, level up their skill in system design and be in line with the plan put out by Ministry of Education, the Company hosted Intelligent Automation Equipment Creation Award. National Taiwan University, National Chung Hsing University, National Kaohsiung First University of Science were the co-organizers and Corporate Electronics Association of Taiwan was the organizer. We are expecting to see more young talents entering intelligent manufacturing industry. Through learning and exchange of know-how and knowledge through observation, we are incubating talents and design energy for the country and promoting industry competitiveness. 3. Scholarship to Department of Mechanical Engineering, National Taiwan University By means of offering scholarship, the Company builds up a talent pool and offers scholarship to students and job opportunity after graduation. 4. Promote the internship program: Promote the incubation of talents through industry-university cooperation to build a stable access to talents. Use the resource of governmental industry-university cooperation projects and provide internship to students to benefit from the characteristic and capability of young talents so as to invigorate and bring in new the energy to the Company. Meanwhile, the Company also find talents through short-term staffs. In 2017, the Company has spent about NT\$1.82 million on industry-university cooperation projects.</p> <p>While pursuing corporate sustainability, the Company also incorporated CSR into its business strategy and daily operation, including corporate governance, caring for employees, shareholders' rights, social caring and environmental protection. The CSR initiatives are included in annual goal or important working items.</p> <p>A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: Not applicable.</p>

3.6 Taiwan Corporate Conduct and Ethics Implementation as Required by the Taiwan Financial Supervisory Commission :

Assessment Items		Operations		Gaps with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and their root causes	
		Yes	No		Summary Description
Establishment of Corporate Conduct and Ethics Policy and Implementation Measures Project	Does the company have bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and the commitment regarding implementation of such policy from the Board of Directors and the management team?	√		The Company establishes "Ethical Management Principles" and " Ethnical Conduct Standards" to regulate corporate operations and employees' behaviors. The promotion of the rules are conducted from time to time. In Board Meeting dated December 21, 2017, the Company has presented its execution and status and also disclosed them on the Company's website.	No difference
	Does the company establish relevant policies which are duly enforced to prevent unethical conduct and provide implementation procedures, guidelines, consequence of violation and complaint procedures in such policies?	√		In the Company's "Ethical Management Principles", the preventative measures for misconduct, such as bribery and taking bribes, giving illegal political donations, offer or accept unreasonable presents, hospitality or other improper benefits, misappropriation of trade secrets and infringement of IPR, etc are clearly stated. The company's employees are required to sign the "NDR and computer data authorization agreement" to avoid misappropriation of trade secrets.	No difference
	Does the company establish appropriate compliance measures for the business activities prescribed in Paragraph 2 of Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and any other such activities associated with high risk of unethical conduct?	√		In addition to the "Ethical Management Principles", the company also stipulated the "Procedures for acquisition or disposal of assets", "Procedures for endorsement and guarantee", "Procedures for financing", "Procedures for trading with related parties", etc.	No difference
Ethical Management Practice	Does the company assess the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?	√		The Company adopts a fair and transparent way of doing business. Before engaging a business activity, the Company carefully evaluates the integrity of its business partners. Before signing a commercial contract with transaction counterparty, the legal department reviews the contract term to avoid doing business with parties had bad records. For the courses related to ethic management, please see page 41 of Annual Report. The company's suppliers are required to sign the "Supplier CSR and Integrity Commitment". If there is any violation to the commitment, the suppliers are subject to indemnity or fines for inappropriate interests, in addition, the company is entitled to withdraw, terminate or cancel transactions between two parties.	No difference
	Does the company set up a unit which is dedicated to or tasked with promoting the company's ethical standards and reports directly to the Board of Directors with periodical updates on relevant matters?	√		The Corporate Sustainability Committee is in charge of affairs related to ethical corporate management policies. In addition, the internal audit office reports directly to Board of Director and is in charge of the audit regarding any violation to the ethical corporate management policies. If there is material violation of ethical corporate management policy, a report to Board of Directors is necessary in accordance with related laws and operation procedures.	No difference
	Does the company establish policies to prevent conflict of interests, provide appropriate communication and complaint channels and implement such policies properly?	√		The Company internal rules and procedures are available on the intranet. The notification will be sent to all staffs upon amendment. For the public's reference, there is a stakeholder zone on the Company's website (http://172.16.1.182/en-global/csr/index/51).	No difference

Assessment Items		Operations		Gaps with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and their root causes	
		Yes	No		Summary Description
Ethical Management Practice	To implement relevant policies on ethical conducts, does the company establish effective accounting and internal control systems that are audited by internal auditors or CPA periodically?	√		The Company sets up internal control system, enforcement rules regarding internal audit, accounting system and various management rules. There is no irregularity in the implementation and results. The execution of internal audit is conducted in accordance with annual audit plan and issued an audit report. The audit report shall be submitted to each independent director no later than the month end of the next year. Periodic presentation of the audit results shall be delivered to Audit Committee and Board of Directors.	No difference
	Does the company provide internal and external ethical conduct training programs on a regular basis?	√		The Company host periodically training related to ethic corporate. In 2018, ethic corporate course, prevention on money laundry and funding for terrorism, audit technique on prevention of corporate bribery and corruption, totaling 36 hours. This procedure is also available in the internal document management system for managers and employees.	No difference
Implementation of Complaint Procedures	Does the company establish specific complaint and reward procedures, set up conveniently accessible complaint channels, and designate responsible individuals to handle the complaint received?	√		The Company stipulates "Handling Procedures of Report of Illegal, Unmoral, or Unethical Behavior" and sets up report and complaint channel. From time to time, the Company also reviews the Handling Procedure and makes necessary revision. With this efficient communicating channel, the Company may respond to the problem in time and assign designated person in charge of the complaint.	No difference
	Does the company establish standard operation procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner?	√		The Company has stipulated the whistle-blowing guidelines, and set up "whistle-blowing channel for unethical conduct" and a whistle-blowing mailbox. The whistle-blower's identity and whistle-blowing details are kept confidential, and e-mail communication will be used to reply the investigation result.	No difference
	Does the company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?	√		The Company takes full responsibility of keeping the confidentiality of the whistle-blowers, to prevent them from inappropriate treatment for whistle-blowing cases.	No difference
Information Disclosure	Does the company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System ("MOPS")?	√		The company's "Ethical Management Principles" has uploaded to MOPS and disclosed on the Company's website http://172.16.1.182/zh-tw/investor/index/64	No difference
If the company has established corporate governance policies based on Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation.					
Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., review the company's corporate conduct and ethics policy).					
<p>I. The Company established "Handling of Internal Material Information and Prevention of Insider Trading Management Procedure". Directors, managers, the person identified by Paragraph 1 of Article 27 of the Company Act and other insiders shall pay duty of care and fiduciary duty in doing business and sign non-disclosure agreements. Directors, Managers, and employees who have access to internal material information shall not disclose to the others.</p> <p>II. PwC is the accounting firm that provides attestation service to GPM. The auditors do not take the role of Directors and are both professional and independent. Audit Committee and Board of Directors conduct annual review regarding the independence of the external auditor and obtain the "Statement of Independence". The external auditors periodically audit major business cycles and internal control and make suggestion to the Company's internal control and accounting treatment.</p> <p>III. The company's suppliers are required to sign the "Supplier CSR and Integrity Commitment", which regulates the suppliers to fulfill their commitment in terms of labor conditions, ethical practices and working environment, such as no discrimination, no child labor, high standard in integrity, respect, protection of client information, IPR, no use of conflict metal in products or parts, and procedures and standards in waste management. If there is any violation to the commitment, the suppliers are subject to indemnity or fines for inappropriate interests, in addition, the company is entitled to withdraw, terminate or cancel transactions between two parties.</p>					

3.7 More detailed information on corporate governance guidelines and regulations:

The Company established GPM's "Corporate Governance Practice", please go to MOPS (<http://mops.twse.com.tw/mops/web/index>) or the Company's website (<http://172.16.1.182/zh-tw/investor/index/64>)

3.8 Other Important Corporate Governance Information

The Company established "Handling of Internal Material Information and Prevention of Insider Trading Management Procedure" as a reference for handling of material information and disclosure. Depending on situation, the above procedure is subject to review from time to time in matching current laws and management needs. This procedure is also available in the internal document management system for managers and employees.

3.9 Internal Control System Execution Status

3.9.1 Statement of Internal Control System

Gallant Precision Machining Co., Ltd.

Statement of Internal Control System

Date: March 27, 2018

Gallant Precision Machining Co., Ltd. has conducted internal audits in accordance with its Internal Control Regulations for the period ended December 31st, 2017, and hereby declares the following:

1. The Company acknowledges and understands that the establishment, enforcement, and preservation of internal control systems are the responsibility of the Board and that the managers and the Company have already established such systems. The purpose is to reasonably ensure the effectiveness (including profitability, performance, and security of assets), the reliability, timeliness, transparency of financial reporting, and legal and regulation compliance.
2. Internal control systems have limitations, no matter how perfectly they are designed. As such, effective internal control systems may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls systems. The internal control systems of the Company feature certain self-monitoring mechanisms. The company will take immediate corrective actions once any shortcomings are identified.
3. The Company judges the effectiveness of the internal control systems in design and enforcement according to the “Criteria for the Establishment of Internal Control Systems of Public Offering Companies” (hereinafter referred to as “the Criteria”). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control systems. There are five components for effective internal control as specified by the Criteria with which the procedures for effective internal controls are composed: (1) Control environment, (2) Risk evaluation, (3) Control operation, (4) Information and communication, and (5) Monitoring. Each of the elements in turn contains certain audit items, and the Criteria shall be referred to for details.
4. The Company has adopted the aforementioned internal control systems for an internal assessment of the effectiveness of internal control design and enforcement.
5. Based on the aforementioned audit findings, the Company holds that within the aforementioned period, its internal control procedures (including the procedures to monitor subsidiaries), effectiveness and efficiency of operations, reliability, timeliness, transparency of reporting, and compliance with relevant legal regulations, and design and enforcement of internal controls, are effective. The aforementioned goals can be achieved with reasonable assurance.
6. This statement of declaration shall form an integral part of the annual report and prospectus of the Company and shall be made public. If there is any fraud, concealment, or unlawful practices discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, 32, 171, and 174 of the Securities and Exchanges Act.
7. This statement of declaration has been approved by the Board on March 27, 2018 with all Directors in session under unanimous consent.

Gallant Precision Machining Co., Ltd.



Nick Yeh
Chairman



Jason Chen
President

3.9.2 If CPA was Engaged to Conduct a Special Audit of Internal Control System, Provide Its Audit Report:

None.

3.10 Reprimand on the Company and its Staff in Violation of Laws, or Reprimand on its Employees in Violation of Internal Control System and Other Internal Regulations, Major Shortcomings and Status of Correction:

None.

3.11. Major Resolutions of Shareholders' Meeting and Board Meetings

Meeting Title	Meeting Date	Important Resolutions and Implementation
Shareholders' Meeting	2017.06.16	<ol style="list-style-type: none"> 1. Adoption of the 2016 Business Report and Financial Statements. 2. Adoption of the distribution of 2016 earnings. 3. Approval of the amendment to the "Procedure for Acquisition or Disposal of Assets". 4. Approval of the amendment to the "Articles of Incorporation". 5. Approval of the transfer of part of the shares of Gallant Micro. Machining Co., Ltd. to key talents. 6. Election of the 14th Board of Directors. <ol style="list-style-type: none"> (1) 7 Directors (including 3 Independent Directors) are elected at the shareholders' meeting. (2) List of elected directors : Mr. Nick Yeh, Mr. Jason Chen, Representatives from C Sun Mfg. Ltd.: Mr. Frank Liang, Mr. Hung-Ming Hsu. (3) List of the Independent Directors: Mr. Chia-chin Tung, Mr. William Hung and Mr. Bill Chen. (4) The Board of Directors has elected Mr. Nick Yeh as the Chairman and Mr. Frank Liang as the Vice Chairman on June 16, 2017. 7. Approval of lifting non-competition restrictions on new directors and their representatives. 8. The amendment to the "Articles of Incorporation" and re-election of the Board of Directors including the Chairman and Vice Chairman has been duly approved by Hsinchu Science Park Bureau, Ministry of Science and Technology, in its official letter dated June 29, 2017 (ref. Official Letter Chu-Shang-Tzu No. 1060017040). 9. The Board of Directors on July 13, 2017 had set the date of August 6, 2017 as the ex-dividend date, with the cash dividend (NT\$1.4 per share) of the profit distribution and cash dividend for capital reserve (NT\$0.4 per share) to be distributed to shareholders on August 22, 2017. There is no difference between the amount of distribution and the amount approved by the general shareholders' meeting.

Name of meeting	Date of meeting	Important Resolutions
Board of Directors	2017.03.17	<ol style="list-style-type: none"> 1. Approval of the Company's new business items 2. Approval of the amendment to the "Articles of Incorporation" 3. Approval of the Internal Control System Statement for 2016 4. Approval of the "Handling of Internal Material Information and Prevention of Insider Trading Management Procedure" 5. Approval of the amendment to "Handling Procedures for Acquisition or Disposal of Assets" 6. Approval of the distribution of employees' and directors' remuneration of 2016 7. Approval of the 2016 Business Report and Financial statements 8. Approval of the addition/renewal of loan commitments to financial institutions and endorsements and guarantees to the invested companies 9. Approval of the transfer of part of the shares of Gallant Micro. Machining Co., Ltd. to key talents 10. Approval of the Election of the 14th Board of Directors of the Company 11. Approval of the nomination of 3 candidates for the Independent Directors 12. Approval of lifting non-competition restrictions on new directors and their representatives and submit it to the shareholders' meeting for discussion 13. Approval of matters related to the general shareholders' meeting of 2017, including related matters in receiving shareholders' proposals and nominations . 14. Approval of the renewal of loan commitments to financial institutions 15. Approval of the endorsement of the guarantee through the Company to its subsidiaries
Board of Directors	2017.05.05	<ol style="list-style-type: none"> 1. Approval of the proposal for the distribution of 2016 earnings 2. Approval of cash distribution of capital reserve 3. Agreement to acquire equity from Apex-I International Co., Ltd. 4. Approval of 2016 Shareholders Meeting Independent Directors and proposal by shareholder 5. Approval of amendment to 2017 Rules and Procedures of Shareholders' Meeting 6. Approval of 2016 Remuneration to Directors and Officers

		7. Approval of the amendment to the Handling Procedure of bonus 8. Approval of the renewal of loan commitments to financial institutions 9. Approval of the endorsement of the guarantee through the Company to its affiliates
Board of Directors	2017.06.16	1. Approval of Election of the Chairman 2. Approval of Election of the Vice Chairman
Board of Directors	2017.06.26	1. Approval of the hiring of the Remuneration Committee members
Board of Directors	2017.07.13	1. Approval of the related matters for setting up the record date of cash dividend distribution for 2017. 2. Approval of the subsidiary Gallant Micro. Machining Co., Ltd. to dispose the holding shares for TPEx Emerging Stock Board registering purpose. 3. Approval of the raise of salary to officers
Board of Directors	2017.08.10	1. Agreement to the amendment to the mid-term budget of 2017. 2. Approval of the capital injection to GALLANT-RAPID CORPORATION LIMITED. (GRC company).
Board of Directors	2017.11.06	1. Agreement to the amendment to the "Rules and Procedures of Shareholders' Meeting" 2. Agreement to the amendment to the "Audit Committee Organization Charter" 3. Approval of the capital reduction plan for Gallant Precision Industries (Suzhou) Co., Ltd. 4. Approval of the renewal of loan commitments to financial institutions
Board of Directors	2017.12.21	1. Approval of 2018 internal audit plan 2. Approval of the evaluation of current external auditor's independence and adequacy 3. Approval of the change of external auditor and evaluation of its independence and adequacy 4. Approval of the Company's 2018 annual budget 5. Approval of the addition of loan commitments to financial institutions and endorsements and guarantees to the affiliates
Board of Directors	2018.01.22	1. Approval of 2018 Official Year End Bonus Distribution
Board of Directors	2018.03.27	1. Approval of 2017 examination on effectiveness of internal control system and Statement of Internal Control System 2. Approval of the distribution of employees' and directors' remuneration of 2017. 3. Approval of the 2017 Business Report and Financial statements 4. Approval of the proposal for the distribution of 2017 earnings 5. Approval of matters related to the general shareholders' meeting of 2018, including related matters in receiving shareholders' proposals and nominations. 6. Approval of the renewal of loan commitments to financial institutions 7. Approval of the endorsement of the guarantee through the Company to its subsidiaries

3.12 Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors:

None.

3.13 Resignation or Dismissal of Chairman, President, and Heads of Accounting, Finance, Internal Audit and R&D during the 2017 Calendar Year and as of the Date of this Annual Report: None.

4. Information Regarding GPM's Independent Auditors Report

4.1 Audit Fees

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					CPA's Audit Period	Remark
			System Design	Company Registration	Human Resource	Others (Note 1)	Subtotal		
Pricewaterhouse Coopers Taiwan	LI TIEN YI CHENG YA HUE	2,990				140	140	2017.01.01~ 2017.12.31	

Note 1: Audit fee refers to service fee paid to external auditor regarding the audit and review of financial statement, review of financial forecast and tax compliance audit.

Note 2: "Other" means consultation or study on Corporate Act or Securities and Exchange Act and integrated income tax system related service.

4.2. Non-audit fee paid to auditors, the audit firm and its affiliates accounted for more than one-fourth of total audit fee: None.

4.3 Replaced the audit firm and the audit fee paid to the new audit firm was less than the payment of previous year: Not applicable.

4.4 Audit fee reduced more than 15% year over year: None.

4.5 CPA's information

4.5.1 Former CPAs

Date of Change	January 1, 2018		
Reasons and Explanation of Changes	Due to its internal personal changes, PricewaterhouseCoopers Taiwan updated the audit partners for GPM from LI TIEN YI and CHENG YA HUE to Kwok-wah tsang and LI TIEN YI in 2018.		
State Whether the Appointment is Terminated or Rejected by the Consignor or CPAs	Client	CPA	Consignor
	Status	Not available	
	Appointment terminated automatically		
Appointment rejected (discontinued)			
The Opinions other than Unmodified Opinion Issued in the Last Two Years and the Reasons for the Said Opinions (Note)	None		
Is there any Disagreement in Opinion with the Issuer	Yes		Accounting principle or practice
			Disclosure of financial statements
			Auditing scope or procedures
			Others
	No	√	
	Explanation		
Supplementary Disclosure (Disclosures Specified in Article 10.6.1.4~7 of the Standards)	None		

4.5.2 Successor CPAs

Accounting Firm	PricewaterhouseCoopers Taiwan
Name of CPA	Kwok-wah tsan 、 LI TIEN YI
Date of Engagement	January 1, 2018
Prior to the Formal Engagement, Any Inquiry or Consultation on the Accounting Treatment or Accounting Principles for Specific Transactions, and the Type of Audit Opinion that Might be Rendered on the Financial Report	Not available
Written Opinions from the Successor CPAs that are Different from the Former CPA's Opinions	Not available

4.5.3 The Reply of Former CPAs on Article 10.6.1 and Article 10.6.2.3 of the Standards: None.

5. Changes in Shareholding of Directors, Managers and Major Shareholders

GPM's Chairman, Directors, Chief Executive Officer, Chief Financial Officer, and Managers in Charge of Its Finance and Accounting Operations did not Hold any Positions within GPM's Independent Audit Firm or Its Affiliates in the Most Recent Year.

6. Net Changes in Shareholding

6.1 Net Change in shareholdings and in shares pledged by directors, supervisors, management, and shareholders holding more than a 10% share in the Company

Unit: Shares

Title	Name	2017		Jan. 1 to March 31, 2018	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman	Nick Yeh	0	0	0	0
Director/ President	Jason Chen	15,000	0	5,000	0
Director	Hsu, Hung-Ming	0	0	0	0
Director	C SUN MFG. LTD.	0	0	5,888,000	0
	Representative: Frank Liang	0	0	0	0
Independent Director	Chia-chin Tong	0	0	0	0
Independent Director	William Hung	0	0	0	0
Independent Director	Bill Chen	0	0	0	0
Associate Vice President	Roger Lin	0	0	0	0
Associate Vice President	H.M. Lee	0	0	0	0
Associate Vice President	Mufa Chen	0	0	0	0
Associate Vice President	Tu-cheng Wang	0	0	0	0
Associate Vice President	Angela Huang(Note1)	0	0	0	0
Chief Financial Officer	Sandy Ning	0	0	0	0

6.2 Stock Trade with Related Party : None.

6.3 Stock Pledge with Related Party : None.

7. Top Ten Shareholders who are related parties to each other

As of August 6, 2017. Unit: Shares / %

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Re- marks
	Shares	%	Shares	%	Shares	%	Name	Relation	
C SUN MFG. LTD.	17,177,827	10.40%	0	0%	0	0%	None	None	
C SUN MFG. LTD. Representative: Frank Liang	0	0.00%	0	0%	0	0%	None	None	
CDIB Capital Corp.	8,709,358	5.274%	0	0%	0	0%	None	None	

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Re- marks
	Shares	%	Shares	%	Shares	%	Name	Relation	
Mega International Commercial Bank	4,278,118	2.59%	0	0%	0	0%	None	None	
CHIOU,TA-SHIAN	3,000,200	1.816%	0	0%	0	0%	None	None	
Micronics Japan CO., LTD.	2,712,000	1.642%	0	0%	0	0%	None	None	
Ching-hua Tsai	1,862,189	1.127%	467,313	0.28%	0	0%	None	None	
Nick Yeh	1,756,793	1.063%	—	—	0	0%	None	None	
CDIB Venture Capital Corp.	1,247,499	0.755%	—	—	0	0%	CDIB Capital Corp.	Domestic Subsidiaries	
CHEN,GUAN-HUA	1,200,000	0.726%	0	0%	0	0%	None	None	
SHIE,SHIOU-CHIN	1,047,432	0.634%	0	0%	0	0%	None	None	

8. Long-Term Investment Ownership

As of December 31, 2017. Unit: Shares / %

Long-Term Investments	Investments by GPM (1)		Investments Directly or Indirectly Controlled by Directors, Supervisors, and Managers of GPM (2)		Total Investment (1) + (2)	
	Shares	Portion	Shares	Portion	Shares	Portion
Gallant-Rapid Corporation Limited	15,560,000	100	0	0	15,560,000	100
Gallant Precision Machinery (BVI) Ltd.	20,289,000	100	0	0	20,289,000	100
APEX-I INTERNATIONAL CO., LTD.	6,600,000	100	0	0	6,600,000	100
Chun Zhun Enterprise Corporation	3,576,000	100	0	0	3,576,000	100
Gallant Micro. Machining Co., LTD.	16,171,750	62.88	1,418,000	5.51	17,589,750	68.39
Sunengine Co., LTD.	18,062,672	37.84	4,924,944	10.32	22,987,616	48.16

IV. Capital and Shares

1. Capital and Shares

1.1 Capitalization

As of March 31, 2018

Month/ Year	Issue Price (Per Share)	Authorized Share Capital		Capital Stock		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Date of Approval & Approval Document No.
06/2015	10	250,000,000	2,500,000,000	165,136,144	1,651,361,440	Capital Reduction and Cancellation of Treasury Shares: 50,000,000	None	06/29/2015 Chu-Shang-Tzu No. 1040022199

1.2 Capital and Shares

Unit: Share

As of March 31, 2018

Type of Stock	Authorized Share Capital			Remark
	Outstanding	Un-Issued Shares	Total	
Common Stock	165,136,144	84,863,856	250,000,000	Listed on Taipei Exchange.

Shelf Registration: None.

