

**Phihong Technology Co., Ltd. and  
Subsidiaries**

**Consolidated Financial Statements for the  
Three Months Ended March 31, 2017 and 2016 and  
Independent Auditors' Review Report**

## **INDEPENDENT AUDITORS' REVIEW REPORT**

The Board of Directors and Stockholders  
Phihong Technology Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Phihong Technology Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") as of March 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2017 and 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

Except as stated in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 "Review of Financial Statements" issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

As disclosed in Note 13 to the consolidated financial statements, the carrying values of the Group's investments accounted for using equity method of \$250,439 thousand and \$254,975 thousand as of March 31, 2017 and 2016, respectively, and the comprehensive loss from the investments of \$1,039 thousand and \$23,528 thousand for the three months ended March 31, 2017 and 2016, respectively, were based on these investees' unreviewed financial statements.

Based on our reviews, except for adjustments that might have been determined to be necessary had the financial statements of equity-method investees mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

May 10, 2017

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 review such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors’ review 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’ review report and consolidated financial statements shall prevail.*

**PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**  
(In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2017 (Reviewed)		December 31, 2016 (Audited)		March 31, 2016 (Reviewed)	
	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>						
Cash and cash equivalents (Note 6)	\$ 2,253,667	20	\$ 1,312,763	11	\$ 1,536,972	14
Financial assets at fair value through profit or loss - current (Note 7)	224,734	2	406,411	4	99,548	1
Trade receivables (Note 9)	2,281,533	20	2,663,732	23	1,912,795	17
Other receivables	135,453	1	93,657	1	56,181	1
Inventories (Note 10)	1,534,223	14	1,503,403	13	1,316,932	12
Prepayment for lease (Note 17)	3,343	-	3,530	-	3,918	-
Non-current assets held for sale, net (Note 11)	-	-	11,471	-	-	-
Other financial assets - current (Note 6)	231,457	2	586,543	5	586,160	5
Other current assets	145,256	1	123,668	1	138,706	1
Total current assets	6,809,666	60	6,705,178	58	5,651,212	51
<b>NON-CURRENT ASSETS</b>						
Financial assets measured at cost - non-current (Note 8)	44,759	-	44,759	1	94,615	1
Investments accounted for using equity method (Note 13)	250,439	2	262,337	2	254,975	2
Property, plant and equipment (Note 14)	3,503,374	31	3,728,732	32	4,067,938	37
Investment properties (Note 15)	543,073	5	581,307	5	648,160	6
Intangible assets (Note 16)	31,088	-	32,166	-	35,823	-
Deferred tax assets (Note 4)	53,010	1	50,700	1	50,746	1
Other financial assets - non-current (Note 6)	25,450	-	25,450	-	-	-
Long-term prepayments for lease (Note 17)	125,363	1	133,247	1	150,140	1
Other non-current assets	37,705	-	39,201	-	43,816	1
Total non-current assets	4,614,261	40	4,897,899	42	5,346,213	49
<b>TOTAL</b>	<b>\$ 11,423,927</b>	<b>100</b>	<b>\$ 11,603,077</b>	<b>100</b>	<b>\$ 10,997,425</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Short-term borrowings (Note 18)	\$ 90,915	1	\$ 96,840	1	\$ 604,915	5
Trade payables	2,719,288	24	2,960,386	25	2,060,101	19
Trade payables to related parties (Note 28)	66,276	1	71,883	1	56,569	1
Other payables (Note 20)	710,459	6	858,568	7	712,335	6
Current tax liabilities (Note 4)	96,724	1	75,269	1	66,561	1
Current portion of long-term borrowings (Notes 18 and 19)	1,093,795	9	1,176,838	10	14,080	-
Other current liabilities	109,328	1	193,291	2	98,696	1
Total current liabilities	4,886,785	43	5,433,075	47	3,613,257	33
<b>NON-CURRENT LIABILITIES</b>						
Bonds payable (Note 19)	998,094	9	997,977	8	1,249,201	11
Long-term borrowings (Note 18)	18,183	-	22,596	-	624,638	5
Deferred tax liabilities (Note 4)	79,832	-	79,832	1	79,832	1
Accrued pension liabilities (Notes 4 and 21)	87,794	1	87,953	1	82,826	1
Other non-current liabilities	7,040	-	7,061	-	6,342	-
Total non-current liabilities	1,190,943	10	1,195,419	10	2,042,839	18
Total liabilities	6,077,728	53	6,628,494	57	5,656,096	51
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 22)</b>						
Common stock	3,376,884	30	2,776,884	24	2,776,884	25
Capital surplus	1,044,017	9	1,026,456	9	1,026,456	10
Retained earnings						
Legal reserve	1,113,185	10	1,113,185	9	1,113,185	10
Special reserve	230,859	2	230,859	2	230,859	2
Accumulated deficits	(100,552)	(1)	(128,792)	(1)	(21,475)	-
Total retained earnings	1,243,492	11	1,215,252	10	1,322,569	12
Other equity						
Exchange differences on translating foreign operations	(354,677)	(3)	(91,443)	(1)	203,242	2
Unrealized gain (loss) on available-for-sale financial assets	45,891	-	57,450	1	22,167	-
Total other equity	(308,786)	(3)	(33,993)	-	225,409	2
Total equity attributable to owners of the Company	5,355,607	47	4,984,599	43	5,351,318	49
<b>NON-CONTROLLING INTEREST</b>	<b>(9,408)</b>	<b>-</b>	<b>(10,016)</b>	<b>-</b>	<b>(9,989)</b>	<b>-</b>
Total equity	5,346,199	47	4,974,583	43	5,341,329	49
<b>TOTAL</b>	<b>\$ 11,423,927</b>	<b>100</b>	<b>\$ 11,603,077</b>	<b>100</b>	<b>\$ 10,997,425</b>	<b>100</b>

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

(With Deloitte & Touche review report dated May 10, 2017)

# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share) (Reviewed, Not Audited)

	Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Note 32)	\$ 2,830,831	100	\$ 2,580,129	100
OPERATING COSTS (Notes 10 and 28)	<u>2,453,711</u>	<u>87</u>	<u>2,357,384</u>	<u>91</u>
GROSS PROFIT	<u>377,120</u>	<u>13</u>	<u>222,745</u>	<u>9</u>
OPERATING EXPENSES				
Sales and marketing expenses	124,521	4	194,988	8
General and administration expenses	127,774	5	104,322	4
Research and development expenses	<u>147,700</u>	<u>5</u>	<u>128,925</u>	<u>5</u>
Total operating expenses	<u>399,995</u>	<u>14</u>	<u>428,235</u>	<u>17</u>
LOSS FROM OPERATIONS	<u>(22,875)</u>	<u>(1)</u>	<u>(205,490)</u>	<u>(8)</u>
NONOPERATING INCOME (EXPENSES)				
Other income (Note 23)	46,394	2	30,572	1
Other gains and losses (Note 23)	36,528	1	(17,805)	(1)
Finance costs	(17,391)	-	(9,952)	-
Share of the profit of associates (Note 13)	<u>10,520</u>	<u>-</u>	<u>1,656</u>	<u>-</u>
Total nonoperating income	<u>76,051</u>	<u>3</u>	<u>4,471</u>	<u>-</u>
PROFIT (LOSS) BEFORE INCOME TAX	53,176	2	(201,019)	(8)
INCOME TAX (EXPENSE) BENEFIT (Notes 4 and 24)	<u>(24,940)</u>	<u>(1)</u>	<u>2,374</u>	<u>-</u>
NET PROFIT (LOSS)	<u>28,236</u>	<u>1</u>	<u>(198,645)</u>	<u>(8)</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 22)	(262,622)	(9)	(91,332)	(3)
Share of the other comprehensive income of associates accounted for using the equity method (Note 22)	<u>(11,559)</u>	<u>(1)</u>	<u>(25,184)</u>	<u>(1)</u>
Total other comprehensive loss	<u>(274,181)</u>	<u>(10)</u>	<u>(116,516)</u>	<u>(4)</u>
TOTAL COMPREHENSIVE LOSS	<u>\$ (245,945)</u>	<u>(9)</u>	<u>\$ (315,161)</u>	<u>(12)</u>

