

Phihong Technology Co., Ltd.

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

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Phihong Technology Co., Ltd. (the Company), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 Financial Statements section of our report. We are independent of the Company 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 financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the 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 Company's parent company only financial statements for the year ended December 31, 2016 are stated as follows:

Impairment of Investments Accounted for Using Equity Method

Description of the key audit matter:

As of December 31, 2016, the carrying value of investments accounted for using equity method was \$5,179,775 thousand, representing 56% of total assets. At the end of each reporting period, the Company reviews the carrying amount of the investments to determine whether there is any indication that the assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Assessment of recoverable amount is subject to a number of assumptions and estimations; thus, it is defined as a key audit matter. Please refer to Notes 4 and 10 for related disclosures.

Our audit procedures in respect of the key audit matter:

We carried out compliance tests to understand the Company's process for impairment assessment and the design and implementation of its controls over the process. Moreover, we performed audit procedures as follows:

1. We obtained the Company's valuation report of assets impairment.
2. We evaluated the rationality of management judgements on the existence of the indication of impairment and the assumptions of the assessment.

Recognition of Revenue from Sales of Power Supply Products

Description of the key audit matter:

The Company's revenues are mainly contributed from sales of power supply products. For the year ended December 31, 2016, the revenues from sales of power supply products was \$7,755,030 thousand, representing 95% of total revenues. Since the Company sold power supply products to clients in China, Americas and Europe, the complexity is increased in determining the timing of the transfer of the risks and rewards of ownership of the power supply products to the clients and whether the revenues are recorded appropriately. Due to the complexity, the recognition of revenue from sales of power supply products is defined as a key audit matter. Please refer to Note 4 for related disclosures.

Our audit procedures in respect of the key audit matter:

We carried out compliance tests to understand the Company's process for recognition of revenue from sales of power supply products and the design and implementation of its controls over the process. Moreover, we performed audit procedures as follows:

1. We performed substantive analytical procedures on the revenue from sales of power supply products.
2. We tested sample transactions of revenue from sales of power supply products to determine whether the timing of transfer of the risks and rewards of ownership of the power supply products matched the timing of revenue recognition.

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

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

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

Those charged with governance, including the supervisors, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements.

As part of an audit in accordance with 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partners on the audit resulting in this independent auditors' report are Yi-Min Huang and Ker-Chang Wu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 16, 2017

Notice to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. 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 financial statements shall prevail.

PHIHONG TECHNOLOGY CO., LTD.

BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 621,575	7	\$ 1,015,683	10
Trade receivables (Notes 4 and 8)	827,648	9	940,690	10
Trade receivables from related parties (Notes 4, 8 and 23)	437,493	5	100,498	1
Other receivables	75,945	1	49,065	-
Other receivables from related parties (Note 23)	575,831	6	418,908	4
Inventories (Notes 4 and 9)	14,794	-	246,445	3
Other financial assets - current (Note 6)	583,292	6	375,723	4
Other current assets	14,424	-	19,173	-
Total current assets	<u>3,151,002</u>	<u>34</u>	<u>3,166,185</u>	<u>32</u>
NON-CURRENT ASSETS				
Financial assets measured at cost - non-current (Notes 4 and 7)	29,359	-	54,215	1
Investments accounted for using equity method (Notes 4 and 10)	5,179,775	56	5,633,581	58
Property, plant and equipment (Notes 4 and 11)	810,743	9	838,659	9
Intangible assets (Notes 4 and 12)	22,910	-	25,143	-
Deferred tax assets (Notes 4 and 19)	50,700	1	45,976	-
Other financial assets - non-current (Notes 6 and 24)	25,450	-	-	-
Other non-current assets	10,907	-	17,929	-
Total non-current assets	<u>6,129,844</u>	<u>66</u>	<u>6,615,503</u>	<u>68</u>
TOTAL	<u>\$ 9,280,846</u>	<u>100</u>	<u>\$ 9,781,688</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade payables	\$ 16,730	-	\$ 26,256	-
Trade payables to related parties (Note 23)	33,863	-	179,028	2
Other payables (Notes 15 and 23)	1,777,173	19	1,662,885	17
Current tax liabilities (Notes 4 and 19)	45,596	1	48,209	-
Current portion of long-term borrowings (Notes 13 and 14)	1,163,926	13	50,000	1
Other current liabilities	93,197	1	69,336	1
Total current liabilities	<u>3,130,485</u>	<u>34</u>	<u>2,035,714</u>	<u>21</u>
NON-CURRENT LIABILITIES				
Bonds payable (Note 14)	997,977	10	1,266,468	13
Long-term borrowings (Note 13)	-	-	650,000	6
Deferred tax liabilities (Notes 4 and 19)	79,832	1	79,832	1
Accrued pension liabilities (Notes 4 and 16)	87,953	1	83,016	1
Total non-current liabilities	<u>1,165,762</u>	<u>12</u>	<u>2,079,316</u>	<u>21</u>
Total liabilities	<u>4,296,247</u>	<u>46</u>	<u>4,115,030</u>	<u>42</u>
EQUITY (Notes 4 and 17)				
Common stock	2,776,884	30	2,776,884	28
Capital surplus	1,026,456	11	1,026,456	10
Retained earnings				
Legal reserve	1,113,185	12	1,113,185	12
Special reserve	230,859	2	230,859	2
Unappropriated earnings (accumulated deficits)	(128,792)	(1)	177,165	2
Total retained earnings	<u>1,215,252</u>	<u>13</u>	<u>1,521,209</u>	<u>16</u>
Other equity				
Exchange differences on translating foreign operations	(91,443)	(1)	294,758	3
Unrealized gain on available-for-sale financial assets	57,450	1	47,351	1
Total other equity	<u>(33,993)</u>	<u>-</u>	<u>342,109</u>	<u>4</u>
Total equity	<u>4,984,599</u>	<u>54</u>	<u>5,666,658</u>	<u>58</u>
TOTAL	<u>\$ 9,280,846</u>	<u>100</u>	<u>\$ 9,781,688</u>	<u>100</u>

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

PHIHONG TECHNOLOGY CO., LTD.

