

ZERONE TECHNOLOGY COMPANY LIMITED
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 2017 AND 2016 AND
INDEPENDENT AUDITORS' REPORT

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REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Zero One Technology Company Limited 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 Standard 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, Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

ZERONE TECHNOLOGY COMPANY LIMITED

By

Chia Hsin Lin
Chairman

February 26, 2018

INDEPENDENT AUDITORS' REPORT

The board of directors and Shareholders
Zero One Technology Company Limited

Opinion

We have audited the accompanying consolidated financial statements of Zero One Technology Company Limited and subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2017 are stated as follows:

Valuation of allowance for uncollectible accounts

Description

As indicated in Note 5 for critical accounting estimates and judgements, the Group assesses the collectability of accounts receivable and valuation of allowance for uncollectible accounts, based on considering future valuation of cash flows, and referencing credit limits, historical experience, and present financial conditions of customers. As the estimation of allowance for uncollectible accounts is subject to judgement of the management, and assumption of credit risks from customers, we consider the valuation of allowance for uncollectible accounts a key audit matter.

Our procedure includes understanding and testing controls of allowance for uncollectible accounts by the management in line with periodic review, predicting and managing differences as tracked for losses, design and execution of relevant controls.

Allowance for Inventory Valuation Loss

Description

The valuation of the inventory of the Group includes the estimate of net realizable value and the allowance for inventory valuation loss regarding with the outdated and obsolete inventory. Net realizable valuation, based on the historical data of market situation and similar products, of the inventory is the carrying amounts

calculated by the estimate sales price deducts the estimate of input costs, and cost of goods sold, during the ordinary course of business. The material influence of market condition will affect the amount of net realizable valuation. Besides, the ratio of the allowance for inventory valuation loss is valued by inventory aging and the allowance for the actual loss. We consider the estimate of net realizable valuation, and the ratio of the allowance for inventory impairment loss of the outdated and obsolete inventories a key audit matter, based on management's professional estimation.

Our procedure includes understanding the accounting policies, valuation methods, and citation information originality for the inventory of the Group, obtaining information of the year-end allowance for inventory valuation loss and inventory aging reports, drawing samples to ensure the reasonableness of the inventory as valued by net realizable value method and the inventory aging, and the carrying amount of the year-end allowance for inventory valuation loss fitting the Group's accounting policy for allowance.

Other Matter

We have also audited the parent company only financial statements of Zero One Technology Company Limited as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group 's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient 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, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Wen Chin Lin and Hsin Wei Tai.

Deloitte & Touche

Taipei, Taiwan
Republic of China

February 26, 2018

Notice to Readers

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

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

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 4 and 6)	\$ 741,119	20	\$ 510,523	15
Financial assets at fair value through profit or loss - current (Note 4 and 7)	51,338	1	83,896	2
Available-for-sale financial assets - current (Note 4 and 8)	21,724	1	3,480	-
Debt investments with no active market - current (Note 10)	212,366	6	282,673	8
Notes receivable (Note 4 and 11)	185,925	5	108,933	3
Trade receivable (Note 4, 5, 11, and 28)	1,466,240	41	1,545,647	45
Inventories (Note 4, 5, and 12)	490,564	14	444,687	13
Current tax assets (Note 4 and 22)	804	-	-	-
Other current assets	10,151	-	87,678	3
Total current assets	<u>3,180,231</u>	<u>88</u>	<u>3,067,517</u>	<u>89</u>
NONCURRENT ASSETS				
Available-for-sale financial assets - non-current (Note 4 and 8)	68,565	2	48,861	1
Financial assets measured at cost - non-current (Note 4 and 9)	21,654	1	510	-
Debt investments with no active market - non-current (Note 10 and 29)	11,539	-	11,367	-
Investments accounted for using equity method (Note 4 and 14)	4,446	-	2,502	-
Property, plant and equipment (Note 4, 15, and 29)	310,083	9	303,812	9
Other intangible assets (Note 4)	970	-	1,427	-
Deferred tax assets (Note 4, 5, and 22)	19,436	-	16,948	1
Refundable deposits	1,786	-	1,451	-
Total non-current assets	<u>438,479</u>	<u>12</u>	<u>386,878</u>	<u>11</u>
TOTAL	<u>\$ 3,618,710</u>	<u>100</u>	<u>\$ 3,454,395</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade payable (Note 28)	\$ 1,252,876	34	\$ 1,142,666	33
Other payable (Note 17)	134,882	4	152,830	4
Current tax liabilities (Note 4 and 22)	32,423	1	22,356	1
Current portion of bonds payable (Note 4 and 18)	9,733	-	28,563	1
Other current liabilities	74,226	2	70,067	2
Total current liabilities	<u>1,504,140</u>	<u>41</u>	<u>1,416,482</u>	<u>41</u>
NONCURRENT LIABILITIES				
Deferred tax liabilities (Note 4 and 22)	481	-	-	-
Net defined benefits liabilities - non-current (Note 4 and 19)	20,922	1	20,835	1
Total non-current liabilities	<u>21,403</u>	<u>1</u>	<u>20,835</u>	<u>1</u>
Total liabilities	<u>1,525,543</u>	<u>42</u>	<u>1,437,317</u>	<u>42</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 20)				
Share capital				
Ordinary shares	1,224,804	34	1,212,655	35
Capital surplus	434,135	12	421,421	12
Retained earnings				
Legal reserve	139,840	4	117,432	3
Special reserve	16,723	-	22,876	1
Unappropriated earnings	283,971	8	251,545	7
Total retained earnings	440,534	12	391,853	11
Other equity	(15,501)	-	(16,723)	-
Total equity attributable to owners of the Company	2,083,972	58	2,009,206	58
NONCONTROLLING INTERESTS	9,195	-	7,872	-
Total equity	<u>2,093,167</u>	<u>58</u>	<u>2,017,078</u>	<u>58</u>
TOTAL	<u>\$ 3,618,710</u>	<u>100</u>	<u>\$ 3,454,395</u>	<u>100</u>

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	A m o u n t	%	A m o u n t	%
OPERATING REVENUE(Note 4 and 28)				
Net sales	\$ 5,967,589	100	\$ 5,932,359	100
OPERATING COSTS(Note 12,21, and 28)				
Cost of goods sold	<u>5,379,298</u>	<u>90</u>	<u>5,353,091</u>	<u>90</u>
GROSS PROFIT	<u>588,291</u>	<u>10</u>	<u>579,268</u>	<u>10</u>
OPERATING EXPENSES(Note 21)				
Selling and marketing expenses	224,640	4	228,449	4
General and administrative expenses	118,464	2	81,387	1
Research and development expenses	<u>10,493</u>	<u>-</u>	<u>11,310</u>	<u>-</u>
Total operating expenses	<u>353,597</u>	<u>6</u>	<u>321,146</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>234,694</u>	<u>4</u>	<u>258,122</u>	<u>5</u>
NON-OPERATING INCOME AND EXPENSES(Note 21)				
Other income	16,810	-	11,829	-
Other gains and losses	882	-	(210)	-
Finance costs	(374)	-	(1,198)	-
Share of loss of associated and joint ventures(Note 14)	<u>(7,506)</u>	<u>-</u>	<u>(2,498)</u>	<u>-</u>
Total non-operating income and expenses	<u>9,812</u>	<u>-</u>	<u>7,923</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	244,506	4	266,045	5
INCOME TAX EXPENSE(Note 22)	<u>49,600</u>	<u>1</u>	<u>40,701</u>	<u>1</u>
NET PROFIT	<u>194,906</u>	<u>3</u>	<u>225,344</u>	<u>4</u>
OTHER COMPREHENSIVE INCOME(Note 21 and 22)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(737)	-	(2,966)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>125</u>	<u>-</u>	<u>504</u>	<u>-</u>
	<u>(612)</u>	<u>-</u>	<u>(2,462)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain/(loss) on available-for-sale financial assets	<u>1,222</u>	<u>-</u>	<u>6,153</u>	<u>-</u>

(Continued)

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	A m o u n t	%	A m o u n t	%
Other comprehensive income for the year, net of income tax	<u>610</u>	<u>-</u>	<u>3,691</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 195,516</u>	<u>3</u>	<u>\$ 229,035</u>	<u>4</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 195,983	3	\$ 224,077	4
Non-controlling interests	<u>(1,077)</u>	<u>-</u>	<u>1,267</u>	<u>-</u>
	<u>\$ 194,906</u>	<u>3</u>	<u>\$ 225,344</u>	<u>4</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 196,593	3	\$ 227,768	4
Non-controlling interests	<u>(1,077)</u>	<u>-</u>	<u>1,267</u>	<u>-</u>
	<u>\$ 195,516</u>	<u>3</u>	<u>\$ 229,035</u>	<u>4</u>
EARNINGS PER SHARE (Note 23)				
From continuing operations				
Basic	<u>\$1.61</u>		<u>\$1.85</u>	
Diluted	<u>\$1.58</u>		<u>\$1.82</u>	

(Concluded)

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company										
	Share Capital			Retained Earnings				Other Equity	Total	Non-controlling Interests	Total Equity
	Shares (In Thousand)	Issued Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Gain/ (Loss) on Available-for-sale Financial Assets			
BALANCE, JANUARY 1, 2016	121,265	\$ 1,212,655	\$ 418,751	\$ 99,152	\$ -	\$ 192,352	\$ 291,504	\$ (22,876)	\$ 1,900,034	\$ 4,177	\$ 1,904,211
Appropriation of the 2015 earnings											
Legal reserve	-	-	-	18,280	-	(18,280)	-	-	-	-	-
Special Reserve	-	-	-	-	22,876	(22,876)	-	-	-	-	-
Cash dividends - NT\$1.0 per share	-	-	-	-	-	(121,266)	(121,266)	-	(121,266)	-	(121,266)
Cash dividends distributed by the subsidiaries	-	-	-	-	-	-	-	-	-	(300)	(300)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(766)	(766)
Changes in percentage of ownership interest in subsidiaries	-	-	(494)	-	-	-	-	-	(494)	3,494	3,000
Recognition of employee share options by the Company	-	-	3,164	-	-	-	-	-	3,164	-	3,164
Net profit for the year ended December 31, 2016	-	-	-	-	-	224,077	224,077	-	224,077	1,267	225,344
Other comprehensive income (loss) for the year, net of income tax	-	-	-	-	-	(2,462)	(2,462)	6,153	3,691	-	3,691
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	221,615	221,615	6,153	227,768	1,267	229,035
BALANCE, DECEMBER 31, 2016	121,265	1,212,655	421,421	117,432	22,876	251,545	391,853	(16,723)	2,009,206	7,872	2,017,078
Appropriation of 2016 earnings											
Legal reserve	-	-	-	22,408	-	(22,408)	-	-	-	-	-
Special Reserve	-	-	-	-	(6,153)	6,153	-	-	-	-	-
Cash dividends - NT\$1.2 per share	-	-	-	-	-	(146,690)	(146,690)	-	(146,690)	-	(146,690)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(600)	(600)
Convertible bonds converted to capital stock	1,188	11,879	7,267	-	-	-	-	-	19,146	-	19,146
Recognition of employee share options by the Company	-	-	5,342	-	-	-	-	-	5,342	-	5,342
Issuance of ordinary shares under employee share options	27	270	105	-	-	-	-	-	375	-	375
Non-controlling interests increase	-	-	-	-	-	-	-	-	-	3,000	3,000
Net profit for the year ended December 31, 2017	-	-	-	-	-	195,983	195,983	-	195,983	(1,077)	194,906
Other comprehensive income (loss) for the year, net of income tax	-	-	-	-	-	(612)	(612)	1,222	610	-	610
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	195,371	195,371	1,222	196,593	(1,077)	195,516
BALANCE AT DECEMBER 31, 2017	122,480	\$ 1,224,804	\$ 434,135	\$ 139,840	\$ 16,723	\$ 283,971	\$ 440,534	\$ (15,501)	\$ 2,083,972	\$ 9,195	\$ 2,093,167