(Continued)

# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share) (Reviewed, Not Audited)

	Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
NET (LOSS) INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 28,240	1	\$ (198,640)	(8)
Non-controlling interests	<u>(4)</u>	<u>-</u>	<u>(5)</u>	<u>-</u>
	<u>\$ 28,236</u>	<u>1</u>	<u>\$ (198,645)</u>	<u>(8)</u>
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ (246,553)	(9)	\$ (315,340)	(12)
Non-controlling interests	<u>608</u>	<u>-</u>	<u>179</u>	<u>-</u>
	<u>\$ (245,945)</u>	<u>(9)</u>	<u>\$ (315,161)</u>	<u>(12)</u>
EARNING (LOSS) PER SHARE (Note 25)				
Basic	<u>\$ 0.10</u>		<u>\$ (0.72)</u>	
Diluted	<u>\$ 0.09</u>			

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

(With Deloitte & Touche review report dated May 10, 2017)

(Concluded)

**PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company									
	Common Stock	Capital Surplus	Retained Earnings			Other Equity		Total	Non-controlling Interest	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets			
BALANCE, JANUARY 1, 2016	\$ 2,776,884	\$ 1,026,456	\$ 1,113,185	\$ 230,859	\$ 177,165	\$ 294,758	\$ 47,351	\$ 5,666,658	\$ (10,168)	\$ 5,656,490
Net loss for the three months ended March 31, 2016	-	-	-	-	(198,640)	-	-	(198,640)	(5)	(198,645)
Other comprehensive income (loss) for the three months ended March 31, 2016, net of income tax	-	-	-	-	-	(91,516)	(25,184)	(116,700)	184	(116,516)
Total comprehensive income (loss) for the three months ended March 31, 2016	-	-	-	-	(198,640)	(91,516)	(25,184)	(315,340)	179	(315,161)
BALANCE, MARCH 31, 2016	<u>\$ 2,776,884</u>	<u>\$ 1,026,456</u>	<u>\$ 1,113,185</u>	<u>\$ 230,859</u>	<u>\$ (21,475)</u>	<u>\$ 203,242</u>	<u>\$ 22,167</u>	<u>\$ 5,351,318</u>	<u>\$ (9,989)</u>	<u>\$ 5,341,329</u>
BALANCE, JANUARY 1, 2017	\$ 2,776,884	\$ 1,026,456	\$ 1,113,185	\$ 230,859	\$ (128,792)	\$ (91,443)	\$ 57,450	\$ 4,984,599	\$ (10,016)	\$ 4,974,583
Net income (loss) for the three months ended March 31, 2017	-	-	-	-	28,240	-	-	28,240	(4)	28,236
Other comprehensive (loss) income for the three months ended March 31, 2017, net of income tax	-	-	-	-	-	(263,234)	(11,559)	(274,793)	612	(274,181)
Total comprehensive (loss) income for the three months ended March 31, 2017	-	-	-	-	28,240	(263,234)	(11,559)	(246,553)	608	(245,945)
Issuance of ordinary shares for cash (Note 22)	600,000	10,430	-	-	-	-	-	610,430	-	610,430
Issuance of ordinary shares under employee share options (Note 22)	-	7,131	-	-	-	-	-	7,131	-	7,131
BALANCE, MARCH 31, 2017	<u>\$ 3,376,884</u>	<u>\$ 1,044,017</u>	<u>\$ 1,113,185</u>	<u>\$ 230,859</u>	<u>\$ (100,552)</u>	<u>\$ (354,677)</u>	<u>\$ 45,891</u>	<u>\$ 5,355,607</u>	<u>\$ (9,408)</u>	<u>\$ 5,346,199</u>

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

(With Deloitte & Touche review report dated May 10, 2017)

# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	<b>Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) before income tax	\$ 53,176	\$ (201,019)
Adjustments for :		
Reversal of impairment loss on trade receivables	-	(1,395)
Depreciation expense	81,059	94,647
Amortization expense	4,465	4,329
Net gain on fair value change of financial assets designated as at fair value through profit or loss	(385)	(201)
Finance costs	17,391	9,952
Interest income	(6,573)	(6,554)
Compensation costs of employee share options	7,131	-
Share of profit of associates	(10,520)	(1,656)
Gain on disposal of property, plant and equipment	(13,367)	(5,215)
Loss on disposal of intangible assets	-	395
Gain on disposal of non-current assets held for sale	(113,218)	-
Gain on disposal of investment	(2,394)	(2,230)
Gain on buy-back of bonds payable	(56)	(572)
Amortization of prepayments for lease	860	994
Net changes in operating assets and liabilities		
Trade receivables	382,199	351,453
Other receivables	(50,429)	1,563
Inventories	(30,820)	238,654
Other current assets	(21,588)	(8,070)
Trade payables	(241,098)	(345,728)
Trade payables to related parties	(5,607)	(4,663)
Other payables	(127,214)	(124,976)
Other current liabilities	(83,963)	10,162
Reserve for retirement plan	(159)	(190)
Cash (used in) generated from operating activities	(161,110)	9,680
Interest paid	(13,391)	(4,511)
Interest received	15,207	6,333
Income tax paid	(5,795)	(7,871)
Net cash (used in) generated from operating activities	<u>(165,089)</u>	<u>3,631</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of financial assets at fair value through profit or loss	184,456	50,405
Purchase of financial assets measured at cost	-	(25,000)
Proceeds from disposal of non-current assets held for sale	124,213	-
Payments for property, plant and equipment	(33,434)	(103,522)
Proceeds from disposal of property, plant and equipment	25,961	6,877
Payments for intangible assets	(3,867)	(236)

(Continued)



# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	<b>Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Decrease in refundable deposits	\$ 391	\$ 2,997
Purchase of other financial assets	-	(210,437)
Proceeds from sale of other financial assets	355,086	-
Increase in prepayments for equipment	(1,500)	(1,222)
Dividend received	<u>10,859</u>	<u>-</u>
Net cash generated from (used in) investing activities	<u>662,165</u>	<u>(280,138)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	-	506,335
Repayments of convertible bonds	(87,002)	(22,024)
Repayments of borrowings	(3,200)	(140,146)
Increase in guarantee deposits received	-	2,294
Decrease in guarantee deposits received	(21)	-
Proceeds from issuance of ordinary shares	612,000	-
Payments for transaction costs attribute to issuance of ordinary shares	<u>(1,570)</u>	<u>-</u>
Net cash generated from financing activities	<u>520,207</u>	<u>346,459</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(76,379)</u>	<u>(22,914)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	940,904	47,038
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>1,312,763</u>	<u>1,489,934</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 2,253,667</u>	<u>\$ 1,536,972</u>

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

(With Deloitte & Touche review report dated May 10, 2017)

(Concluded)

# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2017 AND 2016

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

(Reviewed, Not Audited)

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### 1. GENERAL INFORMATION

Phihong Technology Co., Ltd. (“Phihong” or “the Company”), which was formerly known as Phihong Enterprise Co., Ltd. was incorporated on December 12, 1972 under the laws of the Republic of China (ROC). Under a resolution approved in the stockholders’ meeting in June 2003, Phihong changed its name to Phihong Technology Co., Ltd. Phihong primarily manufactures and sells AC/DC power adapters, charger bases, power supply modules, UPS (uninterruptible power supply) for computers, ballasts, etc.