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

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 23)	\$ 8,146,544	100	\$ 9,052,657	100
OPERATING COSTS (Notes 4, 9 and 23)	<u>7,143,262</u>	<u>88</u>	<u>8,187,802</u>	<u>90</u>
GROSS PROFIT	1,003,282	12	864,855	10
(UNREALIZED) REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4)	<u>(28,042)</u>	<u>-</u>	<u>6,426</u>	<u>-</u>
GROSS PROFIT AND REALIZED GAIN FROM SUBSIDIARIES AND ASSOCIATES	<u>975,240</u>	<u>12</u>	<u>871,281</u>	<u>10</u>
OPERATING EXPENSES				
Sales and marketing expenses	272,743	3	219,697	2
General and administration expenses	173,818	2	167,974	2
Research and development expenses	<u>447,486</u>	<u>6</u>	<u>435,724</u>	<u>5</u>
Total operating expenses	<u>894,047</u>	<u>11</u>	<u>823,395</u>	<u>9</u>
INCOME FROM OPERATIONS	<u>81,193</u>	<u>1</u>	<u>47,886</u>	<u>1</u>
NONOPERATING INCOME (EXPENSES)				
Other income (Note 18)	69,733	1	176,035	2
Other gains and losses (Notes 7, 14 and 18)	(51,547)	(1)	11,737	-
Finance costs	(29,208)	-	(30,207)	-
Share of the profit of subsidiaries and associates (Notes 4 and 10)	<u>(362,240)</u>	<u>(5)</u>	<u>(694,717)</u>	<u>(8)</u>
Total nonoperating expenses	<u>(373,262)</u>	<u>(5)</u>	<u>(537,152)</u>	<u>(6)</u>
LOSS BEFORE INCOME TAX	(292,069)	(4)	(489,266)	(5)
INCOME TAX EXPENSE (Notes 4 and 19)	<u>(9,230)</u>	<u>-</u>	<u>(19,300)</u>	<u>-</u>
NET LOSS FOR THE YEAR	<u>(301,299)</u>	<u>(4)</u>	<u>(508,566)</u>	<u>(5)</u>

(Continued)

PHIHONG TECHNOLOGY CO., LTD.

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

	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 16)	\$ (5,612)	-	\$ (7,092)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 19)	954	-	1,206	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 17)	(386,201)	(4)	(51,212)	(1)
Share of the other comprehensive income of associates accounted for using the equity method (Note 17)	<u>10,099</u>	<u>-</u>	<u>84,550</u>	<u>1</u>
Total other comprehensive income (loss), net	<u>(380,760)</u>	<u>(4)</u>	<u>27,452</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (682,059)</u>	<u>(8)</u>	<u>\$ (481,114)</u>	<u>(5)</u>
LOSS PER SHARE (Note 20)				
Basic	<u>\$ (1.09)</u>		<u>\$ (1.83)</u>	

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

(Concluded)

PHIHONG TECHNOLOGY CO., LTD.

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

	Common Stock	Capital Surplus	Retained Earnings			Other Equity		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, 2015	\$ 2,776,884	\$ 1,026,456	\$ 1,098,401	\$ 230,859	\$ 839,463	\$ 345,970	\$ (37,199)	\$ 6,280,834
Appropriation of the 2014 net income (Note 17)								
Legal reserve	-	-	14,784	-	(14,784)	-	-	-
Cash dividend	-	-	-	-	(133,062)	-	-	(133,062)
Net loss for the year ended December 31, 2015	-	-	-	-	(508,566)	-	-	(508,566)
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(5,886)	(51,212)	84,550	27,452
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	(514,452)	(51,212)	84,550	(481,114)
BALANCE, DECEMBER 31, 2015	2,776,884	1,026,456	1,113,185	230,859	177,165	294,758	47,351	5,666,658
Net loss for the year ended December 31, 2016	-	-	-	-	(301,299)	-	-	(301,299)
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(4,658)	(386,201)	10,099	(380,760)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(305,957)	(386,201)	10,099	(682,059)
BALANCE, DECEMBER 31, 2016	<u>\$ 2,776,884</u>	<u>\$ 1,026,456</u>	<u>\$ 1,113,185</u>	<u>\$ 230,859</u>	<u>\$ (128,792)</u>	<u>\$ (91,443)</u>	<u>\$ 57,450</u>	<u>\$ 4,984,599</u>

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

PHIHONG TECHNOLOGY CO., LTD.

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	\$ (292,069)	\$ (489,266)
Adjustments for:		
Impairment loss recognized on trade receivables	-	450
Depreciation expense	78,883	52,121
Amortization expense	11,757	10,680
Interest expense	29,208	30,207
Interest income	(27,779)	(19,305)
Dividend revenue	(5,435)	(5,542)
Share of loss of subsidiaries and associates	362,240	694,717
(Gain) loss on disposal of property, plant and equipment	(4,134)	573
Gain on disposal of investment	(11,173)	(1,095)
Gain on buy-back of bonds payable	(1,752)	(11,245)
Unrealized (realized) gain on transactions with subsidiaries	28,042	(6,426)
Net changes in operating assets and liabilities		
Trade receivables	113,042	329,418
Trade receivables from related parties	(336,995)	66,870
Other receivables	(14,176)	4,153
Other receivables from related parties	(156,923)	(165,008)
Inventories	231,651	115,342
Other current assets	4,749	(2,180)
Trade payables	(9,526)	10,734
Trade payables to related parties	(145,165)	(145,871)
Other payables	120,846	(469,174)
Other current liabilities	23,861	(10,396)
Reserve for retirement plan	(675)	(114)
Cash used in operating activities	(1,523)	(10,357)
Interest paid	(8,645)	(6,086)
Interest received	15,075	17,369
Income tax paid	(15,613)	(20,074)
Net cash used in operating activities	<u>(10,706)</u>	<u>(19,148)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	(25,000)	-
Proceeds from sale financial assets at fair value through profit or loss	60,252	-
Net cash outflow on acquisition of subsidiaries	(342,059)	(467,995)
Payments for property, plant and equipment	(72,889)	(194,246)
Proceeds from disposal of property, plant and equipment	26,792	1,088
Payments for intangible assets	(9,524)	(7,945)
Decrease in refundable deposits	133	33
Purchase of other financial assets	(233,019)	(375,723)
Increase in prepayments for equipment	-	(6,920)

(Continued)

PHIHONG TECHNOLOGY CO., LTD.

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

	2016	2015
Dividend received	\$ 7,607	\$ 7,876
Return of capital from investments accounted for using equity method	27,309	206,249
Return of capital from investees of financial assets measured at cost	<u>777</u>	<u>13,448</u>
Net cash used in investing activities	<u>(559,621)</u>	<u>(824,135)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of convertible bonds	1,000,000	-
Repayments of convertible bonds	(121,401)	(175,192)
Payments for transaction costs attributable to issue of bonds payable	(2,380)	-
Cash dividends paid to shareholders	-	(133,062)
Proceeds from long-term borrowings	-	700,000
Repayments of long-term borrowings	<u>(700,000)</u>	<u>-</u>
Net cash generated from financing activities	<u>176,219</u>	<u>391,746</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(394,108)	(451,537)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,015,683</u>	<u>1,467,220</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 621,575</u>	<u>\$ 1,015,683</u>

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

(Concluded)

PHIHONG TECHNOLOGY CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

1. GENERAL INFORMATION

Phihong Technology Co., Ltd. (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 functional currency of Phihong is New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on March 16, 2017.