1.3 Composition of Shareholders

Common Share

As of August 6, 2017 (last record date)

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions and Natural Persons	Total
Number of Shareholders	—	1	62	25,871	47	25,981
Shareholding	—	4,278,118	32,519,374	120,583,616	7,755,036	165,136,144
Holding Percentage (%)	—	2.591%	19.692%	73.021%	4.696%	100%

1.4 Distribution Profile of Share Ownership

1.4.1 Common Share

As of August 6 ,2017 (last record date) : Unit: shares / %

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
1 ~ 999	13,892	1,836,394	1.112
1,000 ~ 5,000	8,135	19,386,420	11.74
5,001 ~ 10,000	1,985	16,148,247	9.779
10,001 ~ 15,000	535	6,917,783	4.189
15,001 ~ 20,000	439	8,119,643	4.917
20,001 ~ 30,000	343	8,999,109	5.45
30,001 ~ 40,000	167	6,120,188	3.706
40,001 ~ 50,000	143	6,704,294	4.06
50,001 ~ 100,000	191	13,973,438	8.462
100,001 ~ 200,000	78	10,975,313	6.646
200,001 ~ 400,000	48	13,243,043	8.019
400,001 ~ 600,000	7	3,701,287	2.241
600,001 ~ 800,000	5	3,331,569	2.017
800,001 ~ 1,000,000	3	2,688,000	1.628
Over 1,000,001	10	42,991,416	26.034
Total	25,981	165,136,144	100

1.4.2 Preferred Share: None.

1.5 Major Shareholders

Common Share

As of August 6 ,2017 (last record date) : Unit: shares / %

Top 10 Shareholders	Total Shares Owned	Ownership (%)
C SUN MFG. LTD.	17,177,827	10.402%
CDIB Capital Corp.	8,709,358	5.274%
Mega International Commercial Bank	4,278,118	2.59%
CHIOU,TA-SHIAN	3,000,200	1.816%
Micronics Japan CO., LTD.	2,712,000	1.642%
Ching-hua Tsai	1,862,189	1.127%
Nick Yeh	1,756,793	1.063%
CDIB Venture Capital Corp.	1,247,499	0.755%
CHEN,GUAN-HUA	1,200,000	0.726%
SHIE,SHIOU-CHIN	1,047,432	0.634%

1.6 Market Price, Net Worth, Earnings, Dividends per Common Share

Unit: NT\$ / Thousand shares

Item		2016	2017	Jan. 1 to March 31, 2018	
Market Price Per Share (Note1)	Highest Market Price	25.80	30.50	22.80	
	Lowest Market Price	13.05	19.60	19.85	
	Average Market Price	19.229	24.301	21.491	
Net Worth Per Share	Before Distribution	14.10	13.43	—	
	After Distribution	12.30	—	—	
Earnings Per Share	Weighted Average Shares (thousand shares)	166,476	165,136	165,136	
	Diluted Earnings Per Share	Not-Adjusted	1.58	1.21	—
		Adjusted	—	—	—
Dividends Per Share	Cash Dividends	1.8	1.217	—	
	Stock Dividend	—	—	—	
		—	—	—	
	Accumulated Undistributed Dividend	—	—	—	
Return on Investment	Price/Earnings Ratio (Note 2)	12.17	20.08	—	
	Price/Dividend Ratio (Note 3)	10.68	19.97	—	
	Cash Dividend Yield (Note 4)	9.36%	5.01%	—	

Note 1: Referred to TWSE website

Note 2: Price/Earnings Ratio = Average Market Price/Diluted Earnings Per Share

Note 3: Price/Dividend Ratio = Average Market Price/Cash Dividends Per Share

Note 4: Cash Dividend Yield = Cash Dividends Per Share/Average Market Price

Note 5: Pending for shareholders' approval

1.7 Dividend Policy and Distribution of Earnings

1.7.1 Dividend Policy :

Article 30-1 of the Company's Articles of Incorporation:

No lower than 1% and no higher than 12% of profit of the current year is distributable as employees' compensation and no higher than 3% of profit of the current year is distributable as remuneration to directors. However, the Company's accumulated losses shall have been covered (if any).

The profit distributable as employees' compensation can be in the form of shares or in cash. The recipient can include the qualified employees from subsidiaries.

The profit for the year referred in the first item means earnings before tax and employees' and Directors' compensation.

Article 31 of the Company's Articles of Incorporation:

If there is a surplus after the current year's accounts, the Company shall pay the tax according to law and make up for the accumulated loss in the previous years, then appropriate 10% of the balance as the statutory surplus reserve. However, if the statutory surplus reserve has reached the total amount of paid-in capital of the Company, then this requirement does not apply.

The Company may, in accordance with its business requirements and the provisions of the laws and regulations, appropriate or reverse a special surplus reserve. The Board of Directors shall draft is authorized to draft an appropriation plan for a resolution in the Shareholders' Meeting.

The ratio for cash dividend shall not lower than 10% of total distribution.

Articles of Incorporation of the Company does not clearly stated the dividend distribution ratio.

However, taking into account the capital requirement, long-term financial planning and shareholders' interest, Board of Directors is authorized to draft an appropriation plan and submit the plan for a

resolution in the Shareholders' Meeting.

The distribution of dividend is based on the principal of distributing cash dividend and the ratio for cash dividend shall not lower than 10% of total distribution. From 2014 to 2016, the cash dividend distribution to income tax was between 66% and 89% (excluding distribution of capital reserve), the cash dividend distribution including distribution of capital reserve to net income was between 83% and 159%. There were no stock dividend. According to Articles of Incorporation, the ratio for cash dividend shall not less than 10% of total distribution.

The status of Shareholders' Meeting on approving the proposal for the distribution of 2017 earnings: Board Meeting dated March 27, 2018 has passed the proposal for the distribution of 2017 earnings as table below. Each share could receive a cash dividend of NT\$1.217. Upon the resolution approved by Shareholders' Meeting dated June 22, 2018, the Company will proceed with following works.

2017 Earnings Distribution Proposal:

	Unit: NT\$
Cash Dividends to Common Share Holders (NT\$1.217 per share)	200,966,748

1.7.2 Description shall be given when expecting a major change in dividend policy:

Not applicable.

1.8 Impact to 2017 Business Performance and EPS Resulting from Stock Dividend Distribution:

Not applicable.

1.9 Compensation to Directors and Profit Sharing Bonus to Employees :

1.9.1 Employees' Compensation and Remuneration to Directors and Supervisors as Stated in the Articles of Incorporation

Article 30-1 of the Company's Articles of Incorporation:

No lower than 1% and no higher than 12% of profit of the current year is distributable as employees' compensation and no higher than 3% of profit of the current year is distributable as remuneration to directors. However, the Company's accumulated losses shall have been covered (if any).

The profit distributable as employees' compensation can be in the form of shares or in cash. The recipient can include the qualified employees from subsidiaries.

The profit for the year referred to in the first paragraph means earnings before tax and employees' and Directors' compensation.

1.9.2 The estimated employees' compensation and remuneration to Directors and Supervisors, the calculation basis for remuneration to employees, Directors and Supervisors in the form of stocks, and Accounting treatment for any gap between estimated amounts and actual distribution resolved by the Board of Directors:

The Company accrued employees' compensation and remuneration to Directors and Supervisors based on profit of current year minus accumulated loss while the remunerations to directors and supervisors were estimated based on GPM's Articles of Incorporation. The estimated employees' bonuses and remunerations to directors and supervisors were booked as operating cost or operating expense. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price of shares on the day preceding the shareholders' meeting. If there is difference between estimation and actual distribution, it will be treated as change of accounting estimate. The adjustment will be made at the year of distribution.

1.9.3. Profit Distribution of Year 2017 Approved in Board of Directors Meeting for Employee Bonus and Directors' Remuneration :

1. 2016 Directors' Compensation and Employees' Profit Sharing Bonus

Distribution Items	Board Resolution (March 27, 2018)
	Amount (NT\$)
Directors' Compensation (Cash)	4,832,236
Employee's Profit Sharing Bonus (Cash)	24,301,187
Total	29,133,423

Note: In 2017, there is no difference between the actual distribution amount and recognized amount

2. Ratio of Recommended Employee Stock Bonus to Capitalization of Earnings : Not applicable.

1.9.4 2016 Directors' Compensation and Employees' Profit Sharing Bonus

Distribution Items	Amount (NT\$)
Directors' Compensation (Cash)	8,133,078
Employee's Profit Sharing Bonus (Cash)	40,665,391
Total	48,798,469

Note: In 2016, there is no difference between the actual distribution amount and recognized amount

1.9.5 Buyback of Common Stock: None.

2. Issuance of Corporate Bonds : None.

3. Preferred Shares : None.

4. Status of GDR/ADR : None.

5. Status of Employee Stock Option Plan :

5.1 Issuance of Employee Stock Options:

Not applicable.

5.2 Employee Stock Options Granted to Management Team and to Top 10 Employees:

Not applicable.

6. Status of Employee Restricted Stock :

GPM did not issue employee restricted stock in 2017, nor as of the date of this annual report.

6.1 Status of Employee Restricted Stock:

Not applicable.

6.2 Employee Restricted Stock Granted to Management Team and to Top 10 Employees:

Not applicable.

7. Status of New Share Issuance in Connection with Mergers and Acquisitions :

GPM neither issued new shares in connection with mergers or acquisitions during 2017, nor as of the date of this annual report.

8. Financing Plans and Implementation: Not applicable.

V. Operational Highlights

1. Business Activities

1.1 Business Scope

- CQ01010 Die Manufacturing (restricted to area outside the Science Park)
- F106030 Wholesale of Die (restricted to area outside the Science Park)
- F113010 Wholesale of Machinery (restricted to area outside the Science Park)
- CC01080 Electronic Parts and Components Manufacturing (restricted to area outside the Science Park)
- F401010 International Trade
- CB01010 Machinery and Equipment Manufacturing
- CE01010 Precision Instruments Manufacturing
- CC01010 Electric Power Supply, Electric Transmission and Power Distribution Machinery Manufacturing
- CF01011 Medical Materials and Equipment Manufacturing
- F208031 Retail sale of Medical Equipments
- F108031 Wholesale of Drugs, Medical Goods
- D101060 Self-usage power generation equipment utilizing renewable energy Industry
- E601010 Electric Appliance Construction
- E601020 Electric Appliance Installation
- EZ05010 Apparatus Installation Construction

Research, development, design, manufacturing, and sale of the following items :

- (1) IC Packaging Front End Equipment
 - A. IC Die bonder
 - B. IC Wire bonder
- (2) Flip Chip processing Equipment: Flip Chip Bonder, Chip Sorter, Dispenser Machine
- (3) Semiconductor packaging and testing equipment
- (4) Inspection Equipment for Panel Display Manufacture
- (5) Nano materials testing equipment
- (6) Grid-Connected Solar power system
- (7) Grid-Connected Wind and Solar power system
- (8) Off-Grid Wind and Solar power system
- (9) Off-Grid Wind and Solar Hybrid Power and LED light source Street light
- (10) Other import and export business of related products
- (11) Disposable soft contact lenses
- (12) Functional soft contact lenses

1.2 Revenue Mix(2017)

Product	Operating Percentage (%)
Display Process Equipment	55.53%
Semiconductor Process Equipment	15.52%
Intelligent Automation Equipment	17.50%
Others	11.45%
Total	100.00%

1.3 Products Currently Offered by GPM

- (1) FT-LCD / OLED / Flexible OLED Display Process Equipment:
 - A. Array Process Equipment
 - TEG Prober
 - Array Tester

- Array Cleaner
 - Array Wet etching
 - B. Cell Process Equipment
 - Edge Grinding Machine
 - Cell Tester
 - Polarizer Attachment machine
 - In- process Cleaner
 - Thinned glass surface defect inspection equipment
 - C. Module Process Equipment
 - Edge /Plasma Cleaner
 - Excimer UV Cleaner
 - D. Inspection Process Equipment
 - Panel Surface Inspection
 - Burr Checker System
 - E. Automation Equipment
 - G4.5 / G5 / G6 / G7.5 / G8.5/G10.5 Cassette Station
 - Loader / Unloader
 - Loader & Automation for Cell Area
 - Dense Packer / Unpacker C/V, Buffer etc. Automation for Production Line
- (2) IC Packaging / Substrate Equipment :
- A. Consumer/Driver IC Chip Sorter
 - B. IC chip multisides inspection sorter
 - C. IC/LED Die Bonder
 - D. CMOS image sensor
 - E. FPC Trim / Form
 - F. Heatsink mounting machine
 - G. Auto Molding System
 - H. Trim / Form System
 - I. Laser Mark System
 - J. Substrate Punch System
 - K. IC Substrate/ Pane Fan-out Planarization Equipment
 - L. IC Packaging Strip Grinder Equipment
- (3) IC Packaging Back End Precision Mold
- A. Mold Chase
 - B. Die Set /kit
- (4) Semiconductor Automation Machine
- A. Tray Exchange Machine
 - B. Automated Optical Inspection Machine
- (5) Intelligent Automation Service
- A. AGV Logistic Automtion
 - B. Process Automation Equipment
 - C. Solar Cell Automation Handling System
 - D. Lithium iron battery core seal welding and Lamination device
- (6) Biomedical equipment
- A. Complete blood microfluidic immune analyzer

1.4 New Product (Service) in Planning

The GPM Group are planning to develop the following new product (service):

R&D items (Processing Technology)	Name of R&D machine
	● Picosecond Imaging Circuit Analysis, PICA
	● G8.5/G10.5 Wet Etching
	● 12" Wafer 2D/3D Defect Inspection & Metrology
	● High-Throughput Wafer Glass Surface Defect Inspection
	● High-precision fan-out packaging and grinding equipment
	● Panel Temporary Bonding coating and laminating equipment
	● 3D on-line machining system
	● vSLAM (AGV vision guiding system)
	● Smart machinery-IOT process monitor and diagnostic system
	● Complete blood microfluidic immune analyzer
	● 3D IC/Fan Out Bonder
	● Tape Reel Chip Sorter
	● Flip Chip Bonder
	● D/B Post Inspection System
	● Panel Fan Out Bonder
	● Panel Laser System
	● Panel Molding System
	● IC Substrate Planarization
	● High-speed dual heads pick & place machine
● Micro LED Die Transfer machine	

1.5 Industry Outlook

1. Industry Status and Future Development: The Company is the process and testing automotive equipment manufacturer in electronic industry. In 2018, the Company will focus in FPD industry, semiconductor industry, intelligent automation industry and IVD technology in biomedical industry. Details are as follows:

(1) FPD equipment industry

According to DIGITIMES Research's forecast, application of TV, monitor and NB has enter into mature phase and the respective global delivery CAGR of the panels are 1%, -2.3%, and 1.1%. Other application such s public display panel and large scale automotive panel are eyeing on higher growth rate, up to CAGR 8.7%.

For 2018 to 2022, as many 8.5-generation plants will be in place for operation, 2019 to 2021 will be another peak of increase in capacity for large size LCD panel, showing a CAGR of 20 million square meters. In recent years, demands for big TV pushes the demand for large size panel, at the rate of 5%-7% per annum.

In the fourth quarter of 2017, delivery percentage of cell phone panel has been increasing, at the CAGR 2.4%, driven by the increasing demand for 18:9 panel and functional phones in India.

From 2017 to 2018, there are going to be 8 6-generation production line in place for mass production and compete for middle or high end smart phone panel market. Although Apple has been slowing its pace in turning to AMOLED panel, the trend for smart phone using AMOLED panel is a unstoppable trend in the long run. Companies in China have gradually expand their capacity in LTPS TFT LCD and AMOLED so as to meet the future

trend for high end smart phone panel.

Recently, Foxconn Group has been preparing to invest up to US\$10 billion in building 10.5-generation panel plant, eyeing a mass production in 2020. After mass production, the market is expected to see a more significant change.

(2) Semiconductor Equipment Industry

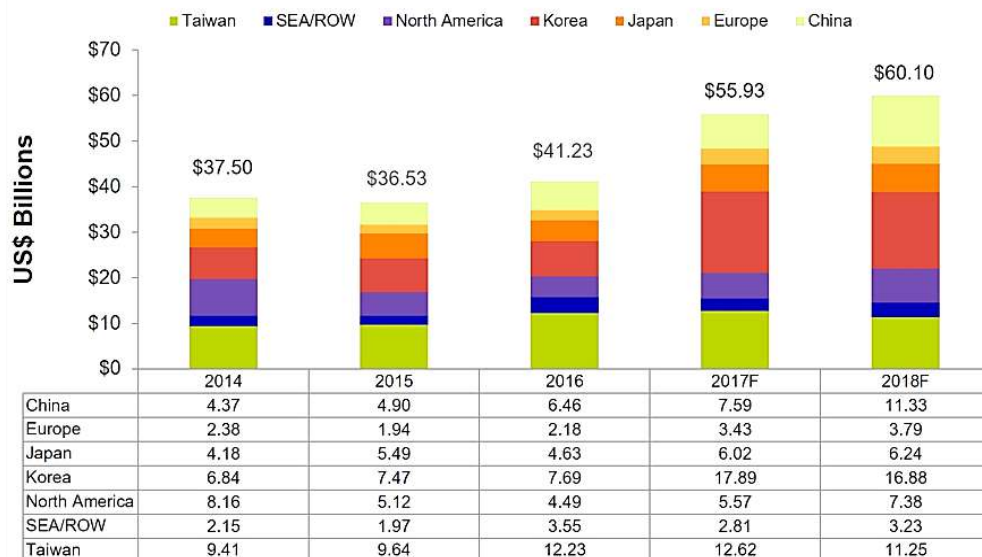
Along with the increasing demand for smart phone, high efficient calculating, automotive electronics, IoT, AI, high-end server, VR and AR, leading companies have increased their capital expenditure, leading to growth in the sales of semiconductor equipment. Several market research institution also point out that semiconductor manufacturer will have significant increase in capital expenditure in 2017 and 2018.

According to the data published in 2017 December by SEMI, global semiconductor equipment sales in 2017 has increased by 35.65% (US\$55.93 billion), breaking the record of US\$ 47.7 billion set in 2000. In 2018, the sales is expected to increase by 7.46% (up to US\$60.1 billion), reaching another historical high.

Global Semiconductor Equipment Sales Overview and Prediction

SEMI Year-End Semiconductor Equipment Forecast

Source: SEMI (www.semi.org), December 2017



New equipment. Totals may not add due to rounding

Source: SEMI, \$55.9 Billion Semiconductor Equipment Forecast (2017/12)

Breaking down the semiconductor equipment sales by major countries, Taiwan topped in the global semiconductor sales market for five consecutive year (2012-2016). In 2016, the growth rate was 26.87% (US\$12.23 billion), accounting for close to 30% in the global market. The growth was because TSMC and second tier fab were investing in advanced processing. South Korea was ranked second place by US\$7.69 billion sales, mainly benefiting from Samsung Electronics and SK hynix's expansion in DRAM and NAND, push up their demand for equipments. China was ranked in the third place by US\$6.46 billion. From SEMI's forecast, South Korea's market scale increased to US\$17.89 billion, surpassing Taiwan's US\$12.62 billion. China jumped to the third place, with an annual growth of 17.49% (up to US\$7.59 billion). SEMI also foresee that the ranking of semiconductor equipment will be reshuffled in 2018. Among them, China will become the second largest market in the world, with a market scale close to US\$11.33 billion (annual growth by 49.28%). South Korea will still keep the first place, with a market scale of US\$16.88 billion (annual decrease of 5.65%). Taiwan is seeing a

decrease of 10.86% this year and will be in the third place, with a market scale of US\$11.25 billion)

In terms of semiconductor manufacturing equipments by category, SEMI estimated that global wafer processing equipment sales took up 80.5% of overall equipment sales, showing an annual increase of 37.5% (up to US\$45 billion). Other front end equipment, including fab equipments, fab manufacturing, mask and reticle, expected to grow by 45.8% (up to US\$2.6 billion); back end packaging equipment expected to grow by 25.8% (by US\$3.8 billion); testing equipment expected to grow 22% (up to US\$4.5). In 2017, the overall equipment market total market value estimated to grow dramatically by 35.61%, up to US\$55.93 billion.

SEMI estimated that semiconductor equipment market in Taiwan is expecting to be US\$12.62 billion (NT\$381.9 billion). The main reason was because leading foundry TSMC and ASE in packaging and testing industry investing in advanced packaging technology and expanding their capacity, pushing up the investment in equipment and capital expenditures and making contribution to the revenue of equipment companies. In 2017, ITIS estimated that overall semiconductor equipment capacity growth would be 3.43% (NT\$81.5 billion), accounting for 21.34% of total demand.

Taiwan's semiconductor equipment manufacturers are mainly focusing on back end packaging equipment, in recent years a lot of efforts has been put in advanced packaging equipment in response to requirement of low cost chip and low power consumption from the demand side. The suppliers are commencing the development in advance packaging technology to compete in the market. In 2016, TSMC'S Integrated Fan-Out Wafer Level Package (InFO WLP) technique was applied in 16nm process, using to mass produce A10 CPU that been used on iPhone7. In 2017, 10nm process of iPhone 8 A11 CPU will be in mass production in 2017. In 2018, there will be 7nm process of A11X CPU. ASE has obtained Fan-Out WLP processing technology and patent license from DECA TECHNOLOGIES INC. in 2016, also becoming a opportunity for equipment manufacturer.

During the development of China's IC industry, packaging and testing industry always remains steady in growth. In recent years, China's packaging and testing industry in IC sector meets the strategy in national plan thus receiving huge fund. This has been driving the rapid growth in domestic packaging and testing companies. Meanwhile, foreign semiconductor companies transfer their packaging and testing business to Chinese companies, this has been bringing opportunities in the industry.

(3) Smart Automation Industry

In recent years, along with the grand strategy of Germany's Industry 4.0 and China's "Made in China 2025", automatic industry has entered into a whole new development phase. Currently, automatic technology is combining with AI, representing a vivid characteristic of this age. Industrial robot is a key component to construct automatic and intelligent production system. Domestically, there are companies launch various industrial robotic product such as combining robotic arm with AGV. This application has expand the usage from manufacturing sector to service sector.

From Topology Research Institute's forecast, global smart manufacturing and smart factory's market scale will be up to US\$250 billion. Echoing the government's policy, each technology has advance to the age of IoT. Smart manufacturing are leading the transformation of manufacturing industry with aims of lowering production cost and lifting production efficiency so as to provide solution to flexible production and lacking labor.

In 2020, global manufacturing IoT market will value US\$133.2, a CAGR of 20.3%.

Among the others, industrial robot market (including grinding equipment robotic arm) will be US\$39 billion by 2020 (Source: WinterGreen Research).

The Trump administration is expecting to reinvigorate manufacturing industry in the U.S. The manufacturers need automation and industrial robot, not human resource. Foxconn Group has announced its plant construction plan in the U.S., products made in the U.S. will be a good exit for tens of thousands of industrial robot made by Foxconn. This will also open up an opportunity for smart machinery equipment product to enter into the U.S. market.

According to "Ten Points of Forecast for China's Manufacturing Industry" published by IDC, employees of 50% large corporation in China will be working under the assistance of robot and AI.

By 2019, 30% of smart manufacturer will finish the combination of information technology and business technology and improve the operating efficiency and timeliness. In the future, issues of data privacy and security in the factories will require IT to make sure the connection security.

AI aims at increasing operation efficiency, using deep learning as structure to reduce fault made by human. The related application will come to market, showing the era of AI is coming.