In February 2000, Phihong was authorized to trade its stocks on the over-the-counter (OTC) securities exchange in Taiwan. In September 2001, Phihong’s stocks ceased to be OTC traded and Phihong later obtained authorization to have its stocks listed on the Taiwan Stock Exchange.

The consolidated financial statements are presented in the Company’s functional currency, New Taiwan dollar.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on May 10, 2017.

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

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

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

- 1) Amendment to IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”

IFRS 5 was amended by the Annual Improvements to IFRSs: 2012-2014 Cycle to clarify that reclassification between non-current assets (or disposal group) “held for sale” and non-current assets “held for distribution to owners” does not constitute a change to a plan of sale or distribution. Therefore, previous accounting treatment is not reversed. The amendment also explains that assets that no longer meet the criteria for “held for distribution to owners” and do not meet the criteria for “held for sale” should be treated in the same way as assets that cease to be classified as held for sale. The amendment will be applied prospectively to transactions that occur on or after January 1, 2017.

2) Amendment to IFRS 8 “Operating Segments”

IFRS 8 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to require disclosure of the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

3) Amendments to IFRS 13 “Fair Value Measurement”

The basis for conclusions of IFRS 13 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to clarify that when the amendment becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IFRS 13 was also amended by the Annual Improvements to IFRSs: 2011-2013 Cycle to clarify that the scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

4) Amendment to IAS 36 “Impairment of Assets”

The amendment “Disclosures for Non-financial Assets” clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period.

5) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

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

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

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

The FSC announced that amendments to IFRS 4 (only the overlay approach can be applied), IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of investment property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

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

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

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

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

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

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

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

#### Impairment of financial assets

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

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

#### Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required.

#### 2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

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

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

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 and related amendment are effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

3) Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

4) Amendments to IAS 40 “Transfers of Investment Property”

The amendments clarify that the Group should transfer to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that the evidence of the change in use is not limited to those illustrated in IAS 40.

The Group may elect to apply the amendments prospectively and reclassify the property as required to reflect the conditions that exist at the date of initial application. The Group is also required to disclose the reclassified amounts and such amounts should be included in the reconciliation of the carrying amount of investment property. Alternatively, the Group may elect to apply the amendments retrospectively if, and only if, that is possible without the use of hindsight.

5) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basis of consolidation

See Note 12 for the detailed information of subsidiaries (including the percentage of ownership and main business).

c. Other significant accounting policies

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2016. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2016.

1) Retirement benefit costs

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

2) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

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

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

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

The same critical accounting judgments and key sources of estimation uncertainty of consolidated financial statements have been followed in these consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended December 31, 2016.

## 6. CASH AND CASH EQUIVALENTS

	March 31, 2017	December 31, 2016	March 31, 2016
Cash on hand	\$ 1,729	\$ 1,965	\$ 2,530
Checking accounts and demand deposits	1,558,435	1,248,121	1,489,271
Cash equivalents (investments with original maturities less than 3 months)			
Time deposits	693,503	62,677	-
Repurchase agreements collateralized by bonds	-	-	45,171
	<u>\$ 2,253,667</u>	<u>\$ 1,312,763</u>	<u>\$ 1,536,972</u>

As of March 31, 2017, December 31, 2016 and March 31, 2016, the time deposits with original maturities more than three months in the amounts of \$231,457 thousand, \$586,543 thousand and \$586,160 thousand, respectively, had been reclassified to “other financial assets-current”.

As of March 31, 2017 and December 31, 2016, bank balance in the amount of \$25,450 thousand had been pledged to secure short-term borrowings and reclassified to “other financial assets - non-current”. Please refer to Note 29.

The market rate intervals of cash in bank, time deposits and repurchase agreements collateralized by bonds at the end of the reporting period were as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Demand deposits and time deposits	0.001%-3.5%	0.001%-8.9%	0.001%-3.5%
Repurchase agreements collateralized by bonds	-	-	0.6%

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Financial assets at FVTPL - current</u>			
Non-derivatives financial instruments Mutual funds	<u>\$ 224,734</u>	<u>\$ 406,411</u>	<u>\$ 99,548</u>



## 8. FINANCIAL ASSETS MEASURED AT COST

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Non-current</u>			
Domestic unlisted common shares	<u>\$ 44,759</u>	<u>\$ 44,759</u>	<u>\$ 94,615</u>
<u>Classified according to financial assets measurement categories</u>			
Available-for-sale financial assets	<u>\$ 44,759</u>	<u>\$ 44,759</u>	<u>\$ 94,615</u>

Management believed that the above unlisted equity investments held by the Group have fair value that cannot be reliably measured because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of reporting period.

## 9. TRADE RECEIVABLES

	March 31, 2017	December 31, 2016	March 31, 2016
Trade receivables	\$ 2,283,941	\$ 2,666,243	\$ 1,915,944
Less: Allowance for doubtful accounts	<u>(2,408)</u>	<u>(2,511)</u>	<u>(3,149)</u>
	<u>\$ 2,281,533</u>	<u>\$ 2,663,732</u>	<u>\$ 1,912,795</u>

The average credit period for sales of goods was 60 to 90 days. In determining the recoverability of trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for doubtful accounts was recognized against trade receivables based on estimated irrecoverable amounts determined by reference to credit risk level of the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

March 31, 2017

	Total Receivables	Not Overdue	Overdue under 60 Days	Overdue 61 Days and Longer
Not overdue and not impaired	\$ 2,264,159	\$ 2,264,159	\$ -	\$ -
Not overdue but impaired	1,489	1,489	-	-
Overdue and not impaired	17,374	-	8,286	9,088
Overdue and impaired	<u>919</u>	<u>-</u>	<u>-</u>	<u>919</u>
	<u>\$ 2,283,941</u>	<u>\$ 2,265,648</u>	<u>\$ 8,286</u>	<u>\$ 10,007</u>

December 31, 2016

	<b>Total Receivables</b>	<b>Not Overdue</b>	<b>Overdue under 60 Days</b>	<b>Overdue 61 Days and Longer</b>
Not overdue and not impaired	\$ 2,631,066	\$ 2,631,066	\$ -	\$ -
Not overdue but impaired	1,533	1,533	-	-
Overdue and not impaired	32,666	-	24,363	8,303
Overdue and impaired	<u>978</u>	<u>-</u>	<u>-</u>	<u>978</u>
	<u>\$ 2,666,243</u>	<u>\$ 2,632,599</u>	<u>\$ 24,363</u>	<u>\$ 9,281</u>

March 31, 2016

	<b>Total Receivables</b>	<b>Not Overdue</b>	<b>Overdue under 60 Days</b>	<b>Overdue 61 Days and Longer</b>
Not overdue and not impaired	\$ 1,845,059	\$ 1,845,059	\$ -	\$ -
Not overdue but impaired	2,163	2,163	-	-
Overdue and not impaired	67,736	-	37,768	29,968
Overdue and impaired	<u>986</u>	<u>-</u>	<u>-</u>	<u>986</u>
	<u>\$ 1,915,944</u>	<u>\$ 1,847,222</u>	<u>\$ 37,768</u>	<u>\$ 30,954</u>

The above aging schedule was based on the past due days from end of credit term.