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

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

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

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

(Continued)

New, Amended or Revised Standards and Interpretations ("New IFRSs")	Effective Date Announced by IASB (Note 1)
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

(Concluded)

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

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

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

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

1) 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. Otherwise, the material effect of discounting will be adjusted retrospectively.

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.

2) Amendment to IAS 19 "Employee Benefits"

IAS 19 was amended by the Annual Improvements to IFRSs: 2012-2014 Cycle to clarify that the depth of the market for high quality corporate bonds used to estimate discount rate for post-employment benefits should be assessed by the market of the corporate bonds denominated in the same currency as the benefits to be paid, i.e. assessed at currency level (instead of country or regional level).

3) Amendment to IAS 24 “Related Party Disclosures”

IAS 24 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to clarify that a management entity providing key management personnel services to the Company is a related party of the Company. Consequently, the Company is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

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 by the FSC for application starting from 2017. 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 additional 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 Company 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 Company has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Company’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.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the financial statements were authorized for issue, the Company continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Company’s financial position and financial performance, and will disclose these other impacts when the assessment is completed.

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

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IFRS 15 “Clarifications to IFRS 15 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.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

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 Company’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, if any, recognized in profit or loss. 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 Company 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 Company 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 from January 1, 2018.

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 Company 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 Company 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 Company’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations").

b. Basis of preparation

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

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and related equity items, as appropriate, in the parent company only financial statements.

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

Current assets include:

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

Current liabilities include:

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

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

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

d. Foreign currencies

In preparing the Company's financial statements, transactions in currencies other than the Company'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 in which they arise.

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

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

For the purpose of presenting financial statements, the assets and liabilities of the Company's foreign operations (including the subsidiaries and associates in other countries or currencies used are different from the functional currency of the Company) are translated into the presentation currency - the New Taiwan dollar as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

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

f. Investment in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

Subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (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 subsidiary), the Company continues recognizing its share of further losses.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously 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.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries of parties that are not related to the Company.

g. Investments in associates

An associate is an entity over which the Company has significant influence and that is not a subsidiary.

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

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

When the Company's share of losses of an associate equals or exceeds its interest in that associate (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), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

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 forms part of 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.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate is recognized in the Company's financial statements only to the extent of interests in the associate of parties that are not related to the Company.

h. Property, plant and equipment

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

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

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. 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. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

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

j. Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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.

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

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

k. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

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

1) Financial assets

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

a) Measurement category

Financial assets are classified into the following categories: Available-for-sale financial assets, and loans and receivables.

i. 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 Company's right to receive the dividends is established.

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

ii. Loans and receivables

Loans and receivables (including cash and cash equivalent, trade receivables, other receivables and other financial assets) 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 equivalents include time deposits and repurchase agreements collateralized by bonds with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are 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, other than those at fair value through profit or loss, assets 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, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, such 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 Company's past experience of collecting payments and the delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with a default on receivables.

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

For financial assets measured at amortized cost, 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 was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

3) Financial liabilities

All financial liabilities are measured at amortized cost using the effective interest method. The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4) Convertible bonds

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

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

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

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

1. Provision

Provision is measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provision for the expected cost of warranty obligations is recognized at the date of sale of the relevant products at the best estimate by the management of the Company of the expenditure required to settle the Company's obligations.

m. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced by the amount of estimated customer returns, rebates and other similar allowances.

1) Sale of goods

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

- a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Company 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 Company; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

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

n. Leasing

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

1) The Company as lessor

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

2) The Company as lessee

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

o. Borrowing costs

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

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

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. 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 Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings. Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforward, research and development expenditure to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

3) Current tax and deferred tax for the year

Current tax 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 tax and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION 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.

a. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) 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.

b. Impairment and useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at each balance sheet date. The impairment of equipment is based on the recoverable amounts of the assets, which is the higher of their fair value less costs of disposal and their value in use. Any changes in the market prices or future cash flows will affect the recoverable amounts of those assets and may lead to recognition of additional impairment losses or reversal of impairment losses.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2016	2015
Cash on hand	\$ 764	\$ 1,024
Checking accounts and demand deposits	611,382	760,346
Cash equivalent (investments with original maturities less than three months)		
Time deposits	9,429	154,470
Repurchase agreements collateralized by bonds	<u>-</u>	<u>99,843</u>
	<u>\$ 621,575</u>	<u>\$ 1,015,683</u>

As of December 31, 2016 and 2015, the time deposits with original maturities more than three months in the amount of \$583,292 thousand and \$375,723 thousand, respectively, had been reclassified to “other financial assets - current”.

As of December 31, 2016, bank balance in the amount of \$25,450 thousand had been pledged to secure short-term debts and reclassified to “other financial assets - non-current”. Please refer to Note 24.

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:

	<u>December 31</u>	
	2016	2015
Demand deposits and time deposits	0.001%-8.9%	0.001%-4.28%
Repurchase agreements collateralized by bonds	-	0.42%

7. FINANCIAL ASSETS MEASURED AT COST

	<u>December 31</u>	
	2016	2015
<u>Non-current</u>		
Domestic unlisted ordinary shares	<u>\$ 29,359</u>	<u>\$ 54,215</u>
<u>Classified according to financial assets measurement categories</u>		
Available-for-sale financial assets	<u>\$ 29,359</u>	<u>\$ 54,215</u>

Management believed that the above unlisted equity investments held by the Company 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 the reporting period.

The Company disposed of certain financial assets measured at cost with carrying amounts of \$49,079 thousand in 2016, and recognized disposal gain of \$11,173 thousand.

