

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS AND**  
**REPORT OF INDEPENDENT ACCOUNTANTS**  
**DECEMBER 31, 2017 AND 2016**

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



資誠

## REPORT OF INDEPENDENT ACCOUNTANTS

PWCR17000242

To GCS Holdings, Inc.

### *Opinion*

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

### *Basis for opinion*

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

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

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### ***Key Audit Matter – Sales revenue recognition***

#### Description

Please refer to Note 4(27) for accounting policies of revenue recognition. Please refer to Note 6(20) for description of revenue.

The Group engages in the manufacturing of high-end radio frequency ICs, optoelectronic device compound semiconductor wafers, licensing of intellectual property, and manufacturing and selling of advanced optoelectronics technology products.

Among the operating revenue of NT\$1,925,832 thousands for the year ended December 31, 2017, sales revenue generated from manufacturing of radio frequency ICs and optoelectronic device compound semiconductor wafers amounted to NT\$1,875,619 thousands, representing 97% of total operating revenue for the year ended December 31, 2017. The Group's customers include wireless devices and fiber-optic communication providers in the China, U.S.A., Taiwan and etc., and sales terms vary based on market conditions and customer needs in different regions. Considering that sales revenue is the main transactions of the Group, which has significant effect on the consolidated financial statements and requires substantial amount of time and resources for validation, we identified the audit of sales revenue as a key audit matter.

#### How our audit addressed the matter

The major audit procedures regarding revenue recognition were as follows:

1. Evaluated the design, and operating effectiveness of internal controls relevant to revenue recognition.
2. Sampled and tested sales transactions by inspecting customers' purchase orders, documents regarding transfer of risks and rewards, invoices and subsequent collection of accounts receivable to validate the existence and accuracy of sales transactions.
3. Performed test of sales transactions within a defined period before and after the balance sheet date in order to verify whether the sales were recorded in the appropriate periods.
4. Performed confirmation procedures for sampled sales transactions and inspected significant sales return and discount transactions that occurred in the subsequent period to verify the authenticity of sales transactions, the accuracy of sales amounts recognised and the appropriate timing for recording sales transactions.

### ***Key Audit Matter – Business acquisition***

#### Description

The Group acquired all of the outstanding shares of D-Tech Optoelectronics, Inc. at an aggregate consideration of US\$13 million, together with the 100% shareholding of its wholly owned subsidiary, D-Tech Optoelectronics (Taiwan)

Corporation. The Group adopted the acquisition method to account for business combination. Please refer to Note 4(28) for accounting policies of business combination. The evaluation on fair value of the identifiable net assets and assumed liabilities acquired was based on management's estimation and the purchase price allocation report prepared by the appraiser appointed by the Group. Please refer to Note 6(27).

Considering that the business acquisition is a significant event and was transacted during the year and should have a material impact on the consolidated financial statements, the accuracy of the business acquisition transaction was identified as a key audit matter.

#### How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Reviewed the business acquisition agreement and examined the payment documents made by the Group.
2. Obtained an understanding of the basis and procedures taken by management in assessing purchase price allocation, and utilised internal valuation specialist in reviewing the appropriateness of fair value by evaluating the reasonableness of the underlying data, valuation methodologies and assumptions (including discount rate and gross margin rate) adopted in the purchase price allocation report.
3. Obtained and validated that the consolidating entries related to the acquisition transaction were recorded based on the fair value of the net assets acquired and liabilities assumed indicated in the above purchase price allocation report, and were disclosed accordingly in the notes to consolidated financial statements.

#### ***Responsibilities of management and those charged with governance for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including Audit Committee, are responsible for overseeing the Group's financial reporting process.

***Responsibilities of independent accountants for the audit of the consolidated financial statements***

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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



資誠

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

LI, TIEN-YI

Li, Tien-Yi

Chih-Cheng Hsieh

Hsieh, Chih-Cheng

For and on behalf of PricewaterhouseCoopers, Taiwan

March 2, 2018

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

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Assets	Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
<b>Current assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 1,119,712	38	\$ 1,381,894	48
1150	Notes receivable, net		594	-	-	-
1170	Accounts receivable, net	6(3)	296,921	10	197,245	7
1200	Other receivables		15,254	-	19,869	1
1220	Current income tax assets		1,791	-	-	-
130X	Inventories	6(4)	329,834	11	348,402	12
1410	Prepayments		7,590	-	6,210	-
1470	Other current assets	8	29,760	1	-	-
11XX	<b>Total current assets</b>		<u>1,801,456</u>	<u>60</u>	<u>1,953,620</u>	<u>68</u>
<b>Non-current assets</b>						
1523	Available-for-sale financial assets, non-current	6(2)	-	-	31,605	1
1550	Investment accounted for using equity method	6(5)	14,520	-	-	-
1600	Property, plant and equipment	6(6) and 8	700,655	24	487,303	17
1780	Intangible assets	6(27)	183,654	6	14,671	1
1840	Deferred income tax assets	6(25)	164,924	6	212,819	7
1900	Other non-current assets	6(7) and 8	116,146	4	186,789	6
15XX	<b>Total non-current assets</b>		<u>1,179,899</u>	<u>40</u>	<u>933,187</u>	<u>32</u>
1XXX	<b>Total assets</b>		<u>\$ 2,981,355</u>	<u>100</u>	<u>\$ 2,886,807</u>	<u>100</u>

(Continued)

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>						
2100	Short-term borrowings	6(8)	\$ 20,000	1	\$ -	-
2120	Financial liabilities at fair value through profit or loss, current	6(9)	31,204	1	69,504	2
2170	Accounts payable		17,867	-	4,979	-
2200	Other payables	6(12)	139,249	5	159,919	6
2230	Current income tax liabilities		2,469	-	15,266	1
2320	Long-term borrowings, current portion	6(10)(11)	79,372	3	346,029	12
2399	Other current liabilities	6(13)	33,498	1	33,300	1
21XX	<b>Total current liabilities</b>		<u>323,659</u>	<u>11</u>	<u>628,997</u>	<u>22</u>
<b>Non-current liabilities</b>						
2540	Long-term borrowings	6(11)	75,797	3	103,126	4
2570	Deferred income tax liabilities	6(25)	39,466	1	70,547	2
2600	Other non-current liabilities	6(13)	4,864	-	15,032	-
25XX	<b>Total non-current liabilities</b>		<u>120,127</u>	<u>4</u>	<u>188,705</u>	<u>6</u>
2XXX	<b>Total liabilities</b>		<u>443,786</u>	<u>15</u>	<u>817,702</u>	<u>28</u>
<b>Equity</b>						
<b>Equity attributable to owners of parent</b>						
<b>Share capital</b>						
3110	Common stock	6(16)	804,389	27	744,023	26
<b>Capital surplus</b>						
3200	Capital surplus	6(17)	958,751	32	644,626	23
<b>Retained earnings</b>						
3320	Special reserve	6(18)	6,821	-	6,821	-
3350	Unappropriated retained earnings		902,702	30	618,930	21
<b>Other equity interest</b>						
3400	Other equity interest	6(19)	( 44,224)	( 1)	132,620	5
3500	Treasury stocks	6(16)	( 90,870)	( 3)	( 77,915)	( 3)
31XX	<b>Equity attributable to owners of the parent</b>		<u>2,537,569</u>	<u>85</u>	<u>2,069,105</u>	<u>72</u>
3XXX	<b>Total equity</b>		<u>2,537,569</u>	<u>85</u>	<u>2,069,105</u>	<u>72</u>
<b>Significant contingent liabilities and unrecognised contract commitments</b>						
<b>Significant events after the reporting period</b>						
3X2X	<b>Total liabilities and equity</b>		<u>\$ 2,981,355</u>	<u>100</u>	<u>\$ 2,886,807</u>	<u>100</u>

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



**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

		Years ended December 31,			
Items		2017		2016	
	Notes	AMOUNT	%	AMOUNT	%
4000	<b>Operating revenue</b>	\$ 1,925,832	100	\$ 1,819,706	100
5000	<b>Cost of operating revenue</b>	( 1,029,929)	( 54)	( 1,002,470)	( 55)
5900	<b>Net operating margin</b>	<u>895,903</u>	<u>46</u>	<u>817,236</u>	<u>45</u>
	<b>Operating expenses</b>				
6100	Selling and marketing expenses	( 52,805)	( 3)	( 43,871)	( 2)
6200	General and administrative expenses	( 230,464)	( 12)	( 300,445)	( 17)
6300	Research and development expenses	( 163,051)	( 8)	( 167,747)	( 9)
6000	<b>Total operating expenses</b>	<u>( 446,320)</u>	<u>( 23)</u>	<u>( 512,063)</u>	<u>( 28)</u>
6900	<b>Operating profit</b>	<u>449,583</u>	<u>23</u>	<u>305,173</u>	<u>17</u>
	<b>Non-operating income and expenses</b>				
7010	Other income	4,202	-	3,466	-
7020	Other gains and losses	( 7,296)	-	35,900	2
7050	Finance costs	( 21,690)	( 1)	( 31,484)	( 2)
7060	Share of loss of associates and joint ventures accounted for using equity method	( 746)	-	-	-
7000	<b>Total non-operating income and expenses</b>	<u>( 25,530)</u>	<u>( 1)</u>	<u>7,882</u>	<u>-</u>
7900	<b>Profit before income tax</b>	<u>424,053</u>	<u>22</u>	<u>313,055</u>	<u>17</u>
7950	Income tax expense	( 67,006)	( 3)	( 23,185)	( 1)
8200	<b>Net income for the year</b>	<u>\$ 357,047</u>	<u>19</u>	<u>\$ 289,870</u>	<u>16</u>
	<b>Other comprehensive income components that will not be reclassified to profit or loss</b>				
8361	Financial statements translation differences of foreign operations	(\$ 157,466)	( 8)	(\$ 6,880)	-
	<b>Other comprehensive income components that will be reclassified to profit or loss</b>				
8362	Unrealised (loss) gain on valuation of available-for-sale financial assets	( 23,542)	( 1)	22,409	1
8399	Income tax related to other comprehensive income component that will be reclassified to profit or loss	9,376	-	( 8,925)	( 1)
8300	<b>Total other comprehensive (loss) income, net</b>	<u>( \$ 171,632)</u>	<u>( 9)</u>	<u>\$ 6,604</u>	<u>-</u>
8500	<b>Total comprehensive income for the year</b>	<u>\$ 185,415</u>	<u>10</u>	<u>\$ 296,474</u>	<u>16</u>
	<b>Profit attributable to:</b>				
8610	Owners of the parent	<u>\$ 357,047</u>	<u>19</u>	<u>\$ 289,870</u>	<u>16</u>
	<b>Total comprehensive income attributable to:</b>				
8710	Owners of the parent	<u>\$ 185,415</u>	<u>10</u>	<u>\$ 296,474</u>	<u>16</u>
9750	<b>Basic earnings per share (in dollars)</b>				
9850	<b>Diluted earnings per share (in dollars)</b>				
		<u>\$ 4.77</u>		<u>\$ 4.01</u>	
		<u>\$ 4.73</u>		<u>\$ 3.62</u>	