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 244,506	\$ 266,045
Adjustments for:		
Impairment loss recognized on trade receivable	26,727	234
Net loss on foreign currency exchange	25,928	685
Interest income	(9,872)	(7,051)
Depreciation expenses	7,720	7,725
Share of loss of associates	7,506	2,498
Net gain on fair value change of financial assets/liabilities at fair value through profit or loss	(5,498)	(4,549)
Compensation costs of employee share options	5,342	3,164
Reversal of write-down of inventories	(2,839)	(8,135)
Amortization expenses	1,219	1,681
Dividend income	(710)	(2,300)
Net loss (gain) on disposal of available-for-sale financial assets	434	(12,540)
Finance costs	374	1,198
Gain on disposal of property, plant and equipment	(2)	-
Impairment loss recognized on financial assets	-	8,556
Changes in operating assets and liabilities		
Financial assets held for trading	38,012	156,812
Notes receivable	(76,992)	(40,525)
Trade receivable	55,230	(222,917)
Inventories	(44,740)	(38,908)
Other current assets	68,347	(75,679)
Notes payable	-	(62)
Trade payable	104,803	165,619
Other payable	(18,417)	40,092
Other current liabilities	4,159	(3,117)
Net defined benefit liabilities	(650)	(793)
Cash generated from operations	430,587	237,733
Income tax paid	(42,219)	(38,920)
Net cash generated from operating activities	<u>388,368</u>	<u>198,813</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of debt investments with no active market	70,135	-
Purchase of available-for-sale financial assets	(27,798)	(303)
Purchase of financial assets measured at cost	(21,144)	-
Payments for property, plant and equipment	(12,337)	(2,312)
Interest received	9,587	8,125
Acquisition of associates	(9,450)	(5,000)
Dividend received	710	2,300
Payment for intangible assets	(633)	-
Proceeds from sale of available-for-sale financial assets	598	34,085
(Increase) decrease in refundable deposits	(335)	465

(Continued)

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016****(In Thousands of New Taiwan Dollars)**

	2017	2016
Proceeds from disposal of property, plant and equipment	50	-
Purchase of debt investments with no active market	-	(125,870)
Proceeds from sale of held-to-maturity financial assets	-	50,388
Net cash outflow on disposal of subsidiaries	-	(24,406)
Proceeds from sale of financial assets measured at cost	<u>-</u>	<u>2,000</u>
Net cash generated from (used in) investing activities	<u>9,383</u>	<u>(60,528)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(146,690)	(121,266)
Proceeds from long-term borrowings	4,000	-
Repayment of long-term borrowings	(4,000)	-
Changes in non-controlling interest	3,000	3,000
Cash dividends paid to non-controlling interests	(600)	(300)
Exercise of employee share options	375	-
Interest paid	(54)	(631)
Repayment of short-term borrowings	<u>-</u>	<u>(1,800)</u>
Net cash used in financing activities	<u>(143,969)</u>	<u>(120,997)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>(23,186)</u>	<u>(6,170)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	230,596	11,118
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>510,523</u>	<u>499,405</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 741,119</u>	<u>\$ 510,523</u>

(Concluded)

ZERONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
 (Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Zerone Technology Company Limited (ZOTC) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China in June 27, 1980. On January 21, 2000, ZOTC's Shares were listed on Taipei Exchange(TPEX). On August 26, 2002, ZOTC's shares were listed on the Taiwan Stock Exchange(TWSE). ZOTC is a dedicated foundry in the technology industry which engages mainly in the design, manufacturing, packaging, selling, consulting and services of electronic information, computer software, hardware, accessories, components and Chinese data processing, etc.

The consolidated financial statements are expressed by the functional currency (New Taiwan Dollars) of the Company.

2. THE DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were reported to the Board of Directors and issued on February 26, 2018.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC for application would not have a significant effect on the Company's accounting policies:

(2)The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC for application in 2018

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB (Note 1)</u>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based"	January 1, 2018
Amendments to IFRS 4:"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosure"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IFRS 15 "Clarifications to IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendment to IAS 40" Transition for investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Note 1: The aforementioned new, revised or amended standards or interpretations are effective after fiscal year beginning on or after the effective dates, unless specified otherwise.

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

A. IFRS 9, "Financial Instruments"

All recognized financial assets currently in the scope of IAS 39, "Financial Instruments: Recognition and Measurement," will be subsequently measured at either the amortized cost or the fair value. The classification and measurement requirements in IFRS 9 are stated as follows:

For the debt instruments invested by the Group, if the contractual cash flows that are solely for payments of principal and interest on the principal amount outstanding, the classification and measurement requirements are stated as follows:

- (A) If the objective of the Company's business model is to hold the financial asset to collect the contractual cash flows, such assets are measured at the amortized cost. Interest revenue should be recognized in profit or loss by using the effective interest method, continuously assessed for impairment and the impairment loss or reversal of impairment loss should be recognized in profit and loss.
- (B) If the objective of the Company's business model is to hold the financial asset both to collect the contractual cash flows and to sell the financial assets, such assets are measured at fair value through other comprehensive income and are continuously assessed for impairment. Interest revenue should be recognized in profit or loss by using the effective interest method. A gain or loss on a financial asset measured at fair value through other comprehensive income should be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When such financial asset is derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

The other financial assets which do not meet the aforementioned criteria should be measured at the fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Group accesses the change for the following classification and valuation by the held financial assets on December 31, 2017, due to application of IFRSs 9.

- (A) Available-for-sale listed and unlisted stock investments are measured at fair value through other comprehensive income (FVTOCI) in IFRS 9. By recognized, changes in other equity measured at fair value cannot be reclassified in profit or loss during proceeds from sale of available-for-sale financial assets, but generally recognized in retained earnings. Otherwise, unlisted stock investments measured at cost should be measured at the fair value through profit or loss in IFRS 9.
- (B) Cash flow of fund beneficiary certificates of available financial assets doesn't completely be incurred by interests from paying principal amounts and outstanding principal values, and belong to equity instrument measured. Fund beneficiary certificates of available financial assets is measured at fair value through profits or losses in IFRS 9 "Expected Credit Losses".

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

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

A simplified approach is allowed for trade receivable and the loss allowance could be measured at an amount equal to lifetime expected credit losses. If the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument should be measured at an amount equal to 12-month expected credit losses. If the credit risk on a financial instrument has increased significantly since initial recognition and is not deemed to be a low credit risk, the loss allowance for that financial instrument should be measured at an amount

equal to the lifetime expected credit losses. IFRS 9 adds a new expected loss impairment model to earlier measure the impairment of financial assets.

The Company elects not to restate prior reporting period in 2017 when applying the requirements for the classification, measurement and impairment of financial assets and financial liabilities under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application.

The anticipated impact on assets, liabilities, equity by measurement categories, assessment and impairment losses for each class of the Company's financial assets when retrospectively applying IFRS 9 on January 1, 2018 is detailed below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Available-for-sale financial assets -current	\$ 21,724	(\$ 21,724)	\$ -
Financial assets designated as at FVTOCI -current	-	21,724	21,724
Available-for-sale financial assets -non-current	68,565	(68,565)	-
Financial assets measured at cost - non-current	21,654	(21,654)	-
Financial assets at fair value through profit or loss - non-current	-	38,826	38,826
Financial assets designated as at FVTOCI -non-current	-	60,895	60,895
Impact on assets	<u>\$ 111,943</u>	<u>\$ 9,502</u>	<u>\$ 121,445</u>
Retained earnings	\$ 283,971	\$ 4,955	\$ 288,926
Other equity	(15,501)	4,547	(10,954)
Impact on equity	<u>\$ 268,470</u>	<u>\$ 9,502</u>	<u>\$ 277,972</u>

B. IFRS 15, "Revenue from Contracts with Customers" and related amendment

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

When applying IFRS 15, the Company shall recognize revenue by applying the following steps:

- (A) Identify the contract with the customer;
- (B) Identify the performance obligations in the contract;
- (C) Determine the transaction price;
- (D) Allocate the transaction price to the performance obligations in the contracts; and
- (E) Recognize revenue when the entity satisfies a performance obligation.

Except for the aforementioned impact, as of the date that the accompanying consolidated financial statements were issued, the Group evaluates no impact on its financial position and financial performance as a result of the initial adoption of the other standards or interpretations.

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB (Note 1)</u>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
"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 IASB
IFRS 16, "Leases"	January 1, 2019 (Note 3)
IFRS 17, "Insurance Contracts "	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23, "Uncertainty over Income Tax Treatments "	January 1, 2019

- Note 1: Unless stated otherwise, the above New, Revised or Amended Standards and Interpretations are effective for annual periods beginning on or after their respective effective dates.
- Note 2: The FSC permits the election for early adoption of the amendments starting from January 1, 2018.
- Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.
- Note 4: The Company shall apply these amendments to plan amendments, curtailments or settlements starting from January 1, 2019.

A. IFRS 16 “Leases”

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

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

When IFRS 16 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

B. IFRIC 23 “Uncertainty over Income Tax Treatments”

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

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

(2) Basis of preparation

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

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

- A. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, which can be acquired during measurement date;
- B. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- C. Level 3 inputs are unobservable inputs for the asset or liability.

(3) Classification of current and non-current assets and liabilities

Current assets include:

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

Current liabilities include:

- A. Liabilities held primarily for the purpose of trading;
- B. Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- C. Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period, unless issuing equities to defer settlement wouldn't affect classification, depending on liabilities conditions.

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

(4) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Subsidiaries' total other comprehensive income is recognized owner's equity and non-controlling interests, even though non-controlling interests have changed into deficits balance.

When the Group hasn't lost control of a subsidiary, it's considered as transactions for equity method. The adjustment of accounted amounts of consolidated companies and non-controlling equities of subsidiaries. The difference, between adjustment of non-controlling equities, and paid or received prices at fair value is directly recognized owner's equities of the company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Company accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for amounts of available-for-sale financial assets.

See Note 13 & Tables 2 for the detailed information of subsidiaries (including the percentage of ownership and main business).

(5) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period.

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

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

(6) Inventories

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

(7) Investment in associates

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

The Company uses the equity method to account for its investments in associates and joint ventures.