8. TRADE RECEIVABLES

	<u>December 31</u>	
	2016	2015
Trade receivables	\$ 828,461	\$ 941,503
Less: Allowance for doubtful accounts	<u>(813)</u>	<u>(813)</u>
	<u>827,648</u>	<u>940,690</u>
Trade receivable from related parties (Note 23)	437,493	100,498
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>437,493</u>	<u>100,498</u>
	<u>\$ 1,265,141</u>	<u>\$ 1,041,188</u>

The average credit period of sales of goods was 60 to 90 days. In determining the recoverability of trade receivable, the Company 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 Company 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 Company did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

December 31, 2016

	Total Receivables	Not Overdue	Overdue under 60 Days	Overdue 61 Days and Longer
Not overdue and not impaired	\$ 1,252,649	\$ 1,252,649	\$ -	\$ -
Not overdue but impaired	-	-	-	-
Overdue and not impaired	14,133	-	14,133	-
Overdue and impaired	<u>813</u>	<u>-</u>	<u>-</u>	<u>813</u>
	<u>\$ 1,267,595</u>	<u>\$ 1,252,649</u>	<u>\$ 14,133</u>	<u>\$ 813</u>

December 31, 2015

	Total Receivables	Not Overdue	Overdue under 60 Days	Overdue 61 Days and Longer
Not overdue and not impaired	\$ 1,031,135	\$ 1,031,135	\$ -	\$ -
Not overdue but impaired	-	-	-	-
Overdue and not impaired	10,053	-	6,581	3,472
Overdue and impaired	<u>813</u>	<u>-</u>	<u>-</u>	<u>813</u>
	<u>\$ 1,042,001</u>	<u>\$ 1,031,135</u>	<u>\$ 6,581</u>	<u>\$ 4,285</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:

	Individually Assessed for Impairment
Balance at January 1, 2015	\$ 4,632
Impairment losses recognized on receivables	450
Amounts written off during the year as uncollectible	<u>(4,269)</u>
Balance at December 31, 2015	<u>\$ 813</u>
Balance at January 1, 2016	<u>\$ 813</u>
Balance at December 31, 2016	<u>\$ 813</u>

9. INVENTORIES

	<u>December 31</u>	
	2016	2015
Raw materials	\$ 881	\$ 2,953
Work-in-process	111	1,024
Merchandise	<u>13,802</u>	<u>242,468</u>
	<u>\$ 14,794</u>	<u>\$ 246,445</u>

As of December 31, 2016 and 2015, allowance of inventory value decline was \$18,327 thousand and \$53,327 thousand, respectively.

For the years ended December 31, 2016 and 2015, the cost of inventories recognized as cost of goods sold was \$7,143,262 thousand and \$8,187,802 thousand, respectively.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31</u>	
	2016	2015
Investments in subsidiaries	\$ 5,057,529	\$ 5,494,392
Investments in associates	<u>122,246</u>	<u>139,189</u>
	<u>\$ 5,179,775</u>	<u>\$ 5,633,581</u>

a. Investments in subsidiaries:

	<u>December 31</u>	
	2016	2015
Phihong International Corp.	\$ 3,340,638	\$ 3,506,667
Phitek International Co., Ltd.	165,235	382,001
Ascent Alliance Ltd.	325,761	439,616
Phihong USA Corp.	939,690	919,846

(Continued)

	December 31	
	2016	2015
American Ballast Corp.	\$ -	\$ 905
Phihong Technology Japan Co., Ltd.	101,927	89,109
Guan-Lai Investment Co., Ltd.	<u>184,278</u>	<u>156,248</u>
	<u>\$ 5,057,529</u>	<u>\$ 5,494,392</u> (Concluded)

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

	December 31	
	2016	2015
Phihong International Corp.	100%	100%
Phitek International Co., Ltd.	100%	100%
Ascent Alliance Ltd.	100%	100%
Phihong USA Corp.	100%	100%
American Ballast Corp.	-	100%
Phihong Technology Japan Co., Ltd.	100%	100%
Guan-Lai Investment Co., Ltd.	100%	100%

The Company had made additional investments of \$342,059 thousand and \$93,643 thousand in cash in Phihong International Corp. in 2016 and 2015, respectively.

The Company had made additional investment of \$251,670 thousand in cash in Phitek International Co., Ltd. in 2015.

The Company had made additional investment of \$122,682 thousand in cash in Ascent Alliance Ltd. in 2015.

The Company provided financial guarantee for bank borrowings of Phitek International Co., Ltd.'s, Phihong International Corp. and Phihong USA Corp. As of December 31, 2016 and 2015, subsidiaries' bank borrowings guaranteed by the Company were \$132,348 thousand and \$177,444 thousand, respectively.

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 were based on the subsidiaries' financial statements audited by auditors for the same years.

b. Investments in associates:

	December 31	
	2016	2015
<u>Material associates</u>		
Hao-Xuan Venture Capital Co., Ltd.	\$ 358	\$ 16,132
H&P Venture Capital Co., Ltd.	<u>121,888</u>	<u>123,057</u>
	<u>\$ 122,246</u>	<u>\$ 139,189</u>

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

	December 31	
	2016	2015
Hao-Xuan Venture Capital Co., Ltd.	24.67%	24.67%
H&P Venture Capital Co., Ltd.	32.26%	32.26%
Phihong PWM Brasil Ltda.	60.00%	60.00%
First International Computer Do Brasil Ltda.	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 Company and the local management team and under Brazilian local laws, the Company 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 Company reduced the carrying value of both investments to zero.

All the associates are accounted for using equity method.

Summarized financial information in respect of each of the Company's material associates is set out below. The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Company for equity accounting purposes.

Hao-Xuan Venture Capital Co., Ltd.

	December 31	
	2016	2015
Current assets	\$ 1,543	\$ 5,558
Non-current assets	-	59,948
Current liabilities	(90)	(103)
Non-current liabilities	<u>-</u>	<u>-</u>
Equity	<u>\$ 1,453</u>	<u>\$ 65,403</u>
Proportion of the Company's ownership	24.67%	24.67%
Equity attributable to the Company	<u>\$ 358</u>	<u>\$ 16,132</u>
Carrying amount	<u>\$ 358</u>	<u>\$ 16,132</u>

	For the Year Ended December 31	
	2016	2015
Operating revenue	<u>\$ 31,033</u>	<u>\$ 59,988</u>
Net profit (loss) for the year	\$ (29,222)	\$ (62,808)
Other comprehensive income	<u>-</u>	<u>69,453</u>
Total comprehensive income (loss) for the year	<u>\$ (29,222)</u>	<u>\$ 6,645</u>
Dividends received from Hao-Xuan Venture Capital Co., Ltd.	<u>\$ -</u>	<u>\$ 2,334</u>

H&P Venture Capital Co., Ltd.