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

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

	Notes	Equity Attributable To Owners Of The Parent								Total
		Retained Earnings			Other Equity Interest					
		Common Stock	Capital Surplus	Special Reserve	Unappropriated Retained Earnings	Financial Statements Translation Differences of Foreign Operations	Unrealised Gains (Loss) on Available-for-Sale Financial Assets	Other Equity Interest - Others	Treasury Stocks	
<b>2016</b>										
		\$ 577,999	\$ 468,688	\$ 6,821	\$ 473,560	\$ 128,882	\$ 682	(\$ 13,069)	\$ -	\$ 1,643,563
	6(18)	-	-	-	( 14,450 )	-	-	-	-	( 14,450 )
	6(18)	130,050	-	-	( 130,050 )	-	-	-	-	-
	6(18)	-	15,494	-	-	-	-	15,649	-	31,143
	6(18)	-	-	-	289,870	-	-	( 7,230 )	-	289,870
	6(16)(17)(19)	1,017	6,221	-	-	-	-	1,102	-	8
	6(16)(17)(19)	( 160 )	( 942 )	-	-	-	-	-	-	-
	6(16)(17)	7,483	6,199	-	-	-	-	-	-	13,682
	6(16)(17)	27,634	148,966	-	-	-	-	-	-	176,600
	6(16)	-	-	-	-	-	-	-	( 77,915 )	( 77,915 )
	6(19)	-	-	-	-	( 6,880 )	13,484	-	-	6,604
		<u>\$ 744,023</u>	<u>\$ 644,626</u>	<u>\$ 6,821</u>	<u>\$ 618,930</u>	<u>\$ 122,002</u>	<u>\$ 14,166</u>	<u>(\$ 3,548)</u>	<u>(\$ 77,915)</u>	<u>\$ 2,069,105</u>
		\$ 744,023	\$ 644,626	\$ 6,821	\$ 618,930	\$ 122,002	\$ 14,166	(\$ 3,548)	(\$ 77,915)	\$ 2,069,105
<b>2017</b>										
		\$ 804,389	\$ 958,751	\$ 6,821	\$ 902,702	(\$ 157,466)	(\$ 14,166)	(\$ 8,760)	(\$ 90,870)	\$ 2,537,569
	6(18)	-	-	-	( 73,275 )	-	-	-	-	( 73,275 )
	6(15)(17)(19)	-	18,448	-	-	-	-	7,446	-	25,894
	6(18)	-	-	-	357,047	-	-	-	-	357,047
	6(16)(17)(19)	1,800	11,562	-	-	-	-	( 13,368 )	-	6
	6(16)(17)(19)	( 110 )	( 600 )	-	-	-	-	710	-	-
	6(16)(17)	4,186	7,775	-	-	-	-	-	-	11,961
	6(16)(17)	54,490	276,940	-	-	-	-	-	-	331,430
	6(16)	-	-	-	-	-	-	-	( 12,955 )	( 12,955 )
	6(19)	-	-	-	-	( 157,466 )	( 14,166 )	-	-	( 171,632 )
		<u>\$ 804,389</u>	<u>\$ 958,751</u>	<u>\$ 6,821</u>	<u>\$ 902,702</u>	<u>(\$ 35,464)</u>	<u>\$ -</u>	<u>(\$ 8,760)</u>	<u>(\$ 90,870)</u>	<u>\$ 2,537,569</u>

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

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	Years ended December 31,	
		2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before income tax		\$ 424,053	\$ 313,055
Adjustments			
Adjustments to reconcile profit (loss)			
Bad debt expense	6(3)	1,117	20,916
Depreciation	6(6)(23)	81,824	63,260
Amortisation	6(23)	8,102	8,478
Interest expense	6(22)	21,690	31,484
Interest income		( 3,647 )	( 3,466 )
Compensation cost of share-based payment	6(15)	25,894	31,143
Net loss (gain) on financial liabilities at fair value through profit or loss	6(21)	8,985	( 5,348 )
Gain on disposal of property, plant and equipment	6(21)	( 456 )	-
Gain on disposal of investments	6(2)	( 29,276 )	( 36,192 )
Dividend income	6(18)	-	( 913 )
Loss on investment accounted for using equity method	6(5)	746	-
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		( 594 )	-
Accounts receivable		( 52,914 )	( 16,745 )
Other receivables		( 3,046 )	( 4,867 )
Inventories		63,948	( 22,422 )
Prepayments		3,616	( 1,186 )
Changes in operating liabilities			
Accounts payable		( 2,750 )	( 35,697 )
Other payables		( 5,335 )	10,785
Other current liabilities		4,073	17,178
Cash inflow generated from operations		546,030	369,463
Interest received		3,594	3,466
Interest paid		( 5,629 )	( 6,867 )
Income tax paid		( 60,973 )	( 19,570 )
Net cash flows from operating activities		<u>483,022</u>	<u>346,492</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of investment accounted for using equity method	6(5)	( 14,906 )	-
Acquisition of property, plant and equipment	6(29)	( 197,225 )	( 164,402 )
Proceeds from disposal of property, plant and equipment		456	-
Acquisition of intangible assets		( 1,450 )	( 2,994 )
Acquisition of a subsidiary	6(27)	( 395,070 )	-
Proceeds from disposal of available-for-sale financial assets		36,883	78,611
Decrease in refundable deposits		5	4,839
Increase in other current assets		( 30,430 )	-
Decrease in other non-current assets		-	873
Net cash flows used in investing activities		<u>( 601,737 )</u>	<u>( 83,073 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from short-term borrowings		20,000	-
Repayments of long-term borrowings		( 19,017 )	( 19,280 )
Payment of cash dividends		( 73,275 )	( 14,450 )
Proceeds from exercise of employee stock options		11,961	13,682
Payments to acquire treasury stocks		( 12,955 )	( 77,915 )
Net cash flows used in financing activities		<u>( 73,286 )</u>	<u>( 97,963 )</u>
Effect of changes in exchange rates		( 70,181 )	( 21,075 )
Net (decrease) increase in cash and cash equivalents		( 262,182 )	144,381
Cash and cash equivalents at beginning of year	6(1)	1,381,894	1,237,513
Cash and cash equivalents at end of year	6(1)	<u>\$ 1,119,712</u>	<u>\$ 1,381,894</u>

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

GCS HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANISATION

GCS Holdings Inc. (the “Company”) was incorporated in the Cayman Islands on November 30, 2010, as a holding company for the purpose of registering its shares with the Taipei Exchange (formerly GreTai Securities Market). The Company was approved by the Financial Supervisory Commission to be listed on the Taipei Exchange. The Company's common shares have been traded on the Taipei Exchange since September 15, 2014.

The Company and its subsidiaries (collectively referred herein as the “Group”) are engaged in the manufacturing of compound semiconductor wafer and foundry related services as well as licensing of intellectual property. The Company and its subsidiaries are also engaged in the researching, developing, manufacturing and selling of advanced optoelectronics technology products.

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

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

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRSs) as endorsed by the Financial Supervisory Commission (“FSC”)

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board (“IASB”)
Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’	January 1, 2016
Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint operations’	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Amendments to IAS 1, ‘Disclosure initiative’	January 1, 2016
Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortisation’	January 1, 2016
Amendments to IAS 16 and IAS 41, ‘Agriculture: bearer plants’	January 1, 2016

New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IAS 19, 'Defined benefit plans: employee contributions'	July 1, 2014
Amendments to IAS 27, 'Equity method in separate financial statements'	January 1, 2016
Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets'	January 1, 2014
Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting'	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016

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

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

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

New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised 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
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

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

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

#### B. IFRS 15, 'Revenue from contracts with customers'

- (a) IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an

entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

#### Licences

Under IFRS 15, depending on the nature of licences, they are either (1) a promise to provide a right to access to an entity's intellectual property as it exists throughout the licence period, or (2) a promise to provide a right to use an entity's intellectual property as it exists at the point in time when the licence is granted.

Licences that meet all of the following criteria provide access to an entity's intellectual property, and revenue is recognised based on the performance obligation's progress towards completion:

1. the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights;
2. the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities identified above; and
3. those activities do not result in the transfer of a good or service to the customer as those activities occur.

If licences cannot meet all criteria listed above, the entity provides a right to use the entity's intellectual property. Revenue shall be recognised at the point in time at which the licence is granted to the customer.

#### (b) Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a license should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

#### (c) When adopting the new standards endorsed by the FSC effective from 2018, the Group expects to adopt IFRS 15 using the modified retrospective approach. The Group has performed a preliminary assessment in accordance with IFRS 15, and concluded that the application of this requirement is not expected to materially impact the Group's financial condition and financial performance.

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

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

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

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

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

New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
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 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

A. Except for the financial liabilities at fair value through profit or loss and available-for-sale financial assets measured at fair value, the consolidated financial statements have been prepared under the historical cost convention.



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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Note
			December 31, 2017	December 31, 2016	
The Company	Global Communication Semiconductors, LLC	1. Manufacturing of compound semiconductor wafer and foundry related services as well as granting royalty rights for intellectual property 2. Manufacturing and selling of advanced optoelectronics technology products	100%	100%	-
The Company	Global Device Technologies, Co., Ltd.	Product design and research development services	100%	100%	-
Global Communication Semiconductors, LLC	D-Tech Optoelectronics Inc.	Development, manufacturing and selling of positive, intrinsic, negative components and avalanche photo diodes for telecommunication systems and data communication networks	100%	-	(Note)
D-Tech Optoelectronics, Inc.	D-Tech Optoelectronics (Taiwan) Corporation	Manufacturing and selling of optical chips	100%	-	(Note)

Note: In July 2017, Global Communication Semiconductors, LLC completed the acquisition of 100% shareholding of D-tech Optoelectronics, Inc. and its wholly owned subsidiary, D-Tech Optoelectronics (Taiwan) Corporation.

- C. Subsidiaries not included in the consolidated financial statements: None.
- D. Adjustments for subsidiaries with different balance sheet dates: None.
- E. Significant restrictions: None.
- F. Subsidiaries that have non-controlling interests that are material to the Group: None.

#### (4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is United States dollars; however, the consolidated financial statements are presented in New Taiwan dollars in accordance with the regulations of the country where the consolidated financial statements are reported to the regulatory authorities.

##### A. Foreign currency transactions and balances

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

##### B. Translation of foreign operations

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

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognised in other comprehensive income.

#### (5) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income.

(8) Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, since the short-term accounts receivable bear no interest, considering the discounting effects would not be significant, the Group subsequently measures those receivables at the invoice amount.

(9) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
  - (a) Significant financial difficulty of the issuer or debtor; and
  - (b) A breach of contract, such as a default or delinquency in interest or principal payments; and
  - (c) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation; and
  - (d) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered.

C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(a) Financial assets measured at amortised cost

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

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Investment accounted for using equity method- joint ventures

The Group accounts for its interest in a joint venture using equity method. Unrealised profits and losses arising from the transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. However, when the investment has objective evidence of a reduction in the net realisable value of current assets or an impairment loss, all such losses shall be recognised immediately. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture together with any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

(13) Property, plant and equipment

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

The estimated useful lives of property, plant and equipment are as follows:

Buildings	35 years
Machinery equipment	2 ~7 years
Computer and communication equipment	5 years
Research equipment	5 ~7 years
Office equipment	3 ~10 years
Leased assets	7 years
Leasehold improvements	3 ~ 15 years

(14) Leased assets/leases (lessee)

- A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset.
  - (a) A finance lease is recognised as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.
  - (b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
  - (c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.
- B. An operating lease is a lease other than a finance lease. Payments made under an operating lease are recognised in profit or loss on a straight-line basis over the lease term.