(4) IVD in Biomedical industry

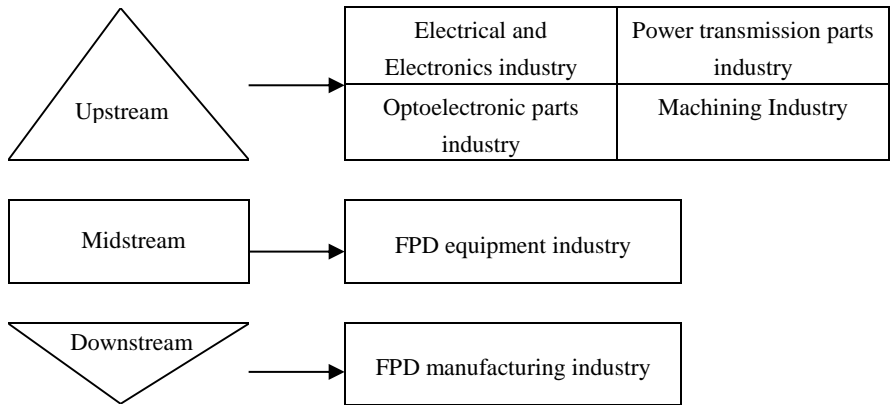
IVD can be categorized into clinical laboratory in vitro diagnosis and point-of-care-testing (POCT). Clinical laboratory in vitro is mostly conducted by professionals. The time needed is longer but coming out with better quality of examination. POCT can be conducted by non-professionals with faster speed. POCT is a new subgroup in IVD industry. The core element lies in meeting the need of rapid diagnosis in clinical treatment or home use care. The ultimate goal is obtaining a fast, timely and reliable result. POCT has five outstanding characteristics: fast in speed, small in size, less in blood quantity needed, may be used by non-professionals, extensive in application. These characteristics makes POCT a perfect complementary to the traditional laboratory diagnosis.

The biotechnology analyst Wen,Ching-Wen pointed out that global POCT market scale was US\$17.8 billion in 2016. In 2020, the market scale may grow to US\$25.6 billion. From 2015 to 2020, CAGR is up to 9.7%.

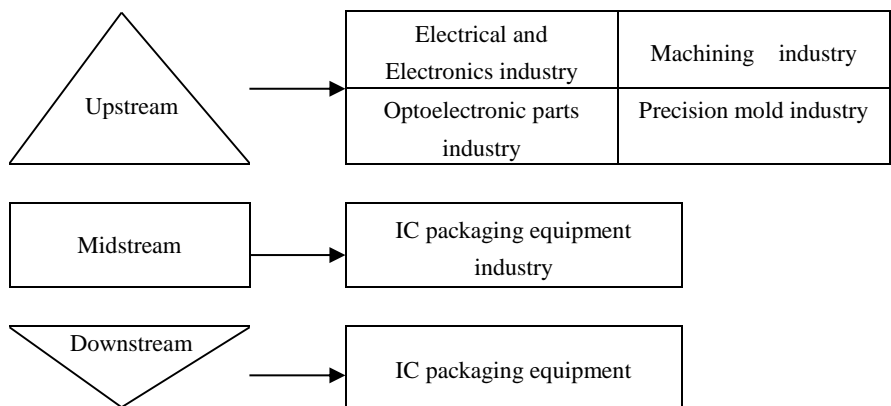
The scale of China's POCT market is smaller, but keeping a CAGR of 20% to 30%, much higher than the CAGR of international level. This is mainly driven by the huge population base and the idea of health management. With the medical reform led by Chinese government and contribution to basic sanitary construction, POCT market in China is experiencing growth year by year. In 2016, the market scale of China's POCT was US\$0.95 billion. With the progress of medical reform and forming of community medical system, China's POCT may have various application in surgery, emergency, ICU, Chronic disease prevention, public health emergencies, county level medical institution market and new type of rural cooperative medical care. In 2022, China's POCT market scale can become US\$3.25 billion. (Source: Qianzhan Industry Research Institute, China)

2. The supply chain of upstream, midstream and downstream of the industry

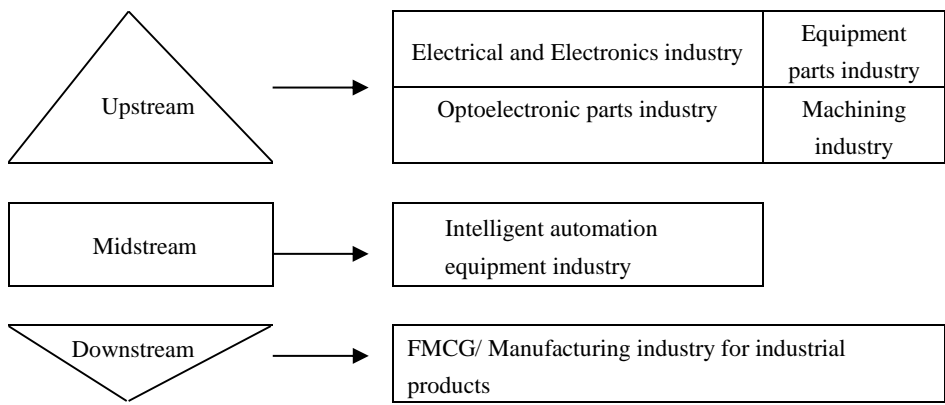
(1)FPD equipment industry



(2) Semiconductor IC packaging equipment industry



(3) Intelligent automation equipment industry



3. Product development trends and competition status

(1) FPD Equipment industry

In the future, supply more than demand in large size panel will be common. China's panel supplier such as BOE and CSOT will see more capacity coming after 2018. Foxconn also announced its investment of G10.5 factory in Wisconsin and expected to enter mass production in 2020. If combining all the capacity that higher than 8-generation, 40-inch and above TV panel market's supply is more than demand. As the demand side does not have corresponding appetite, supply more than demand in large size panel will become a common situation.

As smart phone panel turning to AMOLED, digital camera and portable navigator's function replaced smart phone and 9 inch becoming the mainstream for tablet, industrial control, car panel and IoT application will become a steady source of growth in small and medium size TFT LCD.

The demand for equipment follows the trends below:

- A. Large size, LTPS, OLED small size production equipment are the mainstream.
- B. The demands are mainly coming from China.
- C. Complementary to the request of high quality and differentiation raised by Taiwan's panel companies, there will be a lot of partial expansion and demand for new type of equipments.
- D. China government is promoting its initiative of using panel equipments that produced domestically

From the above trend, the main demand for equipment will be more concentrated in China, but also facing bigger challenge from China's local equipment supplier.

(2) Semiconductor Equipment Industry

The WLCSP developed by bumping process is changing with the advancement of semiconductor advanced processing and packaging technology. In response to requirement of efficiency and size to high end smart phone, domestic leading brands such as ASE, SPIL, PTI, Chipbond and GTK have come to mass production and become the development trend for recent years. Moreover, as the expanding demand of multi-layer structure high-order IC chip, 3D and 2.5D IC packaging market has entered into growing phase. Research and Markets has pointed out, in the layer of end product, electronic devices' demands for advanced structure IC have increased. In addition, as electronic devices are becoming smaller, along with demand for smart phone and video game equipment and application for AI, all push the development of 3D and 2.5D IC packaging market. In forecast, 3D and 2.5D IC packaging market is expected to have a market scale up to US\$170.46 billion, a totaling CAGR of 38.3%.

With more and more IC manufacturer launch advanced Fan-out packaging innovative IC products, InFo developed by TSMC is also applied on A10 CPU. ASE and PTI will import Fan-out packaging process into mass production in 2017 to 2018.

The market information above has pointed out the advanced packaging trend is a big opportunity for future equipment industry. This is also our main focus.

Semiconductor packaging companies in Taiwan are mainly using foreign equipments. However, equipments produced domestically have improved in terms of precision and function. Local manufacturers also have mutual development project with first tier companies, the gap of technology between foreign companies is smaller.

As advanced packaging of 3D/2.5D IC/Fan-out and the like has become a clear trend, there is no single standardized equipment because of different processing method used by front runners in the market. Thus, each leading brands shall have the agility to develop equipments that matches processing timeline to reinforce its competitiveness. This has become a good advantage for domestic equipment companies.

(3) Intelligent automation equipment industry

With the progress of AI, IoT and big data analysis, the development of smart factory

has becoming mature. Machines, equipments, devices and elements are linked through IoT, the same for data and information. The smart production process also realizes the intelligence of production line. MIC has predicted that global smart factory market scale will be growing at 10% per year for the coming years. In 2018, the capacity will exceed US\$250 billion. Industrial robot and automatic processing equipment are taking bigger shares, more than 90%.

IEK also points out that ICT industry will be focus on "AI on Earth, AI on Edge", that is, AI will be from cloud computing down to edge computing. This trend will be imposing significant impact on the industry and the R&D and design direction for both of the technology and products. IEK has made a prediction that the global edge computing market scale will be increased to US\$13.3 billion in 2022 (growth rate 10.7%), from US\$8 billion in 2017.

As we can see, smart manufacturing factory that incorporates advanced process like IoT and AI has realized the reform of industrial 4.0, mass customization and zero defect manufacturing. IoT transmitting structure shall combine each nodes and support all kinds of data exchange standards at the same time, realizing IoT structure including device layer, connect layer and manage layer.

We can expect that in the post-IoT era, AI devices will gradually enter our lives. The focus of industry will change from IoT to AI. Machine Learning have the ability of predicting, a clear trend for AI technology development. As the progress of global economic development, capital expenditures on corporate side has increased accordingly. Companies are facing pressure from increasing labor cost. Compared with traditional production, the demands for automatic equipment increase. If the Trump administration relaunches manufacturing industry in the U.S., the manufacturers need automation and industrial robot, not human resource. Recently global industrial countries keep proposing the returning of manufacturing strategy. Through the integration of supply chain and strengthening of industry value-added, the industrial manufacturing may turning to smart manufacturing and open the door to industrial 4.0 and smart factory.

(4) IVD in Biomedical industry

From global perspective, blood sugar testing takes the biggest share in POCT market. Cardiovascular testing and infectious disease testing are two fastest growing markets (Source: TriMark). China's POCT is in early stage. The overall growth rate is much higher than global level. If using testing item as a classifying measure, POCT includes blood sugar testing, blood gas/electrolyte testing, heart marker testing, infection factor detection, pregnancy and childbirth examination, infectious disease testing, drug abuse testing and tumor marker testing. Drug abuse testing is mainly used by police detecting drugs and physical examination regarding military services, this is a market to be explored. Tumor marker testing put less emphasis in timeliness, currently the POCT application is relatively less. In the future, in response to hierarchical diagnosis and treatment system, the application in tumor marker testing can be expected to reach primary care. Heart marker testing is the bottleneck of the whole cardiovascular field. Only with correct diagnosis within short time span, the necessary rescue can be done. POCT product's response time is short thus can give the patient timely diagnosis and treatment. The cardiovascular testing of POCT is the fastest growing field. According to a cardiovascular report in China, from 1980 to 2015, the number of cardiovascular and cerebrovascular patients had been growing at 9.96% per annum on average. By the end of 2015, cardiovascular patient amounted to 290 million people in China. So far, in China's first tier hospital, export products take bigger shares. Domestically made products have higher market share in small and medium hospital. Infectious disease related POCT products are mainly used in four testing before surgery (hepatitis B, hepatitis C, syphilis, AIDS) and hepatitis screening before endoscopy check. This allows primary hospitals, private clinics and community

healthcare center that are not equipped with bacteria culture can do the rapid screening of microbial. At the outbreak of disease, POCT products can be used in primary rapid screen and diagnosis. In China, medical market mainly focus on primary medical institution and disease control prevention institution. (China Industry Competitive Intelligence Network and Hua Chuang Securities)

4. For the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report, R&D expenditures:

Unit: NT\$ thousands

Year	2017	As of March 31, 2018
Item		
R&D expenses to Operating income	343,153	70,702
R&D expense to Operating income ratio	7.09%	5.38%

5. For the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report, techniques and products that have been developed successfully for the Group

R&D items (Processing Technology)	Name of R&D machine
	● G10.5 Array TEG Probe.
	● Flexible display Full Contact Type Array Probe
	● 12" Wafer 2D Defect Inspection & Metrology
	● Strip Panel Fan-out Planarization
	● 12" Chip Box Auto-feed AGV System
	● GM-1200 LAMINATION SYSTEM
	● PLM-2000 PANEL MOLD SEMI AUTO SYSTEM
	● 6S Inspection Chip Sorter
	● High speed Fan Out Die Bonder
	● SU51 Fully automatic four side forming machine
● TF2700 Fully automatic FPC punch machine	

1.6. Long and short-term business development plans

1.6.1 Short-term plans

- (1) Incorporate foreign technology and improve the high value-added prober and wet process etching equipment of the FPD array segment .
- (2) Seize the trend of FPD plant construction and arrange the Company's production capacity to carefully select business opportunities with reasonable gross profits and profit-centered.
- (3) Continue the efforts of intelligent automation development in 2017 and centralize the resources and provide the strategic partners and important customers from key industries with automation integration solutions to achieve their intelligent manufacturing goals.
- (4) Continue the cooperation with world-class companies to become their long-term automation equipment partners to ensure the stability of business development sources.
- (5) Aggressively cut into the high value-added semiconductor front-end advanced detection technology development and the detection and grinding process of middle-to-back end of the packaging process through technology importation and cooperation.
- (6) Improve the performance of existing IC Substrate products to enhance the product line and

expand the customer base.

- (7) Adopt a close-to-the-market strategy and continue the development of health reagents for In Vitro Diagnostic(IVD) and testing equipments.

1.6.2 Long-term plans

- (1) Transforming with creativity and sustainability are the first priority of development strategy.
- (2) Business Aspect
 - Strengthen foothold in display industry, semiconductor industry and intelligent automation industry
- (3) Product Aspect
 - Core technology (equipment & process) development
 - Create value-added by integrating cross-field products.
- (4) International strategy that aims at cultivating talents

2. Market, Production, and Sales outlook

2.1 Market Analysis

1. The Company main product (service) sales (provision) area and market shares

The Company's products have presence mostly in Asia. During the last two year the sales percentage of the GPM export sales:

Unit: NT\$ thousands

Items \ Year	2016		2107	
	Amount	Ratio (%)	Amount	Ratio (%)
Domestic Net Sales	1,425,651	38.88%	1,448,372	29.93%
Net Sales from Export	2,241,049	61.12%	3,391,515	70.07%
Total	3,666,700	100.00%	4,839,887	100.00%
Market Share	Not applicable		Not applicable	

2. Market Development

In line with the Company's strategy, GPM will continue our effort in strengthen core technology and widen the application in display, semiconductor, IC substratel, intelligent automation and biotech industry.

- (1) Display Industry

In 2017, China has surpassed South Korea in terms of large-size TFT LCD capacity and become the manufacturing area that has the most capacity in this field. In 2020 China will account for 49.9% capacity in global large-size LCD, 53.6% in 2022 by estimation.

There are several of GPM's main products that have get into China's. In line with GPM's development and focus in G8.5/G10.5 wet etching equipment. GPM is eyeing a fruitful result in display equipment this year.

- (2) Semiconductor Industry

Under current market condition, mobile device, automotive, high performance computing, Internet of Things (IoT), and artificial intelligence are expected to be the main focus areas of market development. As advanced packaging of 3D/2.5D IC/Fan-out and the like has become a clear trend, there is no single standardized equipment because of different processing method used by front runners in the market. Thus, each leading brands shall have the agility to develop equipments that matches processing timeline to reinforce its competitiveness. This has become a good advantage for domestic equipment companies.

GPM has long been focusing on the business of semiconductor packaging equipment business, having several products that gain recognition by leading brands. GPM also has the advantages of maintaining close contact with client and accumulating years of technique basis. With the flexibility to meet the need of customizing and support from domestic leading brands, this has become a good basis for GPM to get into the market. In advanced packaging technology, GPM proactively contribute to forward-looking development of various technology equipments and plan for new processing. Currently there have been several new processing equipments imported successfully into global leading brand. Given the increasing demand from the market, we are holding a prudently optimistic view in the prospect of 2018.

(3) Intelligent automation equipment industry

The Company's main focus on smart equipments are AVG, smart sensor module and IoT analytical system solutions. System integration is one of the Company's advantage. The Company has achieved outstanding performance in semiconductor, panel, solar energy, PCB and biomedical industries thus has gained strong capability in manufacturing and system integration. In response to the emerging trend of industrial 4.0 and smart machinery, the Company launch smart manufacturing solution package and accelerate the expansion of manufacturing industry in this field.

(4) Biomedical industry

POCT is our main focus. Due to the advantages of easy to use and rapid screening, so far the application is covering ICU, emergency, ambulance, home caring. The usage includes blood sugar, heart marker, infectious disease. Among the others, chronic disease testing market such as cardiovascular, diabetes and tumor are growing at the fastest speed. In terms of technology, dry chemistry, immunocolloidal gold, immunofluorescence, biosensor has gradually moved to biochip. The method of examination is also changed from qualitative to quantitative. The main reason is because the advancement in microfluidic technology.

3. Niches in competition, Favorable and Unfavorable Factors to Long-term Development and Countermeasures:

(1) Favorable factors

In the Display field, by the technology transfer of Japan's high value-added prober and wet process etching equipment of the array segment, the Company has successfully development main processing products in Array and Cell segment and applied to main client. This have shown that the Company's business in display field is more impeccable and healthy.

As advanced packaging of 3D/2.5D IC/Fan-out and the like has become a clear trend, there is no single standardized equipment because of different processing method used by front runners in the market. Thus, each leading brands shall have the agility to develop equipments that matches processing timeline to reinforce its competitiveness. GPM has the advantages of maintaining close contact with client and accumulating years of technique basis. With the flexibility to meet the need of customizing and support from domestic leading brands, this has become a good basis for GPM to get into the market.

The smart automation market is seeing explosive demand. The Company are entrusted by various leading companies in different field to form large scale alliance. The future is very promising for the Company.

A. Research and Development:

The Company devotes to innovation and diversified product R&D, cooperating with

research and academic institute to development advanced processing equipment. The Company's R&D has won reputation from all field.

In addition to accumulating core technique and integrative application ability, the Company had several technology cooperative project with international leading companies in recent years. By importing world-class technique, GPM has fruitful results. Recently the Company has signed a technology licensing and mutual development contract with IBM, introducing analytical and testing system that can be applied to advanced semiconductor. This could further the Company's progress in reaching out to the international market and transformation.

B. Complete quality system

The Company's quality system contains quality (Q), delivery (D), technology (T), cost (C), and service (S) so as to provide customers with total solution service and to attract alliance from world-class customers. So far, the Company has great progress in the strategy of "Strategic/Cross-Field Cooperation, Advancement with Alliance".

C. Strong Back-Up Support System

The Company has a good credit history. Through many years of doing business with suppliers, good partnerships have been formed. This is crucial to the capacity expansion and stable supply of materials.

(2) Unfavorable Factors and Countermeasures

A. With the emergence and expansion from China's panel industry and the China government's initiative of using equipment that produced domestically, the Company is facing strong competition from local equipment manufacturers. China's strong support to its semiconductor industry is accelerating the development of local equipment industry. In near future, this will turn out to be the competing relationship.

Countermeasures:

- (A) Continue strengthening its own product technology and import advanced foreign technology to enhance its product level in order to get rid of the low-price competition.
- (B) Allocate more resource in China's operation to level up the design and manufacturing capability of its subsidiaries in China and to deepen their competitiveness. Localize partially the equipment development, integrate local resource to control cost and strengthen local service.
- (C) Build alliance with equipment companies in China. This is not only maintaining existing business but also promoting high value-added products to customer's in China.
- (D) Get close to clients and quick response are our key factors of cutting into the new process development of our client. Capitalizing on these advantage, we can continue to innovate and grow with our client. However, under the constraints of effective resource and rapid market change, we shall be prudent in choosing capital and human resource for mature products and new R&D equipment.

B. FPD industry may not have a long and lasting development opportunity.

Countermeasures:

- (A) Entering into to front-end FPD industry of cleaning, wet etching and inspection equipment, which are very high value-added services.
- (B) Taking advantage of the remodel opportunities of existing FPD customer and expanding the integration of After market value-added service.

- (C) Exploring the foothold in semiconductor industry, intelligent manufacturing industries, and in Southeast Asia.
- (D) Continue the efforts in building strategic alliance, technology transfer corporation and cross-field integration.

2.2 Main usage and Production Process of the Primary Products

1. Main usage

The Company is specialized in design, manufacturing and sales of equipment in FPD, semiconductor, intelligent automatic and biomedical.

2. The process of the Company's production and manufacturing are as follows:

All the Company's new product R&D shall follow the strict "C process design development control procedure" to control the R&D projects. C process includes "C0 Market Assessment", "C1 technique and product planning", "C2 Design Phase", "C3 Manufacturing and Assembly Phase", "C4 Testing and Validating Phase" and "C5 Result Confirmation Phase"

Development results are controlled by "S process", including "S1 Purchased Material Inspection", "Machine Component Module Assembly", "S4 Electricity Control and Whole Machine Control", "S4 Cold Run Test" and "S5 Hot Run Test".

2.3 State of Supply of Main Materials

The main material and source of the semiconductor equipment and TFT LCD equipment produced and manufactured by the Company are as follows:

Mechanical Component

(1) Functional Machine Component

The mechanical designers draw the technical drawings based on specifications and engineering department produce or outsource to contractor to produce. The main materials includes metal like steel, iron and aluminum.

(2) Standard Mechanical Parts

Other general parts such as bearing, servo motor, drive belt, spring, stamping die, guide rod and buffer are purchased through trader or from domestic market based on the decision and selection of mechanical designers.

(3) Software such as Computer and Human Machine Interface

Industrial and human machine interface are acquired through trader or from domestic market based on the decision and selection of electronic controller.

(4) Various signal transmitting and control components

Components such as sensors, solenoid valve, server controller and touch switch are acquired through trader or from domestic market based on the decision and selection of electronic controller.

(5) Electric and transmitting components

Components such as cylinder, illuminating lamp, transformer and power supply are acquired through trader or from domestic market based on the decision and selection of electronic controller.

2.4 Key Supplies & Customers

2.4.1. Key Suppliers

Names of suppliers accounting for more than 10% of the total purchase in any of the previous two years: None.

Unit: NT\$ thousands / %

2016				2017			
Supplier	Procurement Amount	As % of 2016 Total Net Purchase	Relation	Supplier	Procurement Amount	As % of 2017 Total Net Purchase	Relation
Others	2,389,554	100.00%	—	Others	3,192,761	100.00%	—
Total Net Procurement	2,389,554	100.00%		Total Net Procurement	3,192,761	100.00%	

2.4.2. Key Customers

Names of customers accounting for more than 10% of the total sales in any of the previous two years:

Unit: NT\$ thousands / %

2016				2017			
Customer	Net Revenue	As % of 2016 Total Net Revenue	Relation	Customer	Net Revenue	As % of 2017 Total Net Revenue	Relation
Customer D	870,113	23.73%	—	Customer D	707,420	14.62%	—
Customer B	406,873	11.10%	—	Customer E	698,932	14.44%	—
				Customer F	588,065	12.15%	—
				Customer G	498,822	10.31%	—
Others	2,389,714	65.17%		Others	2,346,648		
Total Net Revenue	3,666,700	100.00%		Total Net Revenue	4,839,887		

2.5 Production Volume and Value in the Past Two Years

Unit: pieces / NT\$ thousands

Year Output Major Products (or by department)	2016			2017		
	Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value
Display Process Equipment	Not applicable	351	1,550,324	Not applicable	421	2,377,710
Semiconductor Process Equipment		2,067	694,737		1,102	605,933
Intelligent Automation Equipment		153	234,178		555	586,481
Others		9	545,923		13	657,287
Total			2,580		3,025,162	

2.6 Sales Volume and Value in the Past Two Years

Unit: pieces / NT\$ thousands

Shipments & Sales Major Products (or by departments)	Year	2016				2017			
		Domestic Sales		Export Sales		Domestic Sales		Export Sales	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Display Process Equipment		51	526,712	252	1,635,576	62	683,844	161	2,003,370
Semiconductor Process Equipment		343	465,656	414	371,254	374	476,010	174	275,087
Intelligent Automation Equipment		17	172,977	21	50,233	9	39,835	545	807,335
Display Process Equipment		3	260,306	1	183,986	1	248,683		305,723
Total		414	1,425,651	598	2,241,049	446	1,448,372	880	3,391,515

3. Human Capital

Year		2016	2017	As of March 31, 2018
Number of Employees	Indirect Labor	322	314	320
	Direct Labor	503	521	523
	Total	825	835	843
Average Age		37.07	37.63	37.61
Average Years of Service		6.88	7.11	7.18
Education (%)	Ph.D.	0%	0.12%	0.12%
	Master's	16.61%	18.20%	18.74%
	Bachelor's	62.79%	62.75%	63.35%
	High School	19.15%	17.60%	16.25%
	Others	1.45%	1.32%	1.54%

4. Expenditure of environmental protection

For the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report, the loss (including compensation) and penalty derived from pollution, future mitigation policy (including improvements) and estimation of possible expenditure and compensation.