	December 31	
	2016	2015
Current assets	\$ 331,325	\$ 17,345
Non-current assets	55,778	364,282
Current liabilities	(9,250)	(151)
Non-current liabilities	<u>-</u>	<u>-</u>
Equity	<u>\$ 377,853</u>	<u>\$ 381,476</u>
Proportion of the Company's ownership	32.26%	32.26%
Equity attributable to the Company	<u>\$ 121,888</u>	<u>\$ 123,057</u>
Carrying amount	<u>\$ 121,888</u>	<u>\$ 123,057</u>
	For the Year Ended December 31	
	2016	2015
Operating revenue	<u>\$ 168,185</u>	<u>\$ 114,762</u>
Net profit for the year	\$ 35,468	\$ 17,328
Other comprehensive income	<u>25,132</u>	<u>203,702</u>
Total comprehensive income for the year	<u>\$ 60,600</u>	<u>\$ 221,030</u>
Dividends received from H&P Venture Capital Co., Ltd.	<u>\$ 2,172</u>	<u>\$ -</u>

Except that Hao-Xuan's financial statements for 2016 have not been audited, the investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have been audited. Management believes there will be no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income if Hao-Xuan's financial statements of 2016 were audited.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery and Equipment	Other Equipment	Property in Construction	Total
<u>Cost</u>						
Balance at January 1, 2015	\$ 207,436	\$ 295,849	\$ 143,260	\$ 249,243	\$ 199,534	\$ 1,095,322
Additions	-	11,024	15,595	57,635	116,751	201,005
Disposals	-	-	(7,842)	(1,083)	-	(8,925)
Others	<u>-</u>	<u>203,360</u>	<u>1,462</u>	<u>829</u>	<u>(205,845)</u>	<u>(194)</u>
Balance at December 31, 2015	<u>\$ 207,436</u>	<u>\$ 510,233</u>	<u>\$ 152,475</u>	<u>\$ 306,624</u>	<u>\$ 110,440</u>	<u>\$ 1,287,208</u>

(Continued)

	Freehold Land	Buildings	Machinery and Equipment	Other Equipment	Property in Construction	Total
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2015	\$ -	\$ 140,751	\$ 105,790	\$ 157,151	\$ -	\$ 403,692
Disposals	-	-	(6,194)	(1,070)	-	(7,264)
Depreciation expense	-	5,246	14,271	32,604	-	52,121
Balance at December 31, 2015	\$ -	\$ 145,997	\$ 113,867	\$ 188,685	\$ -	\$ 448,549
Carrying amounts at December 31, 2015	\$ 207,436	\$ 364,236	\$ 38,608	\$ 117,939	\$ 110,440	\$ 838,659
<u>Cost</u>						
Balance at January 1, 2016	\$ 207,436	\$ 510,233	\$ 152,475	\$ 306,624	\$ 110,440	\$ 1,287,208
Additions	-	21,006	3,189	42,541	-	66,736
Disposals	(9,850)	(16,233)	(2,869)	(17,466)	-	(46,418)
Reclassified as investment property	-	104,055	6,889	6,385	(110,440)	6,889
Balance at December 31, 2016	\$ 197,586	\$ 619,061	\$ 159,684	\$ 338,084	\$ -	\$ 1,314,415
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2016	\$ -	\$ 145,997	\$ 113,867	\$ 188,685	\$ -	\$ 448,549
Disposals	-	(4,483)	(2,595)	(16,682)	-	(23,760)
Depreciation expense	-	20,524	14,619	43,740	-	78,883
Balance at December 31, 2016	\$ -	\$ 162,038	\$ 125,891	\$ 215,743	\$ -	\$ 503,672
Carrying amounts at December 31, 2016	\$ 197,586	\$ 457,023	\$ 33,793	\$ 122,341	\$ -	\$ 810,743

(Concluded)

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 24 for the carrying amount of property, plant and equipment that had been pledged by the Company to secure long-term borrowings.

12. OTHER INTANGIBLE ASSETS

	Computer Software
<u>Cost</u>	
Balance at January 1, 2015	\$ 68,764
Additions	7,945
Disposals	<u>(2,841)</u>
Balance at December 31, 2015	<u>\$ 73,868</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2015	\$ 40,886
Amortization expense	10,680
Disposals	<u>(2,841)</u>
Balance at December 31, 2015	<u>\$ 48,725</u>
Carrying amount at December 31, 2015	<u>\$ 25,143</u>
<u>Cost</u>	
Balance at January 1, 2016	\$ 73,868
Additions	9,524
Disposals	<u>(3,062)</u>
Balance at December 31, 2016	<u>\$ 80,330</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2016	\$ 48,725
Amortization expense	11,757
Disposals	<u>(3,062)</u>
Balance at December 31, 2016	<u>\$ 57,420</u>
Carrying amount at December 31, 2016	<u>\$ 22,910</u>

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

13. BORROWINGS

Long-term borrowings

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Unsecured loan</u>		
Medium-term loan		
Repayable from August 4, 2015 to May 15, 2017; interest rate was 1.2019% on December 31, 2015. Interest is paid monthly and principal is due on May 15, 2017. Principal was fully repaid in April 2016	\$ -	\$ 100,000
Repayable from August 27, 2015 to February 23, 2017; interest rate was 1.2019% on December 31, 2015. Interest is paid monthly and principal is due on February 23, 2017. Principal was fully repaid in March 2016	-	50,000
Repayable from December 29, 2015 to December 29, 2017; interest rate was 1.60% on December 31, 2015. Interest is paid monthly and principal is due on December 29, 2017. Principal was fully repaid in February 2016	-	100,000
Repayable from September 7, 2015 to March 7, 2018; interest rate was 1.23% on December 31, 2015. Interest is paid monthly and principal is due on March 7, 2018. Principal was fully repaid in March 2016	-	300,000
<u>Secured loan</u>		
Medium-term loan		
Repayable from July 2, 2015 to July 2, 2017; interest rate was 1.12% on December 31, 2015. Interest is paid monthly and principal is due on July 2, 2017. Principal was fully repaid in March 2016	-	50,000
Repayable from August 27, 2015 to August 27, 2017; interest rate was 1.12% on December 31, 2015. Interest is due monthly and principal is due on August 27, 2017. Principal was fully repaid in March 2016	-	100,000
	-	700,000
Less: Long-term loans payable - current portion	-	(50,000)
	<u>\$ -</u>	<u>\$ 650,000</u>

For information on pledged properties and endorsements/guarantees, please refer to Notes 23 and 24.