(15) Intangible assets

A. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 1 to 5 years.

B. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

(16) Impairment of non-financial assets

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognised in profit or loss.

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

C. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination.

(17) Borrowings

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

(18) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, since the short-term accounts payable bear no interest, considering the discounting effects would not be significant, the Group subsequently measures those payables at the invoice amount.

(19) Financial liabilities at fair value through profit or loss

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(a) Hybrid (combined) contracts; or

- (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
- (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

B. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(20) Derecognition of financial liabilities

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

(21) Financial liabilities

Bonds payable

Convertible corporate bonds issued by the Company contain conversion options (that is, the bondholders have the right to convert the bonds into the Company's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Company classifies the bonds payable and derivative features embedded in convertible corporate bonds on initial recognition as a financial asset, a financial liability or an equity instrument ('capital surplus-stock warrants') in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument. Convertible corporate bonds are accounted for as follows:

- (a) Call options and put options embedded in convertible corporate bonds are recognised initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.
- (b) Bonds payable of convertible corporate bonds is initially recognised at fair value and subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.
- (c) Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.
- (d) When bondholders exercise conversion options, the liability component of the bonds (including 'bonds payable and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The book value of common shares issued due to the conversion shall be based on the adjusted book value of the abovementioned liability component.

(22) Employee benefits

A. Short-term employee benefits

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

B. Pensions

Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognises termination benefits when it is demonstrably committed to a termination, when it has a detailed formal plan to terminate the employment of current employees and when it can no longer withdraw the plan.

D. Employees' compensation and directors' remuneration

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

(23) Employee share-based payment

A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

B. Restricted stocks

(a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.

(b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognises the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declaration.



(24) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the shareholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(25) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(26) Dividends

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

(27) Revenue recognition

A. Sales of goods

The Group engages in the manufacturing of compound semiconductor wafer and foundry services as well as manufacturing and selling of advanced optoelectronics technology products. Revenue is measured at the fair value of the consideration received or receivable taking into account value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. Service revenue

The Group provides transfer services of wafer manufacturing process and development knowledge to other wafer foundries. Revenue from delivering services is recognised based on the percentage of the actual services performed as of the financial reporting date to the total services to be performed when the outcome of services provided can be estimated reliably. If the outcome of a service contract cannot be estimated reliably, contract revenue should be recognised only to the extent that contract costs incurred are likely to be recoverable.

C. Royalty income

Royalty income is recognised based on substantial terms of the arrangements and when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. The revenue is accounted for under the accrual basis.

(28) Business combinations

- A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.
- B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquiree recognised and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is

recognised directly in profit or loss on the acquisition date.

(29) Operating segments

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

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

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

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

None.

(2) Critical accounting estimates and assumptions

The Group makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting period. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

A. Realisability of deferred income tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Assessment of the realisability of deferred tax assets involves critical accounting judgments and estimates of the management, including the assumptions of expected future sales revenue growth rate, profit rate, and etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.

As of December 31, 2017, the Group recognised deferred income tax assets amounting to \$164,924.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgments and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the selling prices of sales orders. Therefore, there might be material changes to the evaluation.

As of December 31, 2017, the carrying amount of inventories was \$329,834.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand	\$ 117	\$ 115
Checking accounts and demand deposits	1,119,595	1,180,266
Cash equivalents - money market fund	-	201,513
	<u>\$ 1,119,712</u>	<u>\$ 1,381,894</u>

A. The Group transacts with a variety of financial institutions with high credit quality to disperse credit risk and expects that the probability of counterparty default is remote. The Group's maximum exposure to credit risk at balance sheet date is the carrying amount of all cash and cash equivalents.

B. The Group has no cash and cash equivalents pledged to others.

### (2) Available-for-sale financial assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Non-current items:		
Listed stocks	\$ -	\$ 8,063
Valuation adjustment	-	23,542
	<u>\$ -</u>	<u>\$ 31,605</u>

A. The Group recognised \$7,532 and \$56,283 in other comprehensive income for fair value change for the years ended December 31, 2017 and 2016, respectively.

B. The Group reclassified \$18,698 and \$20,552 from equity to profit or loss and recognised \$29,276 and \$36,192 in gain on disposal of available-for-sale financial assets for the years ended December 31, 2017 and 2016, respectively.

### (3) Accounts receivable, net

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable - third parties	\$ 298,926	\$ 219,659
Less: Allowance for bad debts	( 1,117)	( 20,910)
Allowance for sales returns and discounts	( 888)	( 1,504)
	<u>\$ 296,921</u>	<u>\$ 197,245</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Group 1	\$ 127,182	\$ 92,546
Group 2	113,919	66,851
Group 3	8,197	5,910
	<u>\$ 249,298</u>	<u>\$ 165,307</u>

Group 1: Annual sales transactions exceeding US\$ 2.5 million.

Group 2: Annual sales transactions exceeding US\$ 100 thousand, but less than US\$ 2.5 million.

Group 3: Annual sales transactions below US\$ 100 thousand.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Up to 30 days	\$ 34,544	\$ 29,498
31 to 60 days	8,269	1,193
61 to 90 days	445	1,247
Over 90 days	4,365	-
	<u>\$ 47,623</u>	<u>\$ 31,938</u>

C. Analysis of movement of impaired accounts receivable:

(a) As of December 31, 2017 and 2016, the Group's accounts receivable that were impaired amounted to \$1,117 and \$20,910, respectively.

(b) Movements on the Group's provision for impairment of accounts receivable are as follows:

	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 20,910	\$ -	\$ 20,910
Acquired through business combination	-	4,301	4,301
Reversal of revaluation in business combination	-	( 4,301)	( 4,301)
Provision for impairment	-	1,117	1,117
Write-offs during the year	( 20,910)	-	( 20,910)
At December 31	<u>\$ -</u>	<u>\$ 1,117</u>	<u>\$ 1,117</u>
	<u>2016</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ -	\$ -	\$ -
Provision for impairment	20,916	-	20,916
Effects of foreign exchange	( 6)	-	( 6)
At December 31	<u>\$ 20,910</u>	<u>\$ -</u>	<u>\$ 20,910</u>

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

(4) Inventories

	December 31, 2017		
	Cost	Allowance	Book Value
Raw materials	\$ 146,696	(\$ 33,957)	\$ 112,739
Work in progress	197,836	( 37,208)	160,628
Finished goods	67,519	( 11,052)	56,467
	<u>\$ 412,051</u>	<u>(\$ 82,217)</u>	<u>\$ 329,834</u>

  

	December 31, 2016		
	Cost	Allowance	Book Value
Raw materials	\$ 134,925	(\$ 24,733)	\$ 110,192
Work in progress	234,570	( 42,685)	191,885
Finished goods	57,321	( 10,996)	46,325
	<u>\$ 426,816</u>	<u>(\$ 78,414)</u>	<u>\$ 348,402</u>

Expenses and costs incurred as cost of operating revenue for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31,	
	2017	2016
Cost of inventories sold	\$ 1,056,375	\$ 1,054,837
Loss on (recovery of) market price decline	5,213	( 10,567)
Revenue from sale of scraps	( 31,659)	( 41,800)
	<u>\$ 1,029,929</u>	<u>\$ 1,002,470</u>

The Group recognised recovery of loss on market price decline for the year ended December 31, 2016 because some of the inventories previously written down were sold.

(5) Investment accounted for using equity method

	2017
At January 1	\$ -
Acquisition of investment accounted for using equity method	14,906
Share of profit or loss of investments accounted for using equity method	( 746)
Translation differences of foreign operation	360
At December 31	<u>\$ 14,520</u>

For the year ended December 31, 2016, the Group had no investment accounted for using equity method.

A. The basic information of the joint venture that is material to the Group is as follows:

<u>Company name</u>	<u>Principal place of business</u>	<u>Shareholding ratio</u>	<u>Nature of relationship</u>	<u>Methods of measurement</u>
		<u>December 31, 2017</u>		
Xiamen Global Advanced Semiconductor Co., Ltd.	Xiamen City, Fujian Province, China	49% (Note)	Joint venture	Equity method

Note: Xiamen Global Advanced Semiconductor Co., Ltd., is a joint venture company, which was established by the Company and Xiamen San'an Integrated Circuit Co., Ltd. on February 23, 2017.

B. The summarised financial information of the joint venture that is material to the Group is as follows:

Balance sheet

	<u>Xiamen Global Advanced Semiconductor Co., Ltd.</u> <u>December 31, 2017</u>
Cash and cash equivalents	\$ 29,642
Current assets	<u>29,642</u>
Total assets	<u>29,642</u>
Other current liabilities	<u>10</u>
Current liabilities	<u>10</u>
Total liabilities	<u>10</u>
Total net assets	<u>\$ 29,632</u>
Share in joint venture's net assets	<u>\$ 14,520</u>
Carrying amount of the joint venture	<u>\$ 14,520</u>

Statement of comprehensive income

	<u>Xiamen Global Advanced Semiconductor Co., Ltd.</u> <u>For the year ended</u> <u>December 31, 2017</u>
Administrative expenses	\$ 909
Interest income	( 26)
Net foreign exchange losses	<u>639</u>
Net loss / total comprehensive loss	<u>\$ 1,522</u>
Dividends received from joint venture	<u>\$ -</u>

(6) Property, plant and equipment

	Land	Buildings	Machinery equipment	Computer and communication equipment	Research equipment	Office equipment	Leased assets	Leasehold improvements	Total
At January 1, 2017									
Cost	\$ 148,511	\$ 99,008	\$ 780,103	\$ 11,852	\$ 57,524	\$ 5,346	\$ 45,325	\$ 218,033	\$ 1,365,702
Accumulated depreciation	-	(4,008)	(620,858)	(7,356)	(29,790)	(3,468)	(18,736)	(194,183)	(878,399)
	<u>\$ 148,511</u>	<u>\$ 95,000</u>	<u>\$ 159,245</u>	<u>\$ 4,496</u>	<u>\$ 27,734</u>	<u>\$ 1,878</u>	<u>\$ 26,589</u>	<u>\$ 23,850</u>	<u>\$ 487,303</u>
2017									
Opening net book amount	\$ 148,511	\$ 95,000	\$ 159,245	\$ 4,496	\$ 27,734	\$ 1,878	\$ 26,589	\$ 23,850	\$ 487,303
Acquired through business combination	-	-	47,781	-	-	2,495	-	52,891	103,167
Additions	-	-	153,364	172	64,261	28	-	16,392	234,217
Depreciation charges	-	(2,669)	(50,543)	(1,369)	(6,247)	(859)	(6,110)	(14,027)	(81,824)
Net exchange differences	(11,466)	(7,276)	(15,256)	(277)	(2,891)	(153)	(1,918)	(2,971)	(42,208)
Closing net book amount	<u>\$ 137,045</u>	<u>\$ 85,055</u>	<u>\$ 294,591</u>	<u>\$ 3,022</u>	<u>\$ 82,857</u>	<u>\$ 3,389</u>	<u>\$ 18,561</u>	<u>\$ 76,135</u>	<u>\$ 700,655</u>
At December 31, 2017									
Cost	\$ 137,045	\$ 91,363	\$ 1,020,035	\$ 10,103	\$ 116,587	\$ 11,545	\$ 41,826	\$ 292,911	\$ 1,721,415
Accumulated depreciation	-	(6,308)	(725,444)	(7,081)	(33,730)	(8,156)	(23,265)	(216,776)	(1,020,760)
	<u>\$ 137,045</u>	<u>\$ 85,055</u>	<u>\$ 294,591</u>	<u>\$ 3,022</u>	<u>\$ 82,857</u>	<u>\$ 3,389</u>	<u>\$ 18,561</u>	<u>\$ 76,135</u>	<u>\$ 700,655</u>