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

	<b>Individual Impairment Losses</b>	<b>Groups Impairment Losses</b>	<b>Total</b>
Balance at January 1, 2016	\$ 813	\$ 4,977	\$ 5,790
Impairment losses reversed	-	(1,395)	(1,395)
Amounts written off as uncollectible	-	(1,237)	(1,237)
Foreign exchange translation gains and losses	<u>-</u>	<u>(9)</u>	<u>(9)</u>
Balance at March 31, 2016	<u>\$ 813</u>	<u>\$ 2,336</u>	<u>\$ 3,149</u>
Balance at January 1, 2017	\$ 813	\$ 1,698	\$ 2,511
Impairment losses (reversed) recognized on receivables	(813)	813	-
Foreign exchange translation gains and losses	<u>-</u>	<u>(103)</u>	<u>(103)</u>
Balance at March 31, 2017	<u>\$ -</u>	<u>\$ 2,408</u>	<u>\$ 2,408</u>

As of March 31, 2017, December 31, 2016 and March 31, 2016, trade receivables of PHA in the amount of \$997,761 thousand, \$958,729 thousand and \$691,949 thousand, respectively, had been pledged to secure short-term borrowings. Please refer to Note 29.

## 10. INVENTORIES

	March 31, 2017	December 31, 2016	March 31, 2016
Raw materials	\$ 568,702	\$ 529,103	\$ 430,109
Work-in-process	355,783	259,978	222,068
Finished goods	256,974	321,876	272,860
Merchandise	<u>352,764</u>	<u>392,446</u>	<u>391,895</u>
	<u>\$ 1,534,223</u>	<u>\$ 1,503,403</u>	<u>\$ 1,316,932</u>

As of March 31, 2017, December 31, 2015 and March 31, 2015, allowance of inventory value decline was \$302,359 thousand, \$320,101 thousand and \$330,703 thousand, respectively.

For the three months ended March 31, 2017 and 2016, the cost of inventories recognized as cost of goods sold was \$2,453,711 thousand and \$2,357,384 thousand, respectively. Reversal of inventory devaluation and obsolescence in the amounts of \$1,546 thousand and \$3,844 thousand was included in the cost of goods sold for the three months ended March 31, 2017 and 2016, respectively. Previous write-downs were reversed as a result of increased selling prices in certain markets.

## 11. NON-CURRENT ASSETS HELD FOR SALE

	March 31, 2017	December 31, 2016	March 31, 2016
PHSY's buildings and long-term prepayments for lease	\$ _____ -	\$ <u>11,471</u>	\$ _____ -

The Company planned to dispose of all of the PHSY's buildings and long-term prepayments for lease and planned to complete the procedures for the disposal in 12 months. Therefore, the assets were reclassified to non-current assets held for sale and presented separately in the consolidated balance sheets. The proceeds of the disposal are expected to exceed the net carrying amount of the related net assets. Accordingly, no impairment was recognized in reclassifying the assets to assets held for sale.

The buildings and long-term prepayments for lease reclassified as non-current assets held for sale were as follows:

	December 31, 2016
Buildings	\$ 35,617
Less: Accumulated depreciation and impairment	<u>(28,461)</u>
	7,156
Long-term prepayments for lease	<u>4,315</u>
	<u>\$ 11,471</u>

The Company completed the procedures for the disposal on March 2016 and recognized gains on disposal of non-current assets for sale of \$113,218 thousand, which was presented under other gains and losses. Please refer to Note 23.

## 12. SUBSIDIARIES

Investor	Investee	Main Business	Percentage of Ownership			Notes
			March 31, 2017	December 31, 2016	March 31, 2016	
Pihong	Pihong International Corp. ("PHI")	Makes investments	100.00	100.00	100.00	
	Phitek International Co., Ltd. ("PHK")	Makes investments	100.00	100.00	100.00	
	Ascent Alliance Ltd. ("PHQ")	Makes investments	100.00	100.00	100.00	
	Pihong USA Corp. ("PHA")	Sells various power supplies	100.00	100.00	100.00	
	American Ballast Corp. ("PHAB")	Sells various ballasts	-	-	100.00	a
	Pihong Technology Japan Co., Ltd. ("PHJ")	Sells power components	100.00	100.00	100.00	
	Guang-Lai Investment Co., Ltd. ("Guang-Lai")	Makes investments	100.00	100.00	100.00	
Pihong International Corp.	Pihong (Dongguan) Electronics Co., Ltd.	Manufactures various power supplies	-	100.00	100.00	b
	Phitek (Tianjin) Electronics Co., Ltd.	Manufactures various power supplies	100.00	100.00	100.00	
	Pihong Electronics (Suzhou) Co., Ltd.	Manufactures various power supplies and ballasts	100.00	100.00	100.00	
	N-Lighten Technologies, Inc.	Makes investments	58.45	58.45	58.45	
Phitek International Co., Ltd.	Yanghong Trade (Shanghai) Co., Ltd.	Manufactures various lighting supplies	100.00	100.00	100.00	
	Dongguan Phitek Electronics Co., Ltd.	Manufactures various power supplies	100.00	100.00	100.00	
Ascent Alliance Ltd.	Dongguan Shuang-Ying Electronics Co., Ltd.	Manufactures and sells electronic materials	100.00	100.00	100.00	
Guang-Lai Investment Co., Ltd.	Jin-Sheng-Hong (Jiangxi) Electronics Co., Ltd.	Manufactures and sells electronic materials and transformers	100.00	100.00	100.00	
	N-Lighten Technologies Inc.	Makes investments	19.78	19.78	19.78	

a. The Company was put into liquidation in June 2016.

b. The Company was put into liquidation in March 2017.

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in associates:

	March 31, 2017	December 31, 2016	March 31, 2016
Material associates			
H&P Venture Capital Co., Ltd.	\$ 116,148	\$ 121,888	\$ 103,367
Han-Yu Venture Capital Co., Ltd.	102,050	110,797	100,603
Spring City Resort Co., Ltd.	<u>31,883</u>	<u>29,294</u>	<u>34,854</u>
	250,081	261,979	238,824
Associates that are not individually material	<u>358</u>	<u>358</u>	<u>16,151</u>
	<u>\$ 250,439</u>	<u>\$ 262,337</u>	<u>\$ 254,975</u>

At the end of the reporting period, the percentages of ownership and voting rights in associates held by the Group were as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Hao-Xuan Venture Capital Co., Ltd.	24.67%	24.67%	24.67%
H&P Venture Capital Co., Ltd.	32.26%	32.26%	32.26%
Han-Yu Venture Capital Co., Ltd.	22.22%	22.22%	22.22%
Spring City Resort Co., Ltd.	25.33%	25.33%	25.33%
Pihong PWM Brasil Ltda.	60.00%	60.00%	60.00%
First International Computer Do Brasil Ltda.	33.85%	33.85%	33.85%

Phihong's investments in Brazil included 60% ownership interest in Phihong PWM Brasil Ltda. and 33.85% ownership interest in First International Computer Do Brasil Ltda. Additionally, Phihong PWM Brasil Ltda. also holds 21.15% ownership interest in First International Computer Do Brasil Ltda. The other 40% ownership interest in Phihong PWM Brasil Ltda. is held by the local management team. According to the cooperation mode between the Group and the local management team and under Brazilian local laws, the Group has no controlling power over Phihong PWM Brasil Ltda. Because the recoverability of the investments in Phihong PWM Brasil Ltda. and First International Computer Do Brasil Ltda. is low, the Group reduced the carrying value of both investments to zero.

The equity-method investees' financial statements for the three months ended March 31, 2017 and 2016, which had been used to determine the carrying amount of the Group's investments and the share of profit and other comprehensive income of associates, had not been reviewed.