The Company actively devoted itself into environmental pollution prevention, totaling NT\$599 thousand. On an annual basis, a large amount of budget has been spend in improvement of pollution prevention equipment. In terms of effect on environmental climate, more efforts have been put on lowering the emission of greenhouse gas and enhancing the efficiency of energy usage. On top of abiding by domestic regulation, the Company also strives to comply with RoHS related rules and international covenant. In addition to business growth, environmental protection and work security is also its concern.

All the environmental protection affairs are in accordance with laws and regulations, there is no loss or penalty (including compensation) caused by environmental pollution.

5.Labor relations

5.1 Employee benefit measure, on-the-job training, training, retirement system, negotiation between employer and employees and other employee rights

5.1.1 Employee benefit measures

- (1) Competitive level of remuneration
- (2) Except for monthly wages, holiday bonuses for Mid-Autumn Festival and Dragon Boat Festival are provided as well.
- (3) To award outstanding performances for the employees, the Company gives seasonal bonuses, year-end bonuses, and employee remuneration according to the percentage of goals achieved, company profitability and personal performance of employees.
- (4) To boost new ideas among employees, the Company provides innovation research bonus, improvement proposal bonus, special performance team bonus, and special talent bonus to boost employee morale and team work.
- (5) To award the employee's self-improvement, the Company promotes measures such as gives out English and Japanese language certification bonuses, excellent internal educational trainers, and point systems for training courses.
- (6) Three days of paid sick leave per year.
- (7) Allowance for babysitting and education expenses for the third child of the employees.
- (8) Subsidy for parking fees.
- (9) Subsidy for on-the-job education and training.
- (10) Free health checkup is provided for once every year.
- (11) Cash gift for weddings, funerals, births, festivals and new years, and birthdays, as well as relief payment for hospitalization.
- (12) Employees' cafeteria is found in all factories, and meal subsidies are provided to employees.
- (13) Cultural and recreational events are held sporadically.
- (14) Happy Family Day event is held annually.
- (15) Stress-relieving working environment and activities.
- (16) Impeccable performance management system.

Those department heads of all levels in the Company launch development programs in an attempt to accomplish the targets set for the entire Company, departments and individuals. On a semiannual basis, they sponsor programs for the entire staff for evaluation of performance with efforts for instructions and feedbacks. The Human Resources Department provides training programs which help all department heads better understand the importance of internalized evaluation of performance. Also through the programs, the department heads would be instructed and guided into better evaluation of performance and the interview process. Through such efforts as a whole, the entire staff of the Company would double their performance and be provided with sound career planning. Meanwhile, a sound mechanism to assure rational rewarding and punishment has been established.

The result of performance evaluation is basis for incentive bonuses, raises, bonuses, promotions, human resources cultivation and development programs.
- (17) Welfare measures provided by employee welfare committee:
 - We offer and scholarship and fellowships to employees' children from elementary school to

- graduate school
- Through efforts of Fringe Benefit Committee, we offer employees attractive discounts from contracted suppliers
- We grant gift money in cash to employees on the occasions of marriage, funeral, childbirth, certain national holidays and birthdays (PayEasy points)
- Club activities
- Cultural and recreational activities sporadically (movies, Christmas parties, festival activities)
- Travel activities.

5.1.2 Training

- (1) Trainings for new employees includes: the Company's Overview, development history, management procedure, ESH, operating system and the like.
- (2) The Company establishes "The Handbook of Educational Training Quality" for employees' reference. Each year, the Company appropriates certain amount of educational training budget to highlight the concept of quality, teach the necessary working skills, incubate human resource in all fields and achieve our goal and requirement to quality. The details are as follows:
 - A. Internal training: training conducted by headquarter or by branch
 - B. External training: based on job requirement, each department may file an application to send their staff to trainings hosted by professional institution. Depending on the training, the Company request the trainee to sign an agreement to guarantee a minimum service period after the training.
 - C. 2017 statistics of OJT and educational training and expenditures are as follows:

Educational training	Internal training	External training
Number of Trainee	4,049	259
Expenditures	\$1,333,724	\$465,422
Name of the training	Internal training	External training
	R&D design center Semiconductor FA course series I~V, Introduction on G8.5 process and equipment technology, Explanation on TEG software structure, The planning and selection of secure element (Taiwan Omron, Mr. Chen, Ming-Hung), Training on Wet Etching, EPDM operation, Introduction on Wet etching process and equipment technology, Explanation on IV TESTER electronic control hardware design, Assembly design technique (SolidWizard International, lecturer Shih, Meng-Kun), The selection and application of smart module for industrial robot, Explanation on introduction of electronic control element for cleaning machine, Case study on emission microscope, Explanation on array probe design, Explanation on QD77MS16 module, Introduction on Mitsubishi CC-LINK IE Field System (Mitsubishi Electric Group, lecturer Hsu, Chun-Wei), SolidWorks3D (SolidWizard, lecturer), SCHMALZ Introduction on vacuum products made in Germany (hhs industrial solution-HUANG, CHIN-HSIANG), Advanced technical drawing (Solid Wizard-SHIH, MENG-KUN), Introduction on Smart Vibration Sensoring and automatic diagnosis platform ∙ The	R&D Engineering Development and Challenge in the latest Flexible Touch Panel AMOLED (TEEIA), 2017 International Micro LED Display Industry Summit Forum (TDUA), Analytical Technology in Semiconductor Malfunction (Industrial Development Bureau, MOEA), Students in AI Workshop (Program Office of AI Innovation Research (AIR)), Simulation System Analysis Training Class(Industrial Technology Research Institute), Automatic Optical Inspection Equipment Association (Automatic Optical Inspection Equipment Association), Foundry Engineering Computer-Aided Software Sharing and Discussion (Taiwan Foundry Society) ∙ AOI Motion Control Technology (National Taiwan University) ∙ 「 AI +IoT, sparkle of new opportunities and challenge in digital time 」 Seminar (IEK) ∙ FIWLP and FOWLP Seminar, Intelligent Unmanned Vehicle and Robot Industry Business Opportunities (Semi Taiwan), CSTIC 2017 (SEMICON China), Advanced Coating Technique, Cure, and Defection solving method (TDMDA)

	<p>Application of Machine tool with Linear Motors (Tendly Corporation - CHEN,CHUN-I), Introduction on Special linear Motor-MMI、Theory and Application of Static Eliminator and Sensor (Keyence Taiwan-LIN, CHIH-WEI), Introduction and Application on Equipment Intelligent Information System、Introduction on Cleanroom Table and hollow rotating table (Render Precision-TSAI, I-LUNG, CHEN, CHIEN-CHOU), Flow simulation software (SolidWizard, CHEN, CHENG-CHENG), Sharing on coding of automatic program, Training on Robotic Arm (Hiwin Technologies Corp., TSENG, I-HSIANG)</p>	
	<p>Production and Logistic Center IV-Test Distribution Structure, AG Etch machine set assembly technique, L7B MJC Tilt Lighting Machine Distribution Discussion, Highlights of Large-size Laminator Distribution, (Filtrafine International, Cheng, Kuang-Lung), OMRON Product Training (Application and Introduction of CMOPOSEN Basic, introduction on safe product and related regulation) (Taiwan OMRON, Chen, Ming-Hung)</p>	<p>Production and Manufacturing- 【MIC_30th MIC Forum】 Foresight in Intelligent Industry and Application Trend (Institute for Information Industry)</p>
	<p>Business Center Introduction on Semiconductor Advanced Packaging Industry and Process</p>	<p>Marketing Business Status and Future Trend of Taiwan's Semiconductor Equipment Industry (Metal Industries R&D Centre), Google Analytics website Basic Analytical Practice (neo Marketing Workshop), Ink Jet Printing for Micro LED Applications (TEEIA), 2017 Semiconductor Packaging Equipment Visiting Group to Shanghai and Jiangsu (TEEIA)</p>
	<p>Customer Service Division Sharing on The Correlation between GD Edge Grinding Precision and Water Chiller</p>	
	<p>General Administration Division Skype for business, Advanced Information Security (UCOM, Lin, Kuo-Lung), Electronic Invoice Promotion Seminar (NTBNA, Chen, Hui-Chun), Introduction on sending message automatically, Introduction on Extreme web equipment, Business need analysis workshop, Introduction on e-voting, EPDM Admin course, Domino ODBC connection setting and application, OM-Credit Check Training, Introduction on FortiGate firewall, Domino exporting report design (Word/Excel), Training on AppAssure</p>	<p>Financial Management: The study of legal responsibility of forgery from fraudulent of financial report (Science Industrial Park Scientific Industry Association), IFRS 16 Lease (The Allied Association for Science Park Industries), 2017 Seminar for accounting and finance managers (PwC), Treatment for transactions between parent company and subsidiary when compiling consolidated financial statements (The Allied Association for Science Park Industries), Investor Conference Practice (Taipei Exchange)</p>
	<p>ESH Section OHSAS18001&TOHSMS course, Fire Escape Drill, self-defense fire group drills, CPR and AED practice, Stay away from cancers and live a happy life, Training for Contractors, Cancer check and prevention, 2017 creating healthy environment- eating, exercise and training, training on leg muscles, common infectious diseases when travelling abroad, About dining out, stay fit and healthy in summer, how to prevent injury in doing sports</p>	<p>Health and Safety Category General HSE training, six-hour labor safety health training, training for fire fighting management personnel and emergency personnel, training for technician for fixed crane operation, training for fork lift truck personnel, labor safety health training for contractors, training for type c occupational safety and health business manager</p>

	<p>Administration Division Training for new employees, Moments of Truth, financial management practice course, Vertical communicating skill, training for primary managers, must-know financial/compensation/recruitment concept for managers, problem analytical and solving skill, 2017 happy walking series</p>	<p>Administration Development Annual educational training planning and execution performance review (Ministry of Science and Technology Hsinchu Science Park Administration), iCAP career oriented course - applying for certificate practice (TTQS), Excellent quality recreation of value seminar (ASIR), International human resource management (National Taiwan University of Science and Technology), The amendment of Company Act and corporate governance, How to react to labor check (IDIPC), Target and performance review, EQ management and reduction of pressure (Ministry of Labor), Precise interview skill, New ideas of hiring new employees (Hsinchu Science Park), Planning and Importing of performance management (TTQS), the function of employee welfare committee (Neihu Technology Park Development Association)</p>
	<p>Invisible champion, Training on ILM2B6B PostMask, Training on laser and ILM-380WX, ISO 9001:2015 review on post certification, ISO 9001:2015 --1. data confirmation 2. pre certification preparation, ISO 9001:2015--1. internal audit and confirmation on data 2. pre certification preparation, ISO 9001:2015 improvement on documentation, ISO system document integration, ISO manual compiling and revising, IC module design, ISO quality policy, Review on goal, Confirmation on finalized document, training on visual highlights on BOC REWORK measurement, BOC examination standard, CAVITYBAR E-PIN examination, Introduction on D/T&F/S modules, IC back end processing equipment and module, IC module knowledge, Introduction on ILM350WXLaser system and practice, Introduction on SP34, Learning on SU51LQFPSYS software, Training on using SU52 machine, selection on tool material, problem solving skill, production safety and efficiency, corporate IP management, Introduction on nano coating, Highlight on common Pin and round stick, the usage of measuring tool, How to build team work, Basic knowledge and skill on measuring method, Wire cutting production quality, etc.</p>	<p>General HSE training (6 hours), Overview of AI applied in equipment examination, Training for accounting manager, IFRS 16 Lease: Impacts on industry and how to react, 2017 Micro LED Display Summit, How to Conduct Compliance Audit for Internal Auditor, Sales, Collection, Purchase, Payment Cycles Audit, IP management and audit, Study on fraud risk from cycle control, Training on Fire fighting management personnel, Training on Science Park Bonded Business Staff, W02T- Global latest Packaging Technology trend, Labor-Management Conference Practice, ISO 9001: 2015 Quality Management System Internal Auditor Training, International Anti-Avoidance Tax Rule, Key Audit Matter in Audit Report, Sharing and Discussion on amendment to Labor Law, The Impact of New financial report on Corporation, JAVA training.</p>

5.1.3 Retirement Policy

- (1) The Company provides Labor Insurance, National Health Insurance, group insurance, and group overseas business travel insurance in response to the demands from our colleagues when visiting hospitals while on business trips overseas. The Company aims to provide full range of insurances for the employees.
- (2) Retirement systems and its status of implementation: The retirement systems of the Company and its subsidiaries are operated pursuant to relevant laws and regulations of their respective

countries they are located.

A. Companies within the R.O.C.: The Labor Standards Act has stipulated labor retirement plans. It is mandatory for the employer to appropriate 2% or more as pension reserve to the designated account of The Supervisory Committee of Workers' Retirement Fund, and Labor Pension Act went into full effect on July 1, 2005. The regulations are as follow:

- (A) Labor Pension Act are applied to all employees who started their employment on or after July 1, 2005.
- (B) For employees who started their employment before July 1, 2005, they may make their choice from the pension systems in either Labor Pension Act or Labor Standards Act within five year beginning from July 1, 2005. If employees do not make any choices regarding the pension system, after the window is closed, their pension will continue to be mandated by Labor Standards Act.
- (C) Employees who is under any one of the following conditions may apply for voluntary retirement:
 - Where the employee attains the age of fifty-five and has worked for fifteen years.
 - Where the employee has worked for more than twenty-five years.
 - Where the employee attains the age of sixty and has worked for ten years.
- (D) Standard for paying pension:
 - Based on the employee's year of service rendered, two bases are given for each full year of service rendered. But for the rest of the years over 15 years, one base is given for each full year of service rendered. The total number of bases shall be no more than 45. The length of service is calculated as half year when it is less than six months and as one year when it is more than six months.
 - Pursuant to Article 54, Paragraph 1, Subparagraph 2, when the reason for workers who are forced to retire is due to unable to perform his/her duties due to mental handicap or physical disability caused by his/her job duties, 20% more of the pension stipulated in the preceding subparagraph will be given.

B. Companies within China: The endowment insurance for employees after retirement are paid by the Company pursuant to local regulations.

- (A) Based on the operation methods of local social insurance, the social insurance include medical, childbirth, endowment, occupational sickness, and unemployment. After the company has finished the application of adding member of social insurance, the company then begins to fulfill its duty on paying social insurance. The endowment insurance fee is appropriated according to the bases of the payment; the ratio of appropriation is mandated by local regulations.
- (B) When the employee reaches mandatory retirement age and the limit of years of payment, they are entitled to receive the pensions according to local regulations. The general components of pensions are: basic pension + pension in the employee's personal account.

5.1.4 Negotiation between employer and employees and other employee rights:

- (1) The Company puts a lot of efforts in labor-management relationship and adheres to Labor Law and related regulations. For the past years, the Company has built harmonized labor-management relationship. There is no dispute between the labor and the management.
- (2) The Company values the rights and future developments of our employees, and therefore we have established an Employee Welfare Committee to offer them with various fringe benefits. The Company has established "The Handbook of Educational Training Quality" and encourage employees to participate in various training. The Company also sets up pension system in

accordance with law, build communicating channel between labor and management and disclose welfare measures, learning and development, employees communicating and balanced life in the Company's website.

5.1.5 Commitment to Social Responsibility

- (1) The Company abides by the rules, policies, and procedures of the Labor Standards Act and international human rights agreements to protect the legitimate rights and interests of employees. The Company provides labor insurance, National Health Insurance (NHI), life insurance, accident insurance, disease and cancer insurance and set up pension fund.
- (2) Labor-Management Relationship and benign communicating channel
The employees and corporate representative of GPM have mutually participation in discussing on various issues in order to maintain a benign communicating mechanism. The labor-management conference are convened regularly. The employees are able to make proposal to the management team so as to facilitate their understand employee's mind. Also, the Company has an effective and rapid channel to promote new and rapid promotion of the Company's policy and message. The question and suggestion raised by the employees will be track and feedback.
 - We have set up the “General Manager Office’s Mailbox” and have assigned special personnel to assemble and respond to the voices from employees.
 - On a quarterly basis, we sponsor the “Employees’ Conference” through which employees are given the chance and encouraged to speak up their opinions which are taken as a precious reference for the Company for better performance.
 - On a quarterly basis, we sponsor the “labor-management conference” as another good bridge to harmonize the labor-capital relationship. The labor-management conference convened on a regular basis is very conducive to the management to hear firsthand opinions from employees.
 - For each and every factory region, we have assigned staff members to specifically take charge of labor relationships to render help to employees and hear the firsthand voices from them on a face-to-face basis.
 - We sponsor “employee symposiums” from time to time on a nonscheduled basis. The General Manager participates in that event in person to listen to what the employees have in mind.
 - On a regular basis, we conduct “Employee Satisfaction Surveys” which proves to be another handy channel for the Company’s management to hear from all employees.
- (3) When there is any significant changes in operations that may have an impact on the employees' rights, the Company uses formal communicating channel such as employee symposium or labor-management conference to negotiate with employees in a hope to provide the best working environment for all the employees.
- (4) For the safety of production environment and personnel, the Company set up designated HSE department and personnel in charge of HSE affairs. In terms of working environment, the Company continues to examine the operating environment biannually so as to evaluate personnel exposure and improve the working environment accordingly.
- (5) The Company has created benign environment for employees' careers and established career development and training sessions.
- (6) Awards in 2017
 - 1st Industry 4.0 Excellence Awards, Academia-Industry Consortium, Central Taiwan Science Park
 - 2017 "Excellent Enterprise, Happy Workplace" 2-Star Awards- Taichung City Government
 - Taichung Plant received excellent award from "2017 Taichung City Government Workplace

- Dynamic Innovation Golden Point Award"
- Hsinchu Factory received Top 10 from "2017 Ministry of Health and Welfare Workplace Dynamic Innovation Golden Point Award"

5.2 For the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report, loss from labor-management dispute and disclosure of possible loss amount and mitigation efforts. If it is impossible to estimate, the reason for impossible to estimate shall be explained: None.

6. Material Contracts

For the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report, the Company's important contracts that are still valid and will become due recently:

Nature of Contract	Contracting Parties	Contract Start/End Date	Main Content	Restrictive Provisions
Technology Transfer Contract	MICRONICS JAPANCO., LTD.	From March 12, 2015	Transfer of Technology	Data related to Transfer of Technology Contract shall not be re-authorized or transferred to third party.
Technology Cooperation Contract	Sumitomo Precision Products CO.,LTD.	Ten years, Starting from September 9, 2016	Technical Cooperation	If no termination request being proposed upon due, the contract will be renewed.
Technology Licensing and Mutual Development Agreement	International Business Machines Corporation.	Starting from November 3, 2016	Technology Licensing and Mutual Development	If no significant violation, the contract remains valid indefinitely.
Lease Agreement	Central Taiwan Science Park Bureau	January 1, 2007 to December 31, 2024	Factory Lease Agreement with Central Taiwan Science Park	None
Lease Agreement	Hsinchu Science Park Bureau	January 1, 2007 to July 31, 2036	Factory Lease Agreement with Hsinchu Science Park	None
Long-term Borrowing	CTBC Bank Co., Ltd.	September 15, 2014 to September 15, 2019	Collateral loan of Factory in Central Taiwan Science Park	None
Long-term Borrowing	Cathay United Bank	July 31, 2008 to July 31, 2023	Collateral loan of Factory in Hsinchu Taiwan Science Park	None
Note: (1) current ratio: Higher than (including) 120% (2) Debt ratio: No higher than 120% (3) Financial Debt ration: No higher than 60% (4) Tangible Net Value: No less than NT\$ 2.2 billion				

VI. Financial Information

1. Condensed Balance Sheets and Condensed Statements of Comprehensive income for recent five years

1.1 International Financial Reporting Standard.

1.1.1 Consolidated Condensed Balance Sheets - GPM & Subsidiaries

Unit : NT\$ thousand

Year		2013	2014	2015	2016	2017
Item						
Current assets		3,485,862	3,393,811	3,891,570	5,272,765	5,254,391
Property, plant and equipment		539,303	511,080	498,147	478,669	624,659
Intangible assets		47,329	18,453	39,083	122,286	96,768
Other assets		467,677	512,210	469,667	376,494	248,888
Total assets		4,540,171	4,435,554	4,898,467	6,250,214	6,224,706
Current liabilities	Before distribution	1,525,965	1,380,172	1,890,698	3,208,291	3,164,925
	After distribution	1,647,160	1,512,280	2,055,834	3,505,537	(Note)
Non-current liabilities		379,238	460,884	440,046	434,540	519,074
Total liabilities	Before distribution	1,905,203	1,841,056	2,330,744	3,642,831	3,683,999
	After distribution	2,026,398	1,973,164	2,495,880	3,940,077	(Note)
Equity attributable to owners of the parent		2,408,121	2,347,723	2,315,464	2,328,515	2,218,042
Share capital		1,731,361	1,731,361	1,651,361	1,651,361	1,651,361
Capital surplus	Before distribution	373,289	373,289	275,976	242,949	186,765
	After distribution	373,289	298,978	242,949	176,894	(Note)
Retained earnings	Before distribution	274,114	214,559	354,666	479,387	442,995
	After distribution	152,919	156,762	222,557	248,196	(Note)
Other equity		29,357	63,666	33,461	(45,182)	(63,079)
Treasury shares		—	(35,152)	—	—	—
Non-controlling interests		226,847	246,775	252,259	278,868	322,665
Total equity	Before distribution	2,634,968	2,594,498	2,567,723	2,607,383	2,540,707
	After distribution	2,513,773	2,462,390	2,402,587	2,310,137	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting.

1.1.2 Consolidated Condensed Statements of Comprehensive Income -GPM & Subsidiaries

Unit : NT\$ thousand

Item \ Year	2013	2014	2015	2016	2017
Operating revenue	2,561,025	2,647,837	3,647,013	3,666,700	4,839,887
Gross profit	541,076	547,000	931,588	1,088,610	1,312,350
Operating income	(5,663)	58,736	294,698	307,032	465,799
Non-operating income and expenses	246,067	86,782	10,708	75,890	(127,486)
Income before income tax	240,404	145,518	305,406	382,922	338,313
Net profit(Loss)from continuing operations	182,461	102,555	235,887	299,059	230,681
Net profit(Loss)from close operations	—	—	—	—	—
Net profit (Loss)	182,461	102,555	235,887	299,059	230,681
Other comprehensive income, net of income tax	54,690	28,371	(35,345)	(96,545)	(24,861)
Total comprehensive income	237,151	130,926	200,542	202,514	205,820
Profit(Loss) attributable to owners of parent	170,569	72,566	199,911	260,709	200,252
Profit(Loss) attributable to non-controlling interests	11,892	29,989	35,976	38,350	30,429
Comprehensive income attributable to owners of parent	218,639	95,949	167,699	179,570	176,902
Comprehensive income attributable to non-controlling interests	18,512	34,977	32,843	22,944	28,918
Earnings per share (Note)	0.98	0.42	1.20	1.58	1.21

Note : Earning per share of year 2017is Pending on approval of shareholders at Annual General Shareholders' Meeting.