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

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate and a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings

When the Company's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate and joint venture), the Company discontinues recognizing its share of further losses.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Profits and losses, resulting from upstream, downstream, reciprocal transactions should be between the Group and associates, are recognized on consolidated financial statements in the scope of the Group's equities is not relevant to associates'.

(8) Property, plant and equipment

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

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

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(9) Intangible assets

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

On de-recognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

(10) Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

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

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

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss, without amortization or depreciation, been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

(11) Financial instruments

Financial assets and financial liabilities are recognized on consolidated balance sheets when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

A. Financial assets

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

(A) Measurement category

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

a. Financial assets at fair value through profit or loss

Financial asset is classified in this category if it is classified as held for trading or is designated as such on initial recognition.

Financial assets are classified as being designated on initial recognition at fair value through profit or loss as follows:

- (a) possible for elimination of inconsistency by measurement or recognition of material losses; or
- (b) Performance of a set of or both of financial assets and losses are valued by based management of fair values, based on the written strategy of risk management and investment. And, the company shall provide information regarding the investment portfolio, at fair value, to internal anagement; or
- (c) A single or a component of an embedded derivative for a hybrid contract is designated as such.

Fair value is determined in the manner described in NOTE 27.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss without incorporating any dividend or interest earned on the financial asset.

b. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

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

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified

impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

c. Loans and receivables

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

Cash equivalent includes 3 months' portion of time deposits with highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

(B) Impairment of financial assets

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

For financial assets carried at amortized cost, such as trade receivable, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

For any available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income is reclassified to profit or loss in the year.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase

in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

(C) De-recognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

B. Financial liabilities

(A) Subsequent measurement

Financial liabilities other than those held for trading purposes and designated as at FVTPL are subsequently measured at amortized cost by the effective interest method.

(B) De-recognition of financial liabilities

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

C. Convertible bonds

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

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

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

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

(12) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

A. Sale of goods

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

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

B. Revenues from dividends & Interest income

Revenues from dividends from investments in shares that are accounted for at equity are recognized when revenues can be stated, under the premise that the Group acquires economic benefits regarding with transactions.

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

(13) Leases

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

The Company as lessor

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

The Company as lessee

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

(14) Costs of loans

All Costs of loans as incurred shall be recognized profits and losses at the current period.

(15) Employee benefit

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

Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost as well as past service cost, and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur, or when the plan amendment or curtailment occurs/when the settlement occurs. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Net defined benefit asset shall not exceed the return contribution or the present value possibly calculated after reducing future contribution.

(16) Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value and expected estimate amounts of the stock options determined at the grant date of the stock options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of stock options that will eventually vest, with a corresponding increase in capital surplus - stock options. The fair value determined at the grant date of the stock options is recognized as an expense in full at the grant date when the stock options granted vest immediately.

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

(17) Taxation

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

A. Current tax

An additional profit-seeking income tax shall be levied at the rate of ten percent on such undistributed surplus earnings for income tax expenses by a shareholder resolution, according to Income Tax Act.

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

B. Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, net operating loss carryforwards and tax credits for research and development expenses to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

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

C. Current and deferred tax for the year

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

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

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated

assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

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

(1)The realizable deferred tax assets depends on future earnings and temporarily differences of tax payable. If actual profits are less than the expected's, a reversal of material deferred tax assets could be incurred, and then recognized in profits or losses.

(2)When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. 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(excluding possible future credit losses) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(3)Write-down of inventory

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

6. CASH AND CASH EQUIVALENTS

	December 31, 2017	December 31, 2016
Cash and deposits in banks	\$ 157	\$ 382
Checking accounts and demand deposits	522,509	207,348
Cash equivalents		
Deposits in banks	173,773	21,103
Repurchase Bond	44,678	281,661
Others	<u>2</u>	<u>29</u>
	<u>\$ 741,119</u>	<u>\$ 510,523</u>

As the end of reporting period, the interest rate at market of deposits and repurchase bonds is as follows :

	December 31, 2017	December 31, 2016
Deposits in banks	0.01%-0.46%	0.01%-0.38%
Repurchase Bond	1.90%	1.30%-1.45%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – CURRENT

	December 31, 2017	December 31, 2016
Financial assets designated as at fair value through profit or loss:		
Domestic convertible bond	\$ 51,009	\$ 56,655
Credit linked notes(1)	<u>-</u>	<u>9,997</u>
Total	<u>51,009</u>	<u>66,652</u>
Financial assets in held-to-maturity		
Derivatives (Not assigned for hedge)		
– Redemption & sell right for convertible bonds	<u>4</u>	<u>6</u>
Non-derivative assets		
– Domestic public offering securities	325	1,864
– Fund beneficiary certification	<u>-</u>	<u>15,374</u>
Total	<u>325</u>	<u>17,238</u>
	<u>\$ 51,338</u>	<u>\$ 83,896</u>

(1)As the end of the reporting period, current credit linked notes are as follows:

December 31, 2017 : None.

December 31, 2016

Issuer	Target	Actual Interest Rate %	Period	Notional amount	Fair value	Carrying amount
Fubon Securities Co., Ltd.	Unsecured bonds-Phihong technology Co., Ltd.	2.40%	2014.6.11-2017.6.19	<u>\$10,000</u>	<u>\$ 9,997</u>	<u>\$ 9,997</u>

The group holds credit linked notes is a form of funded credit derivative, mainly combined with an embedded credit default swap allowing the issuer to transfer a specific credit risk to credit investors, combined with recognized contracts and embedded derivatives when acquired embedded derivatives cannot be stated individually, assigned to be valued at fair value, recognized change in fair value of financial assets as profits and losses.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2017	December 31, 2016
<u>Domestic</u>		
Publicly traded stocks	<u>\$ 90,289</u>	<u>\$ 52,341</u>
Current portion	<u>\$ 21,724</u>	<u>\$ 3,480</u>
Non-current portion	<u>\$ 68,565</u>	<u>\$ 48,861</u>

9. FINANCIAL ASSETS CARRIED AT COST-NON-CURRENT

	December 31, 2017	December 31, 2016
Foreign unpublic offering securities		
Miiicasa Holding (Cayman) Inc.	\$ -	\$ -
Domestic unpublic offering securities		
Unex Technology Corporation	510	510
Happy Island Tech Co., Ltd.	-	-
Doufu Co., Ltd.	-	-
Jotangi technology Co., Ltd.	-	-
Ijoing, Inc.	-	-
Fund Beneficiary Certification		
Yuanta Diamond Funds SPC	<u>21,144</u>	<u>-</u>
	<u>\$ 21,654</u>	<u>\$ 510</u>
Distinguished by the assessing types of financial assets		
Available-for-sale financial asset	<u>\$ 21,654</u>	<u>\$ 510</u>

The above investments in the equity instruments of unlisted entities are measured at cost as the key management personnel considers the fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

The group received investments NT 2,000 thousand from disposal of shares of Weicloud technology Co., Ltd. in April 30, 2016.

Shares of Jotangi technology Co., Ltd. and Ijoing, Inc. had been adjusted into financial assets measured at cost - non-current in April and December 2017. Please reference for note 14.

The group has recognized the above NT 2,500 thousand of impairment losses of financial assets in 2016.

10. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	December 31, 2017	December 31, 2016
<u>Current</u>		
Time deposit over 3 months' portion (1)	\$ <u>212,366</u>	\$ <u>282,673</u>
<u>Non-current</u>		
Pledged Time Deposit (2)	\$ <u>11,539</u>	\$ <u>11,367</u>

(1) For the years ended December 31, 2017 and 2016, the market interest rate of time deposit over 3 months portion is 0.6% ~ 2.13%、1.01% ~ 1.93%, respectively.

(2) Please refer to note 29 for more details on debt investments with no active market under pledge.

11. NOTES AND TRADE RECEIVABLE, NET

	December 31, 2017	December 31, 2016
<u>Notes receivable</u>		
For operating	\$ 185,925	\$ 108,933
Deduct: Allowance for bad debts	-	-
	\$ <u>185,925</u>	\$ <u>108,933</u>
<u>Trade receivable</u>		
Trade receivable	\$ 1,503,811	\$ 1,556,491
Deduct: Allowance for bad debts	(37,571)	(10,844)
	\$ <u>1,466,240</u>	\$ <u>1,545,647</u>

In principle, the payment term granted to customers is due 60 days from the 90 days of when the invoice is issued, without being asked to repay interests, by evaluating the change in credit risk from the starting period of loan application to the end of the reporting period. The allowance for bad debts is assessed by reference to the collectability of receivables by performing the credit limit, historical experience and current financial condition of customers.

Aging analysis of notes and trade receivable, net :

	December 31, 2017	December 31, 2016
0~60 days	\$ 795,750	\$ 1,032,141
61~90 days	300,932	303,031
91~120 days	247,958	120,419
Over 121 days	159,171	100,900
Total	\$ <u>1,503,811</u>	\$ <u>1,556,491</u>

The above aging analysis was based on the beginning booked date.

For the years ended December 31, 2017 and 2016, the Company's trade receivable hadn't been past due and impaired amounted.

Movements of the allowance for bad debts :

	Individually Assessed for Impairment Loss	Collectively Assessed for Impairment Loss	Total
Balance at January 1, 2016	\$ 11,962	\$ 526	\$ 12,488
Add: Impairment losses/ bad debt expenses recognized on receivables	234	-	234
Deduct: Eliminations	-	(189)	(189)
Deduct: Disposal of subsidiaries (Note 25)	(1,352)	-	(1,352)
Balance at December 31, 2016	\$ <u>10,844</u>	\$ <u>337</u>	\$ <u>11,181</u>

	Individually Assessed for Impairment Loss	Collectively Assessed for Impairment Loss	Total
Balance at January 1, 2017	\$ 10,844	\$ 337	\$ 11,181
Add: Impairment losses/ bad debt expenses recognized on receivables	26,727	-	26,727
Deduct: Eliminations	-	(337)	(337)
Balance at December 31, 2017	<u>\$ 37,571</u>	<u>\$ -</u>	<u>\$ 37,571</u>

12. INVENTORIES

	December 31, 2017	December 31, 2016
Raw materials	\$ 15,641	\$ 3,458
Work in process	8,591	1,441
Finished goods	659	2,634
Commodities	465,673	435,269
Inventory in transit	-	1,885
	<u>\$ 490,564</u>	<u>\$ 444,687</u>

Cost of goods sold for inventories in the amount of NT\$5,379,298 thousand and NT\$5,353,091 thousand, respectively, for the years ended December 31, 2017 and 2016.

The increase in net realizable value of inventories in the amount of NT\$2,839 thousand and NT\$8,135 thousand, respectively, for the years ended December 31, 2017 and 2016. The increase in net realizable value of inventories is recognized by the realized price losses of commodities.