#### 14. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery and Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>						
Balance at January 1, 2016	\$ 275,658	\$ 1,760,321	\$ 2,629,389	\$ 672,648	\$ 1,804,133	\$ 7,142,149
Additions	-	10,187	22,157	12,045	43,942	88,331
Disposals	-	-	(18,708)	(10,259)	-	(28,967)
Effect of foreign currency exchange differences	(178)	(21,743)	(39,842)	(6,170)	(27,829)	(95,762)
Reclassified	-	239,164	-	6,496	(245,660)	-
Balance at March 31, 2016	<u>\$ 275,480</u>	<u>\$ 1,987,929</u>	<u>\$ 2,592,996</u>	<u>\$ 674,760</u>	<u>\$ 1,574,586</u>	<u>\$ 7,105,751</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2016	\$ -	\$ 741,940	\$ 1,815,605	\$ 462,965	\$ -	\$ 3,020,510
Disposals	-	-	(17,232)	(10,071)	-	(27,303)
Depreciation expense	-	15,480	52,170	18,405	-	86,055
Effect of foreign currency exchange differences	-	(10,330)	(26,509)	(4,610)	-	(41,449)
Balance at March 31, 2016	<u>\$ -</u>	<u>\$ 747,090</u>	<u>\$ 1,824,034</u>	<u>\$ 466,689</u>	<u>\$ -</u>	<u>\$ 3,037,813</u>
Carrying amounts at March 31, 2016	<u>\$ 275,480</u>	<u>\$ 1,240,839</u>	<u>\$ 768,962</u>	<u>\$ 208,071</u>	<u>\$ 1,574,586</u>	<u>\$ 4,067,938</u>
<u>Cost</u>						
Balance at January 1, 2017	\$ 265,069	\$ 2,191,234	\$ 2,403,438	\$ 643,424	\$ 1,210,132	\$ 6,713,297
Additions	-	-	6,677	5,896	-	12,573
Disposals	(12,384)	-	(3,554)	(2,426)	-	(18,364)
Effect of foreign currency exchange differences	(3,383)	(83,091)	(108,603)	(15,890)	(64,025)	(274,992)
Reclassified	-	-	4,119	-	(2,542)	1,577
Balance at March 31, 2017	<u>\$ 249,302</u>	<u>\$ 2,108,143</u>	<u>\$ 2,302,077</u>	<u>\$ 631,004</u>	<u>\$ 1,143,565</u>	<u>\$ 6,434,091</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2017	\$ -	\$ 734,339	\$ 1,794,482	\$ 455,744	\$ -	\$ 2,984,565
Disposals	-	-	(3,349)	(2,421)	-	(5,770)
Depreciation expense	-	18,950	37,463	16,940	-	73,353
Effect of foreign currency exchange differences	-	(30,846)	(78,050)	(12,535)	-	(121,431)
Balance at March 31, 2017	<u>\$ -</u>	<u>\$ 722,443</u>	<u>\$ 1,750,546</u>	<u>\$ 457,728</u>	<u>\$ -</u>	<u>\$ 2,930,717</u>
Carrying amounts at December 31, 2016 and January 1, 2017	<u>\$ 265,069</u>	<u>\$ 1,456,895</u>	<u>\$ 608,956</u>	<u>\$ 187,680</u>	<u>\$ 1,210,132</u>	<u>\$ 3,728,732</u>
Carrying amounts at March 31, 2017	<u>\$ 249,302</u>	<u>\$ 1,385,700</u>	<u>\$ 551,531</u>	<u>\$ 173,276</u>	<u>\$ 1,143,565</u>	<u>\$ 3,503,374</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over the following estimated useful life:

Buildings	
Main building	50 years
Engineering system	10 years
Machinery and equipment	3-10 years
Other equipment	3-5 years

Please refer to Note 29 for the carrying amount of property, plant and equipment that had been pledged by the Group to secure long-term borrowings.

## 15. INVESTMENT PROPERTIES

<b>Investment Properties Measured at Cost</b>	<b>Total</b>
<u>Cost</u>	
Balance at January 1, 2016	\$ 1,047,669
Effect of foreign currency exchange differences	<u>(18,112)</u>
Balance at March 31, 2016	<u>\$ 1,029,557</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2016	\$ 379,491
Depreciation expense	8,592
Effect of foreign currency exchange differences	<u>(6,686)</u>
Balance at March 31, 2016	<u>\$ 381,397</u>
Carrying amount at March 31, 2016	<u>\$ 648,160</u>
<u>Cost</u>	
Balance at January 1, 2017	\$ 961,026
Effect of foreign currency exchange differences	<u>(50,834)</u>
Balance at March 31, 2017	<u>\$ 910,192</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2017	\$ 379,719
Depreciation expense	7,706
Effect of foreign currency exchange differences	<u>(20,306)</u>
Balance at March 31, 2017	<u>\$ 367,119</u>
Carrying amount at December 31, 2016 and January 1, 2017	<u>\$ 581,307</u>
Carrying amount at March 31, 2017	<u>\$ 543,073</u>

The investment properties are depreciated using the straight-line method over their estimated useful life as follows:

Main buildings	30 years
Others	10 years

The determination of fair value was performed by the management of the Group by using the valuation model that market participants would use in determining the fair value, and the fair value was measured by using Level 3 inputs. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The valuation result was as follows:

	<b>March 31, 2017</b>
Fair value	<u>\$ 804,665</u>

## 16. INTANGIBLE ASSETS

	<b>Computer Software</b>
<u>Cost</u>	
Balance at January 1, 2016	\$ 109,993
Additions	236
Disposals	(1,087)
Effect of foreign currency exchange differences	<u>(607)</u>
Balance at March 31, 2016	<u>\$ 108,535</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2016	\$ 69,455
Amortization expense	4,329
Disposals	(692)
Effect of foreign currency exchange differences	<u>(380)</u>
Balance at March 31, 2016	<u>\$ 72,712</u>
Carrying amount at March 31, 2016	<u>\$ 35,823</u>
<u>Cost</u>	
Balance at January 1, 2017	\$ 111,363
Additions	3,867
Disposals	(36)
Effect of foreign currency exchange differences	<u>(1,665)</u>
Balance at March 31, 2017	<u>\$ 113,529</u>

(Continued)

	<b>Computer Software</b>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2017	\$ 79,197
Amortization expense	4,465
Disposals	(36)
Effect of foreign currency exchange differences	<u>(1,185)</u>
Balance at March 31, 2017	<u>\$ 82,441</u>
Carrying amount at December 31, 2016 and January 1, 2017	<u>\$ 32,166</u>
Carrying amount at March 31, 2017	<u>\$ 31,088</u>

(Concluded)

The above items of intangible assets are amortized on a straight-line basis over estimated useful life of 2 to 5 years.

#### 17. PREPAYMENTS FOR LEASE

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Current	\$ 3,343	\$ 3,530	\$ 3,918
Noncurrent	<u>125,363</u>	<u>133,247</u>	<u>150,140</u>
	<u>\$ 128,706</u>	<u>\$ 136,777</u>	<u>\$ 154,058</u>

Prepayments for lease are prepaid land use rights for land located in mainland China.