1.1.3 Consolidated Condensed Balance Sheets - Parent Company

Unit : NT\$ thousand

Item	Y e a r					
	2013	2014	2015	2016	2017	
Current assets	1,646,606	1,656,945	2,014,399	3,330,084	3,197,393	
Property, plant and equipment	473,012	453,496	444,934	431,180	418,710	
Intangible assets	9,025	9,478	30,812	114,289	85,178	
Other assets	1,689,480	1,692,188	1,660,404	1,654,851	1,417,386	
Total assets	3,818,123	3,812,107	4,150,549	5,530,404	5,118,667	
Current liabilities	Before distribution	1,080,853	1,061,963	1,459,090	2,860,897	2,590,060
	After distribution	1,202,048	1,194,071	1,624,226	3,158,143	(Note)
Non-current liabilities	329,149	402,421	375,995	340,992	310,565	
Total liabilities	Before distribution	1,410,002	1,464,384	1,835,085	3,201,889	2,900,625
	After distribution	1,531,197	1,596,492	2,000,221	3,499,135	(Note)
Equity attributable to owners of the parent	2,408,121	2,347,723	2,315,464	2,328,515	2,328,515	
Share capital	1,731,361	1,731,361	1,651,361	1,651,361	1,651,361	
Capital surplus	Before distribution	373,289	373,289	275,976	242,949	186,765
	After distribution	373,289	298,978	242,949	176,894	(Note)
Retained earnings	Before distribution	274,114	214,559	354,666	479,387	442,995
	After distribution	152,919	156,762	222,557	248,196	(Note)
Other equity	29,357	63,666	33,461	(45,182)	(63,079)	
Treasury shares	—	(35,152)	—	—	—	
Non-controlling interests	—	—	—	—	—	
Total equity	Before distribution	2,408,121	2,347,723	2,315,464	2,328,515	2,218,042
	After distribution	2,286,926	2,215,615	2,150,328	2,031,269	(Note)

Note: Pending on approval of shareholders at Annual General Shareholders' Meeting.

1.1.4 Condensed Statements of Comprehensive Income-Parent Company

Unit : NT\$ thousand

Item	Year				
	2013	2014	2015	2016	2017
Operating revenue	1,782,152	1,647,815	2,460,533	2,596,175	3,771,317
Gross profit	302,251	259,282	544,969	725,343	983,958
Operating income	(23,041)	(19,668)	164,673	233,933	420,729
Non-operating income and expenses	240,703	108,043	64,372	67,414	(151,465)
Income before income tax	217,662	88,375	229,045	301,347	269,264
Net profit(Loss)from continuing operations	170,569	72,566	199,911	260,709	200,252
Net profit(Loss)from close operations	—	—	—	—	—
Net profit (Loss)	170,569	72,566	199,911	260,709	200,252
Other comprehensive income, net of income tax	48,070	23,383	(32,212)	(81,139)	(23,350)
Total comprehensive income	218,639	95,949	167,699	179,570	176,902
Profit(Loss) attributable to owners of parent	—	—	—	—	—
Profit(Loss) attributable to non-controlling interests	—	—	—	—	—
Comprehensive income attributable to owners of parent	—	—	—	—	—
Comprehensive income attributable to non-controlling interests	—	—	—	—	—
Earnings per share (Note)	0.98	0.42	1.20	1.58	1.21

Note : Earning per share of year 2017 is Pending on approval of shareholders at Annual General Shareholders' Meeting.

1.2 Auditors' Opinions from 2013 to 2017

Year	CPA	Audit Opinion	Remark
2017	LI TIEN YI · CHENG YA HUEI	Unqualified Opinions	
2016	LI TIEN YI · CHENG YA HUEI	Unqualified Opinion	
2015	LI TIEN YI · CHENG YA HUEI	modified unqualified opinion	
2014	Kwok-ah Tsang · Wilson Wang	modified unqualified opinion	
2013	Kwok-ah Tsang · Wilson Wang	modified unqualified opinion	

2. Five-Year Financial Analysis

2.1. Consolidated Financial Analysis –GPM & Subsidiaries

Unit : NT\$ thousand

Year (Note 1)		Financial Analysis from 2013 to 2017				
		2013	2014	2015	2016	2017
Item						
Capital structure analysis	Debt ratio (%)	41.96	41.51	47.58	58.28	58.99
	Long-term fund to property, plant and equipment ratio (%)	537.94	573.33	577.3	609.53	469.43
Liquidity analysis	Current ratio (%)	228.44	245.9	205.83	164.34	166.01
	Quick ratio (%)	180.81	210.03	168.62	124.97	115.67
	Times interest earned (Times)	18.93	16.72	28.7	32.03	20.3
Operating performance analysis	Average collection turnover (Times)	1.78	2.21	2.41	2.03	2.67
	Days sales outstanding	205	165	151	179.80	136.70
	Average inventory turnover (Times)	3.12	3.4	4.24	2.64	2.46
	Average payment turnover (Times)	2.66	2.96	3.45	2.16	2.69
	Average inventory turnover days	117	107	86	138.25	148.37
	Property, plant and equipment turnover (Times)	4.53	5.04	7.23	7.50	8.77
	Total assets turnover (Times)	0.55	0.59	0.78	0.65	0.77
Profitability analysis	Return on total assets (%)	4.15	2.46	5.25	5.56	3.93
	Return on equity attributable to owners of the parent (%)	7.22	3.92	9.14	11.55	8.96
	Pre-tax income to paid-in capital (%)	13.89	8.4	18.49	23.18	20.48
	Net margin (%)	7.12	3.87	6.47	8.15	4.76
	Earnings per share (NT\$)	0.98	0.42	1.2	1.58	1.21
Cash flow	Cash flow ratio (%)	33.25	3.57	2.11	19.14	8.54
	Cash flow adequacy ratio (%)	237.11	179.39	115.18	130.45	72.83
	Cash flow reinvestment ratio (%)	16.1	—	—	14.48	—
Leverage	Operating leverage	—	2.33	1.13	1.18	1.17
	Financial leverage	0.3	1.19	1.04	1.04	1.04

Changes that exceed 20% in the past two years and explanation for those changes:

1. Long-term fund to property, plant and equipment ratio: The decrease was mainly due to increase in Property, plant and equipment.
2. Times interest earned : The decrease was mainly due to decrease in income before income tax and increase in interest expenses.
3. Average collection turnover 、 Days sales outstanding : The increase was mainly due to increase in Operating revenue.
4. Average payment turnover : The increase was mainly due to increase Operating costs.
5. Return on total assets : The decrease was mainly due to increase Average total assets and decrease in net profit.
6. Return on equity attributable to owners of the parent : The decrease was mainly due to decrease in net profit .
7. Net margin 、 Earnings per share : The decrease was mainly due to increase in currency exchange loss and increase in investments accounted for using equity loss.
8. Cash flow ratio 、 Cash flow adequacy ratio : The decrease was mainly due to decrease in unearned sales revenue.

2.2 Financial Analysis – Parent Company

Year (Note 1)		Financial Analysis from 2012 to 2017				
		2013	2014	2015	2016	2017
Item						
Capital structure analysis	Debt ratio (%)	36.93	38.41	44.21	57.89	56.66
	Long-term fund to property, plant and equipment ratio (%)	565.37	591.72	589.65	605.03	590.00
Liquidity analysis	Current ratio (%)	152.34	156.03	138.06	116.39	123.44
	Quick ratio (%)	122.42	127.9	108.16	81.74	72.94
	Times interest earned (Times)	17.57	10.87	23.38	27.44	19.07
Operating performance analysis	Average collection turnover (Times)	1.6	2.04	2.43	2.03	2.78
	Days sales outstanding	228	179	150	179.80	131.29
	Average inventory turnover (Times)	3.26	3.57	4.93	2.77	2.47
	Average payment turnover (Times)	2.34	2.65	3.15	1.83	1.99
	Average inventory turnover days	112	102	74	131.76	147.77
	Property, plant and equipment turnover (Times)	3.68	3.56	5.48	5.92	8.87
	Total assets turnover (Times)	0.45	0.43	0.62	0.53	0.7
Profitability analysis	Return on total assets (%)	4.55	2.1	5.24	5.59	4.00
	Return on equity attributable to owners of the parent (%)	7.4	3.05	8.57	11.22	8.80
	Pre-tax income to paid-in capital (%)	12.57	5.1	13.87	18.24	16.30
	Net margin (%)	9.57	4.4	8.12	10.04	5.30
	Earnings per share (NT\$)	0.98	0.42	1.2	1.58	1.21
Cash flow	Cash flow ratio (%)	45.15	16.55	2.18	15.91	5.53
	Cash flow adequacy ratio (%)	320.25	191.69	110.25	120.92	74.37
	Cash flow reinvestment ratio (%)	17.27	6.19	—	17.18	—
Leverage	Operating leverage	—	—	1.12	1.13	1.1
	Financial leverage	0.64	0.69	1.07	1.05	1.03

Changes that exceed 20% in the past two years and explanation for those changes:

1. Times interest earned : The decrease was mainly due to decrease in income before income tax and increase in interest expenses.
2. Average collection turnover 、 Days sales outstanding 、 Property, plant and equipment turnover 、 Property, plant and equipment turnover : It was mainly due to increase in Operating revenue.
3. Return on total assets : The decrease was mainly due to increase Average total assets and decrease in net profit.
4. Return on equity attributable to owners of the parent : The decrease was mainly due to decrease in net profit .
5. Net margin 、 Earnings per share : The decrease was mainly due to increase in currency exchange loss and increase in investments accounted for using equity loss.
6. Cash flow ratio 、 Cash flow adequacy ratio : The decrease was mainly due to decrease in unearned sales revenue.

Note 1 : Financial analysis formula:

1. Capital Structure Analysis:

- (1). Debt ratio = Total liabilities / Total assets
- (2). Long-term fund to property, plant and equipment ratio = (Shareholders' equity + non-current liabilities) / Net property, plant and equipment

2. Liquidity Analysis:

- (1). Current ratio = Current assets / Current liabilities
- (2). Quick ratio = (Current assets – inventories – prepaid expenses) / Current liabilities
- (3). Times interest earned = Earnings before interest and taxes / Interest expenses

3. Operating Performance Analysis:

- (1). Average collection turnover(includes account receivable and note receivable due to operating generated) = Net sales / Average account receivables(includes account receivable and note receivable due to operating generated).
- (2). Days sales outstanding = 365 / Average collection turnover
- (3). Average inventory turnover = Operating costs / Average inventory
- (4). Average payment turnover(includes account payable and note payable due to operating generated). = operating costs / Average account payables(includes account payable and note payable due to operating generated).
- (5). Average inventory turnover days = 365 / Average inventory turnover
- (6). Property, plant and equipment turnover = Net sales / Average property, plant and equipment
- (7). Total assets turnover = Net sales / Average total assets

4. Profitability Analysis:

- (1). Return on total assets = [Net income + Interest expenses x (1 – tax rate)] / Average total assets
- (2). Return on equity attributable to shareholders of the parent = Net income attributable to shareholders of the parent / Average equity attributable to shareholders of the parent
- (3). Net margin = Net income / Net sales
- (4). Earnings per share = (Net income attributable to shareholders of the parent – preferred stock dividend) / Weighted average number of shares outstanding

5. Cash Flow:

- (1). Cash flow ratio = Net cash provided by operating activities / Current Liabilities
- (2). Cash flow adequacy ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
- (3). Cash flow reinvestment ratio = (Cash provided by operating activities – cash dividends) / (Gross property, plant and equipment + long-term investments + other noncurrent assets + working capital)

6. Leverage:

- (1). Operating leverage = (Net sales – variable costs and expenses) / Operating income
- (2). Financial leverage = Operating income / (Operating income – interest expenses)

3.Audit Committee's Review Report

Gallant Precision Machining Co., Ltd.

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2017 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of LI TIEN YI & CHENG YA HUE was retained to audit GPM's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and profit allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of Gallant Precision Machining Co., Ltd. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Chairman of Audit Committee :



May 07 , 2018

4. Financial Statements and Independent Auditors' Report- Parent Company

REPORT OF INDEPENDENT ACCOUNTANTS

To Gallant Precision Machining Co., Ltd.

Opinion

We have audited the accompanying parent company only financial statements of Gallant Precision Machining Co., Ltd. (the "Company"), which comprise the parent company only balance sheets as of December 31, 2017 and 2016, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants as described in the other matters section of our report, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2017 and 2016, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China ("ROC GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountant of the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of 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 parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters for the parent company only financial statements in the current period are stated as follow:

Evaluation of inventories

Description

Gallant Precision Machining Co., Ltd is 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(11) of the parent company only financial statements. The uncertainty of accounting estimations and assumptions for valuation of inventories are disclosed in Note 5(2) of the parent company only financial statements. The allowance for inventory valuation loss amounting to NT1,295,382 thousand and NT10,526 thousand as of December 31, 2017 and 2016, respectively are disclosed in Note 6(5) of the parent company only 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 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. is 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 parent company only 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 investments accounted for under equity method. The financial statements of these investments accounted for under equity method were audited by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements is based solely on the reports of other auditors. The amount of investments accounted for using the equity method on the audit reports of the other independent accountants are NT66,761 thousand and NT189,608 thousand, constituting 1% and 3% of the total assets as of December 31, 2017 and 2016, respectively, and its share of the loss amounting to NT(122,847) thousand and NT(45,154) thousand, constituting (69.44%) and (25.15%) of the total comprehensive income for the years then ended, respectively.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Independent Accountant's Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 parent company only 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 parent company only 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future

events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only 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 Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion .

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

We also provide those charged with governance with 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 parent company only financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers, Taiwan
March 27, 2018

The accompanying parent 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 parent 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.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 475,480	9	\$ 471,161	9
1110	Financial assets at fair value through profit or loss - current	6(2)	32,676	1	383,125	7
1147	Investments in debt instrument without active markets	6(3)	148,170	3	222,623	4
1150	Notes receivable, net		2,317	-	31,930	1
1170	Accounts receivable, net	6(4)	1,226,079	24	1,207,586	22
1180	Accounts receivable - related parties	7	-	-	1,991	-
1200	Other receivables		317	-	3,615	-
1210	Other receivables - related parties	7	4,261	-	16,717	-
130X	Inventories, net	6(5)	1,284,856	25	944,956	17
1410	Prepayments		14,624	-	26,907	-
1470	Other current assets	8	8,613	-	19,473	-
11XX	Current Assets		<u>3,197,393</u>	<u>62</u>	<u>3,330,084</u>	<u>60</u>
Non-current assets						
1523	Available-for-sale financial assets – non-current	6(6)	11,627	1	18,308	-
1550	Investments accounted for using equity method	6(7)	1,333,956	26	1,570,074	29
1600	Property, plant and equipment, net	6(8) and 8	418,710	8	431,180	8
1780	Intangible assets, net		85,178	2	114,289	2
1840	Deferred income tax assets	6(23)	60,118	1	49,948	1
1900	Other non-current assets	8	11,685	-	16,521	-
15XX	Non-current assets		<u>1,921,274</u>	<u>38</u>	<u>2,200,320</u>	<u>40</u>
1XXX	Total assets		<u>\$ 5,118,667</u>	<u>100</u>	<u>\$ 5,530,404</u>	<u>100</u>

(Continued)

GALLANT PRECISION MACHINING CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term loans	6(9)	\$ 554,730	11	\$ 522,152	9
2170	Accounts payable	6(10)	1,427,417	28	1,365,078	25
2180	Accounts payable - related parties	7	4,417	-	1	-
2200	Other payables		226,158	4	290,291	5
2230	Current income tax liabilities	6(23)	53,131	1	32,401	1
2250	Provisions for liabilities - current		145,491	3	151,767	3
2300	Other current liabilities	6(11)	178,716	4	499,207	9
21XX	Current Liabilities		<u>2,590,060</u>	<u>51</u>	<u>2,860,897</u>	<u>52</u>
Non-current liabilities						
2540	long-term loans	6(11)	252,379	5	280,256	5
2600	Other non-current liabilities	6(12)	58,186	1	60,736	1
25XX	Non-current liabilities		<u>310,565</u>	<u>6</u>	<u>340,992</u>	<u>6</u>
2XXX	Total Liabilities		<u>2,900,625</u>	<u>57</u>	<u>3,201,889</u>	<u>58</u>
Equity						
Share capital		6(13)				
3110	Share capital - common stock		1,651,361	32	1,651,361	30
Capital surplus		6(14)				
3200	Capital surplus		186,765	4	242,949	4
Retained earnings		6(15)(23)				
3310	Legal reserve		66,921	1	40,850	1
3320	Special reserve		178,169	3	132,987	2
3350	Unappropriated retained earnings		197,905	4	305,550	6
Other equity interest		6(16)				
3400	Other equity interest		(63,079)	(1)	(45,182)	(1)
3XXX	Total equity		<u>2,218,042</u>	<u>43</u>	<u>2,328,515</u>	<u>42</u>
Significant contingent liabilities and unrecognized contract commitments		9				
3X2X	Total liabilities and equity		<u>\$ 5,118,667</u>	<u>100</u>	<u>\$ 5,530,404</u>	<u>100</u>

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

GALLANT PRECISION MACHINING CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

Items	Notes	Years ended December 31			
		2017		2016	
		AMOUNT	%	AMOUNT	%
4000 Operating revenue	6(17) and7	\$ 3,771,317	100	\$ 2,596,175	100
5000 Operating costs	6(5)(21)(22)	(2,787,234)	(74)	(1,871,930)	(72)
5900 Operating margin		984,083	26	724,245	28
5910 Unrealized profit from sales		(178)	-	(53)	-
5920 Realized profit from sales		53	-	1,151	-
5950 Net operating margin		983,958	26	725,343	28
Operating expenses	6(21)(22)				
6100 Selling expenses		(139,129)	(4)	(123,918)	(5)
6200 General and administrative expenses		(202,725)	(5)	(266,453)	(10)
6300 Research and development expenses		(221,375)	(6)	(101,039)	(4)
6000 Total operating expenses		(563,229)	(15)	(491,410)	(19)
6900 Operating profit		420,729	11	233,933	9
Non-operating income and expenses					
7010 Other income	6(18)	64,428	2	73,549	3
7020 Other gains and losses	6(19)	(34,705)	(1)	(8,777)	-
7050 Finance costs	6(20)	(15,366)	(1)	(12,260)	(1)
7070 Share of profit of subsidiaries, associates and joint ventures accounted for under equity method	6(7)	(165,822)	(4)	(14,902)	(1)
7000 Total non-operating income and expenses		(151,465)	(4)	(67,414)	(3)
7900 Profit before tax		269,264	7	301,347	12
7950 Income tax expense	6(23)	(69,012)	(2)	(40,638)	(2)
8200 Profit for the year		\$ 200,252	5	\$ 260,709	10
Other comprehensive income for the year					
Components of other comprehensive income that will not be reclassified to profit or loss					
8311 Remeasurement of defined benefit obligation		(\$ 5,409)	-	(\$ 2,477)	-
8330 Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for under equity method		(44)	-	(19)	-
8310 Components that will not be reclassified subsequently to profit or loss:		(5,453)	-	(2,496)	-
Components of other comprehensive income that may be reclassified subsequently to profit or loss					
8361 Cumulative translation differences of foreign operations		(12,789)	-	(79,380)	(3)
8362 Unrealized (loss) gain on valuation of available-for-sale financial assets		(4,934)	-	1,736	-
8380 Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for under equity method		(174)	-	(999)	-
8360 Components of other comprehensive income that may be reclassified subsequently to profit or loss		(17,897)	-	(78,643)	(3)
8300 Other comprehensive income (loss) for the year		(\$ 23,350)	-	(\$ 81,139)	(3)
8500 Total comprehensive income for the year		\$ 176,902	5	\$ 179,570	7
Basic earnings per share	6(24)				
9750 Basic earnings per share		\$ 1.21		\$ 1.58	
Diluted earnings per share	6(24)				
9850 Diluted earnings per share		\$ 1.20		\$ 1.56	

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

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

Notes	Share capital - common stock	Capital surplus	Retained Earnings			Other equity		Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation differences of foreign operations	Unrealized gain or loss on available-for- sale financial assets	
For the year ended December 31, 2016								
Balance at January 1, 2016	\$ 1,651,361	\$ 275,976	\$ 20,859	\$ 132,987	\$ 200,820	\$ 46,982	(\$ 13,521)	\$ 2,315,464
Distribution of 2015 earnings								
Legal reserve	-	-	19,991	-	(19,991)	-	-	-
Cash dividends	6(15)	-	-	-	(132,109)	-	-	(132,109)
Capital reserve-distribute cash	6(14)	(33,027)	-	-	-	-	-	(33,027)
Profit for the year	-	-	-	-	260,709	-	-	260,709
Other comprehensive income for the year	6(16)	-	-	-	(2,496)	(79,380)	1,736	(80,140)
Change in associates and joint ventures accounted for under equity method	-	-	-	-	-	-	(999)	(999)
Adjustment arising from changes in percentage of ownership in equity method investees	6(25)	-	-	-	(1,383)	-	-	(1,383)
Balance at December 31, 2016	<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>
For the year ended December 31, 2017								
Balance at January 1, 2017	\$ 1,651,361	\$ 242,949	\$ 40,850	\$ 132,987	\$ 305,550	(\$ 32,398)	(\$ 12,784)	\$ 2,328,515
Distribution of 2016 earnings								
Legal reserve	-	-	26,071	-	(26,071)	-	-	-
Special reserve	-	-	-	45,182	(45,182)	-	-	-
Cash dividends	6(15)	-	-	-	(231,191)	-	-	(231,191)
Capital reserve-distribute cash	6(14)	(66,055)	-	-	-	-	-	(66,055)
Profit for the year	-	-	-	-	200,252	-	-	200,252
Other comprehensive income for the year	6(16)	-	-	-	(5,453)	(12,789)	(5,108)	(23,350)
Difference between the price for acquisition or disposal of subsidiaries and carrying amount	6(25)	-	9,871	-	-	-	-	9,871
Balance at December 31, 2017	<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>

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

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

	Notes	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax for the year		\$ 269,264	\$ 301,347
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(21)	15,895	16,859
Amortization	6(21)	29,676	13,462
Net gain on financial assets or liabilities at fair value through profit or loss	6(19)	(2,538)	(4,786)
Loss on disposal of available-for-sale financial assets	6(19)	694	-
Gain on disposal of financial assets measured at cost		-	(1,983)
Gain on disposal of financial liabilities		-	(870)
Provision for doubtful accounts	6(4)	37,045	16,615
Interest expense	6(20)	15,366	12,260
Interest income	6(18)	(1,779)	(2,741)
Dividends income		-	(3)
Share of profits of associates and joint ventures accounted for using equity method		165,822	(14,902)
Unrealized loss from sales		178	53
Realized (profits) loss from sales		(53)	(1,151)
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	(343,272)
Notes receivable		29,613	(27,313)
Accounts receivable		(55,538)	(99,568)
Accounts receivable - related parties		1,991	(894)
Other receivables		3,119	(1,698)
Other receivables - related parties		12,456	39,040
Inventories		(339,900)	(591,890)
Prepayments		12,283	(9,144)
Other current assets		(448)	(773)
Net changes in liabilities relating to operating activities			
Financial liabilities at fair value through profit or loss - current		-	(443)
Accounts payable		62,339	696,797
Accounts payable - related parties		4,416	(12,758)
Other payables		(63,220)	101,230
Provisions for liabilities		(6,276)	(10,966)
Unearned receipts		(321,139)	430,774
Other current liabilities		542	211
Accrued pension liabilities		(7,936)	(5,240)
Cash generated from operations		214,859	498,253
Income tax paid		(58,452)	(34,698)
Interest received		1,957	3,080
Interest paid		(14,918)	(11,427)
Dividends received		-	3
Net cash provided by operating activities		143,446	455,211

(Continued)

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

	Notes	2017	2016
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Proceeds from disposal (acquisition) of bond investments without active markets		\$ 74,453	(\$ 57,482)
Decrease in other financial assets - current		11,309	-
Decrease in other financial assets - non-current		4,887	55,780
Proceeds from disposal of financial assets		1,054	-
Acquisition of investments accounted for using equity method		(34,203)	(127,340)
Proceeds from disposal of investments accounted for using equity method		41,036	352
Acquisition of property, plant and equipment	6(27)	(4,975)	(3,792)
Proceeds from disposal of property, plant and equipment		240	-
Acquisition of intangible assets		(616)	(97,116)
Refundable deposits refunded		(52)	(589)
Proceeds from disposal of financial assets measured at cost		-	1,983
Dividends received from investments accounted for using equity method		60,202	57,979
Net cash provided by (used in) investing activities		153,335	(170,225)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term loans		1,798,741	1,316,167
Repayment of short-term loans		(1,766,163)	(1,125,201)
Repayment of long-term loans		(27,771)	(27,005)
Guarantee deposits received		(23)	(168)
Payment of cash dividends		(297,246)	(165,136)
Net cash used in financing activities		(292,462)	(1,343)
Net increase in cash and cash equivalents		4,319	283,643
Cash and cash equivalents at beginning of year	6(1)	471,161	187,518
Cash and cash equivalents at end of year	6(1)	\$ 475,480	\$ 471,161

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

GALLANT PRECISION MACHINING CO., LTD.
NOTES TO THE 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) was incorporated on December 22, 1978. The Company 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 PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These parent company only 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:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
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 IAS19R)	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 Company 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,	January 1, 2018

‘First-time adoption of international financial reporting	
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12,	January 1, 2017
‘Disclosure of interests in other entities’	
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28,	January 1, 2018
‘Investments in associates and joint ventures’	

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.