	Land	Buildings	Machinery equipment	Computer and communication equipment	Research equipment	Office equipment	Leased assets	Leasehold improvements	Total
At January 1, 2016									
Cost	\$ 151,159	\$ 100,773	\$ 726,535	\$ 10,134	\$ 43,678	\$ 5,484	\$ 46,133	\$ 221,910	\$ 1,305,806
Accumulated depreciation	-	(1,200)	(600,091)	(6,217)	(25,961)	(3,085)	(12,480)	(183,138)	(832,172)
	<u>\$ 151,159</u>	<u>\$ 99,573</u>	<u>\$ 126,444</u>	<u>\$ 3,917</u>	<u>\$ 17,717</u>	<u>\$ 2,399</u>	<u>\$ 33,653</u>	<u>\$ 38,772</u>	<u>\$ 473,634</u>
<u>2016</u>									
Opening net book amount	\$ 151,159	\$ 99,573	\$ 126,444	\$ 3,917	\$ 17,717	\$ 2,399	\$ 33,653	\$ 38,772	\$ 473,634
Additions	-	-	68,421	2,162	14,562	-	-	-	85,145
Depreciation charges	-	(2,830)	(33,403)	(1,528)	(4,283)	(484)	(6,477)	(14,255)	(63,260)
Net exchange differences	(2,648)	(1,743)	(2,217)	(55)	(262)	(37)	(587)	(667)	(8,216)
Closing net book amount	<u>\$ 148,511</u>	<u>\$ 95,000</u>	<u>\$ 159,245</u>	<u>\$ 4,496</u>	<u>\$ 27,734</u>	<u>\$ 1,878</u>	<u>\$ 26,589</u>	<u>\$ 23,850</u>	<u>\$ 487,303</u>
At December 31, 2016									
Cost	\$ 148,511	\$ 99,008	\$ 780,103	\$ 11,852	\$ 57,524	\$ 5,346	\$ 45,325	\$ 218,033	\$ 1,365,702
Accumulated depreciation	-	(4,008)	(620,858)	(7,356)	(29,790)	(3,468)	(18,736)	(194,183)	(878,399)
	<u>\$ 148,511</u>	<u>\$ 95,000</u>	<u>\$ 159,245</u>	<u>\$ 4,496</u>	<u>\$ 27,734</u>	<u>\$ 1,878</u>	<u>\$ 26,589</u>	<u>\$ 23,850</u>	<u>\$ 487,303</u>

- A. Amount of borrowing costs capitalised as part of property, plant and equipment for the years ended December 31, 2017 and 2016: None.
- B. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(7) Non-current assets

<u>Item</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Time deposits (Note)	\$ 59,828	\$ 64,500
Prepayments for equipment	52,857	118,721
Other non-current assets	3,461	3,568
	<u>\$ 116,146</u>	<u>\$ 186,789</u>

Note: Please refer to Note 8 for the information of the Group's pledged assets.

(8) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2017</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Secured borrowings	\$ 20,000	Floating interest rate	Time deposit (Note)

As of December 31, 2016, the Group had no short-term borrowings.

Note: Please refer to Note 8 for the information of the Group's assets pledged to secured borrowings.

(9) Financial liabilities at fair value through profit or loss

<u>Item</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current items:		
Financial liabilities held for trading		
Call options, put options and conversion options embedded in convertible bonds	\$ 10,565	\$ 60,321
Valuation adjustment	20,639	9,183
	<u>\$ 31,204</u>	<u>\$ 69,504</u>

The Group recognised net (losses) gains of (\$8,985) and \$5,348, respectively, on financial liabilities at fair value through profit or loss for the years ended December 31, 2017 and 2016, respectively.

(10) Bonds payable

<u>Item</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Convertible bonds		
First secured convertible bonds	\$ 300,000	\$ 300,000
Second unsecured convertible bonds	300,000	300,000
	600,000	600,000
Less: Bonds converted	( 538,500)	( 243,500)
Less: Discount on bonds payable	( 1,494)	( 30,625)
	60,006	325,875
Less: Call options exercisable (Note)	( 60,006)	( 325,875)
	<u>\$ -</u>	<u>\$ -</u>

Note: The bondholders may request the Company to redeem the bonds, in whole or in part, with an added interest rate on the carrying amount as the premium after two years from the issue date. As a result, the convertible bonds are reclassified as current liabilities and recognised as "Long-

term borrowings, current portion”.

A. On May 13, 2015, the Company issued the first secured domestic convertible bonds. Key terms and conditions of bonds are as follows:

- (a) Issue amount: \$300,000
- (b) Issue price: Issued at 100% of par value; \$100
- (c) Issue period: Three years; from May 13, 2015 to May 13, 2018
- (d) Coupon rate: 0% per annum
- (e) Repayment date and method: The bonds will be redeemed at par at maturity if the bonds are not converted into common stocks at maturity, or redeemed early by the Company, or resold early to the Company by the bondholders, or redeemed from the Company’s underwriter and cancelled by the Company.
- (f) Conversion period: Except that the bonds are in the lock-up period, or redeemed early by the Company, the conversion right can be exercised at any time from June 14, 2015 through May 13, 2018 in accordance with the terms of the bonds and relevant regulations.
- (g) Conversion price and price reset: The conversion price was set at NT\$79.3 (in dollars) per share on the issue date. The conversion price is subject to adjustments on the ex-right date of new shares issuance based on the formula specified in the terms of the bonds, due to changes in the number of the Company’s common shares. The conversion price was subsequently adjusted to NT\$53.6 (in dollars) per share due to aforementioned rationale.
- (h) The converted shares have the same rights as common shares.
- (i) Call options of the Company: The bonds may be called, in whole or in part, at the option of the Company after one month from the issue date (June 14, 2015) to forty days before the maturity date (April 3, 2018) at 100% of their principal amount, provided the closing price of the Company’s common shares on the Taipei Exchange exceeds 130% (inclusive) of the then-current conversion price of the bonds over 30 (inclusive) trading days during 30 consecutive trading days, or when over 90% (inclusive) of the bonds have been redeemed, converted, called and retired.
- (j) Put options of the holders: The bondholders may request the Company to redeem the bonds, in whole or in part, with an added interest rate on the carrying amount as the premium, which is equivalent to 102.516% (real yield rate is 1.25%) of their principal amount, after two years from the issue date. The non-equity conversion options, call options, put options embedded in bonds payable were separated from their host contracts and were recognised in “financial assets or liabilities at fair value through profit or loss” in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 7.2%.
- (k) Through December 31, 2017, convertible bonds amounting to \$259,200 was converted to ordinary shares of 4,583,600 shares.
- (l) Please refer to Note 8 for the information of the Group’s assets pledged to secured domestic convertible bonds.

B. On May 14, 2015, the Company issued the second unsecured domestic convertible bonds. Key terms and conditions of bonds are as follows:

- (a) Issue amount: \$300,000
- (b) Issue price: Issued at 100% of par value; \$100
- (c) Issue period: Three years; from May 14, 2015 to May 14, 2018
- (d) Coupon rate: 0% per annum
- (e) Repayment date and method: The bonds will be redeemed at par at maturity if the bonds are not converted into common stocks at maturity, or redeemed early by the Company, or resold early to the Company by the bondholders, or redeemed from the Company's underwriter and cancelled by the Company.
- (f) Conversion period: Except that the bonds are in the lock-up period, or redeemed early by the Company, the conversion right can be exercised at any time from June 15, 2015 through May 14, 2018 in accordance with the terms of the bonds and relevant regulations.
- (g) Conversion price and price reset: The conversion price was set at NT\$81.2 (in dollars) per share on the issue date. The conversion price is subject to adjustments on the ex-right date of new shares issuance based on the formula specified in the terms of the bonds, due to changes in the number of the Company's common shares. The conversion price was subsequently adjusted to NT\$54.9 (in dollars) per share due to the aforementioned rationale.
- (h) The converted shares have the same rights as common shares.
- (i) Call options of the Company: The bonds may be called, in whole or in part, at the option of the Company after one month from the issue date (June 15, 2015) to forty days before the maturity date (April 4, 2018) at 100% of their principal amount, provided the closing price of the Company's common shares on the Taiwan Exchange exceeds 130% (inclusive) of the then-current conversion price of the bonds during 30 consecutive trading days, or when over 90% (inclusive) of the bonds have been redeemed, converted, called and retired.
- (j) Put options of the holders: The bondholders may request the Company to redeem the bonds, in whole or in part, with an added interest rate on the carrying amount as the premium, which is equivalent to 103.023% (real yield rate is 1.5%) of their principal amount, after two years from the issue date. The non-equity conversion options, call options, put options embedded in bonds payable were separated from their host contracts and were recognised in "financial assets or liabilities at fair value through profit or loss" in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 5.66%.
- (k) Through December 31, 2017, convertible bonds amounting to \$279,300 was converted to ordinary shares of 4,578,262 shares.

(11) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	December 31, 2017	December 31, 2016
Long-term bank borrowings Secured borrowings (Note 1)	(Note 2)	4%	Land and buildings (Note 3)	\$ 95,163	\$ 123,280
Less: Current portion				( 19,366)	( 20,154)
				\$ 75,797	\$ 103,126

Note 1: According to the secured loan contract, the Group was required to comply with certain financial covenants by maintaining certain financial ratios, such as debt coverage ratio, on an annual basis. As of December 31, 2017 and 2016, the Group had not violated any of the required financial covenants.

Note 2: Borrowing period is from August 6, 2015 to August 6, 2022; interest and principal are repayable monthly.

Note 3: Please refer to Note 8 for the information of the Group's assets pledged to secured borrowings.

(12) Other payables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accrued salaries and bonuses	\$ 46,811	\$ 36,603
Accrued employees' compensation and directors' remuneration	31,761	21,914
Accrued unused compensated absences	25,171	21,207
Accrued payable for equipment	5,703	29,272
Accrued miscellaneous tools	1,611	3,455
Accrued service fees	464	3,967
Accrued utilities	2,101	1,926
Accrued rental expenses	269	99
Other accrued expenses	25,358	41,476
	<u>\$ 139,249</u>	<u>\$ 159,919</u>

(13) Finance lease liabilities

The Group leases machinery equipment assets under finance lease. Based on the terms of the lease contracts, the Group has the option to purchase the leased machinery equipment at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable when the leases expire. Future minimum lease payments are as follows:

	December 31, 2017		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
No later than one year (shown as “Other current liabilities”)	\$ 9,684	(\$ 360)	\$ 9,324
<u>Non-current</u>			
Later than one year but not later than five years (shown as “Other non-current liabilities”)	4,643	( 95)	4,548
	<u>\$ 14,327</u>	<u>(\$ 455)</u>	<u>\$ 13,872</u>
	December 31, 2016		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
No later than one year (shown as “Other current liabilities”)	\$ 12,456	(\$ 852)	\$ 11,604
<u>Non-current</u>			
Later than one year but not later than five years (shown as “Other non-current liabilities”)	15,525	( 493)	15,032
	<u>\$ 27,981</u>	<u>(\$ 1,345)</u>	<u>\$ 26,636</u>

(14) Pension plan

- A. The Company’s US subsidiary has established a 401(K) pension plan (the “Plan”) covering substantially all employees. The Plan provides voluntary salary reduction contributions by eligible participants in accordance with Section 401(K) of the Internal Revenue Code (IRC), as well as discretionary matching contributions below 15% of employees’ salaries from the Company’s subsidiary to its employees’ individual pension accounts.
- B. The Company’s Taiwan subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company’s Taiwan subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid

monthly or in lump sum upon termination of employment.