#### 18. BORROWINGS

##### Short-term borrowings

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
<u>Bank borrowings</u>			
Secured loan	\$ 90,915	\$ 96,840	\$ 96,795
Unsecured loan	<u>-</u>	<u>-</u>	<u>508,120</u>
	<u>\$ 90,915</u>	<u>\$ 96,840</u>	<u>\$ 604,915</u>
Interest rate	3.375%	3.125%	1.21%-2.75%



## Long-term borrowings

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Unsecured loan</u>			
Medium-term loan			
Repayable from August 4, 2015 to May 15, 2017; interest rate was 1.1279% on March 31, 2016. Interest is paid monthly and principal is due on May 15, 2017. Principal was fully repaid in April 2016.	\$ -	\$ -	\$ 100,000
Repayable from December 23, 2015 to December 23, 2018; interest rate was 3.8101% on March 31, 2016. Principal was fully repaid in December 2016.	-	-	38,718
Repayable from February 26, 2016 to December 29, 2017; interest rate was 1.50% on March 31, 2016. Interest is paid monthly and principal is due on December 29, 2017. Principal was fully repaid in April 2016.	-	-	200,000
Repayable from February 23, 2016 to June 2, 2017; interest rate was 1.1279% on March 31, 2016. Interest is paid monthly and principal is due on June 2, 2017. Principal was fully repaid in April 2016.	-	-	50,000
Repayable from March 7, 2016 to March 7, 2019; interest rate was 1.35% on March 31, 2016. Interest is paid monthly and principal is due on March 7, 2019. Principal was fully repaid in April 2016.	-	-	250,000
Repayable from July 19, 2016 to July 19, 2019; interest rates were 4.14639% and 3.89456% on March 31, 2017 and December 31, 2016, respectively. Principal was repaid quarterly beginning October 19, 2016.	<u>30,305</u>	<u>35,508</u>	<u>-</u>
	30,305	35,508	638,718
Less: Long-term loans payable - current portion	<u>(12,122)</u>	<u>(12,912)</u>	<u>(14,080)</u>
	<u>\$ 18,183</u>	<u>\$ 22,596</u>	<u>\$ 624,638</u>

For information on pledged properties and endorsements/guarantees, please refer to Notes 28 and 29.

## 19. BONDS PAYABLE

	March 31, 2017	December 31, 2016	March 31, 2016
Unsecured domestic convertible bonds	\$ 1,081,673	\$ 1,163,926	\$ 1,249,201
Secured domestic bonds	998,094	997,977	-
Less: Current portion	<u>(1,081,673)</u>	<u>(1,163,926)</u>	<u>-</u>
	<u>\$ 998,094</u>	<u>\$ 997,977</u>	<u>\$ 1,249,201</u>

## Unsecured Domestic Convertible Bonds

On June 4, 2014, the Company issued 15 thousand units of \$100 thousand 0% NTD unsecured convertible bonds in Taiwan, with an aggregate principal of \$1,500,000 thousand, and proceeds from the issue was \$1,503,000 thousand.

The holder is entitled to convert each bond into ordinary shares of the Company at a conversion price of \$20.4 per share. If the Company changes its capital or pays cash dividends, the conversion price will be adjusted by the formula set up in the prospectus. After March 6, 2017, the conversion price has been adjusted to \$18.6 per share. Conversion may occur at any time between July 5, 2014 and May 25, 2017. If the bonds are not converted, they will be redeemed on June 4, 2017 at \$100 thousand each.

The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus. The effective interest rate of the liability component was 1.70% per annum on initial recognition.

Proceeds from issue (less transaction costs \$5,669 thousand)	\$ 1,497,331
Equity component (less transaction costs allocated to the equity component of \$272 thousand)	<u>(71,878)</u>
Liability component at the date of issue	1,425,453
Interest charged at an effective interest rate of 1.70%	13,944
Conversion to common shares	<u>(10,208)</u>
Liability component at December 31, 2014	<u>\$ 1,429,189</u>
Liability component at January 1, 2016	\$ 1,266,468
Interest charged at an effective interest rate of 1.70%	5,329
Redemption of bonds payable	<u>(22,596)</u>
Liability component at March 31, 2016	<u>\$ 1,249,201</u>
Liability component at January 1, 2017	\$ 1,163,926
Interest charged at an effective interest rate of 1.70%	4,805
Redemption of bonds payable	<u>(87,058)</u>
Liability component at March 31, 2017	<u>\$ 1,081,673</u>

The Company bought back unsecured convertible bonds from open market, and recognized gain on buy-back of bonds payable of \$56 thousand and \$572 thousand for the three months ended March 31, 2017 and 2016, respectively, which were presented under other gains and losses, and reclassified \$4,188 thousand and \$1,107 thousand “capital surplus - convertible bonds” to “capital surplus - treasury share transactions”, respectively; please refer to Notes 22 and 23.

## Secured Domestic Bonds

On April 1, 2016, the Company issued 100 units of \$10,000 thousand 0.95% secured bonds in Taiwan, with an aggregate principal of \$1,000,000 thousand.

For information on pledged properties and endorsements/guarantees, please refer to Notes 28 and 29.

## 20. OTHER PAYABLES

	March 31, 2017	December 31, 2016	March 31, 2016
Payable for purchase of equipment	\$ 13,843	\$ 34,704	\$ 18,741
Payable for salaries and bonus	185,479	262,378	186,152
Payable for annual leave	33,097	41,971	32,168
Others	<u>478,040</u>	<u>519,515</u>	<u>475,274</u>
	<u>\$ 710,459</u>	<u>\$ 858,568</u>	<u>\$ 712,335</u>

## 21. RETIREMENT BENEFIT PLANS

For the three months ended March 31, 2017 and 2016, employee benefit expenses in respect of the Group's defined benefit retirement plans were \$383 thousand and \$410 thousand, respectively, and were calculated using the actuarially determined pension cost discount rate as of December 31, 2016 and 2015.

## 22. EQUITY

### Share Capital

	March 31, 2017	December 31, 2016	March 31, 2016
Number of shares authorized (in thousands)	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>
Shares authorized	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>337,688</u>	<u>277,688</u>	<u>277,688</u>
Shares issued	<u>\$ 3,376,884</u>	<u>\$ 2,776,884</u>	<u>\$ 2,776,884</u>

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

On November 10, 2016, Phihong's board of directors resolved to issue 60,000 thousand ordinary shares, with a par value of NT\$10 each. On January 6, 2017, Phihong's board of directors resolved to issue 60,000 thousand ordinary shares for consideration of NT\$10.2 per share, and increased the issued and fully paid share capital to \$3,376,884 thousand. The Company used Black-Scholes model to evaluate compensation costs of the options granted to employees on January 6, 2017 and increased capital surplus by \$7,131 thousand. The January 6, 2017 issue of ordinary shares was approved by the FSC on December 15, 2016, and the board of directors had set the subscription base date at January 21, 2017.

## Capital Surplus

	March 31, 2017	December 31, 2016	March 31, 2016
<u>May be used to offset a deficit, distributed as cash dividends or transferred to share capital</u>			
Issuance of common shares	\$ 244,117	\$ 226,556	\$ 226,556
Conversion of bonds	667,058	667,058	667,058
Treasury share transactions	48,234	48,234	48,234
Interest payable on bond conversion	13,243	13,243	13,243
<u>May be used to offset a deficit only</u>			
Treasury share transactions	19,378	15,190	10,298
<u>May not be used for any purpose</u>			
Equity component of convertible bonds	<u>51,987</u>	<u>56,175</u>	<u>61,067</u>
	<u>\$ 1,044,017</u>	<u>\$ 1,026,456</u>	<u>\$ 1,026,456</u>

The capital surplus arising from shares issued in excess of par (including share premium from issuance of common shares, conversion of bonds and treasury share transactions) and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

## Retained Earnings and Dividend Policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 8, 2016 and, in that meeting, resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve of 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonus to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, please refer to d. employee benefits expenses in Note 23.

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

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

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

### Special Reserves

On the first-time adoption of IFRSs, the Company transferred to retained earnings unrealized revaluation increment and cumulative translation differences in the amounts of \$10,968 thousand and \$250,296 thousand, respectively. The increase in retained earnings that resulted from all IFRSs adjustments was smaller than the total revaluation and translation differences; therefore, the Company appropriated to the special reserve the amount of \$230,859 thousand, the increase in retained earnings that resulted from all IFRSs adjustments on transitions to IFRSs.