13. SUBSIDIARIES

(1) Subsidiaries included in the consolidated financial statements

The consolidated entities were as follows:

Investor	Investee	Nature of Activities	Proportion of Ownership (%)		Note
			December 31, 2017	December 31, 2016	
The Company	Zotech technology Co., Ltd.	Manufacturing for computer equipment	85.37%	85.37%	
	Zerone Win Investment Co., Ltd.	Investment	100.00%	-	2
Zerone Win Investment Co., Ltd.	WingWill International Co., Ltd.	Services of Cloud & information software	70.00%	-	1、3
	PetaCom technology Co., Ltd.	Services of information product agent	100.00%	-	4

A. These are not significant subsidiaries, and its financial statements haven't been reviewed by CPAs, beside the management personnel of the Group considers no material influence as financial statements of the above subsidiaries haven't been audited by CPAs.

B. Zerone Win Investment Co., Ltd. was established on April, 2017.

C. WingWill International Co., Ltd. was established on July, 2017.

D. PetaCom technology Co., Ltd. was established on July, 2017.

(2) Subsidiaries excluded from the consolidated financial statements : None.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

<u>Name of Associates</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Insignificant associates		
Trident Pacific Co., Ltd.	\$ 4,446	\$ -
Ijoing, Inc.	-	2,502
Chi-Ta International Co., Ltd.	-	-
Jotangi technology Co., Ltd.	-	-
	<u>\$ 4,446</u>	<u>\$ 2,502</u>
Name of the company		
<u>Name of the company</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Trident Pacific Co., Ltd.	29.53%	-
Ijoing, Inc.	-	43.98%
Chi-Ta International Co., Ltd.	30.00%	30.00%
Jotangi technology Co., Ltd.	-	31.85%

Aggregate information of associates that are not individually material was summarized as follows:

	<u>2017</u>	<u>2016</u>
The Company's share of:		
Loss from continuing operations	<u>(\$ 7,506)</u>	<u>(\$ 2,498)</u>
Other comprehensive income	<u>(\$ 7,506)</u>	<u>(\$ 2,498)</u>

The group invested and founded Chi-Ta International Co., Ltd., that engaged mainly in researching and manufacturing hardware of auto-used electronic equipment, with investment amount to NT 10,000 thousand, and share-holding ratio of 30% in March 2014. Since it keeps net losses, foresees decrease in future cash flows, evaluates recognized NT 7,243 of impairment losses thousand in 2015, and recognizes book value of 0 thousand after recognized deficits.

The Group invests Ijoing Co., Ltd., engaging in publishing mobile games and information software, with investment amount to NT 5,000 thousand, and share-holding ratio of 43.98% in June 2016. Ijoing Co., Ltd increased cash capital in December 2017, without subscribing by share-holding ratio, the Group's share-holding ratio decreasing from 43.98% to 10.00%. The Group lost material influences, and recognized it as financial assets measured at cost-non-current.

Jotangi technology Co., Ltd. increases cash capital in October 2016, without subscribing by share-holding ratio, the Group's share-holding ratio decreasing from 83.75% to 31.85%. Please reference the change in share-holding ratio for Note 25. Since it keeps net losses, foresees decrease in future cash flows., evaluates NT 6,056 thousand of recognized impairment losses in 2016, and recognizes carrying amount of 0 thousand after recognized deficits. Otherwise, Jotangi technology Co., Ltd. increases cash capitals in April 2017. Since the Group hasn't subscribed more shares, it losses material influences, the Group's share-holding ratio decreasing from 31.85% to 16.94%, and recognizes it as financial assets measured at cost-non-current.

The group invests Trident Pacific technology, Co., Ltd., engaging in researching, developing and packaging of space flight equipment, with investment amount to NT 9,450 thousand, and share-holding ratio of 29.53% in March 2017.

Investments for equity method as well as profit(loss), and other comprehensive income of the Group, Except for Trident Pacific Co., Ltd. that is audited by CPAs, haven't been calculated by reviewed financial report of CPAs, beside the management personnel of the Group considers no material influence as financial statements of the above subsidiaries haven't been reviewed by CPAs.

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Office equipment	Other equipment	Total
<u>Cost</u>						
Balance at January 1, 2016	\$234,892	\$128,185	\$ 12,482	\$ 21,791	\$ 5,896	\$403,246
Additions	-	-	142	2,108	62	2,312
Disposals	-	-	(105)	(86)	(3,173)	(3,364)
Reclassification	-	-	785	1,170	3,173	5,128
Disposal of subsidiaries (Note 25)	-	-	(207)	(2,776)	-	(2,983)
Balance at December 31, 2016	<u>\$234,892</u>	<u>\$128,185</u>	<u>\$ 13,097</u>	<u>\$ 22,207</u>	<u>\$ 5,958</u>	<u>\$404,339</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2016	\$ -	\$ 64,401	\$ 10,227	\$ 17,300	\$ 3,424	\$ 95,352
Disposals	-	-	(105)	(86)	(3,173)	(3,364)
Depreciation	-	1,816	1,541	2,618	1,750	7,725
Reclassification	-	-	119	(119)	3,173	3,173
Disposal of subsidiaries (Note 25)	-	-	(153)	(2,206)	-	(2,359)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 66,217</u>	<u>\$ 11,629</u>	<u>\$ 17,507</u>	<u>\$ 5,174</u>	<u>\$100,527</u>
Carrying amounts at December 31, 2016	<u>\$234,892</u>	<u>\$ 61,968</u>	<u>\$ 1,468</u>	<u>\$ 4,700</u>	<u>\$ 784</u>	<u>\$303,812</u>
<u>Cost</u>						
Balance at January 1, 2017	\$234,892	\$128,185	\$ 13,097	\$ 22,207	\$ 5,958	\$404,339
Additions	-	-	-	11,452	885	12,337
Disposals	-	-	(244)	(102)	-	(346)
Reclassification	-	-	-	1,702	-	1,702
Balance at December 31, 2017	<u>\$234,892</u>	<u>\$128,185</u>	<u>\$ 12,853</u>	<u>\$ 35,259</u>	<u>\$ 6,843</u>	<u>\$418,032</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2017	\$ -	\$ 66,217	\$ 11,629	\$ 17,507	\$ 5,174	\$100,527
Disposals	-	-	(244)	(54)	-	(298)
Depreciation	-	1,817	1,006	3,979	918	7,720
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 68,034</u>	<u>\$ 12,391</u>	<u>\$ 21,432</u>	<u>\$ 6,092</u>	<u>\$107,949</u>
Carrying amounts at December 31, 2017	<u>\$234,892</u>	<u>\$ 60,151</u>	<u>\$ 462</u>	<u>\$ 13,827</u>	<u>\$ 751</u>	<u>\$310,083</u>

Depreciation expenses were depreciated on a straight-line basis over the estimated useful life of the asset:

Buildings	7-50 years
Machinery and equipment	3 years
Office equipment	3-5 years
Other equipment	2-3 years

Please refer to Note 29 for more details on property, plant and equipment under pledge.

16. LOANS

The Group was made a loan of 4,000 thousand at the fixed rate of 1.7% by the security firm, pledged stock held by the Group, and repaid it earlier in August 2017.

17. OTHER PAYABLE

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Salaries and bonuses payable	\$ 54,177	\$ 53,136
Employees', directors', and supervisors' compensation payable	15,658	18,246
Other	<u>65,047</u>	<u>81,448</u>
	<u>\$ 134,882</u>	<u>\$ 152,830</u>

18. BOND PAYABLE

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unsecured domestic convertible	\$ 10,000	\$ 30,000
Discounted bond payable	(<u>267</u>)	(<u>1,437</u>)
Total of bond payable	9,733	28,563
Deduct: due components in a year	(<u>9,733</u>)	(<u>28,563</u>)
Total	<u>\$ -</u>	<u>\$ -</u>

On May 19, 2014, ZOTC issued no any interest unsecured bonds (the second tranche). The bonds had an aggregate face value of \$500,000 thousand, with each unit having a face value of NT\$100 thousand, and 0% of a coupon rate, the offering price was \$100.2% of the face value, and its conversion period is 5 years from June 20, 2014 to May 9, 2019. The conversion price was \$20 per share on issuance date.

Within the period between one month after the issuance date and 40 days before the last convertible date, if (i) the closing price of ZOTC common shares on the TWSE for a period of 30 consecutive trading days before redemption has been at least 30% of the conversion price in effect on each such trading day, or (ii) in the event that the principal amount of the bonds originally outstanding is 10 % lower than the issued amount of the bonds, ZOTC may redeem all bonds at face value by cash.

The convertible bonds issued over 3 years, the holder could ask the Group to redeem bonds at face value by cash.

The convertible bonds include liabilities and equity. The equity components were accounted for ZOTC as paid-in capital –option. The effective interest rate of liability components recognized is 2.0618%.

Convertible bonds issued(deduct transaction costs of \$5,355 thousand)

	\$ 495,645
Equity components	(42,470)
Deferred tax assets	910
Financial liabilities	(<u>3,023</u>)
Issuance date of liability components	451,062
Interest (2.0618%)	10,609
Redeemed convertible bonds	(49,256)
Convertible bonds changed into ordinary shares	(<u>383,852</u>)
Balance on December 31, 2016, liability components	<u>\$ 28,563</u>
Balance on January 1, 2017, liability components	\$ 28,563
Interest (2.0618%)	320
Convertible bonds changed into ordinary shares	(<u>19,150</u>)
Balance on December 31, 2017, liability components	<u>\$ 9,733</u>

19. RETIREMENT BENEFIT PLANS

(1)Defined contribution plans

The plan under the R.O.C. Labor Pension Act (the “Act”) is deemed a defined contribution plan. Pursuant to the Act, the Group has made monthly contributions equal to 6% of each employee’s monthly salary to employees’ pension accounts.

(2)Defined benefit plans

The Group has defined benefit plans under the R.O.C. Labor Standards Law that provide benefits based on an employee’s length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee’s name in the Bank of Taiwan. Before the end of each

year, the Company assesses the balance in the Funds. If the amount of the balance in the Funds is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Funds are operated and managed by the government's designated authorities; as such, the Company does not have any right to intervene in the investments of the Funds.