C. The pension costs under the above pension plans of the Group for the years ended December 31, 2017 and 2016 amounted to \$16,005 and \$15,510, respectively.

(15) Share-based payment-employee compensation plan

A. As of December 31, 2017 and 2016, the Company's share-based payment transactions are set forth below:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting condition
Employee stock options	April 2013	1,538,000 shares	10 years	(Note 1)
Employee stock options	August 2013	7,830 shares	10 years	(Note 1)
Employee stock options	October 2013	538,000 shares	10 years	(Note 1)
Employee stock options	February 2014	60,000 shares	10 years	(Note 1)
Employee stock options	November 2014	75,000 shares	10 years	(Note 1)
Employee stock options	January 2015	30,000 shares	10 years	(Note 1)
Employee stock options	February 2015	652,200 shares	10 years	(Note 1)
Employee stock options	March 2016	5,000 shares	10 years	(Note 1)
Employee stock options	August 2016	895,000 shares	10 years	(Note 1)
Employee stock options	November 2016	34,000 shares	10 years	(Note 1)
Employee stock options	February 2017	15,000 shares	10 years	(Note 1)
Employee stock options	August 2017	215,000 shares	10 years	(Note 1)
Restricted stocks to employees (Note 3)	July 2015	297,300 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	November 2015	22,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	January 2016	93,700 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	March 2016	8,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	August 2017	180,000 shares	2 years	(Note 2)

Note 1: Some employee stock options shall be vested and become exercisable as to 50% of the shares after fulfilling two years of service, and in accordance with the agreement, the remaining 50% of such options will be vested ratably in equal installments as of the last day of each of the succeeding 24 months.

Note 2: Some restricted stocks to employees shall be vested and become exercisable as to 50% of the shares after one year of service, and the remaining 50% of such shares to be vested after fulfilling two years of service.

Note 3: The restricted stocks to employees are restricted from transferring within vesting period, but are allowed for voting rights and rights to receive dividends. The Company will recover restricted stocks at no consideration and cancel registration if employees resign or die not due to occupational hazards. However, employees do not need to return dividends already received.

B. Details of the employee stock options are set forth below:

For the year ended December 31, 2017			
	No. of options	Currency	Weighted average exercise price
			(in dollars)
Options outstanding at beginning of the year	2,178,139	NTD	\$ 44.84
Options granted	230,000	NTD	65.89
Options exercised	( 418,638)	NTD	28.46
Options forfeited	( 76,960)	NTD	57.54
Options outstanding at end of the year	<u>1,912,541</u>	NTD	50.44
Options exercisable at end of the year	<u>668,190</u>	NTD	26.98
For the year ended December 31, 2016			
	No. of options	Currency	Weighted average exercise price
			(in dollars)
Options outstanding at beginning of the year	2,089,902	NTD	\$ 29.47
Options granted	934,000	NTD	65.71
Options exercised	( 748,269)	NTD	15.30
Options forfeited	( 97,494)	NTD	32.76
Options outstanding at end of the year	<u>2,178,139</u>	NTD	44.84
Options exercisable at end of the year	<u>492,301</u>	NTD	14.99



C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2017 and 2016 was \$65.19 (in dollars) and \$80.27 (in dollars), respectively.

D. As of December 31, 2017 and 2016, the range of exercise prices of stock options outstanding are as follows:

		December 31, 2017		
Grant date	Expiry date	No. of Shares	Currency	Stock options exercise price  (in dollars)
April 2013	April 2023	224,896	NTD	\$ 11.35
October 2013	October 2023	95,002	NTD	17.63
February 2014	February 2024	7,500	NTD	19.20
November 2014	November 2024	58,667	NTD	32.65
January 2015	January 2025	10,000	NTD	42.09
February 2015	February 2025	405,476	NTD	41.21
March 2016	March 2026	5,000	NTD	71.01
August 2016	August 2026	850,000	NTD	65.73
November 2016	November 2026	26,000	NTD	64.40
February 2017	February 2027	15,000	NTD	57.10
August 2017	August 2027	215,000	NTD	66.50
		<u>1,912,541</u>		
		December 31, 2016		
Grant date	Expiry date	No. of Shares	Currency	Stock options exercise price  (in dollars)
April 2013	April 2023	317,397	NTD	\$ 11.35
August 2013	August 2023	1,957	NTD	17.37
October 2013	October 2023	189,085	NTD	17.63
February 2014	February 2024	22,500	NTD	19.20
November 2014	November 2024	62,000	NTD	32.65
January 2015	January 2025	30,000	NTD	42.09
February 2015	February 2025	621,200	NTD	41.21
March 2016	March 2026	5,000	NTD	71.01
August 2016	August 2026	895,000	NTD	65.73
November 2016	November 2026	34,000	NTD	64.40
		<u>2,178,139</u>		

E. Details of the restricted stocks to employees are set forth below:

Employee restricted stocks	For the years ended December 31,	
	2017	2016
	No. of Shares	No. of Shares
Outstanding at beginning of the year	244,850	316,300
Granted (Notes 1 and 2)	180,000	101,700
Vested	( 196,000)	( 157,150)
Retired	( 13,000)	( 16,000)
Outstanding at end of the year	<u>215,850</u>	<u>244,850</u>

Note 1: For the restricted stocks granted with the compensation cost accounted for using the fair value method, the fair values on the grant date are calculated based on the closing price on the grant date.

Note 2: The fair values of restricted stocks granted in August 2017, March 2016, and January 2016 were \$74.00 (in dollars), \$86.20 (in dollars) and \$70.50 (in dollars), respectively.

F. For the stock options granted with the compensation cost accounted for using the fair value method, their fair value on the grant date is estimated using the Black-Scholes option-pricing model and discounted cash flow valuation. The parameters used in the estimation of the fair value are as follows:

Type of arrangement	Grant date	Currency	Fair value (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option period (years)	Expected dividend yield rate	Risk-free interest rate	Fair value (in dollars)
Employee stock options	April 2013	NTD	\$ 18.28	\$ 18.10	51.47%	6.26	1.16%	1.07%	\$ 8.18
Employee stock options	August 2013	NTD	27.40	27.71	51.47%	6.26	1.16%	1.47%	12.29
Employee stock options	October 2013	NTD	27.94	28.11	51.47%	6.26	1.16%	1.44%	12.55
Employee stock options	February 2014	NTD	35.97	30.62	51.47%	6.26	1.16%	1.20%	17.48
Employee stock options	November 2014	NTD	50.22	48.25	47.00%	6.26	1.10%	1.75%	28.00
Employee stock options	January 2015	NTD	55.20	62.20	44.96%	6.26	1.10%	1.67%	28.31
Employee stock options	February 2015	NTD	60.62	60.90	40.89%	6.26	1.00%	1.67%	31.54
Employee stock options	March 2016	NTD	87.87	86.20	55.74%	6.26	1.00%	0.94%	53.71
Employee stock options	August 2016	NTD	84.91	79.80	39.67%	6.26	1.00%	0.91%	45.91
Employee stock options	November 2016	NTD	68.36	64.40	48.92%	6.26	1.00%	0.82%	40.15
Employee stock options	February 2017	NTD	57.98	57.10	34.41%	6.26	1.00%	1.19%	29.14
Employee stock options	August 2017	NTD	64.90	66.50	36.37%	6.26	1.00%	1.10%	32.53

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

	For the years ended December 31,	
	2017	2016
Equity-settled	\$ 25,894	\$ 31,143

(16) Common stock

A. As of December 31, 2017, the Company's paid-in capital was \$804,389, consisting of 80,438,886 shares with a par value of \$10 (in dollars) per share.

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

Unit: Numbers of shares

	<u>2017</u>	<u>2016</u>
At January 1	73,275,266	57,799,943
Stock dividends	-	13,004,988
Exercise of employee stock options	418,638	748,269
Conversion of convertible bonds	5,448,982	2,763,366
Issuance of restricted stocks to employees	180,000	101,700
Retired and retrieved restricted stocks to employees	( 11,000)	( 16,000)
Retrieved restricted stocks to employees, which have not been retired	( 2,000)	-
Purchase of treasury stocks	( 250,000)	( 1,127,000)
At December 31	<u>79,059,886</u>	<u>73,275,266</u>

B. On June 3, 2016, the shareholders adopted a resolution to appropriate \$130,050 of year 2015 earnings as stock dividends by issuing 13,004,988 shares. Pursuant to resolution adopted at the Board of Directors' meeting on August 1, 2016, the record date for stock dividend distribution was set on September 26, 2016. The capital increase has been completed.

C. On May 15, 2015, the shareholders adopted a resolution to issue 600,000 employee restricted stocks with par value of \$10 (in dollars) per share, with the effective date set on July 13, 2015. The subscription price is \$0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On July 27, 2015, November 5, 2015, January 14, 2016 and March 2, 2016, the Board of Directors adopted resolutions to grant 297,300, 22,000, 93,700 and 8,000 employee restricted stocks, respectively. For the years ended December 31, 2017 and 2016, the Company had retrieved 11,000 and 16,000 employee restricted stocks, respectively, due to the employees' resignation and the retrieved shares have been retired. Further, in November 2017, the Company retrieved additional 2,000 employee restricted stocks due to the employees' resignation, which have not been retired.

D. On June 1, 2017, the shareholders adopted a resolution to reserve 1,000,000 shares for the purpose of granting employee restricted stocks with par value of \$10 (in dollars) per shares, with the effective date filed with the regulator on August 8, 2017. The subscription price is \$0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations as these shares issued are the same as other issued ordinary shares. On August 21, 2017, the Board of Directors adopted a resolution to grant 180,000 employee restricted stocks.

E. Treasury stocks

(a) Reason for share repurchase and the number of the Company's treasury stocks are as follows:

		<u>December 31, 2017</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	1,377,000	\$ 90,870

		<u>December 31, 2016</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	1,127,000	\$ 77,915

(b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares repurchased as treasury stocks should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.

(c) Pursuant to the R.O.C. Securities and Exchange Act, treasury stocks should not be pledged as collateral and is not entitled to dividends before it is reissued.

(d) Pursuant to the R.O.C. Securities and Exchange Act, treasury stocks should be reissued to the employees within three years from the date of repurchase and shares not reissued within the three-year period are to be retired. Treasury stocks to enhance the Company's credit rating and the shareholders' equity should be retired within six months of repurchase.

(17) Capital surplus

Capital surplus can be used to cover accumulated deficit or distributed as dividend as proposed by the Board of Directors and resolved by the shareholders.