### Other Equity Items

- a. Foreign currency translation reserve

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Balance at January 1	\$ (91,443)	\$ 294,758
Exchange differences arising on translating foreign operations	<u>(263,234)</u>	<u>(91,516)</u>
Balance at December 31	<u>\$ (354,677)</u>	<u>\$ 203,242</u>

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

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Balance at January 1	\$ 57,450	\$ 47,351
Share of unrealized gain on revaluation of available-for-sale financial assets of associates accounted for using the equity method	<u>(11,559)</u>	<u>(25,184)</u>
Balance at December 31	<u>\$ 45,891</u>	<u>\$ 22,167</u>

### Non-controlling Interest

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Balance at January 1	\$ (10,016)	\$ (10,168)
Attributable to non-controlling interests:		
Share of loss for the period	(4)	(5)
Exchange difference arising on translation of foreign entities	<u>612</u>	<u>184</u>
Balance at December 31	<u>\$ (9,408)</u>	<u>\$ (9,989)</u>

## 23. NET PROFIT FROM CONTINUING OPERATIONS

### a. Other income

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Interest income	\$ 6,573	\$ 6,554
Others	<u>39,821</u>	<u>24,018</u>
	<u>\$ 46,394</u>	<u>\$ 30,572</u>

### b. Other gains and losses

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Exchange loss, net	\$ (84,219)	\$ (16,327)
Gain on disposal of property, plant and equipment	13,367	5,215
Gain on disposal of non - current assets held for sale	113,218	-
Loss on disposal of intangible assets	-	(395)
Net gain on fair value of financial assets designated as at fair value through profit or loss	385	201
Gain on buy-back of bonds payable	56	572
Gain on disposal of investment	2,394	2,230
Others	<u>(8,673)</u>	<u>(9,301)</u>
	<u>\$ 36,528</u>	<u>\$ (17,805)</u>

### c. Depreciation and amortization

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Property, plant and equipment	\$ 73,353	\$ 86,055
Investment properties	7,706	8,592
Computer software	<u>4,465</u>	<u>4,329</u>
	<u>\$ 85,524</u>	<u>\$ 98,976</u>
An analysis of depreciation by function		
Operating costs	\$ 36,502	\$ 51,579
Operating expenses	36,851	34,476
Non-operating expenses	<u>7,706</u>	<u>8,592</u>
	<u>\$ 81,059</u>	<u>\$ 94,647</u>
An analysis of amortization by function		
Operating costs	\$ 603	\$ 662
Operating expenses	<u>3,862</u>	<u>3,667</u>
	<u>\$ 4,465</u>	<u>\$ 4,329</u>

d. Employee benefits expense

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term employee benefits	\$ 505,708	\$ 552,039
Post-employment benefits (Note 21)		
Defined contribution plans	4,984	5,337
Defined benefit plans	<u>383</u>	<u>410</u>
	<u>\$ 511,075</u>	<u>\$ 557,786</u>
 An analysis of employee benefits expense by function		
Operating costs	\$ 292,173	\$ 335,197
Operating expenses	<u>218,902</u>	<u>222,589</u>
	<u>\$ 511,075</u>	<u>\$ 557,786</u>

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting in June 2016, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates no less than 10% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. For the three months ended March 31, 2017 and 2016, because of accumulated deficits, the Company did not estimate the bonus to employees and the remuneration to directors and supervisors.

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

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

## 24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Current tax		
In respect of the current period	\$ (27,250)	\$ (2,396)
In respect of prior periods	<u>-</u>	<u>-</u>
	(27,250)	(2,396)
Deferred tax		
In respect of the current period	<u>2,310</u>	<u>4,770</u>
Total income tax benefit (expense) recognized in the current period	<u>\$ (24,940)</u>	<u>\$ 2,374</u>

b. Integrated income tax

	March 31, 2017	December 31, 2016	March 31, 2016
Unappropriated deficit			
Generated before January 1, 1998	\$ -	\$ -	\$ -
Generated on and after January 1, 1998	<u>(102,122)</u>	<u>(128,792)</u>	<u>(21,475)</u>
	<u>\$ (102,122)</u>	<u>\$ (128,792)</u>	<u>\$ (21,475)</u>
Shareholder - imputed credits account	<u>\$ 208,423</u>	<u>\$ 205,956</u>	<u>\$ 189,835</u>
		<b>For the Year Ended December 31</b>	<b>2016 (Expected) 2015 (Actual)</b>
Creditable ratio for distribution of earnings		-	-

c. Income tax assessments

The Company's tax returns through 2013 have been assessed by the tax authorities.

**25. EARNINGS (LOSS) PER SHARE**

	For the Three Months Ended March 31	
	2017	2016
Basic earnings per share	<u>\$ 0.10</u>	<u>\$ (0.72)</u>
Diluted earnings per share	<u>\$ 0.09</u>	
<b>Net Profit for the Period</b>		
	For the Three Months Ended March 31	
	2017	2016
Earnings (Loss) used in the computation of basic earnings per share	\$ 28,240	<u>\$ (198,640)</u>
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	<u>4,805</u>	
Earnings used in the computation of diluted earnings per share	<u>\$ 33,045</u>	



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

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Weighted average number of ordinary shares in computation of basic earnings per share	292,355	<u>277,688</u>
Effect of potentially dilutive ordinary shares:		
Convertible bonds	<u>63,027</u>	
Weighted average number of ordinary shares used in the computation of diluted earnings per share		<u><u>355,382</u></u>

## 26. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged.

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

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

## 27. FINANCIAL INSTRUMENTS

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

- Fair value hierarchy

March 31, 2017

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL	\$ <u>224,734</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>224,734</u>

December 31, 2016

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL	\$ <u>406,411</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>406,411</u>

March 31, 2016

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL	\$ <u>99,548</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>99,548</u>

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

b. Categories of financial instruments

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 224,734	\$ 406,411	\$ 99,548
Loans and receivables (1)	4,946,177	4,701,153	4,125,192
Available-for-sale financial assets (2)	44,759	44,759	94,615

Financial liabilities

Amortized cost (3)	5,704,050	6,192,149	5,328,180
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- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, trade receivables, other receivables, other financial assets and refundable deposits.
- 2) The balances included the carrying amount of available-for-sale financial assets measured at cost.
- 3) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, trade payables, trade payables to related parties, other payables, bonds payable, long-term borrowings and guarantee deposits received.

c. Financial risk management objectives and policies

The Group's major financial instruments included cash and cash equivalents, trade receivables, other receivables, other financial assets, short-term borrowings, trade payable, trade payable - related parties, other payables, short-term borrowings, long-term borrowings and bonds payable. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

1) Market risk

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

a) Foreign currency risk

Several subsidiaries of the Company had foreign currency sales and purchases, which exposed the Group to foreign currency risk. The Group believed that its foreign currency assets and liabilities were not significantly exposed to foreign currency risk; thus, after assessing its balance of foreign currency assets and liabilities, it did not hedge the risk and did not adopt hedge accounting.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 31.

### Sensitivity analysis

The Group was mainly exposed to the currency USD and currency CNY.

The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity analysis is for a 1% change in foreign currency rates and included only outstanding foreign currency denominated monetary items at the end of the reporting period. A positive number below indicates a decrease in pre-tax profit and other equity items when New Taiwan dollars strengthen by 1% against the relevant currency. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity items and the balances below would be negative.

	<b>Currency USD Impact</b>	
	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2017</b>	<b>2016</b>
Profit or loss	\$ 2,329	\$ 2,290

  

	<b>Currency CNY Impact</b>	
	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2017</b>	<b>2016</b>
Profit or loss	\$ 6,076	\$ 6,228

#### b) Interest rate risk

The Group was exposed to fair value interest rate risk and cash flow interest rate risk from short-term borrowings and long-term borrowings at both fixed and floating interest rates.