Amounts recognized in respect of these defined benefit plans in consolidated balance sheets were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligation	\$ 52,105	\$ 50,457
Fair value of plan assets	(31,183)	(29,622)
Contribution	<u>20,922</u>	<u>20,835</u>
Net defined benefit liability	<u>\$ 20,922</u>	<u>\$ 20,835</u>

Movements in net defined benefit liabilities/assets are as follows:

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability/Assets</u>
For the year ended January 1, 2016	<u>\$ 46,662</u>	<u>(\$ 28,000)</u>	<u>\$ 18,662</u>
Service cost			
Current service cost	375	-	375
Interest expense (income)	<u>641</u>	<u>(392)</u>	<u>249</u>
Recognized in profits or losses	<u>1,016</u>	<u>(392)</u>	<u>624</u>
Remeasurements			
Return on plan assets (excluding amounts included in interest, net)	-	187	187
Actuarial loss arising from changes in demographic assumptions	1,187	-	1,187
Actuarial loss (gain) arising from changes in financial assumptions	1,115	-	1,115
Actuarial loss arising from experience adjustments	<u>477</u>	<u>-</u>	<u>477</u>
Recognized in other comprehensive income	<u>2,779</u>	<u>187</u>	<u>2,966</u>
Contribution from employer	<u>-</u>	<u>(1,417)</u>	<u>(1,417)</u>
For the year ended December 31, 2016	<u>\$ 50,457</u>	<u>(\$ 29,622)</u>	<u>\$ 20,835</u>
For the year ended January 1, 2017	<u>\$ 50,457</u>	<u>(\$ 29,622)</u>	<u>\$ 20,835</u>
Service cost			
Current service cost	387	-	387
Interest expense (income)	<u>568</u>	<u>(337)</u>	<u>231</u>
Recognized in profits or losses	<u>955</u>	<u>(337)</u>	<u>618</u>
Remeasurements			
Return on plan assets (excluding amounts included in interest, net)	-	44	44
Actuarial loss arising from changes in demographic assumptions	567	-	567
Actuarial loss (gain) arising from changes in financial assumptions	1,168	-	1,168
Actuarial loss arising from experience adjustments	<u>(1,042)</u>	<u>-</u>	<u>(1,042)</u>
Recognized in other comprehensive income	<u>693</u>	<u>44</u>	<u>737</u>
Contribution from employer	<u>-</u>	<u>(1,268)</u>	<u>(1,268)</u>
For the year ended December 31, 2017	<u>\$ 52,105</u>	<u>(\$ 31,183)</u>	<u>\$ 20,922</u>

The pension costs of the aforementioned defined benefit plans were recognized in profit or loss by the following categories:

	<u>2017</u>	<u>2016</u>
Selling expenses	\$ 317	\$ 397
General and administrative expenses	<u>301</u>	<u>227</u>
	<u>\$ 618</u>	<u>\$ 624</u>

Through the defined benefit plans under the R.O.C. Labor Standards Law, the company is exposed to the following risks:

- a. Investment risk: The pension funds are invested in equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the government's designated authorities or under the mandated management. However, under the R.O.C. Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return.
- b. Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.
- c. Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions at the measurement date were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate	1.125%	1.125%
Future salary increase rate	2.750%	2.500%

If main actuarial assumption variates within a reasonable extent, as for other assumption remaining unchanged, the present value of defined benefit obligation increases/decreases shall be as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate		
increases by 0.25%	(\$ 1,208)	(\$ 1,143)
decreases by 0.25%	<u>\$ 1,257</u>	<u>\$ 1,191</u>
Future salary increase rate		
increases by 0.25%	<u>\$ 1,218</u>	<u>\$ 1,155</u>
decreases by 0.25%	(\$ 1,177)	(\$ 1,115)

Because actuarial assumptions may be correlative with one another, and a single assumption may not variate, the above sensitive analysis cannot indicate actual changes of the present value of defined benefit obligation.

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Contribution amounts within 1 year	<u>\$ 985</u>	<u>\$ 626</u>
Average due period of the defined benefit obligation	9.5 Years	9.3 Years

20. EQUITY

(1) Ordinary Shares

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Authorized shares (in thousands)	<u>150,000</u>	<u>150,000</u>
Authorized capital	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>
Issued and paid shares (in thousands)	<u>122,480</u>	<u>121,265</u>
Issued capital	<u>\$ 1,224,804</u>	<u>\$ 1,212,655</u>

The change in share capital is mainly due to bonds payable that changes into ordinary shares.

(2)Capital Surplus

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Premium on shares issued above par value	\$ 396,486	\$ 387,272
Treasury stock transactions	25,343	25,343
<u>Only be used to offset a deficit</u>		
From shares of changes in equities of subsidiaries (2)	2,481	2,481
Invalid employees stock options	300	-
<u>May not be used for any purpose</u>		
Stock options	850	2,548
Employees stock options	<u>8,675</u>	<u>3,777</u>
	<u>\$ 434,135</u>	<u>\$ 421,421</u>

A. Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the company's paid-in capital surplus and once a year).

B. The capital surplus from share of unrealized changes in equities of subsidiaries not acquired or disposed is an adjustment due to affective recognized by changes in equity of subsidiaries, or the company recognizes capital surplus adjustments for equity method.

(3)Retained earnings and dividend policy

In accordance with the amendments to the R.O.C. Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The amendments to ZOTC's Articles of Incorporation on earnings distribution policy had been approved by ZOTC's shareholders in its meeting held in June 8 2016.

ZOTC's amended Articles of Incorporation provide that, when allocating the net profits for each fiscal year, ZOTC shall first pay taxes and offset its losses in previous years and then set aside the legal capital reserve at 10% of the profits left over, and then set asode or reverse the legal capital reserve. Any balance left over shall be allocated according to the resolution, provided from the board meeting, of the shareholders' meeting. Please reference the distribution policy of employee and directors' compensation for Note 21-6.

Distribution of earnings shall be made preferably by way of surplus cash dividend, according to future capital budget plan, and operating fund requirements. The company considers its influences on diluted earning per shares and return on equity, but the ratio for stock dividend shall not exceed 10% of the total distribution.

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

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

As for the appropriation of profits, except for shareholders who lives outside ROC, the imputation credit allocated to shareholders is based on its balance of the tax deduction ratio as of the date of the dividend distribution.

The appropriations of 2016 and 2015 earnings have been approved by ZOTC's Board of Directors in its meeting held on June 14, 2017 and June 8, 2016, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2016	For Fiscal Year 2015	For Fiscal Year 2016	For Fiscal Year 2015
	Legal capital reserve	\$ 22,408	\$ 18,280	
Special reserve	(6,153)	22,876		
Cash dividends	146,690	121,266	\$ 1.2	\$ 1.0

(4) Other equity

Unrealized Gain/Loss from Available-for sale Financial Assets

	2017	2016
Balance, beginning of period	(\$ 16,723)	(\$ 22,876)
Unrealized gain/loss from available-for sale financial assets	788	18,693
Reclassification of proceeds from disposal of available-for-sale financial assets	434	(12,540)
Balance, end of period	(\$ 15,501)	(\$ 16,723)

21. OTHER GAINS AND LOSSES

(1) Other income

	2017	2016
Interest income		
Deposits and debt investments with no active market	\$ 9,872	\$ 7,051
Dividend income	710	2,300
Rental income	634	238
Other	5,594	2,240
	<u>\$ 16,810</u>	<u>\$ 11,829</u>

(2) Other gains and losses

	2017	2016
Net (loss) gain arising on financial assets/liabilities at FVTPL	\$ 5,498	\$ 4,549
Net foreign exchange loss	(4,184)	(8,743)
Net(loss) gain on disposal of available-for-sale financial assets	(434)	12,540
Gain arising from disposal of property, plant and equipment	2	-
Impairment losses	-	(8,556)
	<u>\$ 882</u>	<u>(\$ 210)</u>

(3) Financial costs

	2017	2016
Interests on bank/Broker borrowings	\$ 54	\$ 616
Interests on convertible bonds	320	582
Total	<u>\$ 374</u>	<u>\$ 1,198</u>

(4) Depreciation & amortization

	2017	2016
Property, plant and equipment	\$ 7,720	\$ 7,725
Intangible assets	1,219	1,681
	<u>\$ 8,939</u>	<u>\$ 9,406</u>
An analysis of depreciation by function		
Operating costs	\$ 1,267	\$ 2,089
Operating expenses	6,453	5,636
	<u>\$ 7,720</u>	<u>\$ 7,725</u>
An analysis of amortization by function		
Operating costs	\$ -	\$ -
Operating expenses	1,219	1,681
	<u>\$ 1,219</u>	<u>\$ 1,681</u>

(5) Employee benefits expense

	<u>2017</u>	<u>2016</u>
Post-employment benefits		
Defined contribution plans	\$ 7,998	\$ 6,887
Defined benefit plans (Note 19)	<u>618</u>	<u>624</u>
	8,616	7,511
Share-Based Payment		
Equity Swap	5,342	3,164
Other employee benefits	<u>224,568</u>	<u>215,705</u>
Total	<u>\$ 238,526</u>	<u>\$ 226,380</u>
Employee benefits expense summarized by function		
Recognized in cost of revenue	\$ 4,747	\$ 3,912
Recognized in operating expenses	<u>233,779</u>	<u>222,468</u>
	<u>\$ 238,526</u>	<u>\$ 226,380</u>

(6) Employees', directors, and supervisors' compensation

ZOTC shall allocate compensation to directors and employees of ZOTC not less than 1%~15% and not more than 3% of annual profits during the period, respectively, and the estimate of employees', Director's, and Supervisor's compensation for the years ended December 31, 2017 and 2016 is as follows:

Estimate Rate

	<u>2017</u>	<u>2016</u>
Employee compensation	4.00%	4.00%
Director's & Supervisor's compensation	2.00%	2.00%

Amount

	<u>2017</u>		<u>2016</u>	
	<u>Cash</u>	<u>Stock</u>	<u>Cash</u>	<u>Stock</u>
Employee compensation	\$ 10,439	\$ -	\$ 11,152	\$ -
Director's & Supervisor's compensation	5,219	-	5,576	-

If changes in the very amount after the end of the reporting period, it will be booked next year, based on accounting estimate regulations.

The distribution amount of employees', director's, and supervisor's compensation has no difference compared to the recognized amount of consolidated financial statements in 2016, and 2015.

Please search for relevant information about employees', director's, and supervisor's compensation, decided by the board of directors in 2018, and 2017, on the website of "Market Observation Post System".

(7) Foreign exchange gain (loss)

	<u>2017</u>	<u>2016</u>
Foreign exchange gain	\$ 51,038	\$ 73,220
Foreign exchange loss	(<u>55,222</u>)	(<u>81,963</u>)
Gain (loss), net	(<u>\$ 4,184</u>)	(<u>\$ 8,743</u>)

22. INCOME TAXES

(1) Income tax recognized in profit or loss

The major components of tax expenses were as follows:

	<u>2017</u>	<u>2016</u>
Current tax		
In respect of the current period	\$ 45,105	\$ 38,729
Additional Surtax on Undistributed Retained Earnings	6,376	1,817
Adjustments for prior years	<u>1</u>	(<u>18</u>)
	51,482	40,528
Deferred tax		
In respect of the current period	(<u>1,882</u>)	<u>173</u>
Income tax expense recognized in profit or loss	<u>\$ 49,600</u>	<u>\$ 40,701</u>

A reconciliation between the accounting profit and tax expense is as follows:

	<u>2017</u>	<u>2016</u>
Accounting profit before tax from continuing operations	\$ 244,506	\$ 266,045
Tax at the domestic rates applicable to net profits before tax in the country concerned (17%)	\$ 41,566	\$ 45,228
Tax effect of revenues exempt from taxation	(1,029)	(4,420)
Tax effect of expenses not deductible for tax purposes	2,480	2,201
Others	(793)	(4,107)
Additional Surtax on Undistributed Retained Earnings	6,376	1,817
Unrecognized deficits credit	999	-
The adjustment of current income tax expenses in the past year	<u>1</u>	<u>(18)</u>
Total income tax expense recognized in profit or loss	<u>\$ 49,600</u>	<u>\$ 40,701</u>

The group adopts 17% of the income tax rate.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as of December 31, 2017 are expected to be adjusted and would increase by NT\$3,430 thousand and NT\$85 thousand, respectively, in 2018.