	2017				
	Share premium	Employee stock options	Employee restricted stocks	Others	Total
At January 1	\$ 541,476	\$ 46,850	\$ 26,588	\$ 29,712	\$ 644,626
Compensation costs of share-based payment	-	18,448	-	-	18,448
Issuance of restricted stocks to employees	-	-	11,562	-	11,562
Retirement of restricted stocks to employees	-	-	( 600)	-	( 600)
Exercise of employee stock options	25,349	( 17,574)	-	-	7,775
Conversion of convertible bonds	276,940	-	-	-	276,940
Forfeiture of employee stock options	-	( 1,031)	-	1,031	-
At December 31	<u>\$ 843,765</u>	<u>\$ 46,693</u>	<u>\$ 37,550</u>	<u>\$ 30,743</u>	<u>\$ 958,751</u>
	2016				
	Share premium	Employee stock options	Employee restricted stocks	Others	Total
At January 1	\$ 368,914	\$ 50,655	\$ 21,309	\$ 27,810	\$ 468,688
Compensation costs of share-based payment	-	15,494	-	-	15,494
Issuance of restricted stocks to employees	-	-	6,221	-	6,221
Retirement of restricted stocks to employees	-	-	( 942)	-	( 942)
Exercise of employee stock options	23,596	( 17,397)	-	-	6,199
Conversion of convertible bonds	148,966	-	-	-	148,966
Forfeiture of employee stock options	-	( 1,902)	-	1,902	-
At December 31	<u>\$ 541,476</u>	<u>\$ 46,850</u>	<u>\$ 26,588</u>	<u>\$ 29,712</u>	<u>\$ 644,626</u>

(18) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset losses incurred in previous years and then a special reserve as required by the applicable securities authority under the applicable public company rules in Taiwan. After combining accumulated undistributed earnings in the previous years and setting aside a certain amount of remaining profits of such financial year as a reserve or reserves for development purposes as the Board of Directors may from time to time deem appropriate, subject to the compliance with the Cayman Islands Companies Law, the Company shall distribute no less than 10% of the remaining profit as dividends to the shareholders.
- B. The Company's dividend policy is as follows: As the Company operates in a capital intensive industry and in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's operation scale, cash flow demand and future expansion plans, and cash dividends shall account for at least 10% of the total dividends distributed.
- C. The appropriations of 2017 earnings had been resolved by the Board of Directors on February 27, 2018 and the appropriations of 2016 earnings had been resolved by the shareholders' meeting on June 1, 2017. Details are summarised below:

	<u>2017 (Note)</u>		<u>2016</u>	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Cash dividends	<u>\$ 79,060</u>	<u>\$ 1.00</u>	<u>\$ 73,275</u>	<u>\$ 1.00</u>

Note: The appropriations of 2017 earnings had not been resolved by the shareholders' meeting.

- D. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(24).

(19) Other equity interest

	2017			
	Currency translation differences	Unearned employee compensation	Available-for-sale financial assets	Total
At January 1	\$ 122,002	(\$ 3,548)	\$ 14,166	\$ 132,620
Currency translation differences	( 157,466)	-	-	( 157,466)
Compensation costs of share-based payment	-	7,446	-	7,446
Issuance of restricted stocks to employees	-	( 13,368)	-	( 13,368)
Retirement of restricted stocks to employees	-	710	-	710
Changes of fair value in financial instruments				
- Transfer out of revaluation - gross	-	-	( 31,076)	( 31,076)
- Transfer out of revaluation - tax	-	-	12,378	12,378
- Revaluation - gross	-	-	7,534	7,534
- Revaluation - tax	-	-	( 3,002)	( 3,002)
At December 31	<u>(\$ 35,464)</u>	<u>(\$ 8,760)</u>	<u>\$ -</u>	<u>(\$ 44,224)</u>
	2016			
	Currency translation differences	Unearned employee compensation	Available-for-sale financial assets	Total
At January 1	\$ 128,882	(\$ 13,069)	\$ 682	\$ 116,495
Currency translation differences	( 6,880)	-	-	( 6,880)
Compensation costs of share-based payment	-	15,649	-	15,649
Issuance of restricted stocks to employees	-	( 7,230)	-	( 7,230)
Retirement of restricted stocks to employees	-	1,102	-	1,102
Changes of fair value in financial instruments				
- Transfer out of revaluation - gross	-	-	( 33,874)	( 33,874)
- Transfer out of revaluation - tax	-	-	13,322	13,322
- Revaluation - gross	-	-	56,283	56,283
- Revaluation - tax	-	-	( 22,247)	( 22,247)
At December 31	<u>\$ 122,002</u>	<u>(\$ 3,548)</u>	<u>\$ 14,166</u>	<u>\$ 132,620</u>



(20) Operating revenue

	For the years ended December 31,	
	2017	2016
Sales revenue	\$ 1,875,619	\$ 1,719,821
Service revenue	15,216	75,005
Royalty revenue	34,997	24,880
	<u>\$ 1,925,832</u>	<u>\$ 1,819,706</u>

(21) Other gains and losses

	For the years ended December 31,	
	2017	2016
Net (losses) gains on financial liabilities at fair value through profit or loss	(\$ 8,985)	\$ 5,348
Net currency exchange losses	( 28,043)	( 6,553)
Gain on disposal of property, plant and equipment	456	-
Gain on disposal of investments	29,276	36,192
Dividend income	-	913
	<u>(\$ 7,296)</u>	<u>\$ 35,900</u>

(22) Finance costs

	For the years ended December 31,	
	2017	2016
Interest expense:		
Convertible bonds	\$ 16,036	\$ 24,617
Other interest expense	5,654	6,867
	<u>\$ 21,690</u>	<u>\$ 31,484</u>

(23) Expenses by nature

	For the years ended December 31,	
	2017	2016
Employee benefit expense	\$ 669,452	\$ 634,148
Depreciation charges on property, plant and equipment	81,824	63,260
Amortisation charges on intangible assets (recognised as cost of operating revenue and operating expenses)	8,102	8,478
	<u>\$ 759,378</u>	<u>\$ 705,886</u>

(24) Employee benefit expense

	For the years ended December 31,	
	2017	2016
Wages and salaries	\$ 569,599	\$ 532,056
Compensation costs of share-based payment	25,894	31,143
Insurance expenses	55,470	53,733
Pension costs	16,005	15,510
Other personnel expenses	2,484	1,706
	<u>\$ 669,452</u>	<u>\$ 634,148</u>

- A. According to the Articles of Incorporation of the Company, when distributing earnings, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be higher than 15% and lower than 5% for employees' compensation, and shall not be higher than 2% for directors' remuneration.
- B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$22,687 and \$15,653, respectively; directors' remuneration was accrued at \$9,075 and \$6,261, respectively. The aforementioned amounts were recognised in wages and salaries. The employees' compensation and directors' remuneration were estimated and accrued based on 5% and 2% of distributable profit of 2017. The difference between the amount resolved by the Board of Directors and the amounts recognised in the 2016 financial statements had been adjusted in the profit or loss of 2017. The employees' compensation will be distributed in the form of cash.
- C. Information about employees' compensation and directors' remuneration of the Company as proposed by the Board of Directors and resolved by the shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(25) Income tax

A. Income tax expense

Income tax expense calculated at the statutory rate (the federal tax rate is 34%; the state tax rate is 8.84%) and income tax payable is reconciled as follows:

	For the years ended December 31,	
	2017	2016
Current tax:		
Current tax on profit for the year	\$ 38,966	\$ 32,684
Effect from alternative minimum tax	2,055	2,918
Prior year income tax overestimation	( 205)	( 2,868)
Total current tax	<u>40,816</u>	<u>32,734</u>
Deferred tax:		
Origination and reversal of temporary differences	( 38,190)	( 9,549)
Impact of change in tax rate (Note 1)	<u>64,380</u>	<u>-</u>
Total deferred tax	<u>26,190</u>	<u>( 9,549)</u>
Income tax expense	<u>\$ 67,006</u>	<u>\$ 23,185</u>

B. Reconciliation between income tax expense and accounting profit:

	For the years ended December 31,	
	2017	2016
Tax calculated based on profit before tax and statutory tax rate (Note 2)	\$ 177,456	\$ 131,302
Expenses disallowed by tax regulation	490	1,364
Change in assessment of realisation of deferred tax assets	( 177,170)	( 109,531)
Impact of change in tax rate (Note 1)	<u>64,380</u>	<u>-</u>
Prior year income tax overestimation	( 205)	( 2,868)
Effect from alternative minimum tax	<u>2,055</u>	<u>2,918</u>
Income tax expense	<u>\$ 67,006</u>	<u>\$ 23,185</u>

Note 1: On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the 'Tax Reform Act'). Among other provisions, the Tax Reform Act reduced the Federal statutory corporate income tax rate from 35% to 21%. As of December 31, 2017, the Company's deferred tax assets and liabilities were revaluated as a result of the Tax Reform Act.

Note 2: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences and loss carryforward are as follows:

	2017				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income		December 31
<u>Deferred tax assets:</u>					
Temporary differences:					
Unrealised allowance for inventory obsolescence	\$ -	\$ 21,089	\$ -		\$ 21,089
State tax paid	-	8,508	-		8,508
Accrued unused compensated absences	-	5,682	-		5,682
Other	-	18,959	-		18,959
Loss carryforwards - U.S. federal tax	212,819	( 123,904)	-		88,915
Loss carryforwards - Taiwan tax	-	8,636	-		8,636
Alternative minimum tax - U.S. federal tax	-	13,135	-		13,135
Subtotal	<u>212,819</u>	<u>( 47,895)</u>	<u>-</u>		<u>164,924</u>
<u>Deferred tax liabilities:</u>					
Temporary differences:					
Depreciation - U.S. federal tax	(\$ 52,212)	\$ 22,595	\$ -		(\$ 29,617)
Depreciation - U.S. state tax	( 8,959)	(890)	-		( 9,849)
Unrealised gain on valuation of available-for-sale financial assets	( 9,376)	-	9,376		-
Subtotal	<u>(\$ 70,547)</u>	<u>\$ 21,705</u>	<u>\$ 9,376</u>		<u>(\$ 39,466)</u>
Total	<u>\$ 142,272</u>	<u>(\$ 26,190)</u>	<u>\$ 9,376</u>		<u>\$ 125,458</u>
2016					
	January 1	Recognised in profit or loss	Recognised in other comprehensive income		December 31
<u>Deferred tax assets:</u>					
Loss carryforwards - U.S. federal tax					
	<u>\$ 203,951</u>	<u>\$ 8,868</u>	<u>\$ -</u>		<u>\$ 212,819</u>
<u>Deferred tax liabilities:</u>					
Temporary differences:					
Depreciation - U.S. federal tax	(\$ 52,793)	\$ 581	\$ -		(\$ 52,212)
Depreciation - U.S. state tax	( 9,059)	100	-		( 8,959)
Unrealised gain on valuation of available-for-sale financial assets	( 451)	-	( 8,925)		( 9,376)
Subtotal	<u>(\$ 62,303)</u>	<u>\$ 681</u>	<u>(\$ 8,925)</u>		<u>(\$ 70,547)</u>
Total	<u>\$ 141,648</u>	<u>\$ 9,549</u>	<u>(\$ 8,925)</u>		<u>\$ 142,272</u>

D. Expiration dates of unused net operating loss carryforward and amounts of unrecognised deferred tax assets are as follows:

Federal tax:

December 31, 2017				
Year incurred (fiscal year end of tax returns)	Amount filed	Unused amount	Unrecognised amount (Note)	Usable until year (fiscal year end of tax returns)
2005.6.30	\$ 161,670	\$ 41,183	-	2024.12.31
2006.6.30	149,621	149,621	-	2025.12.31
2007.6.30	109,313	109,313	-	2026.12.31
2008.6.30	64,936	64,936	-	2027.12.31
2011.12.31	5,856	5,856	-	2031.12.31
2012.12.31	52,498	52,498	-	2032.12.31
	<u>\$ 543,894</u>	<u>\$ 423,407</u>	<u>\$ -</u>	

Note: Unrecognised amount represents unused tax losses for which no deferred tax asset has been recognised.