14. BONDS PAYABLE

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Unsecured domestic convertible bonds	\$ 1,163,926	\$ 1,266,468
Secured domestic bonds	997,977	-
Less: Current portion	(1,163,926)	-
	<u>\$ 997,977</u>	<u>\$ 1,266,468</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 August 5, 2015, the conversion price has been adjusted to \$19 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 1.7% 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, 2015	\$ 1,429,189
Interest charged at an effective interest rate of 1.70%	23,716
Redemption of bonds payable	<u>(186,437)</u>
Liability component at December 31, 2015	<u>\$ 1,266,468</u>
Liability component at January 1, 2016	\$ 1,266,468
Interest charged at an effective interest rate of 1.70%	20,611
Redemption of bonds payable	<u>(123,153)</u>
Liability component at December 31, 2016	<u>\$ 1,163,926</u>

The Company bought back unsecured convertible bonds from open market and recognized gain on buy-back of bonds payable of \$1,752 thousand and \$11,245 thousand for the years ended December 31, 2016 and 2015, respectively, which were presented under other gains and losses, and reclassified \$5,999 thousand and \$9,191 thousand “capital surplus - convertible bonds” to “capital surplus - treasury share transactions”, respectively; please refer to Notes 17 and 18.

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 23 and 24.

15. OTHER PAYABLES

	December 31	
	2016	2015
Payable for salaries and bonus	\$ 94,895	\$ 91,309
Payable for annual leave	19,021	16,684
Payable for materials and procurement	1,299,825	1,142,488
Other payable to related parties (Note 23)	93,978	117,087
Others	<u>269,454</u>	<u>295,317</u>
	<u>\$ 1,777,173</u>	<u>\$ 1,662,885</u>

16. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund 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 pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	\$ 132,907	\$ 127,869
Fair value of plan assets	<u>(44,954)</u>	<u>(44,853)</u>
Net defined benefit liability	<u>\$ 87,953</u>	<u>\$ 83,016</u>

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2015	<u>\$ 124,183</u>	<u>\$ (48,145)</u>	<u>\$ 76,038</u>
Service cost			
Current service cost	751	-	751
Net interest expense (income)	<u>2,328</u>	<u>(924)</u>	<u>1,404</u>
Recognized in profit or loss	<u>3,079</u>	<u>(924)</u>	<u>2,155</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(319)	(319)
Actuarial (gain) loss - changes in demographic assumptions	3,836	-	3,836
Actuarial (gain) loss - changes in financial assumptions	3,809	-	3,809
Actuarial (gain) loss - experience adjustments	<u>(234)</u>	<u>-</u>	<u>(234)</u>
Recognized in other comprehensive income	<u>7,411</u>	<u>(319)</u>	<u>7,092</u>
Contributions from the employer	-	(2,269)	(2,269)
Benefits paid	<u>(6,804)</u>	<u>6,804</u>	<u>-</u>
Balance at December 31, 2015	<u>\$ 127,869</u>	<u>\$ (44,853)</u>	<u>\$ 83,016</u>
Balance at January 1, 2016	<u>\$ 127,869</u>	<u>\$ (44,853)</u>	<u>\$ 83,016</u>
Service cost			
Current service cost	310	-	310
Net interest expense (income)	<u>2,078</u>	<u>(747)</u>	<u>1,331</u>
Recognized in profit or loss	<u>2,388</u>	<u>(747)</u>	<u>1,641</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	429	429
Actuarial (gain) loss - changes in demographic assumptions	3,713	-	3,713
Actuarial (gain) loss - changes in financial assumptions	3,952	-	3,952
Actuarial (gain) loss - experience adjustments	<u>(2,482)</u>	<u>-</u>	<u>(2,482)</u>
Recognized in other comprehensive income	<u>5,183</u>	<u>429</u>	<u>5,612</u>
Contributions from the employer	-	(2,316)	(2,316)
Benefits paid	<u>(2,533)</u>	<u>2,533</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 132,907</u>	<u>\$ (44,954)</u>	<u>\$ 87,953</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

- 2) Interest risk: A decrease in the government/corporate 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 plan's debt investments.
- 3) 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 significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2016	2015
Discount rate(s)	1.375%	1.625%
Expected rate(s) of salary increase	3.500%	3.500%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2016	2015
Discount rate(s)		
0.25% increase	<u>\$ (4,045)</u>	<u>\$ (3,911)</u>
0.25% decrease	<u>\$ 4,219</u>	<u>\$ 4,079</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 4,065</u>	<u>\$ 3,938</u>
0.25% decrease	<u>\$ (3,920)</u>	<u>\$ (3,797)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2016	2015
The expected contributions to the plan for the next year	<u>\$ 2,280</u>	<u>\$ 2,274</u>
The average duration of the defined benefit obligation	12.5 years	12.6 years

17. EQUITY

Share Capital

	December 31	
	2016	2015
Number of shares authorized (in thousands)	<u>600,000</u>	<u>600,000</u>
Shares authorized	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>277,688</u>	<u>277,688</u>
Shares issued	<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 June 19, 2014, Phihong Technology Co., Ltd.'s board of stockholders resolved to issue 5,000 thousand restricted shares, with a par value of NT\$10, or total of \$50,000 thousand. Each share's exercise value is NT\$0. Except for restrictions against the transfer of shares, the rights and obligations of these common stocks (including allotment, dividend, shareholders' voting right, and capital injection right, etc.) before the employees fulfill the vesting conditions, are the same with other outstanding common stocks. As of December 31, 2015, the rights to issue restricted stock shares expired.

Capital Surplus

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>		
Issuance of ordinary shares	\$ 226,556	\$ 226,556
Conversion of bonds	667,058	667,058
Treasury share transactions	48,234	48,234
Interest payable on bond conversion	13,243	13,243
<u>May be used to offset a deficit only</u>		
Treasury share transactions	15,190	9,191
<u>May not be used for any purpose</u>		
Equity component of convertible bonds	<u>56,175</u>	<u>62,174</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, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing 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 distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, please refer to d. employee benefits expense in Note 18.

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.

The appropriations of earnings for 2015 and 2014 approved in the stockholders' meetings on June 8, 2016 and June 11, 2015, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Year 2015</u>	<u>For Year 2014</u>	<u>For Year 2015</u>	<u>For Year 2014</u>
Legal reserve	\$ -	\$ 14,784	\$ -	\$ -
Cash dividends	-	133,062	-	0.48

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. Exchange differences on translation of foreign operations

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Balance at January 1	\$ 294,758	\$ 345,970
Exchange differences arising on translating foreign operations	<u>(386,201)</u>	<u>(51,212)</u>
Balance at December 31	<u>\$ (91,443)</u>	<u>\$ 294,758</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Balance at January 1	\$ 47,351	\$ (37,199)
Share of unrealized gain on revaluation of available-for-sale financial assets of associates accounted for using the equity method	<u>10,099</u>	<u>84,550</u>
Balance at December 31	<u>\$ 57,450</u>	<u>\$ 47,351</u>

18. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2016	2015
Interest income	\$ 27,779	\$ 19,305
Dividends	5,435	5,542
Others	<u>36,519</u>	<u>151,188</u>
	<u>\$ 69,733</u>	<u>\$ 176,035</u>

b. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Gain (loss) on disposal of property, plant and equipment	\$ 4,134	\$ (573)
Exchange loss, net	(71,654)	(13)
Gain on disposal of investment	11,173	1,095
Gain on buy-back of bonds payable	1,752	11,245
Others	<u>3,048</u>	<u>(17)</u>
	<u>\$ (51,547)</u>	<u>\$ 11,737</u>

c. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	\$ 78,883	\$ 52,121
Computer software	<u>11,757</u>	<u>10,680</u>
	<u>\$ 90,640</u>	<u>\$ 62,801</u>
An analysis of depreciation by function		
Operating costs	\$ 2,978	\$ 2,204
Operating expenses	<u>75,905</u>	<u>49,917</u>
	<u>\$ 78,883</u>	<u>\$ 52,121</u>
An analysis of amortization by function		
Operating costs	\$ -	\$ -
Operating expenses	<u>11,757</u>	<u>10,680</u>
	<u>\$ 11,757</u>	<u>\$ 10,680</u>

d. Employee benefits expense

	For the Year Ended December 31	
	2016	2015
Post-employment benefits (Note 16)		
Defined contribution plans	\$ 21,002	\$ 20,514
Defined benefit plans	<u>1,641</u>	<u>2,155</u>
	22,643	22,669
Short-term employee benefits	<u>492,770</u>	<u>459,996</u>
	<u>\$ 515,413</u>	<u>\$ 482,665</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 37,908	\$ 36,581
Operating expenses	<u>477,505</u>	<u>446,084</u>
	<u>\$ 515,413</u>	<u>\$ 482,665</u>

	2016			2015		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses						
Salaries	\$ 31,288	\$ 400,000	\$ 431,288	\$ 30,050	\$ 370,599	\$ 400,649
Labor insurance and health insurance	3,041	35,751	38,792	2,809	34,397	37,206
Pension cost	1,650	20,993	22,643	1,745	20,924	22,669
Others	1,929	20,761	22,690	1,977	20,164	22,141
Total	\$ 37,908	\$ 477,505	\$ 515,413	\$ 36,581	\$ 446,084	\$ 482,665

As of December 31, 2016 and 2015, the Company had 461 and 470 employees respectively.

- 1) 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. The Company did not estimate the bonus to employees and the remuneration to directors and supervisors because it did not have net profit before income tax in 2016 and 2015.

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.

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

The bonuses to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meetings on June 11, 2015 were as follows:

	For the Year Ended December 31, 2014	
	Cash Dividends	Stock Dividends
Bonus to employees	\$ 23,951	\$ -
Remuneration of directors and supervisors	2,661	-

There was no difference between the amounts of the bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meeting on June 11, 2015 and the amounts recognized in the financial statements for the year ended December 31, 2014.

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

e. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2016	2015
Foreign exchange gains	\$ 29,802	\$ 16,581
Foreign exchange losses	<u>(101,456)</u>	<u>(16,594)</u>
	<u>\$ (71,654)</u>	<u>\$ (13)</u>

19. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current period	\$ 13,000	\$ 32,599
In respect of prior periods	<u>-</u>	<u>(12,140)</u>
Deferred tax	13,000	20,459
In respect of the current period	<u>(3,770)</u>	<u>(1,159)</u>
Total income tax expense recognized in the current period	<u>\$ 9,230</u>	<u>\$ 19,300</u>

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

	<u>For the Year Ended December 31</u>	
	2016	2015
Income tax expense calculated at statutory rate	\$ 13,000	\$ 32,599
Income tax on unappropriated earnings	<u>-</u>	<u>-</u>
Current income tax expense	13,000	32,599
Deferred income tax assets (liabilities)		
Temporary difference	(3,770)	(1,159)
Adjustments to prior year's income tax expense	<u>-</u>	<u>(12,140)</u>
Income tax expense recognized in profit or loss	<u>\$ 9,230</u>	<u>\$ 19,300</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Company in the ROC.

b. Income tax recognized in other comprehensive income

	<u>For the Year Ended December 31</u>	
	2016	2015
<u>Deferred tax</u>		
In respect of the current year:		
Actuarial gains and losses on defined benefit plan	\$ <u>954</u>	\$ <u>1,206</u>
Total income tax recognized in other comprehensive income	<u>\$ 954</u>	<u>\$ 1,206</u>

c. Current tax liabilities

	<u>For the Year Ended December 31</u>	
	2016	2015
Current tax liabilities		
Income tax payable	<u>\$ 45,596</u>	<u>\$ 48,209</u>

d. Deferred tax assets and liabilities

The Company has offset certain deferred tax assets with deferred tax liabilities which met the offset criteria.

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

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for inventory value decline loss	\$ 9,070	\$ (5,950)	\$ -	\$ 3,120
Allowance for doubtful accounts	10,460	(530)	-	9,930
Unrealized gross profit	5,520	4,760	-	10,280
Deferred pension costs	10,260	110	-	10,370
Others	<u>10,666</u>	<u>5,380</u>	<u>954</u>	<u>17,000</u>
	<u>\$ 45,976</u>	<u>\$ 3,770</u>	<u>\$ 954</u>	<u>\$ 50,700</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized gain on financial instruments	<u>\$ 79,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,832</u>

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for inventory value decline loss	\$ 9,070	\$ -	\$ -	\$ 9,070
Allowance for doubtful accounts	10,460	-	-	10,460
Unrealized gross profit	6,610	(1,090)	-	5,520
Deferred pension costs	10,240	20	-	10,260
Others	<u>7,231</u>	<u>2,229</u>	<u>1,206</u>	<u>10,666</u>
	<u>\$ 43,611</u>	<u>\$ 1,159</u>	<u>\$ 1,206</u>	<u>\$ 45,976</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized gain on financial instruments	<u>\$ 79,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,832</u>

22. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Financial assets</u>		
Loans and receivables (1)	\$ 3,147,234	\$ 2,900,567
Available-for-sale financial assets (2)	29,359	54,215
<u>Financial liabilities</u>		
Amortized cost (3)	3,989,669	3,834,637

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, trade and other receivables and other financial assets.
- 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 trade and other payables, bonds payable and long-term borrowings.

b. Financial risk management objectives and policies

The Company's major financial instruments included cash and cash equivalents, trade receivables, trade receivables from related parties, other receivables, other receivables from related parties, other financial assets, trade payable, trade payable to related parties, other payables, long-term borrowings and bonds payable. The Company'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 Company 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 Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. The Company 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 Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 26.