Since earnings distribution of 2018 shareholder's meeting hasn't assured yet, the potential influence of 10% of additional surtax on undistributed retained earnings in 2017 cannot be measured at present.

(2) Income tax expense recognized in other comprehensive income

	<u>2017</u>	<u>2016</u>
<u>Deferred income tax</u>		
In respect of the current period		
– Remeasurement of defined benefit plans	\$ 125	\$ 504
Total income tax expense recognized in other comprehensive income	<u>\$ 125</u>	<u>\$ 504</u>

(3) Deferred tax assets and liabilities

Movements of deferred tax assets and deferred tax liabilities were as follows:

2017

	<u>Opening Balance</u>	<u>Recognized in Profit or Loss</u>	<u>Recognized in Other Comprehensive Income</u>	<u>Disposal of subsidiaries (Note 25)</u>	<u>Closing Balance</u>
<u>Deferred tax assets</u>					
Temporary differences					
Allowance for loss on decline in value of inventory	\$ 8,174	(\$ 483)	\$ -	\$ -	\$ 7,691
Allowance for bad debts	-	3,525	-	-	3,525

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Disposal of subsidiaries (Note 25)	Closing Balance
Financial instruments measured at cost	2,573	-	-	-	2,573
Defined benefit plans	3,542	(110)	125	-	3,557
Others	<u>2,659</u>	<u>(569)</u>	<u>-</u>	<u>-</u>	<u>2,090</u>
	<u>\$ 16,948</u>	<u>\$ 2,363</u>	<u>\$ 125</u>	<u>\$ -</u>	<u>\$ 19,436</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized foreign exchange profits	<u>\$ -</u>	<u>\$ 481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 481</u>

(Concluded)

2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Disposal of subsidiaries (Note 25)	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Allowance for loss on decline in value of inventory	\$ 10,323	(\$ 1,382)	\$ -	(\$ 767)	\$ 8,174
Financial instruments measured at cost	2,573	-	-	-	2,573
Defined benefit plans	3,173	(135)	504	-	3,542
Others	<u>1,602</u>	<u>1,339</u>	<u>-</u>	<u>(282)</u>	<u>2,659</u>
	<u>\$ 17,671</u>	<u>(\$ 178)</u>	<u>\$ 504</u>	<u>(\$ 1,049)</u>	<u>\$ 16,948</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized foreign exchange profits	<u>\$ 5</u>	<u>(\$ 5)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(4) Integrated income tax information

	December 31, 2017	December 31, 2016
Unappropriated earnings		
Before 1997	\$ 3,519	\$ 3,519
After 1998	<u>280,452</u>	<u>248,026</u>
	<u>\$ 283,971</u>	<u>\$ 251,545</u>
Balance of the Imputation Credit Account	<u>\$ 34,861</u>	<u>\$ 26,164</u>
	<u>2017(Expected)</u>	<u>2016</u>
Tax deductible ratio applied to appropriated earnings	Note	19.17%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, no creditable ratio for distribution of earnings in and after 2018 is expected by the company and subsidiaries.

(5) Income tax assessment

The Company and subsidiaries' income tax returns have been assessed by the Tax Authority as follows:

<u>Co. Name</u>	<u>Year of Assessment</u>
The company	2015
Zotech technology Co., Ltd.	2016
Zerone Win Investment Co., Ltd.	—
WingWill International Co., Ltd.	—
PetaCom technology Co., Ltd.	—

23. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

Net Profit for the Period

	<u>2017</u>	<u>2016</u>
Net profit attributed to owners of the company used in computation of ordinary shares outstanding in effect of potentially dilutive ordinary shares :		
Effect of convertible bonds after tax	\$ 195,983	\$ 224,077
	<u>317</u>	<u>558</u>
Net profit used in computation of diluted earnings per share	<u>\$ 196,300</u>	<u>\$ 224,635</u>
<u>Number of Shares</u>		(In Thousand Shares)
	<u>2017</u>	<u>2016</u>
Weighted average number of ordinary shares outstanding in computation of basic earnings per share	122,088	121,265
Effect of potentially dilutive ordinary shares :		
Convertible bonds	997	1,667
Employee compensation	806	793
Employee stock options	<u>181</u>	<u>-</u>
Weighted average number of ordinary shares outstanding in computation of diluted earnings per share	<u>124,072</u>	<u>123,725</u>

If the Group will distribute bonus to employees and the bonus will be settled in cash or shares, the Group will assume that the entire amount of the compensation or bonus will be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

The exercise price of the first issued employee stock options is higher than average market price of shares in 2016. Owing to anti-diluted, it doesn't be calculated in each diluted earnings per share.

The exercise price of the second issued employee stock options is higher than average market price of shares in 2017 and 2016. Owing to anti-diluted, it doesn't be calculated in each diluted earnings per share.

24. SHARE-BASED PAYMENT ARRANGEMENTS

In August 2015, and September 2016, 1,000 and 1,860 options were granted to qualified employees of the Group. Each option entitles the holder to subscribe for 1,000 thousand ordinary shares of the Company when exercisable. The options granted are valid for 6 years and shall be vested a portion of them after two years from the date of grant. The options were granted at an exercise price equal to the fair value of the Company's ordinary shares on the grant date. For any subsequent changes in the Company's ordinary shares, the exercise price will be adjusted accordingly.

Information about stock options was as follows:

Stock options	2017		2016	
	Number of Exercisable Options (In Thousands)	Weighted Average Exercise Price (NT\$)	Number of Exercisable Options (In Thousands)	Weighted Average Exercise Price (NT\$)
Balance, beginning of period	2,860	\$ 16.50	1,000	\$ 15.65
Options vested	-	-	1,860	16.95
Options exercised	(27)	13.90	-	-
Options forfeited	(200)	15.00	-	-
Balance, end of period	<u>2,633</u>	15.23	<u>2,860</u>	16.50
Options exercisable, end of period	<u>183</u>		<u>-</u>	
Weighted average fair value of options vested for the year(NT\$)	<u>\$ -</u>		<u>\$ 5.96</u>	

Information about outstanding options at the end of reporting period was as follows:

December 31, 2017		December 31, 2016	
Range of Exercise Price (US\$)	Weighted-Over-Age Remaining Contractual Life (Years)	Range of Exercise Price (US\$)	Weighted-Over-Age Remaining Contractual Life (Years)
\$ 13.90 (Note)	3.67	\$ 15.65	4.67
15.90 (Note)	4.68	16.95	5.68

Note: The Issued process will be adjusted by methods of issuance.

The company adopts BOPM and Black-Scholes price model to evaluate inputs of stock options in September 2016 and August 2015 as follows:

	September, 2016	August, 2015
Securities price of exercised	16.95 Dollars	15.65 Dollars
Exercised price	16.95 Dollars	15.65 Dollars
Foreseeable volatility rate	38.26%	39.14%~40.47%
Duration	6 Years	4~5 Years
Foreseeable dividend rate	0%	0%
No risk rates	0.56%	0.77%~0.87%

The compensation cost recognized were \$5,342 thousand and \$3,164 thousand for the years ended December 31, 2017 and 2016, respectively.

25. Disposal of subsidiaries

Jotangi technology co., Ltd. increases cash capitals NT 18,000 thousand on October, 2016. Since the company have purchased NT 2,100 thousand without subscribing it on the securities-holding ratio, the securities-holding ratio decreases to 31.85%. As for its less or majority voting rights to shareholders, the company regards it hasn't had control of the company.

(1) Analysis of lost control of assets and liabilities

	Jotangi technology
CURRENT ASSETS	
Cash and cash equivalents	\$ 24,406
Debt investments with no active market - current	1,000
Trade receivable	43,156
Inventories	17,769
Other current assets	1,343

	<u>Jotangi technology</u>
NON-CURRENT ASSETS	
Debt investments with no active market - non-current	\$ 2,071
Property, plant and equipment	624
Deferred tax assets	1,049
Refundable deposits	2,192
CURRENT LIABILITIES	
Short-term borrowings	(47,130)
Trade payable	(28,155)
Other current liabilities	(11,503)
Disposal of net assets	<u>\$ 6,822</u>

(2)Gain on disposal of subsidiaries

	<u>Jotangi technology</u>
Consideration received	\$ -
Disposal of net assets	6,822
Non-controlling interests	(766)
Impairment losses (Note)	(6,056)
Gain on disposal	<u>\$ -</u>

Note:As Jotangi technology co., Ltd. has been operating at a loss, the management of the Group assesses a long-term losses incurred.

(3)Cash inflow of disposal

	<u>Jotangi technology</u>
Consideration received by Cash and cash equivalents	\$ -
Deduct:Balances of disposal of Cash and cash equivalents	(24,406)
	<u>(\$ 24,406)</u>

26. CAPITAL RISK MANAGEMENT

The Group engages mainly in the agent of software, without any plans of imposed capital requirements. The Group manages its capital to ensure requirements of operating funds and dividend expenses, based on growth and development of scale of enterprise and prospective of the industry. The Group periodically reviews the policy of capital risk management, for the purpose of seeking a steady and conservative capital risk.

The capital structure of the Group consists of net debt and equity attributable to owners of the Company (comprising issued capital, capital reserves, retained earnings and other equity).

The Group is not subject to any externally imposed capital requirements.

27. FINNANCIAL INSTRUMENTS

(1)Fair value of financial instruments that are not measured at fair value

Except as detailed in the following table, the management believes the carrying amounts of financial liabilities not measured at fair value recognized in the consolidated financial statements approximate or cannot be measured their fair values:

	December 31,		December 31,	
	2017		2016	
<u>Financial liabilities</u>	<u>C a r r y i n g</u>	<u>F a i r V a l u e</u>	<u>C a r r y i n g</u>	<u>F a i r V a l u e</u>
	<u>A m o u n t</u>		<u>A m o u n t</u>	
Convertible bonds	9,733	12,600	28,563	32,640

(2) Fair Value – Financial assets at FVTPL

A. Fair value hierarchy

December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>T o t a l</u>
<u>Financial assets at FVTPL</u>				
Convertible bonds	\$ 51,009	\$ -	\$ -	\$ 51,009
Domestic public offering securities				
Equity investment	325	-	-	325
Derivatives	<u>-</u>	<u>4</u>	<u>-</u>	<u>4</u>
Total	<u>\$ 51,334</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 51,338</u>

Available for sale financial assets

Domestic public offering securities

Equity investments	<u>\$ 90,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,289</u>
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December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>T o t a l</u>
<u>Financial assets at FVTPL</u>				
Convertible bonds	\$ 56,655	\$ -	\$ -	\$ 56,655
Fund Beneficiary Certification	15,374	-	-	15,374
Domestic public offering securities				
Equity investment	1,864	-	-	1,864
Credit linked notes	-	9,997	-	9,997
Derivatives	<u>-</u>	<u>6</u>	<u>-</u>	<u>6</u>
Total	<u>\$ 73,893</u>	<u>\$ 10,003</u>	<u>\$ -</u>	<u>\$ 83,896</u>

Available for sale financial assets

Domestic public offering securities

Equity investments	<u>\$ 52,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,341</u>
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There were no transfers between Level 1 and Level 2 for the years ended December 31, 2017 and 2016, respectively.

B. Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives—Redemption & sell right of convertible bonds	Valuation model of binomial tree of convertible bond; Using securities prices, no risk rate, and risk discount rate evaluates fair values of financial assets of convertible bonds.

(3) Categories of financial instruments

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<u>Financial assets</u>		
Financial assets at FVPL	\$ 51,338	\$ 83,896
Loans and receivable (Note 1)	2,619,647	2,527,074
Available-for-sale financial assets (Note 2)	111,943	52,851

Financial liabilities

Financial liabilities at FVTPL amortized at cost (Note 3)

1,397,491	1,324,059
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Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt instruments with no active market, trade receivable, other receivable and refundable deposits.

Note 2: The balances included available-for-sale financial assets measured at cost.

Note 3: The balances included financial liabilities measured at amortized cost, which comprise trade payable, current portion of bonds payable, and other payable.

(4) Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk based on related protocols and internal control procedures. The Group's financial department measures the aforementioned risks based on the Group's risk appetite, and reports to the board of directors for carrying out relevant policies.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

A. Market risk

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

(A) Foreign currency risk

The Company's purchases and investments are denominated in foreign currencies. Consequently, the Company is exposed to foreign currency risk. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Company utilizes derivative financial instruments, such as forward exchange contracts and options.

Several subsidiaries of the Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. The Group invests derivative financial instruments to avoid foreign current risk, lest assets of foreign currency denominated increase or future cash flow variate, due to fluctuating range of the exchange rate. Please see note 31.

Sensitivity analysis

The Group's exchange rate exposure was in the exchange rate of U.S. dollars, and Renminbi (RMB).

The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. If interest rates had been 5 basis points higher/lower, the Group's net profit for the years ended December 31, 2017 and 2016 would decrease/increase by \$5,440 thousand and \$1,539 thousand, respectively.

(B) Interest rate risk

The Group has had exposure to the risk of interest rate at fair value, since holding the fixed rate loan, accesses interest rate of the loan, observe influences on profits or losses from fluctuation range of the interest rate, keeps contact with the bank based on actual requirement, and acquires best interest rate of the loan.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Interest rate risk at fair value		
— Financial assets	\$ 366,576	\$ 482,910
— Financial liabilities	9,733	28,563
Interest rate at cash flow		
— Financial assets	598,289	321,242

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2017 and 2016 would decrease/increase by \$2,991 thousand and \$1,606 thousand, respectively. Exposure is triggered by risks of cash flows of the Group's varied rates of deposits.

(C) Other price risk

The Company is exposed to equity price risks arising from equity investments of public offering securities. Equity investments should be approved by the management, control risks by holding different investment portfolio.

Sensitivity analysis

The following sensitivity analysis is based on risk exposure of equity prices at the end of the reporting period

Assuming a hypothetical increase/decrease of 5% in prices of the equity investments, increased/decreased by NT\$2,567 thousand and NT\$3,695 thousand, because of the change in fair value of investments held for trading, respectively., at the end of the reporting period for the years ended December 31, 2017 and 2016, the other comprehensive income would have increased/decreased by NT\$4,514 thousand and NT\$2,617 thousand, because of the change in fair value of available-for-sale financial assets, respectively.

B. Credit risk

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

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, the Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the financial department regularly.

To decrease credit risk, the key management personnel of the Group is responsible for decision of rating criteria, credit limits approval, and other censor procedure, etc., in order to collect delinquent trade receivable. Otherwise, the group reviews each trade receivable to assure allowance of impairment losses of uncollectable bad debts, hence the key management personnel considers credit concentration risk of trade receivable is insignificant.

The credit concentration risk of current fund is insignificant, since the Group only transacts with financial institutions with good rating.

Trade receivable consisted of a large number of customers. Ongoing credit evaluation is performed on the financial condition of trade receivable. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for insurance.

As of December 31, 2017 and 2016, trade receivable from top five customers represent 36% and 28% of the total trade receivable of the Group, respectively.

C. Liquidity risk

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises financing line of the banking facilities and ensures compliance with the terms of loan agreements

Liquidity & Interest rate risk table

The table below summarizes the maturity profile of the Company's financial liabilities, based on contractual undiscounted payments of cash flow of financial liabilities, due analysis of remaining contracts on the earliest date on which the Group may be required to pay, including principal and interest.

The following tables detail the bank loans are listed on the earliest date on which the Group may be required to pay without considering the probability of the lending bank's executing its rights; other non-derivative financial liabilities are listed at their contract repayment dates.

<u>December 31, 2017</u>			
	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
<u>Non-derivative financial liabilities</u>			
No Interest-bearing liabilities	\$ 1,387,758	\$ -	\$ -
Fixed rate instruments	<u>10,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,397,758</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2016</u>			
	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
<u>Non-derivative financial liabilities</u>			
No Interest-bearing liabilities	\$ 1,295,496	\$ -	\$ -
Fixed rate instruments	<u>30,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,325,496</u>	<u>\$ -</u>	<u>\$ -</u>

The operating fund of the Group are sufficient to meet cash flow demand; thus, bank loans within 1 year are the maximum amounts with available limit of credit. After considering the financial position of the Group, the management does not think the banks will execute their rights of requiring the Group to repay the bank loans.

As of December 31, 2017 and 2016, the Group's unused short-term credit of limit of the bank were 1,005,000 thousand, 960,000 thousand, respectively.

The Group's cash and cash equivalents are sufficient to meet the demand of operating funds; the Group does not make use of its overdraft limit.

28. RELATED PARTIES TRANSACTIONS

Transactions and balances, profits and losses, revenues and expenses between the Company and its subsidiaries, which were related parties of the Company, had been eliminated on consolidation and are not disclosed in this note. Besides as disclosed elsewhere in the other notes, details of transactions between the Group and other related parties were disclosed below.

(1) Operating revenue

<u>Types of subsidiaries</u>	<u>2017</u>	<u>2016</u>
Associates	\$ -	\$ 599
Other related parties	<u>357</u>	<u>229</u>
	<u>\$ 357</u>	<u>\$ 828</u>

Prices and payment terms for transactions with related parties and third parties were similar.

(2) Purchase

<u>Types of subsidiaries</u>	<u>2017</u>	<u>2016</u>
Associates	<u>\$ -</u>	<u>\$ 1,835</u>

(3) Trade receivable-related parties

<u>Types of subsidiaries</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	<u>\$ -</u>	<u>\$ 358</u>

The following balances of trade receivable in 2017 and 2016 from related parties haven't been allocated for bad debts

(4) Trade payable-related parties

<u>Types of subsidiaries</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	<u>\$ -</u>	<u>\$ 1,775</u>

(5) Compensation of key management personnel

	<u>2017</u>	<u>2016</u>
Short-term employee benefits	<u>\$ 25,217</u>	<u>\$ 23,861</u>

Salaries of the boarders and other key management personnel is decided by personal performance and economic market trend through the compensation committee.

29. PLEDGED ASSETS

The following assets of the Group is guaranteed by the assets pledged for loans of the bank, and tariff of importing commodities.

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Property, plant and equipment, Net	\$ 295,043	\$296,860
Pledged Time Deposits (Debt investments with no active market)	<u>11,539</u>	<u>11,367</u>
	<u>\$ 306,582</u>	<u>\$ 308,227</u>

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. As of December 31, 2017, the group opens NT 87,000 thousand of cashier order for payment guaranteed for Microsoft Taiwan Corporation.

b. As of December 31, 2017, the group opens NT 50,000 thousand of cashier order for payment guaranteed for Microsoft Regional Sales Corporation.

31. FOREIGN-CURRENCY-DEMOMINATED ASSETS AND LIABILITIES THAT HAVE SIGNIFICANT INFLUENCE

The following information was summarized according to the foreign currencies other than the functional currency of the Company. The exchange rates disclosed were used to translate the foreign currencies into the functional currency. The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2017

<u>Financial assets</u>	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>Carrying Amount</u>
<u>Monetary items</u>			
USD	\$ 19,816	29.735(USD:NTD)	<u>\$ 589,229</u>

<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	23,396	29.835(USD:NTD)	<u>\$ 698,020</u>

December 31, 2016

<u>Financial assets</u>	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>Carrying Amount</u>
<u>Monetary items</u>			
USD	\$ 18,684	32.205(USD:NTD)	<u>\$ 601,718</u>

<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	19,579	32.305(USD:NTD)	<u>\$ 632,500</u>

The material realized (or unrealized) foreign exchange profit(loss) was as follows:

<u>Foreign currencies</u>	<u>2017</u>		<u>2016</u>	
	<u>Exchange Rate</u>	<u>Net Foreign exchange profit(loss)</u>	<u>Exchange Rate</u>	<u>Net Foreign exchange profit(loss)</u>
USD	30.432 (USD:NTD)	(\$ 4,184)	32.263 (USD:NTD)	(\$ 9,069)
CNY	4.5070 (CNY:NTD)	-	4.8490 (CNY:NTD)	326
		<u>(\$ 4,184)</u>		<u>(\$ 8,743)</u>

32. SEPARATELY DISCLOSED ITEMS

Information on (1) significant transactions and (2) investees:

- A. Financing provided to others: None.
- B. Endorsements/guarantees provided: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.
- D. Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital: None.
- E. Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None.
- F. Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None.
- G. Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- H. Trade receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- I. Trading in derivative instruments: Table 7.
- J. Other: The business relationship between the parent and the subsidiaries and significant transactions between them: Table 3.
- K. Information on investees: Table 2.

(3) Information on investment in Mainland China : None.

33. SEGMENT INFORMATION

The management monitors the operating results focusing on the types of products and services acquired or provided of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The department of the Group-brand agent business division shall be reported.

(1) Segments revenue & operating results

The reporting on operating segments revenue and results of the Group, based on its business unit separately, was as follows:

	The brand agent business division	Other	Eliminations	Consolidated
<u>2017</u>				
Revenues/from external customers	\$ 5,804,632	\$ 162,957	\$ -	\$ 5,967,589
Inter-segment revenues	-	8,033	(8,033)	-
Segment revenues	<u>\$ 5,804,632</u>	<u>\$ 170,990</u>	<u>(\$ 8,033)</u>	<u>5,967,589</u>
Consolidated revenues				<u>\$ 5,967,589</u>
Segment profit (loss)	<u>\$ 360,623</u>	<u>(\$ 7,465)</u>	<u>\$ -</u>	\$ 353,158
General administration division costs and directors' compensation				(118,464)
Other income				\$ 16,810
Other profit (loss)				882
Financial costs				(374)
Investments accounted for using equity method of associates and joint ventures				(7,506)
Net income before tax				<u>\$ 244,506</u>
<u>2016</u>				
Revenues/from external customers	\$ 5,580,291	\$ 352,068	\$ -	\$ 5,932,359
Inter-segment revenues	-	16,794	(16,794)	-
Segment revenues	<u>\$ 5,580,291</u>	<u>\$ 368,862</u>	<u>(\$ 16,794)</u>	<u>5,932,359</u>
Consolidated revenues				<u>\$ 5,932,359</u>
Segment profit (loss)	<u>\$ 310,884</u>	<u>\$ 28,625</u>	<u>\$ -</u>	\$ 339,509
General administration division costs and directors' compensation				(81,387)
Other income				11,829
Other profit (loss)				(210)
Financial costs				(1,198)
Investments accounted for using equity method of associates and joint ventures				(2,498)
Net income before tax				<u>\$ 266,045</u>

Segment profits indicate earning profits of each segment, not including management segment costs and directors' compensation, investments accounted for using equity method of associates, rental income, interest income, profit(loss) of disposal of Property, plant and equipment, disposal of profit(loss) of investments, net profit(loss) of foreign exchange, valuated profit(loss) of financial instruments, finance costs, and income tax expenses. The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

(2) Total assets and liabilities of the department

The assets and liabilities of the Group haven't been provided to the operating management personnel, hence valuation number of assets and liabilities shouldn't be recovered.