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 Company expects to reclassify available-for-sale financial assets in the amounts of \$11,627, 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 \$11,627, \$0 and \$0, respectively.

In accordance with IFRS 9, the Company 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 Company expects to reclassify investments in debt instruments without active market of \$148,170, by increasing financial assets at amortised cost in the amount of \$148,170.

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 parent company only financial

statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The parent company only financial statements of the Company have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

(2) Basis of preparation

A. Except for the following items, these parent company only 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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

(3) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The parent company only financial statements are presented in New Taiwan Dollars, which is the Company’s functional and 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 company 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.

(4) 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 settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled 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.

(5) 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.

(6) 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'.

(7) 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 Company 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.

(8) Impairment of financial assets

- A. The Company 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 Company 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 Company, 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 Company 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.

(9) Derecognition of financial assets

The Company 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 Company 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 Company has not retained control of the financial asset.

(10) 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.

(11) 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.

(12) Investments accounted for using equity method / subsidiaries and associates

- A. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company 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.
- B. Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Company are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its subsidiaries' 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 Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company should continue to recognize losses in proportion to its ownership.
- 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. Associates are all entities over which the Company 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.
- F. The Company'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 Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- G. 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 Company's ownership percentage of the associate, the Company recognizes the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- H. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the company'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 company.
- I. When the Company 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.
- J. According to "Regulations Governing the Preparation of Financial Reports by Securities Issuers", profit and other comprehensive income in the parent company only financial statements should be the same as profit and other comprehensive income attributable to shareholders of the parent in the consolidated financial statements, and the equity in the parent company only financial statements should be the same as the equity attributable to shareholders of the parent in the consolidated financial statements.

(13) 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 Company 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	8 years
Furniture and fixtures	3~ 10 years
Other equipment	5 ~ 15 years

(14) 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.

(15) 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.

(16) Impairment of non-financial assets

The Company 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.

(17) 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.

(18) 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.

(19) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(20) Provisions

Provisions (including warranties, after-sales service) are recognized when the Company 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.

(21) 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 expense 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 Company 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 Company 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 Company'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 Company recognizes expense as it can no longer withdraw an offer of termination benefits or it recognizes 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 Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(22) 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 Company 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.

(23) 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.

(24) 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.

(25) Revenue recognition

The Company 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 Company's activities. Revenue arising from the sales of goods is recognized when the Company 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 Company 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.

(26) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Company 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 Company recognizes expenses for the related costs for which the grants are intended to compensate.

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

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company'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 Company'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 Company must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company 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 \$1,284,856.

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	\$ 129	\$ 133
Checking accounts	26	26
Demand deposits	475,325	471,002
Total	<u>\$ 475,480</u>	<u>\$ 471,161</u>

A. The Company 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 current assets and other non-current 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	\$ 29,849	\$ 382,347
Valuation adjustment of financial assets held for trading	2,827	778
Total	<u>\$ 32,676</u>	<u>\$ 383,125</u>

A. The Company recognized net gain of \$2,538 and \$5,656 on financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2017 and 2016, respectively.

B. The Company 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	<u>\$ 148,170</u>	<u>\$ 222,623</u>

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

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

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

(4) Accounts receivable

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 1,361,660	\$ 1,306,122
Less: allowance for bad debts	(135,581)	(98,536)
	<u>\$ 1,226,079</u>	<u>\$ 1,207,586</u>

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

	December 31, 2017	December 31, 2016
Group 1	\$ 89,160	\$ 20,610
Group 2	691,629	799,733
Group 3	280,195	184,925
	<u>\$ 1,060,984</u>	<u>\$ 1,005,268</u>

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	\$ 28,667	\$ 69,536
31 to 90 days	28,964	59,888
91 to 180 days	89,367	55,174
Over 181 days	18,097	17,720
	<u>\$ 165,095</u>	<u>\$ 202,318</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 Company's accounts receivable that were impaired amounted to \$135,581 and \$98,536, 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	\$ 357	\$ 98,179	\$ 98,536
Provision for impairment	573	36,472	37,045
At December 31	<u>\$ 930</u>	<u>\$ 134,651</u>	<u>\$ 135,581</u>
	<u>2016</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 1,989	\$ 79,932	\$ 81,921
Provision (Reversal) for impairment	(1,632)	18,247	16,615
At December 31	<u>\$ 357</u>	<u>\$ 98,179</u>	<u>\$ 98,536</u>

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

(5) Inventories

	December 31, 2017		
	Allowance for valuation		
	Cost	loss	Book value
Raw materials	\$ 42,122	(\$ 6,915)	\$ 35,207
Work in progress	589,095	(3,560)	585,535
Finished goods	663,807	(51)	663,756
Inventory in transit	358	-	358
Total	\$ 1,295,382	(\$ 10,526)	\$ 1,284,856

	December 31, 2016		
	Allowance for valuation		
	Cost	loss	Book value
Raw materials	\$ 34,955	(\$ 8,564)	\$ 26,391
Work in progress	303,321	(1,489)	301,832
Finished goods	619,341	(2,658)	616,683
Inventory in transit	50	-	50
Total	\$ 957,667	(\$ 12,711)	\$ 944,956

The cost of inventories recognized as expense for the year:

	Year ended December 31, 2017	Year ended December 31, 2016
Cost of goods sold	\$ 2,787,273	\$ 1,868,426
Gain on reversal of decline in market value	(2,185)	(22,109)
Loss on disposal inventory	2,146	25,613
	\$ 2,787,234	\$ 1,871,930

The Company 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

Items	December 31, 2017	December 31, 2016
Non-current items:		
Listed stocks	\$ -	\$ 123
Emerging stocks	28,345	30,046
Subtotal	28,345	30,169
Valuation adjustment	(16,718)	(11,785)
Accumulated impairment	-	(76)
Total	\$ 11,627	\$ 18,308

The Company recognized (\$4,934) and \$1,736 in other comprehensive income for fair value change for the years ended December 31, 2017 and 2016, respectively.

(7) Investments accounted for using equity method

	December 31, 2017	December 31, 2016
Gallant-Rapid Corporation Ltd. (the “GRC”)	\$ 302,516	\$ 367,973
Gallant Precision Machinery (BVI) Ltd.(the GPM(BVI))	385,144	383,166
APEX-I International Co., Ltd.	66,010	62,278
Chun-Zhun Enterprise Corporation Ltd. (the “CZE”)	12,527	13,179
Sunengine Co., Ltd.	66,761	189,608
Gallant Micro. Machining Co., Ltd.	502,510	555,382
	<u>1,335,468</u>	<u>1,571,586</u>
Accumulated impairment	(1,512)	(1,512)
	<u>\$ 1,333,956</u>	<u>\$ 1,570,074</u>

A. Investments in subsidiaries

Information about the Company’s subsidiaries is provided in Note 4(3) of the 2017 consolidated financial statements.

B. Associates

(a) The basic information of the associates that are material to the Company 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.	Taiwan	37.84%	37.84%	Business strategy	Equity method

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

	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	<u>8,318</u>	<u>8,318</u>
Carrying amount of the associate	<u>\$ 66,761</u>	<u>\$ 189,608</u>

Statement of comprehensive income

	Sunengine Co., Ltd.	
	Year ended December	Year ended December
	31, 2017	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	(\$ 325,109)	(\$ 119,328)
Dividends received from associates	\$ -	\$ -

- (c) The carrying amount of the Company's interests in all individually immaterial associates and the Company's share of the operating results are summarized below:

As of December 31, 2017 and 2016, the carrying amount of the Company's individually immaterial associates amounted to \$0 and \$0, respectively.

(8) Property, plant and equipment

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Transportation equipment</u>	<u>Leased assets</u>	<u>Others</u>	<u>Total</u>
<u>At January 1, 2017</u>							
Cost	\$ 427,430	\$ 8,356	\$ 898	\$ 1,736	\$ 116,753	\$ 19,717	\$ 574,890
Accumulated depreciation and impairment	(103,796)	(7,508)	(554)	(859)	(23,172)	(7,821)	(143,710)
	<u>\$ 323,634</u>	<u>\$ 848</u>	<u>\$ 344</u>	<u>\$ 877</u>	<u>\$ 93,581</u>	<u>\$ 11,896</u>	<u>\$ 431,180</u>
<u>2017</u>							
Opening net book amount as at January 1	\$ 323,634	\$ 848	\$ 344	\$ 877	\$ 93,581	\$ 11,896	\$ 431,180
Additions	-	-	-	-	-	3,665	3,665
Disposals	-	-	-	(240)	-	-	(240)
Depreciation charge	(8,905)	(467)	(143)	(204)	(2,418)	(3,758)	(15,895)
Closing net book amount as at December 31	<u>\$ 314,729</u>	<u>\$ 381</u>	<u>\$ 201</u>	<u>\$ 433</u>	<u>\$ 91,163</u>	<u>\$ 11,803</u>	<u>\$ 418,710</u>
<u>At December, 31, 2017</u>							
Cost	\$ 427,430	\$ 1,662	\$ 377	\$ 1,178	\$ 116,753	\$ 20,470	\$ 567,870
Accumulated depreciation and impairment	(112,701)	(1,281)	(176)	(745)	(25,590)	(8,667)	(149,160)
	<u>\$ 314,729</u>	<u>\$ 381</u>	<u>\$ 201</u>	<u>\$ 433</u>	<u>\$ 91,163</u>	<u>\$ 11,803</u>	<u>\$ 418,710</u>

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Transportation equipment</u>	<u>Leased assets</u>	<u>Others</u>	<u>Total</u>
At January 1, 2016							
Cost	\$ 428,517	\$ 8,356	\$ 9,045	\$ 2,648	\$ 116,753	\$ 45,908	\$ 611,227
Accumulated depreciation and impairment	(95,970)	(6,580)	(8,251)	(1,472)	(20,755)	(33,265)	(166,293)
	<u>\$ 332,547</u>	<u>\$ 1,776</u>	<u>\$ 794</u>	<u>\$ 1,176</u>	<u>\$ 95,998</u>	<u>\$ 12,643</u>	<u>\$ 444,934</u>
<u>2016</u>							
Opening net book amount as at January 1	\$ 332,547	\$ 1,776	\$ 794	\$ 1,176	\$ 95,998	\$ 12,643	\$ 444,934
Additions	-	-	-	-	-	3,105	3,105
Depreciation charge	(8,913)	(928)	(450)	(299)	(2,417)	(3,852)	(16,859)
Closing net book amount as at December 31	<u>\$ 323,634</u>	<u>\$ 848</u>	<u>\$ 344</u>	<u>\$ 877</u>	<u>\$ 93,581</u>	<u>\$ 11,896</u>	<u>\$ 431,180</u>
At December, 31, 2016							
Cost	\$ 427,430	\$ 8,356	\$ 898	\$ 1,736	\$ 116,753	\$ 19,717	\$ 574,890
Accumulated depreciation and impairment	(103,796)	(7,508)	(554)	(859)	(23,172)	(7,821)	(143,710)
	<u>\$ 323,634</u>	<u>\$ 848</u>	<u>\$ 344</u>	<u>\$ 877</u>	<u>\$ 93,581</u>	<u>\$ 11,896</u>	<u>\$ 431,180</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 and 50 years.
- C. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(9) Short-term borrowings

Type of borrowings	December 31, 2017	Interest rate range	Collateral
Unsecured Banking Loan	\$ 554,730	1.07%~2.91%	None
Type of borrowings	December 31, 2016	Interest rate range	Collateral
Unsecured Banking Loan	\$ 522,152	1.12%~2.35%	None

(10) Accounts payable

	December 31, 2017	December 31, 2016
Accounts payable	\$ 1,228,647	\$ 968,654
Accrued accounts payable	198,770	396,424
	<u>\$ 1,427,417</u>	<u>\$ 1,365,078</u>

(11) 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
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	<u>235,000</u> 280,907
Less: current portion				(<u>28,528</u>)
				<u>\$ 252,379</u>

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2016
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	Borrowing period is from September	1.40%	Note A、	<u>255,000</u>

borrowings - 15, 2014 to September 15, 2019; CTBC Bank Co., interest is repayable monthly and Ltd. principal is repayable through December, 2014 to September, 2019.	Note B	308,678
Less: current portion		(28,422)
		\$ 280,256

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).

(12) Pensions

A. (a) The Company 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 contributes monthly an amount equal to 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 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 will make contribution for the deficit by next March.

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

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	(\$ 73,123)	(\$ 68,874)
Fair value of plan assets	18,942	12,166
Net defined benefit liability	(\$ 54,181)	(\$ 56,708)

(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 financial assumptions	(1,992)	-	(1,992)
Change in demographic 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><u>(\$ 73,123)</u></u>	<u><u>\$ 18,942</u></u>	<u><u>(\$ 54,181)</u></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	(\$ 64,916)	\$ 5,445	(\$ 59,471)
Current service cost	(815)	-	(815)
Interest (expense) income	(965)	178	(787)
	<u>(66,696)</u>	<u>5,623</u>	<u>(61,073)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	(116)	(116)

Change in demographic assumptions	(323)	-	(323)
Experience adjustments	(2,038)	-	(2,038)
	(2,361)	(116)	(2,477)
Pension fund contribution	-	6,842	6,842
Paid pension	183	(183)	-
Balance at December 31	<u>(\$ 68,874)</u>	<u>\$ 12,166</u>	<u>(\$ 56,708)</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's 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	<u>1.25%</u>	<u>1.50%</u>
Future salary increases	<u>2.00%</u>	<u>2.00%</u>

Assumptions regarding future mortality experience are set based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

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	(\$ <u>1,904</u>)	<u>\$ 1,987</u>	<u>\$ 1,967</u>	(<u>\$ 1,895</u>)
December 31, 2016				
Effect on present value of defined benefit obligation	(<u>\$ 1,918</u>)	<u>\$ 2,004</u>	<u>\$ 1,989</u>	(<u>\$ 1,913</u>)

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 Company for 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>
	\$	<u>82,531</u>

B. (a) Effective July 1, 2005, the Company 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 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) The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2017 and 2016 were \$15,965 and \$15,308, respectively.

(13) Share capital

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 December 31, 2017	Year ended December 31, 2016
At January 1/At December 31	<u>165,136</u>	<u>165,136</u>

(14) 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>

(15) 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(22).

(16) 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	(4,934)	-	(4,934)
Revaluation – Subsidiary	(174)	-	(174)
Currency translation differences	-	(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	1,736	-	1,736
Revaluation –Subsidiary	(999)	-	(999)
Currency translation differences	-	(79,380)	(79,380)
At December 31	<u>(\$ 12,784)</u>	<u>(\$ 32,398)</u>	<u>(\$ 45,182)</u>

(17) Operating revenue

	Year ended December 31, 2017	Year ended December 31, 2016
Sales revenue	\$ 3,612,209	\$ 2,454,651
Technology service revenue	159,108	141,524
Total	<u>\$ 3,771,317</u>	<u>\$ 2,596,175</u>

(18) Other income

	Year ended December 31, 2017	Year ended December 31, 2016
Interest income	\$ 1,779	\$ 2,741
Rental revenue	25,742	24,036
Government subsidy income	22,736	34,623
Dividends income	-	3
Others	14,171	12,146
Total	<u>\$ 64,428</u>	<u>\$ 73,549</u>

(19) 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	\$ 4,786
Net currency exchange (losses) gains	(36,549)	(16,416)
Gain on disposal of financial assets measured at cost	-	1,983
Losses on disposal of available-for-sale financial assets	(694)	-
Gain on disposal of financial liabilities	-	870
Total	<u>(\$ 34,705)</u>	<u>(\$ 8,777)</u>

(20) Finance costs

	Year ended 31, 2017	December	Year ended 31, 2016	December
Interest expense	\$	15,366	\$	12,260

(21) Expenses by nature

	Year ended 31, 2017	December	Year ended 31, 2016	December
Employee benefit expense	\$	494,609	\$	531,283
Depreciation charges on property, plant and equipment		15,895		16,859
Amortization charges on intangible assets		29,676		13,462
	\$	540,180	\$	561,604

(22) Employee benefit expense

	Year ended 31, 2017	December	Year ended 31, 2016	December
Wages and salaries	\$	431,689	\$	469,316
Labour and health insurance fees		31,079		28,369
Pension costs		14,675		16,910
Other personnel expenses		17,166		16,688
	\$	494,609	\$	531,283

- 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 Board of Directors were in agreement with those amounts recognised 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.

(23) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Year ended 31, 2017	December	Year ended 31, 2016	December
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current tax:				
Current tax on profits for the year	\$	76,174	\$	39,356
Tax on undistributed surplus earnings		311		4,580
Prior year income tax (over) underestimation		2,697	(	1,070)
Total current tax		<u>79,182</u>		<u>42,866</u>
Deferred tax:				
Origination and reversal of temporary differences	(	10,170)	(	2,228)
Total deferred tax	(	<u>10,170</u>)	(	<u>2,228</u>)
Income tax expense	\$	<u>69,012</u>	\$	<u>40,638</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 31, 2017	December	Year ended 31, 2016	December
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Tax calculated based on profit before tax and statutory tax rate	\$	45,775	\$	51,229
Expenses disallowed by tax regulation		-	(	14,101)
Tax exempt income by tax regulation		117		-
Change in assessment of realisation of deferred tax assets		20,112		-
Prior year income tax (over) underestimation		2,697	(	1,070)
Tax on undistributed earnings		311		4,580
Tax expenses	\$	<u>69,012</u>	\$	<u>40,638</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	\$ 14,473	\$ 6,257	\$ -	\$ 20,730
Inventory obsolescence and market price decline	2,161	(371)	-	1,790
Warranty provision	25,801	(1,067)	-	24,734
Accrued pension cost	7,023	(1,349)	-	5,674
Others	490	6,700	-	7,190
Total	<u>\$ 49,948</u>	<u>\$ 10,170</u>	<u>\$ -</u>	<u>\$ 60,118</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	\$ 11,880	\$ 2,593	\$ -	\$ 14,473
Inventory obsolescence and market price decline	4,144	(1,983)	-	2,161
Warranty provision	27,665	(1,864)	-	25,801
Accrued pension cost	5,417	1,606	-	7,023
Others	2,862	(2,372)	-	490
Subtotal	<u>51,968</u>	<u>(2,020)</u>	<u>-</u>	<u>49,948</u>
Deferred tax liabilities:				
Unrealized exchange gain	(3,172)	3,172	-	-
Others	(1,076)	1,076	-	-
Subtotal	<u>(4,248)</u>	<u>4,248</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 47,720</u>	<u>\$ 2,228</u>	<u>\$ -</u>	<u>\$ 49,948</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>\$ 54,915</u>	<u>\$ 39,270</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:

	<u>December 31, 2016</u>
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.

(24) Earnings per share

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

(25) Transactions with non-controlling interest

A. The Company 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 Company increased its capital by issuing new shares due to exercise of employees stock options on May 20, 2016. The Company did not acquire shares proportionally to its interest. As a result, the Company decreased its share interest by 2.57%. 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:

	<u>Year ended December 31, 2017</u>
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	<u><u>(\$ 1,383)</u></u>

B. Acquisition of additional equity interest in a subsidiary

On May 12, 2017, the Company acquired an additional 5.88% of 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 a decrease 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 nine-month period ended September 30, 2017 is shown below:

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

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

(26) Operating leases

A. The Company 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:

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

B. The Company leases in plant assets under non-cancellable operating lease agreements. The lease terms are between 2013 and 2036 years. The Company recognized rental expenses of \$10,119 and \$10,114 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	\$ 9,939	\$ 10,114
Later than one year but not later than five years	39,517	39,587
Later than five years	40,729	54,389
	<u>\$ 90,185</u>	<u>\$ 104,090</u>

(27) Supplemental cash flow information

Investing activities with partial cash payments

	<u>Year ended 31, 2017</u>	<u>Year ended 31, 2016</u>
Purchase of property, plant and equipment	\$ 3,665	\$ 3,105
Add: opening balance of payable on equipment	1,685	2,372
Less: ending balance of payable on equipment	(375)	(1,685)
Cash paid during the year	<u>\$ 4,975</u>	<u>\$ 3,792</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</u> <u>31, 2017</u>	<u>December</u> <u>31, 2016</u>
Sales of goods:		
Subsidiary	\$ 2,503	\$ 6,716
Associate	1,166	2,310
	<u>\$ 3,669</u>	<u>\$ 9,026</u>

The transactions of the Company 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</u> <u>31, 2017</u>	<u>December</u> <u>31, 2016</u>
Purchases of goods:		
Subsidiary	<u>\$ 192,312</u>	<u>\$ 166,913</u>

The purchase prices of transactions with related parties and non-related parties were negotiated in consideration of the differences of product and the complexity of production. There were no similar transaction types with non-related parties. The transactions with related parties are subject to the terms and conditions agreed upon by both parties. The payment terms are 90 days after the date of acceptance on a monthly basis.

C. Receivables from related parties

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable:		
Subsidiary	\$ -	\$ 1,698
Associate	-	293
Subtotal	-	1,991
Other receivables		
Subsidiary	4,261	16,717
Total	<u>\$ 4,261</u>	<u>\$ 18,708</u>

D. Payables from related parties

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts payables:		
Subsidiary	<u>\$ 4,417</u>	<u>\$ 1</u>

E. Other

	Year ended December 31, 2017		Year ended December 31, 2016	
	Item	Amount	Item	Amount
Other:	Other revenue	\$ 6,669	Other revenue	\$ 6,907
Subsidiary	Procurement service revenue	24,415	Procurement service revenue	41,009
	After sales services expense from overseas	26,752		36,323

F. Loans to /from related parties:

Loans to related parties:

	Year ended December 31, 2017	Year ended December 31, 2016
Interest income:		
Associates	\$ -	\$ 341

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

G. Endorsements and guarantees provided to related parties:

	December 31, 2017	December 31, 2016
Subsidiaries	\$ 260,115	\$ 248,375

(3) Key management compensation

	Year ended December 31, 2017	Year ended December 31, 2016
Salaries and other short-term employee benefits	\$ 20,907	\$ 15,131
Post-employment benefits	684	621
Total	\$ 21,591	\$ 15,752

8. PLEDGED ASSETS

The Company'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")	\$ 1,591	\$ 12,900	Exercise guarantee for construction
Time deposits (shown as "other non-current assets")	8,304	13,191	Exercise guarantee for construction and customs deposit
Fixed assets, net	405,892	417,214	Long-term borrowings
	\$ 415,787	\$ 443,305	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingent liabilities

- A. As of the years ended December 31, 2017 and 2016, respectively, 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 (26).