Sensitivity analysis

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

The following table details the Company'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 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 the balances below would be negative.

	Currency USD Impact	
	For the Year Ended December 31	
	2016	2015
Profit or loss	\$ 8,528	\$ 5,959

	Currency CNY Impact	
	For the Year Ended December 31	
	2016	2015
Profit or loss	\$ 6,253	\$ 5,307

b) Interest rate risk

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

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

	December 31	
	2016	2015
Cash flow interest rate risk		
Financial liabilities	\$ -	\$ 700,000

2) Credit risk

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

The Company 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 Company'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 Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company'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 Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2016 and 2015, the Company had available unutilized short-term bank loan facilities set out in (b) below.

a) Liquidity and interest risk tables

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

December 31, 2016

	On Demand or Less Than 1 Year	1 to 3 Years	Over 3 Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 2,991,692	\$ -	\$ -	\$ 2,991,692
Variable interest rate instrument	-	-	-	-
Fixed interest rate instrument	-	-	<u>997,977</u>	<u>997,977</u>
	<u>\$ 2,991,692</u>	<u>\$ -</u>	<u>\$ 997,977</u>	<u>\$ 3,989,669</u>

December 31, 2015

	On Demand or Less Than 1 Year	1 to 3 Years	Over 3 Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 1,868,169	\$ 1,266,468	\$ -	\$ 3,134,637
Variable interest rate instrument	50,000	650,000	-	700,000
Fixed interest rate instrument	-	-	-	-
	<u>\$ 1,918,169</u>	<u>\$ 1,916,468</u>	<u>\$ -</u>	<u>\$ 3,834,637</u>

b) Financing facilities

	December 31	
	2016	2015
Unused bank financing facilities	<u>\$ 1,896,600</u>	<u>\$ 2,296,660</u>

23. RELATED-PARTY TRANSACTIONS

a. Names and relationships of the related parties

<u>Related Party</u>	<u>Relationship with the Company</u>
Phihong USA Corp.	Subsidiary
Phihong International Corp.	Subsidiary
Phihong Technology Japan Co., Ltd.	Subsidiary
Phihong (Dongguan) Electronics Co., Ltd.	Subsidiary
Dongguan Phitek Electronics Ltd.	Subsidiary
Phihong Electronics (Suzhou) Co., Ltd.	Subsidiary
Jin-Sheng Hong (Jiangxi) Electronics Co., Ltd.	Subsidiary
Dongguan Shuang-Ying Electronics Co., Ltd.	Subsidiary
Yanghong Trading (Shanghai) Co., Ltd.	Subsidiary
Peter Lin	The Company's chairman
Spring City Resort	Other related parties
Xu Sheng Technology Co., Ltd. ("Xu Sheng")	Other related parties
Feng Shiuan Technology Co., Ltd.	Other related parties
Red Sun Metal Industry Co., Ltd.	Other related parties
Hua Jung Co., Ltd.	Other related parties
Hong Ding Educational Technology Co., Ltd.	Other related parties
Heng Hui Co., Ltd.	Other related parties
Zero Distance Corporation	Other related parties
Yao Yu Design Co., Ltd.	Other related parties

b. Trading transactions

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Sales</u>		
Subsidiaries	\$ 3,601,231	\$ 3,242,921
Other related parties	-	658
	<u>\$ 3,601,231</u>	<u>\$ 3,243,579</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Purchase of goods</u>		
Subsidiaries	<u>\$ 6,836,523</u>	<u>\$ 8,032,449</u>

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

	December 31	
	2016	2015
<u>Accounts receivable from related parties</u>		
Subsidiaries	\$ 437,493	\$ 100,498
<u>Accounts payable to related parties</u>		
Subsidiaries	\$ 33,218	\$ 177,770
Other related parties	645	1,258
	<u>\$ 33,863</u>	<u>\$ 179,028</u>
<u>Other receivables from related parties</u>		
Subsidiaries	\$ 575,701	\$ 418,908
Other related parties	130	-
	<u>\$ 575,831</u>	<u>\$ 418,908</u>

Other receivables were the Company's temporary payments for materials procured on behalf of related parties.

	December 31	
	2016	2015
<u>Other payables</u>		
Subsidiaries	\$ 32,372	\$ 67,278
Other related parties	61,606	49,809
	<u>\$ 93,978</u>	<u>\$ 117,087</u>

Other payables were the temporary payments for materials procurement made by related parties on behalf of the Company.

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:

	For the Year Ended December 31	
	2016	2015
Short-term benefits	\$ 29,380	\$ 31,130
Post-employment benefits	1,288	432
	<u>\$ 30,668</u>	<u>\$ 31,562</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 Company. As of December 31, 2016 and 2015, the amounts of the guarantees were \$997,977 thousand and \$550,000 thousand, respectively.

24. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	December 31	
	2016	2015
Pledge deposits	\$ 25,450	\$ -
Freehold land	197,586	197,586
Buildings	<u>327,798</u>	<u>336,316</u>
	<u>\$ 550,834</u>	<u>\$ 533,902</u>

25. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On November 10, 2016, the Company's board of directors resolved to issue 60,000 thousand ordinary shares with a par value of NT\$10, for consideration of NT\$10.2 per share, and increase the issued and fully paid share capital to \$3,376,884 thousand. On December 15, 2016, this transaction was approved by FSC, and the board of directors determined the subscription base date to be January 21, 2017.

26. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company's 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:

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 71,273	32.28000	\$ 2,300,715
JPY	326,992	0.27619	90,312
HKD	4,598	4.16096	19,133
CNY	134,620	4.64480	625,285
Non-monetary items			
Investments accounted for by the equity method			
USD	147,811	32.28000	4,771,324
JPY	369,047	0.27619	101,927

(Continued)

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 44,853	32.28000	\$ 1,447,856
JPY	7,885	0.27619	2,178
HKD	5,361	4.16096	22,306
			(Concluded)

December 31, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 62,725	32.86000	\$ 2,061,131
JPY	81,846	0.27263	22,314
HKD	3,973	4.23987	16,843
CNY	104,800	5.06356	530,662
Non-monetary items			
Investments accounted for by the equity method			
USD	159,739	32.86000	5,249,035
JPY	326,849	0.27263	89,109

Financial liabilities

Monetary items			
USD	44,589	32.86000	1,465,211
JPY	6,040	0.27263	1,647
HKD	5,095	4.23987	21,602

Note: Exchange rate represents the amount of New Taiwan dollars for which one foreign currency could be exchanged.

27. SEGMENT INFORMATION

The Company provided the operating segments disclosure in the consolidated financial statements for the year ended December 31, 2016.