(3) Information on main products and services

Analysis of the Group's main products and services for continuing operations is as follows:

	<u>2017</u>	<u>2016</u>
Brand agent	\$ 5,804,632	\$ 5,580,291
Others	<u>162,957</u>	<u>352,068</u>
	<u>\$ 5,967,589</u>	<u>\$ 5,932,359</u>

(4) Geographical information

The Group is mainly headquartered in Taiwan.

The Company categorized the net revenue mainly based on the country in which the customer is headquartered, and non-current assets based on the site of assets.

	Net Revenue from External Customers		<u>Non-current Assets</u>	
	<u>2017</u>	<u>2016</u>	December 31, <u>2017</u>	December 31, <u>2016</u>
Taiwan	\$ 5,821,589	\$ 5,733,499	\$ 311,053	\$ 305,239
Others	<u>146,000</u>	<u>198,860</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,967,589</u>	<u>\$ 5,932,359</u>	<u>\$ 311,053</u>	<u>\$ 305,239</u>

Non-current assets don't include financial instruments and deferred tax assets.

(5) Major customer information

Revenues in 2017 and 2016 of brand agent business division were 5,804,632 thousand, and 5,580,291 thousand, and some of revenues were 457,864 thousand, and 455,730 thousand from key account. In 2017 and 2016, no customers constituted more than 10% of the Group's total revenue.

ZERONE TECHNOLOGY CO., LTD.AND SUBSIDIARIES
MARKETABLE SECURITIES HELD
December 31, 2017

Table 1

(In Thousands of New Taiwan Dollars)

Holding Company	Marketable Securities Type and Issuer' s Name (Note 1)	Security Issuer' s Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Note
				Shares/Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Prices/Net value of equities	
The company	Corporate bond							
	Goodway Machine Corp.-1	—	Financial assets at fair value through profit or loss— current	50 (Units)	\$ 5,200	-	\$ 5,200	
	Everlight Electronics Co., Ltd.-6	—	Financial assets at fair value through profit or loss— current	240 (Units)	23,952	-	23,952	
	Regent Hotels Group-2	—	Financial assets at fair value through profit or loss— current	20 (Units)	2,040	-	2,040	
	Dacin Construction Co., Ltd.-4	—	Financial assets at fair value through profit or loss— current	20 (Units)	2,037	-	2,037	
	Elite Material Co., Ltd.-4	—	Financial assets at fair value through profit or loss— current	10 (Units)	1,080	-	1,080	
	Gigastorage Corp.-4	—	Financial assets at fair value through profit or loss— current	50 (Units)	5,425	-	5,425	
	SINTRONIC Technology.-3	—	Financial assets at fair value through profit or loss— current	5 (Units)	574	-	574	
	Chilisin Electronics Corp.-5	—	Financial assets at fair value through profit or loss— current	48 (Units)	5,438	-	5,438	
	EVA Airways.-3	—	Financial assets at fair value through profit or loss— current	30 (Units)	3,213	-	3,213	
	Hkssteel Technology corp.-5	—	Financial assets at fair value through profit or loss— current	20 (Units)	2,050	-	2,050	
	Securities							
	Jiyuan Packaging Holdings Ltd.	—	Financial assets at fair value through profit or loss— current	10,000	325	-	325	
	Global Mixed-mode Technology Inc.	—	Available-for-sale financial assets— current	50,000	3,370	0.06	3,370	
	ASLAN Pharmaceuticals, Ltd.	—	Available-for-sale financial assets— current	70,000	2,324	0.05	2,324	
	Chunghwa Precision Test Tech.Co., Ltd .	—	Available-for-sale financial assets— current	7,000	8,015	0.02	8,015	
	Kaway Information Corporation	The Supervisor of the company	Available-for-sale financial assets— non-current	490,000	9,065	1.60	9,065	
China Electric Mfg. Corp.	—	Available-for-sale financial assets— non-current	3,040,000	30,309	0.76	30,309		
ASIX Electronics Corporation	—	Available-for-sale financial assets— non-current	260,074	7,685	0.49	7,685		
Promaster Technology Corp.	—	Available-for-sale financial assets— non-current	1,000,000	7,090	2.72	7,090		

(Continued)

Holding Company	Marketable Securities Type and Issuer's Name (Note 1)	Security Issuer's Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Note
				Shares/Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Prices/Net value of equities	
Zotech	Cathay Financial Holdings Preferred Stock A	—	Available-for-sale financial assets – non-current	166,000	\$ 10,408	0.02	\$ 10,408	Allowance for all impairment losses of 14,883 thousand
	Union Bank of Taiwan Preferred Stock A	—	Available-for-sale financial assets – non-current	80,000	4,008	0.04	4,008	
	Miiicasa Holding, (Cayman) Inc.	—	Financial assets measured at cost – non-current	2,500,000	-	3.45	338	
	Unex Technology Corporation	—	Financial assets measured at cost – non-current	175,000	510	1.68	1,973	
	Doufu Co., Ltd.	—	Financial assets measured at cost – non-current	10,000	-	0.28	5	
	Jotangi technology Co., Ltd.	—	Financial assets measured at cost – non-current	796,250	-	16.94	Note 3	
	Ijoing Co., Ltd.	—	Financial assets measured at cost – non-current	500,000	-	10.00	369	
ZeroneWin	Securities Happy Island Technology Co., Ltd.	—	Financial assets measured at cost – non-current	100,000	-	0.14	Note 3	Allowance for all impairment losses of 2,500 thousand
	Beneficiary certifications Yuanta Diamond Funds SPC	—	Financial assets measured at cost – non-current	70,000	21,144	-	Note 3	
	Securities Chunghwa Precision Test Tech.Co., Ltd .	—	Available-for-sale financial assets – non-current	7,000	8,015	0.02	8,015	

(Concluded)

Note 1 : The table indicates securities mentioned above derives from stock. Bonds, beneficiary certificates recognized in the scope of IAS 39 “Financial Instrument”.

Note 2 : Investments in subsidiaries, associates and joint venture's interests in related information, see table 2.

Note 3 : As the end of reporting period, net value of equities of the company hasn't been acquired.

Note 4 : Jotangi technology Co., Ltd. increased cash capital in April 2017, without subscribing, the Group's share-holding ratio decreasing from 31.85% to 16.94%. The Group lost material influences, and recognized it as financial assets measured at cost-non-current.

Note 5 : Ijoing Co., Ltd. increased cash capital in December 2017, without subscribing by share-holding ratio, the Group's share-holding ratio decreasing from 43.98% to 10.00%. The Group lost material influences, and recognized it as financial assets measured at cost-non-current. The Group stopped to recognize losses, since the investment amount of losses of Ijoing Co., Ltd. accounted for using the equity method is exceed the carrying amount;hence, reconizing 0 dollars as financial assets measured at cost-non-current.

ZERONE TECHNOLOGY CO., LTD.AND SUBSIDIARIES
 INFORMATION ON INVESTEES
 FOR YEAR ENDED DECEMBER 31, 2017

Table 2

(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		As of 31 December 2017			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				31 December 2017	31 December 2016	Number of Ownership	Percentage of Ownership	Carrying Amount			
The Company	Zotech Technology Co., Ltd.	Taipei City	Zotech Technology Co., Ltd.	\$ 35,000	\$ 35,000	3,500,000	85.37	\$ 39,440	(\$ 3,489)	(\$ 2,979)	Subsidiary
	Navizot Inc.	Taipei City	Navizot Inc.	10,000	10,000	597,960	30.00	-	(2,558)	-	
	Trident Pacific Inc.	Hsinchu City	Trident Pacific Inc.	9,450	-	945,000	29.53	4,446	(16,945)	(5,004)	
	ZeroneWin Investment Co., Ltd.	Taipei City	ZeroneWin Investment Co., Ltd.	100,000	-	10,000,000	100.00	95,546	(3,493)	(3,493)	Subsidiary
Zerone Win Investment Co., Ltd.	WingWill International Co., Ltd.	Taipei City	Services of Cloud & information software	7,000	-	700,000	70.00	5,680	(1,886)	(1,320)	Sub-subsubsidiary
	PetaCom technology Co., Ltd.	Taipei City	Services of information product agent	50,000	-	5,000,000	100.00	48,050	(1,950)	(1,950)	Sub-subsubsidiary

Note 1: Jotangi technology Co., Ltd. increased cash capital in April 2017, without subscribing, the Group's share-holding ratio decreasing from 31.85% to 16.94%. The Group lost material influences, and recognized it as financial assets measured at cost-non-current.

Note 2: Ijoing Co., Ltd increased cash capital in December 2017, without subscribing by share-holding ratio, the Group's share-holding ratio decreasing from 43.98% to 10.00%. The Group lost material influences, and recognized it as financial assets measured at cost-non-current. The Group stopped to recognize losses, since the investment amount of losses of Ijoing Co., Ltd accounted for using the equity method is exceed the carrying amount;hence, reconizing 0 dollars as financial assets measured at cost-non-current.

ZERONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR YEAR ENDED DECEMBER 31, 2017

Table 3

(Amounts in Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	Nature of Relationship (Note 2)	Transactions Details			
				Financial Statement Account	Amount	Transaction Terms	Percentage of Consolidated Total Revenues or Total Assets (Note 3)
0	Zerone tech	Zotech Technology Co., Ltd.	1	Service income	\$ 1,080	Note 4	-
				Cost of goods sold	6,910	Note 4	-
				Trade receivable	263	Note 4	-
				Trade payable	1,583	Note 4	-
				Rental income	540	Note 4	-
				Sales revenue	43	Note 4	-
				Guarantee deposits received	90	Note 4	-

Note 1 : Business between the parent and subsidiaries is numbered as follows:

1. Parent:0.
2. Subsidiaries are numbered from 1 in order.

Note 2 : 3 types of relationship between parties is numbered as follows:

1. Parent to subsidiary.
2. Subsidiary to parent.
3. Between subsidiaries.

Note 3 : Percentage of consolidated operating revenues or consolidated total assets: If the account is a balance sheet account, it was calculated by dividing the ending balance into consolidated total assets; if the account is an income statement account, it was calculated by dividing the yearly cumulative balance into consolidated operating revenues.

Note 4 : The sales prices and payment terms of the intercompany partners are not significantly different from those to non-related parties.