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

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Cash flow interest rate risk			
Financial liabilities	\$ 121,220	\$ 132,348	\$ 1,243,633

#### 2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk approximates the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. 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 risk management committee annually.

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of customers in view of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

### 3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of March 31, 2017, December 31, 2016 and March 31, 2016, the Group had available unutilized short-term bank loan facilities set out in (b) below.

#### a) Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods:

##### March 31, 2017

	<b>On Demand or Less than 1 Year</b>	<b>1 to 3 Years</b>	<b>Over 3 Years</b>	<b>Total</b>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 4,577,696	\$ -	\$ -	\$ 4,577,696
Variable interest rate instrument	103,037	18,183	-	121,220
Fixed interest rate instrument	-	-	998,094	998,094
	<u>\$ 4,680,733</u>	<u>\$ 18,183</u>	<u>\$ 998,094</u>	<u>\$ 5,697,010</u>

##### December 31, 2016

	<b>On Demand or Less than 1 Year</b>	<b>1 to 3 Years</b>	<b>Over 3 Years</b>	<b>Total</b>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 5,054,763	\$ -	\$ -	\$ 5,054,763
Variable interest rate instrument	109,752	22,596	-	132,348
Fixed interest rate instrument	-	-	997,977	997,977
	<u>\$ 5,164,515</u>	<u>\$ 22,596</u>	<u>\$ 997,977</u>	<u>\$ 6,185,088</u>

March 31, 2016

	<b>On Demand or Less than 1 Year</b>	<b>1 to 3 Years</b>	<b>Over 3 Years</b>	<b>Total</b>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 2,829,005	\$ 1,249,201	\$ -	\$ 4,078,206
Variable interest rate instrument	604,915	638,718	-	1,243,633
Fixed interest rate instrument	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,433,920</u>	<u>\$ 1,887,919</u>	<u>\$ -</u>	<u>\$ 5,321,839</u>

b) Financing facilities

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Unused bank financing facilities	<u>\$ 1,942,398</u>	<u>\$ 1,961,160</u>	<u>\$ 1,934,970</u>

## 28. RELATED-PARTY TRANSACTIONS

a. The Group's related parties and relationship

<u>Related Party</u>	<u>Relationship with the Group</u>
Heng Hui Co., Ltd.	Other related parties
Dongguan Song Xiang Metal Products Co., Ltd.	Other related parties
Hua Jung Co., Ltd.	Other related parties
Peter Lin	Phihong's chairman

Details of transactions between the Group and other related parties were disclosed below:

b. Trading transactions

	<b>For the Three Months Ended March 31</b>	
	<u>2017</u>	<u>2016</u>
<u>Purchase of goods</u>		
Other related parties	<u>\$ 32,769</u>	<u>\$ 26,456</u>

The prices of the finished goods purchased by the Group are negotiated in consideration of the product type, cost and market price, etc.

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
<u>Payable to related parties</u>			
Other related parties	<u>\$ 66,276</u>	<u>\$ 71,883</u>	<u>\$ 56,569</u>

c. Compensation of key management personnel

The types and amounts of the remuneration of directors and other members of key management personnel were as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term benefits	\$ 6,941	\$ 9,327
Post-employment benefits	<u>135</u>	<u>108</u>
	<u>\$ 7,076</u>	<u>\$ 9,435</u>

The remuneration of directors and key executives is determined by the remuneration committee based on the performance of individuals and market trends.

d. Other transactions with related parties

The company's chairman has guaranteed the payments of the loans of the Group. As of March 31, 2017 and, December 31, 2016 and March 31, 2016, the amounts of the guarantees were \$1,028,399 thousand, \$1,033,485 thousand and 528,864 thousand, respectively.

## 29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Pledge deposits	\$ 25,450	\$ 25,450	\$ -
Freehold land	185,202	197,586	197,586
Buildings	325,669	327,798	354,319
Trade receivable	<u>997,761</u>	<u>958,729</u>	<u>691,949</u>
	<u>\$ 1,534,082</u>	<u>\$ 1,509,563</u>	<u>\$ 1,223,854</u>

## 30. CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The Group's unrecognized commitments were as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Acquisition of property, plant and equipment	<u>\$ -</u>	<u>\$ 33,350</u>	<u>\$ 77,590</u>

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

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

March 31, 2017

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 52,678	30.30500	\$ 1,596,407
JPY	14,238	0.27273	3,883
HKD	4,052	3.90060	15,804
CNY	138,111	4.39911	607,567

Financial liabilities

Monetary items			
USD	44,994	30.30500	1,363,556
JPY	8,522	0.27273	2,324
HKD	5,452	3.90060	21,267

December 31, 2016

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 45,587	32.28000	\$ 1,471,550
JPY	12,374	0.27619	3,417
HKD	4,122	4.16096	17,152
CNY	134,623	4.64480	625,296

Financial liabilities

Monetary items			
USD	43,791	32.28000	1,413,579
JPY	6,108	0.27619	1,687
HKD	5,361	4.16096	22,306

March 31, 2016

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 47,870	32.265	\$ 1,544,522
JPY	15,957	0.28674	4,576
HKD	4,785	4.16005	19,906
CNY	125,153	4.97602	622,765
<u>Financial liabilities</u>			
Monetary items			
USD	40,772	32.265	1,315,514
JPY	3,904	0.28674	1,120
HKD	5,058	4.16005	21,040

### 32. SEGMENT INFORMATION

The Group's power supply products segment is the only one reportable segment. The power supply products segment mainly engages in the manufacturing and selling of AC/DC power adapters, charger bases, and power supply modules for computers. The Group's other operating segments did not exceed the quantitative threshold so they are not disclosed as reportable segments. These segments mainly engage in manufacturing and selling of lighting supply and developing, manufacturing and selling monitors.

The Group adopted operating profits as the measurement threshold. There was no material inconsistency between the accounting policies of the operating segment and the accounting policies described in Note 4.

#### a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segment.

	<b>Power Supply</b>	<b>Others</b>	<b>Total</b>
<u>For the three months ended March 31, 2017</u>			
Revenue from external customers	<u>\$ 2,768,598</u>	<u>\$ 62,233</u>	<u>\$ 2,830,831</u>
Segment losses	<u>\$ (18,784)</u>	<u>\$ (4,091)</u>	\$ (22,875)
Other income			46,394
Other gain and losses			36,528
Financial cost			(17,391)
Investment income recognized under equity method, net			<u>10,520</u>
Income before income tax			<u>\$ 53,176</u>

(Continued)



	<b>Power Supply</b>	<b>Others</b>	<b>Total</b>
<u>For the three months ended March 31, 2016</u>			
Revenue from external customers	\$ <u>2,414,366</u>	\$ <u>165,763</u>	\$ <u>2,580,129</u>
Segment losses	\$ <u>(195,229)</u>	\$ <u>(10,261)</u>	\$ (205,490)
Other income			30,572
Other gain and losses			(17,805)
Financial cost			(9,952)
Investment income recognized under equity method, net			<u>1,656</u>
Loss before income tax			\$ <u>(201,019)</u> (Concluded)

b. Segment assets and liabilities

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2017</b>
Power supply segment assets	\$ 10,875,471	\$ 11,039,114	\$ 10,260,235
Other assets	<u>548,456</u>	<u>563,963</u>	<u>737,190</u>
Total assets	<u>\$ 11,423,927</u>	<u>\$ 11,603,077</u>	<u>\$ 10,997,425</u>
Power supply segment liabilities	\$ 5,968,918	\$ 6,487,952	\$ 5,481,524
Other liabilities	<u>108,810</u>	<u>140,542</u>	<u>174,572</u>
Total liabilities	<u>\$ 6,077,728</u>	<u>\$ 6,628,494</u>	<u>\$ 5,656,096</u>