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 \$10,609 and \$0, 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 Company's objectives when managing capital are to safeguard the Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company 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 Company'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:

	December 31, 2017	December 31, 2016
Total borrowings	\$ 835,637	\$ 830,831
Less: cash	(475,480)	(471,161)
Net debt	360,157	359,670
Total equity	2,218,042	2,328,515
Total capital	\$ 2,578,199	\$ 2,688,185
Gearing ratio	13.97%	13.38%

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Company'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 Company'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 Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company'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 Company 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 manage their foreign exchange risk against their functional currency. The Company are required to hedge their entire foreign exchange risk exposure with the Company treasury. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Company use forward foreign exchange contracts, transacted with Company 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 Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). 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>			
EUR:NTD	\$ 61	35.57	\$ 2,158
USD:NTD	31,166	29.76	927,513
JPY:NTD	685,254	0.2642	181,044
RMB:NTD	41,781	4.565	190,732
SGD:NTD	118	22.26	2,620
<u>Non-monetary items</u> : None			
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	\$ 18,209	29.76	\$ 541,899
JPY:NTD	169,939	0.2642	44,898
RMB:NTD	963	4.565	4,398
EUR:NTD	156	35.57	5,539
<u>Non-monetary items</u> : None			

December 31, 2016			
	Foreign currency amount		Book value (NTD)
	(In thousands)	Exchange rate	
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
EUR:NTD	\$ 32	33.9	\$ 1,069
USD:NTD	25,278	32.25	815,226
JPY:NTD	104,650	0.2756	28,842
RMB:NTD	36,665	4.617	169,283
SGD:NTD	1,110	22.29	24,738
<u>Non-monetary items: None</u>			
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	\$ 19,857	32.25	\$ 640,400
JPY:NTD	165,836	0.2756	45,704
RMB:NTD	1,076	4.617	1,969
EUR:NTD	39	33.9	1,321
<u>Non-monetary items: None</u>			

- D. Total exchange gain (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2017 and 2016, amounted to (\$36,549) and (\$16,416), respectively.

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>			
EUR:NTD	1%	\$ 22	\$ -
USD:NTD	1%	9,275	-
JPY:NTD	1%	1,810	-
RMB:NTD	1%	1,907	-
SGD:NTD	1%	26	-
<u>Financial liability</u>			
<u>Monetary items</u>			
USD:NTD	1%	(\$ 5,419)	\$ -
JPY:NTD	1%	(449)	-
RMB:NTD	1%	(44)	-
EUR:NTD	1%	(55)	-

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>				
EUR:NTD	1%	\$	11	\$ -
USD:NTD	1%		8,152	-
JPY:NTD	1%		288	-
RMB:NTD	1%		1,693	-
SGD:NTD	1%		247	-
<u>Financial liability</u>				
<u>Monetary items</u>				
USD:NTD	1%	(\$	6,404)	\$ -
JPY:NTD	1%	(	457)	-
RMB:NTD	1%	(	50)	-
EUR:NTD	1%	(	13)	-

Price risk

- A. The Company is exposed to equity securities price risk because of investments held by the Company and classified on the 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 Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.
- B. The Company's investments in financial assets at fair value through profit or loss mainly were beneficiary certificates. 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 Company'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 would have increased/decreased by \$116 and \$183, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

Interest rate risk

The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company 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 Company to fair value interest rate risk. During the years ended December 31, 2017 and 2016, the Company'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 \$6,342 and \$4,861, respectively.

(b) Credit risk

- i . Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company 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 Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company'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 Company treasury. Company 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 of December 31, 2017 and 2016, the Company held money market position of \$656,171 and \$1,076,750, 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	959,146	684,674
Expiring beyond one year	<u>84,093</u>	<u>56,321</u>
	<u>\$ 1,043,239</u>	<u>\$ 740,995</u>

- iv. The table below analyses the Company'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	Less than 3 months	3 months and 1year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	\$ 319,031	\$ 235,699	\$ -	\$ -	\$ -
Accounts payable	582,257	281,256	-	563,904	-
Other payables	196,313	29,845	-	-	-
Long-term borrowings (including current portion)	8,750	23,651	225,460	23,083	6,995

Non-derivative financial liabilities:

December 31, 2016	Less than 3 months	3 months and 1year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	\$ 396,378	\$ 125,775	\$ -	\$ -	\$ -
Accounts payable	433,230	512,519	-	419,329	-
Other payables	238,071	52,219	-	-	-
Long-term borrowings (including current portion)	8,987	23,879	31,578	242,262	13,290

Derivative financial liabilities:

December 31, 2017:None

Derivative financial liabilities:

December 31, 2016:None

(3) Fair value information

A. Details of the fair value of the Company'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 Company'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 Company'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 Company'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	-	11,627
Total	\$ 32,676	\$ 11,627	\$ -	\$ 44,303
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	-	18,308
Total	\$ 383,172	\$ 18,261	\$ -	\$ 401,433
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Options	\$ -	\$ -	\$ -	\$ -

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

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

Market quoted price	<u>Listed shares</u> Closing price	<u>Closed-end fund</u> Closing price	<u>Open-end fund</u> 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, interest rate swap contracts, foreign exchange swap contracts and options, the Company 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 Company'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 Company'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 Company takes into account adjustments for credit risks to measure the fair value of financial instruments to reflect credit risk of the counterparty and the Company's credit quality.
- E. For the years ended December 31, 2017 and 2016, there was no transfer into or out from the financial instruments movement of level 3.
 - F. For the years ended December 31, 2017 and 2016, there was no transfer into or out from Level 3.
 - G. 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.

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: Please refer to table 3.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- 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: None.
- 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

None.

Table 1

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

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

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 2

GALLANT PRECISION MACHINING CO., LTD.
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 3

GALLANT PRECISION MACHINING CO., LTD.
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 4

GALLANT PRECISION MACHINING CO., LTD.
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	Percentage of total notes/accounts receivable (payable)	
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	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 5

GALLANT PRECISION MACHINING CO., LTD.
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 6

GALLANT PRECISION MACHINING CO., LTD.
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 7

GALLANT PRECISION MACHINING CO., LTD.
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	Percentage of Ownership	Share of Profits/Losses(note2(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

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 8

GALLANT PRECISION MACHINING CO., LTD.
INFORMATION ON INVESTMENT IN MAINLAND CHINA (SIGNIFICANT TRANSACTIONS CONDUCTED WITH INVESTEES 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	-	-	-	-	-	-	-

5. Financial Statements and Independent Auditors' Report-GPM & SUBSIDIARIES

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

A handwritten signature in black ink, appearing to read "Nickyen", is written over a faint, illegible printed name.

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

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	%	
Current assets						
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	Current Assets		<u>5,254,391</u>	<u>84</u>	<u>5,272,765</u>	<u>84</u>
Non-current assets						
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	Non-current assets		<u>970,315</u>	<u>16</u>	<u>977,449</u>	<u>16</u>
1XXX	Total assets		<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	%	
Current liabilities						
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	Current Liabilities		<u>3,164,925</u>	<u>51</u>	<u>3,208,291</u>	<u>51</u>
Non-current liabilities						
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	Non-current liabilities		<u>519,074</u>	<u>8</u>	<u>434,540</u>	<u>7</u>
2XXX	Total Liabilities		<u>3,683,999</u>	<u>59</u>	<u>3,642,831</u>	<u>58</u>
Equity attributable to owners of parent company						
Share capital						
3110	Share capital-common stock	6(16)	1,651,361	27	1,651,361	26
Capital surplus						
3200	Capital surplus	6(17)	186,765	3	242,949	4
Retained earnings						
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
Other equity interest						
3400	Other equity interest	6(19)	(63,079)	(1)	(45,182)	(1)
31XX	Equity attributable to owners of the parent company		<u>2,218,042</u>	<u>36</u>	<u>2,328,515</u>	<u>37</u>
36XX	Non-controlling interest		<u>322,665</u>	<u>5</u>	<u>278,868</u>	<u>5</u>
3XXX	Total equity		<u>2,540,707</u>	<u>41</u>	<u>2,607,383</u>	<u>42</u>
Contingent liabilities and unrecognised contract commitments						
3X2X	Total liabilities and equity		<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	Operating revenue	\$ 4,839,887	100	\$ 3,666,700	100		
5000	Operating costs	(3,527,537)	(73)	(2,578,090)	(70)		
5900	Net operating margin	1,312,350	27	1,088,610	30		
	Operating expenses	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	Total operating expenses	(846,551)	(17)	(781,578)	(22)		
6900	Operating profit	465,799	10	307,032	8		
	Non-operating income and expenses						
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	Total non-operating income and expenses	(127,486)	(3)	75,890	2		
7900	Profit before tax	338,313	7	382,922	10		
7950	Income tax expense	(107,632)	(2)	(83,863)	(2)		
8200	Profit for the year	\$ 230,681	5	\$ 299,059	8		
	Other comprehensive income for the year						
	Items that will not be reclassified subsequently to profit or loss:						
8311	Actuarial gain on defined benefit plan	(\$ 5,453)	-	(\$ 2,498)	-		
8310	Items that will not be reclassified subsequently to profit or loss:	(\$ 5,453)	-	(\$ 2,498)	-		
	Items that may be reclassified subsequently to profit or loss:						
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	Summary of Components of other comprehensive income that will be reclassified to profit or loss	(19,408)	(1)	(94,047)	(2)		
8300	Other comprehensive (loss) income for the year	(\$ 24,861)	(1)	(\$ 96,545)	(2)		
8500	Total comprehensive income for the year	\$ 205,820	4	\$ 202,514	6		
	Profit attributable to:						
8610	Equity holders of the parent company	\$ 200,252	4	\$ 260,709	7		
8620	Non-controlling interest	30,429	1	38,350	1		
	Profit for the year	\$ 230,681	5	\$ 299,059	8		
	Total comprehensive income attributable to:						
8710	Equity holders of the parent company	\$ 176,902	3	\$ 179,570	5		
8720	Non-controlling interest	28,918	1	22,944	1		
	Total comprehensive income for the year	\$ 205,820	4	\$ 202,514	6		
	Basic earnings per share	6(27)					
9750	Profit for the year	\$	1.21	\$	1.58		
	Diluted earnings per share	6(27)					
9850	Profit for the year	\$	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			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	Total		
For the year ended December 31, 2016											
Balance at January 1, 2016		\$ 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:											
Legal reserve		-	-	19,991	-	(19,991)	-	-	-	-	-
Cash dividends	6(18)	-	-	-	-	(132,109)	-	-	(132,109)	-	(132,109)
Capital reserve-distribute cash	6(17)	-	(33,027)	-	-	-	-	-	(33,027)	-	(33,027)
Profit for the year		-	-	-	-	260,709	-	-	260,709	38,350	299,059
Other comprehensive income for the year	6(19)	-	-	-	-	(2,496)	(79,380)	737	(81,139)	(15,406)	(96,545)
From share of changes in equities of subsidiaries	6(28)	-	-	-	-	(1,383)	-	-	(1,383)	-	(1,383)
Increase in non-controlling interest		-	-	-	-	-	-	-	-	3,665	3,665
Balance at December 31, 2016		<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>
For the year ended December 31, 2017											
Balance at January 1, 2017		\$ 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:											
Legal reserve		-	-	26,071	-	(26,071)	-	-	-	-	-
Special reserve		-	-	-	45,182	(45,182)	-	-	-	-	-
Cash dividends	6(18)	-	-	-	-	(231,191)	-	-	(231,191)	-	(231,191)
Capital reserve-distribute cash	6(17)	-	(66,055)	-	-	-	-	-	(66,055)	-	(66,055)
Profit for the year		-	-	-	-	200,252	-	-	200,252	30,429	230,681
Other comprehensive income for the year	6(19)	-	-	-	-	(5,453)	(12,789)	(5,108)	(23,350)	(1,511)	(24,861)
Difference between the price for acquisition or disposal of subsidiaries and carrying amount	6(28)	-	9,871	-	-	-	-	-	9,871	27,332	37,203
Decrease in non-controlling interest		-	-	-	-	-	-	-	-	(12,453)	(12,453)
Balance at December 31, 2017		<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
CASH FLOWS FROM OPERATING ACTIVITIES			
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

(Continued)

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
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
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		(125,065)	(259,833)
<u>CASH FLOWS FROM FINANCING ACTIVITY</u>			
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		21,874	23,829
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)	\$ 1,071,799	\$ 910,191

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	January 1, 2016

IFRS 10, IFRS 12 and IAS 28)	
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 IAS19R)	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's 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's 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.	Investing in Gallant Micro Machining (Suzhou) Co., Ltd.	100	100	

Gallant Micro Machining Co., Ltd.	(the "KMC") 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	Principal	Non-controlling interest	Description
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subsidiary	place of business	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	\$ 799,157	\$ 830,416

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	\$ 58,752	\$ 72,849
Comprehensive income attributable to non-controlling interest	\$ 21,055	\$ 22,914
Dividends paid to non-contronlling interest	\$ 29,809	\$ 28,708

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 chairmen 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:

	December 31, 2017	December 31, 2016
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	29,279	60,304
	<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:

	2017		
	Individual provision	Group provision	Total
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>
	2016		
	Individual provision	Group provision	Total
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	\$	1,593,706	(\$ 83,077)	\$ 1,510,629
		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	\$	1,261,651	(\$ 73,779)	\$ 1,187,872

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	-
	\$ 3,527,537	\$ 2,578,090

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	\$ 12,908	\$ 19,702

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	<u>-</u>	<u>-</u>

(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>

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2016
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	10,000
				<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>\$</u>	<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.):

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted</u>	<u>Contract period</u>	<u>Vesting conditions</u>
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.

	<u>2016</u>	
	<u>No. of options (shares in thousands)</u>	<u>Weighted-average exercise price (in dollars)</u>
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 December 31, 2017	Year ended December 31, 2016
At January 1/At December 31	<u>165,136</u>	<u>165,136</u>

(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.

(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	(\$ 17,892)	(\$ 45,187)	(\$ 63,079)

	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	(\$ 12,784)	(\$ 32,398)	(\$ 45,182)

(20) Operating revenue

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

(21) Other income

	Year ended 31, 2017	December	Year ended 31, 2016	December
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	\$ 84,099		\$ 122,870	

(22) Other gains and losses

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

(24) Expenses by nature

	Year ended 31, 2017	December	Year ended 31, 2016	December
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 31, 2017	December	Year ended 31, 2016	December
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 31, 2017	December	Year ended 31, 2016	December
Current tax:				
Current tax on profits for the period	\$	101,338	\$	68,744
Tax on undistributed surplus		1,963		6,536
Prior year income tax (over)		12,280		11,240
Total current tax		<u>115,581</u>		<u>86,520</u>
Deferred tax:				
Origination and reversal of	(	7,949)	(	2,657)
Total deferred tax	(	<u>7,949</u>)	(	<u>2,657</u>)
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 31, 2017	December	Year ended 31, 2016	December
Tax calculated based on profit before tax	\$	73,250	\$	91,344
Expenses disallowed by tax regulation		-	(	25,268)
Tax exempt income by tax regulation		117		-
Prior year income tax (over)		12,280		11,240
Temporary difference not recognized as		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	Recognized in	December
Temporary differences:				
Deferred tax assets:				
Allowance for bad debt	\$ 15,619	\$ 7,472	\$ -	\$ 23,091
Inventory obsolescence and	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	(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>)

- 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	(3,833)
Capital surplus	
- difference between proceeds on actual acquisition of or disposal of equity interest in a subsidiary and its carrying amount	(\$ 798)

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	(41,036)
Capital surplus	
- difference between proceeds on actual acquisition of or disposal of equity interest in a subsidiary and its carrying amount	(\$ 10,669)

(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:

	December 31, 2017	December 31, 2016
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	40,729	44,509
	<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</u> <u>31, 2017</u>	<u>Year ended December</u> <u>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</u> <u>December 31, 2017</u>	<u>Year ended</u> <u>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	<u>\$ -</u>	<u>\$ 293</u>

D. Loans to /from related parties:

Loans to related parties:

Interest income

	<u>Year ended December</u> <u>31, 2017</u>	<u>Year ended December</u> <u>31, 2016</u>
Associate	<u>\$ -</u>	<u>\$ 341</u>

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. PLEGGED 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:

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

(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

Non-monetary items :None

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</u>			
RMB:NTD	2,538	4.617	11,718
<u>Non-monetary items</u> :None			
<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</u> :None			

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:

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

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	Less than 3 months	3 months and 1year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
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 1year	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

Derivative financial liabilities:

December 31, 2017	Less than 3 months	3 months and 1year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ -

Derivative financial liabilities:

December 31, 2016	Less than 3 months	3 months and 1year	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	\$ 32,676	\$ 11,627	\$ 1,281	\$ 45,584
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	\$ 383,172	\$ 18,261	\$ 1,394	\$ 402,827
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	
	equity instrument		equity instrument	
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	Valuation technique	Significant unobservable	Range (weighted average)	Relationship of inputs to fair

	December, 31, 2016		input		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	
				Favourable change	Unfavourable change	Favourable change	Unfavourable change
	Input	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	
				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:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Revenue	Non-current assets (note)	Revenue	Non-current assets (note)
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:

	Year ended December 31, 2017		Segment
	Revenue	Percentage(%)	
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

	Year ended December 31, 2016		Segment
	Revenue	Percentage(%)	
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 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 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 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		Percentage of total notes/accounts receivable (payable)
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	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 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 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 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

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 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	-	-	-	-	-	-	-

6. Financial Difficulties:

The Company should disclose the financial impact to the Company and its affiliated companies have incurred any financial or cash flow difficulties from Jan. 1, 2017 through until Mar. 31, 2018 : None.

VII. Financial Status, Operating Results and Status of Risk Management

1. Financial Status - Consolidated Report :

Unit: NT\$ thousands

Item	Year	2017	2016	Change	
				Amount	% of Change
Current Assets		5,254,391	5,272,765	(18,374)	(0.35)
Property, Plant and Equipment		624,659	478,669	145,990	30.5
Intangible Assets		96,768	122,286	(25,518)	(20.87)
Other Assets		248,888	376,494	(127,606)	(33.89)
Total Assets		6,224,706	6,250,214	(25,508)	(0.41)
Current Liabilities		3,164,925	3,208,291	(43,366)	(1.35)
Non-current Liabilities		519,074	434,540	84,534	19.45
Total Liabilities		3,683,999	3,642,831	41,168	1.13
Common Stock		1,651,361	1,651,361	0	0.00
Capital Surplus		186,765	242,949	(56,184)	(23.13)
Retained Earnings		442,995	479,387	(36,392)	(7.59)
Other Equity		(63,079)	(45,182)	(17,897)	29.61
Equity attributable to owners of the parent		2,218,042	2,328,515	(110,473)	(4.74)
Non-controlling Interest		322,665	278,868	43,797	15.71
Total Equity		2,540,707	2,607,383	(66,676)	(2.56)
Explanation for changes that exceed 20% and reached NT\$10 million in the past two years:					
1. The increase in property, plant and equipment is mainly attributable to purchase plant.					
2. The decrease in intangible asset is mainly attributable to license fee amortization.					
3. The decrease in other asset is caused by loss recognition for investments accounted for using equity method.					
4. The decrease in capital surplus is because of the distribution of cash dividends.					
5. The decrease in other equity is mainly caused by the decrease of exchange differences on translation of foreign financial statements.					

2. Operating Results-Consolidated Report :

2.1 For the past two years, the main reason that caused the significant changes in operating revenue, operating income and income before tax and its impacts:

Unit: NT\$ thousands

Item	Year	2017	2016	Change	% of Change
		Amount	Amount		
Net Sales		4,839,887	3,666,700	1,173,187	32.00
Gross Profit		1,312,350	1,088,610	223,740	20.55
Operating Income		465,799	307,032	158,767	51.71
Non-Operating Income and Expenses		(127,486)	75,890	(203,376)	(267.99)
Net Income before Income Tax		338,313	382,922	(44,609)	(11.65)
Net profit(Loss)from continuing operations		230,681	299,059	(68,378)	(22.86)
Net profit(Loss)from close operations		----	----	----	----
Net Income		230,681	299,059	(68,378)	(22.86)
Other Comprehensive Income, net of tax		(24,861)	(96,545)	71,684	74.25
Total Comprehensive Income		205,820	202,514	3,306	1.63
Profit(Loss) attributable to owners of parent		200,252	260,709	(60,457)	(23.19)
Profit(Loss) attributable to non-controlling interests		30,429	38,350	(7,921)	(20.65)
Comprehensive income attributable to owners of parent		176,902	179,570	(2,668)	(1.49)
Comprehensive income attributable to non-controlling interests		28,918	22,944	5,974	26.04
Earnings per share		1.21	1.58	(0.37)	(23.42)

For the past two years, the main reason that caused the significant changes in operating revenue, operating gain or loss and income before tax and its impacts:

1. Increase in sales, gross profit, operating income is deriving from panel client expanding production line thus demand increased.
2. Decrease in Non-operating income and expense, Income Before Income Tax from Continuing Operations, Net Income, Income attributable to Parent, Consolidated Net Income Attributed to Stockholders of the Company, EPS is owing to exchange loss and loss recognition for investments accounted for using equity method is higher than a year earlier.
3. Increase in Other comprehensive income (after tax) is because the exchange differences on translation of foreign operating agencies and decrease in unrealized valuation loss from available-for-sale financial assets.
4. Decrease in consolidated net income attributed to non-controlling interest is because Gallant Micro. Machining CO., Ltd. 2017 net income is less than 2016 net income.
5. Increase in OCI Attributed to Non-controlling Interest is because new investment in Gallant Precision Intelligence Technology Co., Ltd.(shareholding of 60%) and recognition of investment gain.

2.2 The expectation on sales volume and basis forming the expectation, the impacts on the Company's financial condition and business and the mitigation efforts:

Unit: Sets

Main Products	2018 budget
Display Process Equipment	279
Semiconductor Process Equipment	294
Intelligent automation equipment	11
Other Equipment	24

Note: The forecast is based on the customers' forecast and taking into account the market conditions. The aforementioned estimated quantity does not include others and parts.

3. Cash Flow Analysis-Consolidated Report

Unit: NT\$ thousands

Cash Balance Dec. 31, 2016	Net Cash Provided by Operating Activities in 2017	Net Cash Outflows from Investing Activities in 2017	Net Cash Inflows from Financing Activities in 2017	mpact of Foreign Exchange Ratio	Cash Balance Dec. 31, 2017
910,191	270,506	(125,065)	21,874	(5,707)	1,071,799

3.1 Analysis of the Change in Cash Flow in 2017

1. Operating activity: In 2016, the Company received a lot of Prepaid items and those prepaid items were written-off with account receivable. This caused cash inflow from operating activities less than the year earlier.
2. Investing Activities: Mainly caused by acquisition of real estate by subsidiary
3. Financing activity: It is because of the distribution of cash dividend and acquisition of real estate by raising debt by Gallant Micro. Machining CO., Ltd.

3.2 Remedial Actions for Cash Shortfall :

The company has ample cash on-hand; remedial actions are not required.

3.3 Cash Flow Projection for Next Year :

1. Cash outflow for operating activity was NT\$127,786 thousand: This is mainly from the collection of accounts receivable and decrease in account payable and operating expense.
2. Cash outflow from investing activities was NT\$200,794 thousand: This is mainly from distribution of 2017 cash dividend and increase of acquisition of plant and equipment.
3. Cash inflow from financing activities was NT\$30,736 thousand: This is mainly caused by increase in bank loan.