December 31, 2016				
Year incurred (fiscal year end of tax returns)	Amount filed	Unused amount	Unrecognised amount (Note)	Usable until year (fiscal year end of tax returns)
2003.6.30	\$ 284,911	\$ 101,108	\$ -	2022.12.31
2004.6.30	183,950	183,950	-	2023.12.31
2005.6.30	175,197	175,197	-	2024.12.31
2006.6.30	162,140	162,140	-	2025.12.31
2007.6.30	118,460	118,460	114,922	2026.12.31
2008.6.30	70,369	70,369	70,369	2027.12.31
2011.12.31	6,346	6,346	6,340	2031.12.31
2012.12.31	56,890	56,890	56,890	2032.12.31
	<u>\$ 1,058,263</u>	<u>\$ 874,460</u>	<u>\$ 248,521</u>	

Note: Unrecognised amount represents unused tax losses for which no deferred tax asset has been recognised.

E. The amounts of deductible temporary differences that are not recognised as deferred tax assets are as follows :

	December 31, 2017	December 31, 2016
Deductible temporary differences	<u>\$ -</u>	<u>\$ 141,331</u>

F. The income tax charged / (credited) relating to components of other comprehensive income is as follows:

	For the years ended December 31,	
	2017	2016
Unrealised gain / loss on valuation of available-for-sale financial assets	\$ -	(\$ 9,376)

G. The Taiwan subsidiary's income tax returns through 2015 have been assessed and approved by the Tax Authority.

H. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February 2018, the information of the Taiwan subsidiary on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

Unappropriated retained earnings of the Taiwan subsidiary on December 31, 2016:

	December 31, 2016
Earnings generated in and after 1998	\$ 50,113

I. As of December 31, 2016, the Taiwan subsidiary's balance of the imputation tax credit account was \$20,271. The creditable tax rate was 33.87% for the year ended December 31, 2016.

(26) Earnings per share (EPS)

The basic EPS is determined by the net income divided by the weighted average numbers of outstanding stocks. The diluted EPS is under the assumption that all potential ordinary stocks have been converted into ordinary stocks at the beginning of the year. The revenue and expense generated from the conversion shall be included in the computation.

	<u>For the year ended December 31, 2017</u>		
	<u>Amount</u>	<u>Weighted</u>	<u>Earnings</u>
	<u>after tax</u>	<u>average</u>	<u>per share</u>
		<u>outstanding</u>	<u>(in dollars)</u>
		<u>stocks</u>	
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 357,047</u>	<u>74,867</u>	<u>\$ 4.77</u>
<u>Diluted earnings per share (Note)</u>			
Profit attributable to ordinary shareholders of the parent	\$ 357,047	74,867	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	313	
Employee stock options	-	202	
Employee restricted stocks	-	38	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 357,047</u>	<u>75,420</u>	<u>\$ 4.73</u>

Note: The unsecured convertible domestic bonds have anti-dilutive effect, and as a result, would not be considered while calculating the diluted EPS.

For the year ended December 31, 2016			
	Amount after tax	Weighted average outstanding stocks	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 289,870	72,220	\$ 4.01
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 289,870	72,220	
Assumed conversion of all dilutive potential ordinary shares			
Convertible bonds	9	6,587	
Employees' bonus	-	340	
Employee stock options	-	690	
Employee restricted stocks	-	185	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 289,879	80,022	\$ 3.62

(27) Business combinations

A. The Company's Board of Directors approved on July 13, 2017 that its wholly owned subsidiary, Global Communication Semiconductors, LLC to enter into an Acquisition Agreement with D-Tech Optoelectronics, Inc. ("D-Tech") to acquire all of the outstanding shares of D-Tech at an aggregate consideration of US\$13 million in cash. The above acquisition transaction has been completed on July 20, 2017 (USA time). With the completion of the acquisition, the Company acquired 100% shareholding of the wholly owned subsidiary of D-Tech, D-Tech Optoelectronics (Taiwan) Corporation. The Group expects that the acquisition will allow the Group and D-Tech to further integrate research technology, manufacturing capabilities and workforce to enhance their product offering at an accelerated pace, optimise their product integration, and provide customers with better services and products. The main goal of the acquisition is to gain a competitive advantage, and enhance market and margin expansion opportunities with greater scale.



B. The following table summarises the consideration paid for D-Tech and the fair values of the assets acquired and liabilities assumed at the acquisition date:

	<u>July 20, 2017</u>
Consideration	
Cash paid (US\$ 13 million)	<u>\$ 395,070</u>
Fair value of the identifiable assets acquired and liabilities assumed	
Notes receivable and accounts receivable	65,216
Other receivables and prepayments	3,828
Other current assets	308
Inventories	71,621
Property, plant and equipment	103,167
Other non-current assets	9,329
Accounts payable	( 16,216)
Other payables	( 18,270)
Other current liabilities	( 174)
Other non-current liabilities	( 308)
Total identifiable net assets	<u>218,501</u>
Goodwill	<u>\$ 176,569</u>

C. The operating revenue and profit before income tax included in the consolidated statement of comprehensive income since July 20, 2017 contributed by D-Tech was \$154,615 and \$10,232, respectively. Had D-Tech been consolidated from January 1, 2017, the consolidated statement of comprehensive income would show an increase of operating revenue of \$412,544 and a decrease of profit before income tax of \$11,455.

D. The Group carried out the impairment testing of goodwill on the balance sheet date. The recoverable amount of the cash-generating units is determined based on the value-in-use calculated using cash flow projections discounted by the pre-tax discount rate from financial budgets approved by management covering a five-year period. The discount rate used by management is 10.25%. The calculation of value-in-use for the cash-generating unit is mainly based on the future growth rates of operating revenues and future gross margins of budgeted periods, the past operating expenses ratios, and the future trend of industrial economy. As a result of the analysis, the Group did not identify any impairment for the goodwill in 2017 due to the recoverable amount was higher than the carrying amount of goodwill.

(28) Operating lease commitments

The Group leases in property and plant under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Not later than one year	\$ 9,897	\$ 1,333
Later than one year but not later than five years	<u>26,486</u>	<u>2,807</u>
	<u>\$ 36,383</u>	<u>\$ 4,140</u>

(29) Supplemental cash flow information

A. Investing activities with partial cash payments:

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Acquisition of property, plant and equipment	\$ 234,217	\$ 85,145
Add: Ending balance of prepayments for equipment (shown as "Other non-current assets")	52,857	118,721
Less: Beginning balance of prepayments for equipment (shown as "Other non-current assets")	( 118,721)	( 33,017)
Less: Prepayments for equipment - acquired through business combinations	( 7,461)	-
Less: Ending balance of finance lease liabilities	( 13,872)	( 26,636)
Add: Beginning balance of finance lease liabilities	26,636	38,453
Less: Ending balance of payables for equipment	( 5,703)	( 29,272)
Add: Beginning balance of payables for equipment	<u>29,272</u>	<u>11,008</u>
Cash paid during the year	<u>\$ 197,225</u>	<u>\$ 164,402</u>

B. Financing activities with no cash flow effect:

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Convertible bonds being converted to capital stocks	<u>\$ 331,430</u>	<u>\$ 176,600</u>

## 7. RELATED PARTY TRANSACTIONS

### Key management compensation

	For the years ended December 31,	
	2017	2016
Salaries and other short-term employee benefits	\$ 69,435	\$ 65,560
Post-employment benefits	2,038	2,387
Compensation costs of share-based payment	11,611	12,448
	<u>\$ 83,084</u>	<u>\$ 80,395</u>

## 8. PLEDGED ASSETS

As of December 31, 2017 and 2016, the Group's assets pledged as collaterals were as follows:

Assets	December 31, 2017	December 31, 2016	Purpose
Land	\$ 137,045	\$ 148,511	Long-term borrowings
Buildings	85,055	95,000	Long-term borrowings
Time deposits (shown as "Other current and non-current assets" )	89,588	64,500	Short-term borrowings, custom guarantee for imported goods and secured convertible bonds
Other financial assets, non-current	3,234	1,290	Deposits for office rental and waste water treatment

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Please refer to Note 6(28) for the operating lease commitments.

(2) Capital expenditures contracted for at the balance sheet date but not yet incurred and are cancelable without cause are as follows:

	December 31, 2017	December 31, 2016
Property, plant and equipment	<u>\$ 15,590</u>	<u>\$ 98,483</u>

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

A. The appropriations of 2017 earnings had been resolved by the Board of Directors on February 27, 2018. Please refer to Note 6(18).

- B. On November 2, 2017, the Board of Directors adopted a resolution to issue the 2017 employee stock option plan. The total number of new shares proposed for the issuance for exercise of options shall be 1,000,000 shares with a par value of \$10 (in dollars), which represents for a total amount of \$10,000. The subscription price, which is the exercise price of the options, will be equal to the closing price of the Company's common shares listed on the Taipei Exchange on the grant date. The rights and obligations of these shares issued are same as other issued ordinary shares. The 2017 employee stock option plan has been applied with and approved by FSC on January 15, 2018.
- C. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Taiwan subsidiary's deferred tax assets and deferred tax liabilities by \$1,526 and \$1, respectively, which will be adjusted in the first quarter of 2018.

## 12. OTHERS

### (1) Capital management

In order to safeguard the Group's ability to adapt to the changes in the industry and to accelerate the new product development, the Group's objective when managing capital is to maintain the sufficient financial resources to support the operating capital, capital expenditures, research and development activities, repayment of debts and dividend paid to shareholders, etc.

### (2) Financial instruments

- A. (a) Except for the item listed in the table below, the carrying amounts measured at amortised cost approximate the fair values of the Group's financial instruments, including cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, accounts payable, other payables, finance lease liabilities (accounted for under 'Other current liabilities' and 'Other non-current liabilities') and long-term borrowings (including current portion). The fair value information of financial instruments measured at fair value is provided in Note 12(3).

		December 31, 2017		
		Fair value		
	Book value	Level 1	Level 2	Level 3
Bonds payable	\$ 60,006	\$ -	\$ -	\$ 61,342

  

		December 31, 2016		
		Fair value		
	Book value	Level 1	Level 2	Level 3
Bonds payable	\$ 325,875	\$ -	\$ -	\$ 351,822

(b) The methods and assumptions of fair value measurement are as follows:

Convertible bonds payable: Regarding the convertible bonds issued by the Group, the fair value is estimated using Binomial Model.

B. Financial risk management policies

- a) The rate activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.
- b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units.

C. Significant financial risks and degrees of financial risks

a) Market risk

Foreign exchange risk

The Group's businesses are mainly conducted in its functional currency. Therefore, the foreign exchange risk is deemed minimal.