4. Major Capital Expenditure

4.1 Major Capital Expenditure and Sources of Funding : Not applicable.

5. Investment Policies :

5.1 Latest investment policy, major causes of profits and losses and improvement, and future plan for the next year (Investment that exceeds 5% of paid-in capital) :

Unit: NT\$ thousands

Item	Description	Initial Investment amount	Policy	The main reasons for profit/loss	Improvement plan
Gallant Precision Machinery (BVI) Ltd.		660,506	Investment in Gallant Precision Machinery (Xiamen) Co., Ltd.	Accumulated loss came from change of production specification of the main client AU Optronics Corporation that caused our Xiamen Factory terminated its investment plan This year's profit is coming from increase of interest revenue from time deposit	The future direction is still in planning phase.
Chun Zhun Enterprise Corporation.		125,671	Investment in Gallanat Technology (Shenzhen) Co., Ltd.	One of the investment, Gallanat Technology (Shenzhen) Co., Ltd., has difficulties in business development. To stop the loss, Gallanat Technology (Shenzhen) Co., Ltd has been undergoing the liquidation process.	In the process of liquidation
Gallant-Rapid Corporation Limited		517,940	Investment in Gallant Precision Industries (Suzhou) Co., Ltd.	The business type has changed from after-sales service point to receiving orders, assembling and delivering of goods and receiving orders transferred by parent company to take the role of production, assembling and after-sales. In 2017, the cost control was not well-managed and lead to loss in current period.	1. Gain power of agency for foreign machines 2. Reinforce five business function in production, sales, research, development and finance, expand the R&D and assembling of whole machine equipment and its parts 3. Enhance after sales service satisfactory for clients in China. 4. Improve internal process management mechanism
Gallant Micro. Machining CO., Ltd.		379,182	Production and Sales of Precision Mold and other Parts	Allocate more resource in R&D and the exchange loss was too big	1. The newly developed equipments and machines process improvement can not have the synergy within expected timeline. Thus, a project team has been form to find out a solution. 2. Make adjustment and choice to the order billing currency in response to different areas and clients
Sunengine Co., Ltd.		366,877	Buy and Sales of battery manufacturing and energy technology service industry	Since its incorporation, Sunengine Co., Ltd. has been following its core value of providing high quality and efficiency product. However, with market turbulence in 2016 and 2017 and overcapacity, the battery manufacturing is not profitable. In September 2017, part of their equipments on the production line have been resold. The employees are also transferred. Part of its equipments are placed in warehouse and reaching out to clients who are interested in buying.	Sunengine Co., Ltd. is planning to stop the production and turn to domestic power plant operation and production line equipment processing.

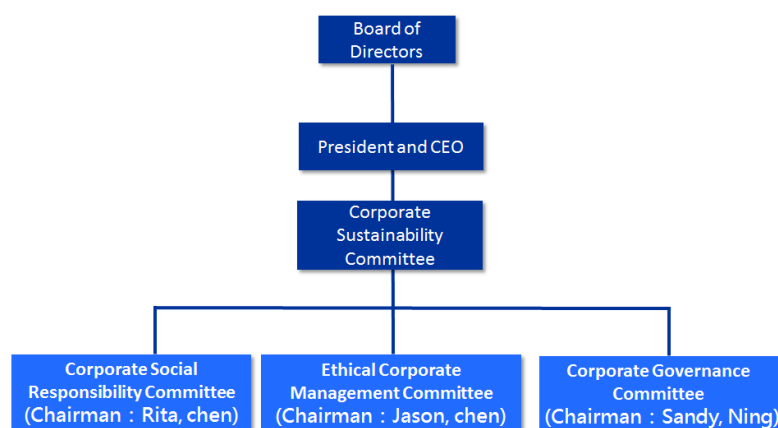
5.3 Investment plan for the next year: There will be no single investment that exceeds 5% of paid-in capital: As a result, this analysis is not applicable.

6. Risk Management

6.1 Risk Management Organizational Chart:

To promote CSR and sustainability, the Company establishes "Corporate Sustainability Committee" in 2016. The Corporate Sustainability Committee is in charge of affairs related to CSR, corporate governance and ethical corporate management policies. The execution and results shall be reported to Board of Directors at least once annually.

The organizational chart of the Company's Corporate Sustainability Committee:



6.2 The Impact and Future Mitigation Efforts to Risks Associated with Interest Rate Fluctuation, Foreign Exchange Volatility, and Inflation.

1. In 2017, the GPM Group has interest expense amounting NT\$18,154 thousand which accounts for 0.4% of sales. As a result, the fluctuation of interest rate does not impose significant effect to the Company.
2. In 2017, the GPM Group has exchange loss amounting to NT\$70,752 thousand which accounts for 1.5% of sales. This does not impose significant effect to the Company.
3. For the most recent fiscal year, inflation did not have significant impact on the GPM Group

6.3 The Impact and Future Mitigation Efforts to Risks Associated with High Risk/ High-Leveraged Investment, Lending, Endorsements, and Guarantees for Other Parties, and Financial Derivative Transactions:

To prudently control the financial risk, the Company does not take part in high risk and high leveraged investment. The Company's derivative transaction is not speculative. All the operation is in accordance with GPM's "Procedures for Acquisition or Disposal of Assets". Therefore, the Company does not have significant risk.

The Company stipulates control process such as "Procedures for endorsement and guarantee" and "Procedures for financing". As of March 31, 2018, the Company has provided NT\$200,000 thousand of guarantee to its Affiliates, which does not exceed the limitation.

Depending on subsidiaries operation, the Company will give support.

6.4 Future Research & Development Projects and Corresponding Budget:

The GPM Group R&D plan for the most recent fiscal year can be found on page 56. In 2018, R&D budget is NT\$356,506 thousand. So far the progress of R&D item is in line with R&D plan.

6.5 The Impacts of Changes of Important Domestic and Foreign Policies and Laws on the Company's Finances and Business, and the Countermeasures:

So far, the important policy and amendment of laws or regulations published by the government does not have significant impact on the Company. The GPM Group companies follows rules and regulations published by government, both domestically and internationally. The Company and companies that GPM has invested have personnel collecting the update of policies and laws for the reference of management team.

6.6 Impact of Technological and Market Changes on the Company's Finances and Business and Counter measures:

The GPM Group has designated personnel watch closely on the change of technological and market trend, evaluate the impact on the Company's future development and finance, and take necessary mitigation efforts. In the most recent fiscal year, there is no change of technology and industry that may have significant impact on the Company's finance and business.

6.7 The Impacts of Change of Corporate Image on the Enterprise Crisis Management and the Countermeasures:

For the past 30 years, the Company believes firmly in "Ethic, Passion, Innovation, Discipline" and "Down-to-Earth, Never give up" and apply this spirit into running business. As a result, the Company duly complies CSR and builds and maintains benign corporate image. Therefore, the Company does not foresee and impacts from the change of corporate image on the enterprise crisis management.

6.8 The Expected Benefit, Risk and Future Mitigation Efforts to Risks Associated with Mergers and Acquisitions: The company does not have a merger and acquisition plan

6.9 The Expected Benefit, Risk and Future Mitigation Efforts to Risks Associated with Facility Expansion: The company does not have a facility expansion plan

6.10 The Risk and Future Mitigation Efforts to Risks Associated with Purchase Concentration and Sales Concentration:

1. Our main materials and outsourcing partners mostly from domestic companies. The supplier are not irreplaceable and plenty of sources of supply. The Company adopts diversified procurement principle and maintains long-tem stable relationship with supplier to minimize the risk of force majeure and shortage of source. As a result, the Company does not have the risk of purchase concentration.
2. In terms of FPD equipment sales, the clients were just a few panel factories. For a panel factory to construct plant, the capital expenditure payment is concentrated and the amount is enormous. This situation could easily lead to sales concentration for an equipment manufacturer. However, domestic clients are slowing down their pace in expansion in recent years. Coupled with GPM's effort of business development in China, the demand from China has increased and catch up with domestic clients. Thus, the sales concentration risk has lowered dramatically.
3. Along with FPD field, GPM group is also actively seeking demands for equipment from other industries, including green energy, electronic component, shoes-making and medical device. The development of equipments includes processing equipment, optical inspection equipment, automation, integration of whole factory and production line. In the future, we can expect that sales customers will be in fair distribution.

6.11 The Effect, Risk and Mitigation Effort to Risks Associated with Sales of Significant Numbers of Shares by Directors and Major Shareholders Who Own 10% or More of the Total Outstanding Shares:

The shareholding transfer is monthly declared to Competent Authority for investors reference. GPM tracks closely the shareholdings variation of directors and shareholders holding more than 10% of the outstanding shares to lower risk and take immediate action. As of now, there is no transfer of shareholding that would have impact on the operation and financial condition of the Company.

6.12 Effects of, Risks and Response to Changes in Management Rights:

The Company does not have change in management rights.

6.13 For any litigious matters, whether the case has been finalized or the still pending, that involves the company and company's directors, supervisors, general managers, person with actual responsibility in the company, and major shareholders holding more than 10% of the company's shares, shall be disclosed. If there has been any substantial impact upon shareholders' equity or prices for the company's securities as a result of any litigation involving the company, the annual report shall disclose the facts in dispute, amount in dispute, commencement date of the dispute, main parties involved, and current status of the case as at the date of printing of the report: None.

6.14 Other material risk and mitigation efforts: None

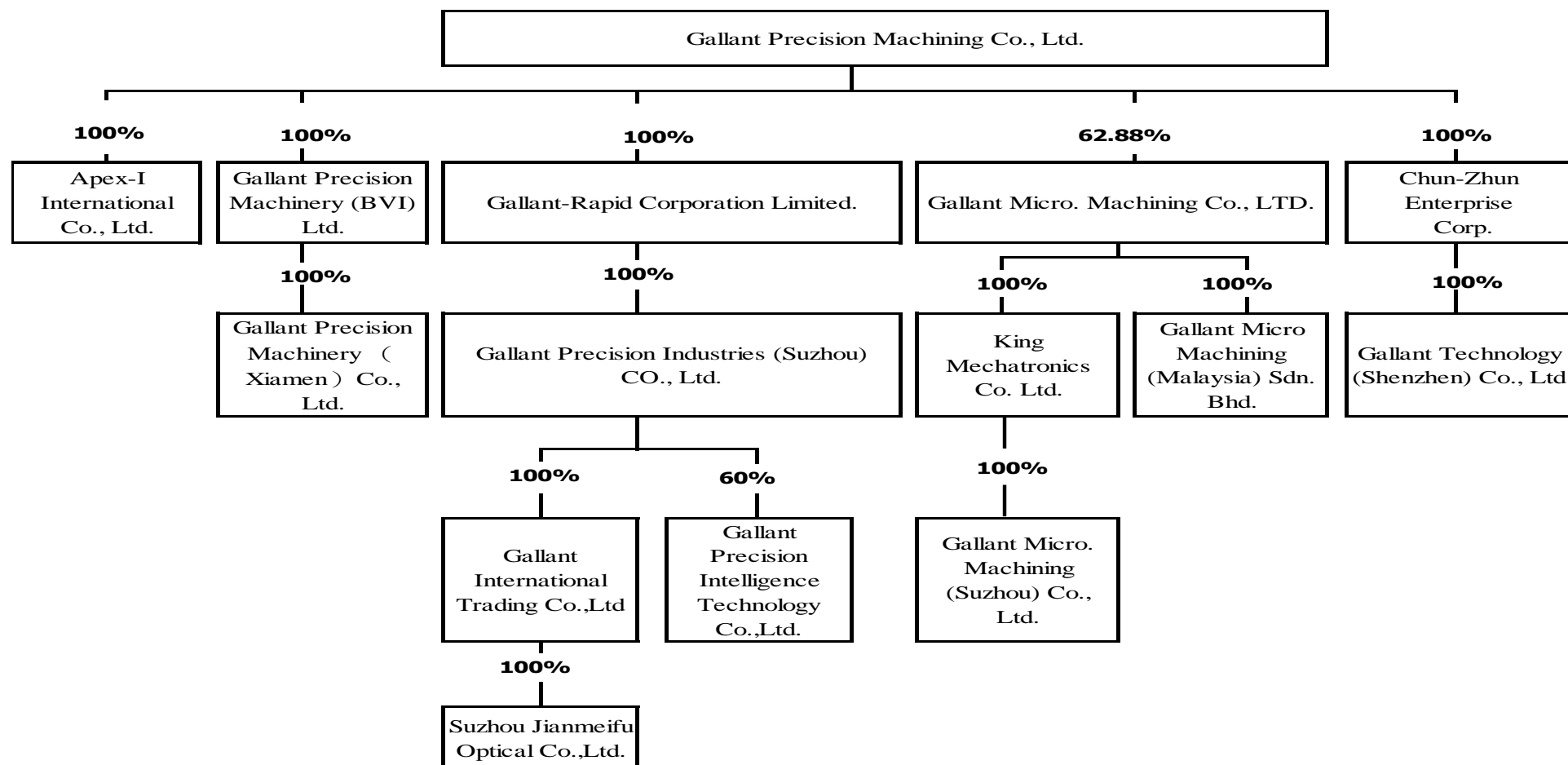
7. Other Material Events: None.

VIII. Special Disclosure

1. Summary of Affiliated Companies

1.1 Affiliated Companies Chart

As of Dec. 31, 2017



1.2 GPM Affiliated Companies

As of Dec. 31, 2017. Unit: NT\$ thousand / Foreign Currency thousands

Company Name	Date of Incorporation	Address	Capital Stock	Major Business
APEX-I INTERNATIONAL CO., LTD	2001/04/13	No.10, Wenhua Rd., Hukou Township, Hsinchu County 303, Taiwan (R.O.C.)	NTD 66,000	Sale of Machinery Equipment and Parts
Gallant Micro. Machining Co., LTD.	2010/10/15	No.2-1, Minsheng St., Tucheng Dist., New Taipei City 236, Taiwan (R.O.C.)	NTD 257,175	Production and Sales of Precision Mold and other Parts
Gallant-Rapid Corporation Limited.	2000/06/15	P.O. Box 3321, Road Town, Tortola, British Virgin Islands	USD 15,560	Investment in Gallant Precision Industries (Suzhou) Co., Ltd.
Chun Zhun Enterprise Corporation.	2001/12/13	P.O. Box 3321, Road Town, Tortola, British Virgin Islands	USD 3,576	Investment in Chun-Zhun Precision Machining (Guang Zhou Nan Sha) Corporation and in Gallanat Technology (Shenzhen) Co., Ltd.
King Mechatronics Co., Ltd.	2001/09/24	P.O. Box 3152, Road Town, Tortola, British Virgin Islands	USD 2,780	Investment in Gallant Micro. Machining (Suzhou) Co., Ltd.
Gallant Precision Machinery (BVI) Ltd.	2006/09/12	P.O. Box 3152, Road Town, Tortola, British Virgin Islands	USD 20,289	Investment in Gallant Precision Machinery (Xiamen) Co., Ltd.
Gallant Precision Industries (Suzhou) CO., Ltd.	1995/04/19	1#Building , No.56 Songshan Road , New District , Suzhou , 215151 P.R.C.	USD 9,320	Production of optoelectronic products whole machine equipment, mechatronics equipments, and the manufacturing of its parts and accessories
Gallant Micro. Machining (Suzhou) Co., Ltd.	2003/01/28	A2, No. 1, Xiecun Road, Jinqiao Development Area, Mudu Town, Wuzhong District, Suzhou City	USD 4,550	Production and Sales of Precision Mold and other Parts
Gallant Precision Machinery (Xiamen)Co., Ltd.	2006/12/12	No. 1188, Fangshan South Road, Xiangan Industry District, Gaoxin District, Huoju, Xiamen, Fujian Province, China	USD 19,100	Production of optoelectronic products machining equipment and related parts and accessories
Gallant Technology (Shenzhen) Co., Ltd	2009/2/13	Floor 1, Building 28, Ji, Floor 1, Building 27, Zonghelou, Anle Industry, Guankouer Road, South End Of Nanshan District, Shenzhen City, China	USD 2,086	The Sales of Medical and Engineering Equipment
Gallant Micro Machining (Malaysia) Sdn. Bhd.	1996/10/08	B303-03-11, Krystal Point, Jalan Sultan Azlan Shah, 11900 Penang, Malaysia	MYR 500	The Import/Export and Buy/Sales of Semiconductor Machine and related Components and Parts
Gallant International Trading Co.,Ltd	2012/02/27	Room 501 · No.143 Heshan Road , New District , Suzhou , 215129 P.R.C.	CNY 7,000	Sales of mechatronics equipments
Suzhou Jianmeifu Optical Co.,Ltd.	2015/04/16	Room 501 · No.143 Heshan Road , New District , Suzhou , 215129 P.R.C.	CNY 4,000	The Wholesale and Retail of Contact Lens and related Medicare Products
Gallant Precision Intelligence Technology Co.,Ltd.	2017/03/06	1#Building , No.56 Songshan Road , New District , Suzhou , 215151 P.R.C.	CNY 10,000	Optical products whole machine equipment, mechatronics equipments, and the manufacturing of its parts and accessories

1.3 Data of Common Shareholders of Treated-as Controlled Companies and Affiliates:

None.

1.4 Business of GPM and its Affiliated Enterprises:

1. Shareholders in Common of GPM and Its Subsidiaries with Deemed Control and Subordination:
Not applicable.

2. Business Scope of Its Subsidiaries:

- (1) GPM specializes in manufacturing and sales of semiconductor packaging front-end equipment and FPD production process equipment.
- (2) The affiliates involve in industries such as semiconductor packaging equipment, FPD production processing equipment, precision module and parts, production, trading and sales of precision components. There are also affiliates belong to investment or trading industry.
- (3) The affiliates are aiming at division of capacity, lowering cost, after sales service, product diversification, holding company purpose and operating diversification. For more details, please see Basic Information of Affiliates.

1.5 Directors, Supervisors and Presidents of GPM's Affiliated Companies:

As of Dec. 31, 2017 ; Unit : Shares ; %

Company Name	Title	Name or Representative	Shares	% of Holding
APEX-I INTERNATIONAL CO., LTD	Chairman Director Director Supervisor	Gallant Precision Machining Co., Ltd.(GPM) Rep. : Jason Chen Gallant Precision Machining Co., Ltd. (GPM) Rep. : Nick Yen Gallant Precision Machining Co., Ltd. (GPM)Rep. : Y.C. Lee Gallant Precision Machining Co., Ltd. (GPM) Rep. : Sandy Ning	GPM holds 6,600,000	100
Gallant Micro Machining Co., LTD.	Chairman Director Director Director Independent Director Independent Director Independent Director President	Gallant Precision Machining Co., Ltd. (GPM) Rep. : Frank, Liang Hung-Ming Hsu Jung-Liang Chen Puo-Chen Chen Yen-Heng Lin Shingo Shih Bell Chen Hung-Ming Hsu	GPM holds 16,171,750 338,000 209,000 0 0 0 0 338,000	62.88 1.31 0.81 0 0 0 0 1.31
Gallant-Rapid Corporation Limited	Chairman	Gallant Precision Machining Co., Ltd. (GPM) Rep. : Jason Chen	GPM holds 15,560,000	100
Chun Zhun Enterprise Corporation	Chairman Director	Gallant Precision Machining Co., Ltd. (GPM) Rep. : Nick Yen Gallant Precision Machining Co., Ltd. (GPM) Rep. : Jason Chen	3,576,000	100
King Mechatronics Co., Ltd.	Director	Gallant Micro. Machining Co., LTD. (GMM) Rep. : Jung-Liang Chen	GMM holds 2,780,645	100
Gallant Precision Machinery (BVI) Ltd.	Chairman Director	Gallant Precision Machining Co., Ltd. (GPM)Rep. : Nick Yen Gallant Precision Machining Co., Ltd. (GPM) Rep. : Jason Chen	GPM holds 20,289,000	100
Gallant Micro Machining (Suzhou) Co., Ltd.	Chairman Director Director Supervisor President	Jung-Liang Chen Hung-Ming Hsu Nick Yen Wen Chin Chou Hung-Ming Hsu	Gallant Precision Machinery (BVI) Ltd.. investment US\$20,289,000	100
Gallant Precision Machinery (Xiamen) Co., Ltd.	Chairman Director Director Supervisor	Nick Yen Ching-Hua Tsai Jason Chen Sandy Ning	Gallant Precision Machinery (BVI) Ltd. investment US\$19,100,000	100
Gallant Precision Industries (Suzhou) CO., Ltd.	Chairman Director Director Supervisor President	Nick Yen Ching-Hua Tsai Sandy Ning Rita Chen Jason Chen	Gallant-Rapid Corporation Limited. investment US\$15,560,000	100
Gallant Technology (Shenzhen) Co., Ltd	Chairman Director Director Supervisor	Nick Yen Shen-Shiou Sung Lin-Fa Ting Yu-Ching Chang	Chun Zhun Enterprise Corporation. investment US\$3,576,000	100
Gallant Micro Machining (Malaysia) Sdn. Bhd.	Director Director Director Director	Gallant Micro. Machining Co., LTD.(GMM) Rep. : HUNG-MING HSU Algo Pauline KY	GMM holds 500,000	100

Gallant International Trading Co.,Ltd	Chairman Director Director Supervisor	Jason Chen Nick Yen XIAO LIAN Sandy Ning	Gallant Precision Industries (Suzhou) CO., Ltd. nvestment CNY\$7,000,000	100
Suzhou Jianmeifu Optical Co.,Ltd.	Chairman Director Director Supervisor President	Nick Yen XIAO LIAN Jason Chen Sandy Ning Jason Chen	Gallant International Trading Co.,Ltd nvestment US\$4,000,000	100
Gallant Precision Intelligence Technology Co.,Ltd.	Chairman Director Director Supervisor President	Jason Chen SHIYI ZHANG Sandy Ning CHIA-JU TSENG SHIYI ZHANG	Gallant Precision Industries (Suzhou) CO., Ltd. nvestment CNY\$6,000,000	100

1.6 Summarized Operation Results of Affiliated Enterprises (As of Dec.31, 2017)

Unit: NT\$ thousands

Name of Corporation	Paid-in Capital	Total Assets	Total Liabilities	Net Worth	Net Operating Revenues	Operating Income	Net Income	Earning Per Share (NT\$)
Gallant-Rapid Corporation Limited.	517,940	295,967	0	295,967	0	-35,301	-91,725	-
Gallant Precision Industries (Suzhou) CO., Ltd.	277,363	306,135	64,804	241,331	121,191	-46,318	-54,339	-
Gallant International Trading Co.,Ltd	31,955	12,514	594	11,920	7,013	-527	-4,309	-
Suzhou Jianmeifu Optical Co.,Ltd.	18,260	4,827	104	4,723	81	-3,068	-3,670	-
Chun-Zhun Enterprise Corp.	125,671	12,526	0	12,526	0	-61	-502	-
Gallant Technology (Shenzhen) Co., Ltd.	62,079	14,066	1,773	12,293	0	-418	-418	-
Apex-I International Co., Ltd.	66,000	71,571	5,560	66,011	41,535	1,740	959	0.15
Gallant Micro Machining Co., LTD.	257,175	1,414,775	615,618	799,157	674,569	44,153	64,757	2.52
Gallant Micro Machining (Malaysia) Sdn. Bhd.	3,537	2,885	50	2,835	295	-248	-108	-
KING MECHATRONICS CO.,LTD	93,144	701,758	56,223	645,535	105,170	-3,675	35,242	-
Gallant Micro Machining (Suzhou) Co., Ltd.	135,408	692,718	78,195	614,523	359,475	53,899	38,726	-
Gallant Precision Machinery (BVI) Ltd.	660,506	385,144	0	385,144	0	-57	6,207	-
Gallant Precision Machinery (Xiamen) Co., Ltd.	568,416	385,933	1,170	384,763	0	-624	6,298	-
Gallant Precision Intelligence Technology Co.,Ltd.	45,650	106,286	40,989	65,297	153,432	25,264	19,396	-

Note: The amount of capital, asset, liabilities and net worth in this table were calculated using the exchange rate at end of 2017. The net sales, Income from operation, net income and EPS numbers were calculated using the average exchange rate in 2017.

(1) Exchange rate on 12/31, 2017: USD:NTD=1:29.76 ; RMB:NTD=1:4.565 ; MYR:NTD=1:7.7072

(2) Average exchange rate for 2017: USD:NTD=1:30.4315 ; RMB:NTD=1:4.5068 ; MYR:NTD=1:6.7987

1.7 Independent Auditor's Uni-President and Affiliated Enterprises Consolidated Financial Statements : Please refer to Page 155

1.8 Affiliation Report: None.

2.Issuance of Private Placement of Securities:

None. (in the most recent fiscal year and up to the issue date of this Annual Report)

3. Holding or Disposition of GPM Stocks by Subsidiaries:

None (in the most recent fiscal year and up to the issue date of this Annual Report)

4. Other Necessary Supplement :None.

5.Special Notes

Any Events that Had Significant Impacts on Shareholders' Rights or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan : None.

GPM

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Gallant Precision Machining Co., Ltd.



Nick Yeh, Chairman