Price risk

- i. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk.
- ii. The Group's investments in equity securities are foreign listed stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 10% with all other variables held constant, post-tax profit would have increased/decreased by \$0 and \$3,161 for the years ended December 31, 2017 and 2016, respectively.

Interest rate risk

- i. The Group's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the years ended December 31, 2017 and 2016, the Group's borrowings at variable rate were denominated in the NTD.
- ii. Based on the simulations performed, the impact on post-tax profit of a 1% shift, with all other variables held constant, would be a maximum increase or decrease of \$166 and \$0 for the years ended December 31, 2017 and 2016, respectively. The variation is resulted by the decrease or increase of interest expense which is affected by variable rates.

b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only banks financial institutions with good reputation are accepted.
- ii. As of December 31, 2017 and 2016, the Group's maximum credit risk exposure is mainly from the carrying amount of financial assets recognised in the consolidated balance sheet.
- iii. The major financial assets that are neither past due nor impaired are accounts receivable. Please refer to Note 6(3).
- iv. The major financial assets that were past due but not impaired are accounts receivable. Please refer to Note 6(3).
- v. The major financial assets with impairment are accounts receivable. Please refer to Note 6(3).

c) Liquidity risk

- i. Cash flow forecasting is performed by the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure the Group has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements.
- ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury chooses instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above mentioned forecasts.
- iii. The Group has the following undrawn borrowing facilities:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Floating rate:		
Expiring within one year	\$ 178,560	\$ -
Expiring beyond one year	-	193,500
	<u>\$ 178,560</u>	<u>\$ 193,500</u>

The facilities expiring within one year are annual facilities subject to renegotiate at various dates during 2018.

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

	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
December 31, 2017		
Short-term borrowings	\$ 20,062	\$ -
Accounts payable	17,867	-
Other payables	139,249	-
Finance lease liabilities	9,684	4,643
Bonds payable (including current portion and financial liabilities at fair value through profit or loss)	91,210	-
Long-term borrowings (including current portion)	22,867	83,442
	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
December 31, 2016		
Accounts payable	\$ 4,979	\$ -
Other payables	159,919	-
Finance lease liabilities	12,456	15,525
Bonds payable (including current portion and financial liabilities at fair value through profit or loss)	395,379	-
Long-term borrowings (including current portion)	24,780	113,138

### (3) Fair value information

- A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A.
- B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted in active markets for identical assets or liabilities that the entity can access at the measurement date.) A market is regarded as active where a market in which transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2017			
<b>Liabilities</b>			
<u>Recurring fair value measurements</u>			
Financial liabilities at fair value through profit or loss	\$ -	\$ -	\$ 31,204
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2016			
<b>Assets</b>			
<u>Recurring fair value measurements</u>			
Available-for-sale financial assets			
Equity securities	\$ 31,605	\$ -	\$ -
<b>Liabilities</b>			
<u>Recurring fair value measurements</u>			
Financial liabilities at fair value through profit or loss	\$ -	\$ -	\$ 69,504

For the years ended December 31, 2017 and 2016, there were no non-recurring fair value measurement financial instruments.

- D. The methods and assumptions the Group used to measure fair value are as follows:
- (a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:
- |                     | <u>Listed shares</u> |
|---------------------|----------------------|
| Market quoted price | Closing price        |
- (b) When assessing non-standard and low-complexity financial instruments, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation model to measure these financial instruments are normally observable in the market.
- E. For the years ended December 31, 2017 and 2016, there was no transfer between Level 1 and Level 2 financial instruments.
- F. The following chart is the movement of Level 3 financial instruments for the years ended December 31, 2017 and 2016:



	Financial liabilities at fair value through profit or loss	
	2017	2016
At January 1	\$ 69,504	\$ 120,164
Converted during the year	( 46,981)	( 45,785)
Exchange effect	( 304)	473
Loss (gain) recognised in profit or loss	8,985	( 5,348)
At December 31	\$ 31,204	\$ 69,504

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

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of input to fair value
Conversion option, redemption option and put option of convertible bonds	\$ 31,204	Binomial model	Stock price volatility	41.53%	The higher the volatility, the higher the fair value
	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of input to fair value
Conversion option, redemption option and put option of convertible bonds	\$ 69,504	Binomial model	Stock price volatility	34.99%	The higher the volatility, the higher the fair value

H. The Group has carefully assessed the valuation model and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation model or assumptions may result in different measurement. A sensitivity analysis shows that a 5% increase in the stock price volatility would lead to a decrease in net income by \$0. On the other hand, a 5% decrease in the stock price volatility would increase net income by \$0. A 1% increase in the stock price volatility would lead to an increase in net income by \$0. However, a 1% decrease in the stock price volatility would decrease net income by \$0.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- (a) Loans to others: Please refer to table 1.
- (b) Provision of endorsements and guarantees to others: Please refer to table 2.
- (c) Holding of marketable securities at the end of the year (not including subsidiaries, associates and joint ventures): None.
- (d) Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- (e) Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- (f) Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- (g) Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.
- (h) Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- (i) Derivative financial instruments undertaken during the year ended December 31, 2017: Please refer to Notes 6(9) and 6(10).
- (j) Significant inter-company transactions during the year ended December 31, 2017: Please refer to table 9.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 10.

#### (3) Information on investments in Mainland China

Please refer to table 11.

#### 14. SEGMENT INFORMATION

##### (1) General information

The Group operates business only in a single industry. The Chief Operating Decision-Maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

##### (2) Segment information

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

	For the years ended December 31,	
	2017	2016
Revenue from external customers	\$ 1,925,832	\$ 1,819,706
Inter-segment revenue	-	-
Total segment revenue	<u>\$ 1,925,832</u>	<u>\$ 1,819,706</u>
Segment income (Note)	<u>\$ 424,053</u>	<u>\$ 313,055</u>
Segment assets	<u>\$ 2,981,355</u>	<u>\$ 2,886,807</u>
Segment liabilities	<u>\$ 443,786</u>	<u>\$ 817,702</u>

Note: Exclusive of income tax.

##### (3) Reconciliation for segment income (loss)

The Company and its subsidiaries engage in a single industry. The Chief Operating Decision-Maker assesses performance and allocates resources of the whole group. The Company is regarded as a single operating segment. Therefore, there is no inter-segment revenue. The revenue from external parties reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income. The amount provided to the Chief Operating Decision-Maker with respect to total assets is measured in a manner consistent with that in the balance sheet.

##### (4) Information on products and services

Please refer to Note 6(20) for the related information.

(5) Geographical information

Geographical information for the years ended December 31, 2017 and 2016 is as follows:

Area	For the years ended December 31,			
	2017		2016	
	Revenue	Non-current assets	Revenue	Non-current assets
China	\$ 954,469	\$ -	\$ 773,692	\$ -
United States	633,663	914,984	775,052	614,715
Taiwan	314,415	25,951	243,320	9,548
Others	23,285	59,520	27,642	64,500
	<u>\$ 1,925,832</u>	<u>\$ 1,000,455</u>	<u>\$ 1,819,706</u>	<u>\$ 688,763</u>

(6) Major customer information

Major customer information of the Group for the years ended December 31, 2017 and 2016 is as follows:

	For the years ended December 31,			
	2017		2016	
	Revenue	% of sales	Revenue	% of sales
H	\$ 260,269	14	\$ 112,195	6
A	108,737	6	216,486	12

GCS HOLDINGS, INC.

Loans to others

For the year ended December 31, 2017

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Balance at December 31, 2017 (Note 3)	Actual amount drawn down	Interest rate	Nature of loan (Note 2)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral	Limit on loans granted to a single party (Note 3)	Ceiling on total loans granted (Note 3)	Footnote
0	GCS Holdings, Inc.	Global Device Technologies, Co., Ltd.	Other receivable - related party	Yes	\$ 50,000	\$ -	2%	2	\$ -	Operation	\$ -	None	\$ 253,757	\$ 1,015,028	-

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

- (1)The Company is '0'.
  - (2)The subsidiaries are numbered in order starting from '1'.
- Note 2: The column of 'Nature of loan' shall fill in 'Business transaction or 'Short-term financing'.
- (1)The business transaction is '1'.
  - (2)The short-term financing is '2'.

Note 3: According to the Company's "Procedures for Lending Funds to Other Parties", the total amount available for lending purpose shall not exceed forty percent (40%) of the net worth of the total amount for lending to a company having business relationship with the Company shall not exceed the total transaction amount between the parties during the period of twelve (12) months prior to the time of lending (For the purpose of this Procedure, the "transaction amount" shall mean the sales or purchasing amount between the parties, whichever is higher), and shall not exceed ten percent (10%) of the net worth of the Company. The total amount for lending to a company for a short-term period shall not exceed ten percent (10%) of the net worth of the Company. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth, provided that this restriction will not apply to subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company. The total amount for fund-lending between the subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company will not be subject to the limit of forty percent (40%) of the net worth of the lending subsidiary.

GCS HOLDINGS, INC.

Provision of endorsements and guarantees to others

For the year ended December 31, 2017

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed	Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount for the year ended December 31, 2017	Outstanding endorsement/ guarantee amount at December 31, 2017	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Maimland China	Footnote
0	GCS Holdings, Inc.	Global Device Technologies, Co., Ltd.	2	\$ 1,015,028	\$ 31,345	\$ 29,760	\$ 20,000	\$ 29,760	1.17%	\$ 1,015,028	Y	N	N	-
1	Global Communication Inc. Semiconductors, LLC	GCS Holdings, Inc.	4	\$ 1,015,028	\$ 188,070	\$ 178,560	-	\$ -	7.04%	\$ 1,015,028	N	Y	N	-

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

- (1) The Company is '0'.
  - (2) The subsidiaries are numbered in order starting from '1'.
- Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following six categories; fill in the number of category each case belongs to:
- (1) Having business relationship.
  - (2) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.
  - (3) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.
  - (4) The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.
  - (5) Mutual guarantee of the trade as required by the construction contract.
  - (6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

Note 3: According to the Company's "Procedures for Endorsement and Guarantee", the total amount of endorsement/guarantee provided by the Company is limited to forty percent (40%) of the Company's net worth, and the total amount of the guarantee provided by the Company to any individual entity is limited to ten percent of the Company's net worth. The total amount of the guarantee provided by the Company to any subsidiary whose voting shares are 100% owned, directly or indirectly, by the Company shall not exceed forty percent (40%) of the Company's net worth. The aggregate total amount of endorsement/guarantee provided by the Company and its subsidiaries shall not exceed fifty percent (50%) of the Company's net worth.

GCS HOLDINGS, INC.

Significant inter-company transactions during the reporting period  
For the year ended December 31, 2017

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 9

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction		Percentage of consolidated total operating revenues or total assets (Note 3)	
				General ledger account	Amount		
1	Global Device Technologies, Co., Ltd.	Global Communication Semiconductors, LLC	3	Service revenue	\$ 18,978	Conducted in the ordinary course of business with terms similar to those with third parties	0.99%
1	Global Device Technologies, Co., Ltd.	Global Communication Semiconductors, LLC	3	Other receivable - related party	2,883	Conducted in the ordinary course of business with terms similar to those with third parties	0.10%
2	D-Tech Optoelectronics (Taiwan) Corporation	D-Tech Optoelectronics, Inc.	3	Service revenue	33,484	Conducted in the ordinary course of business with terms similar to those with third parties	1.74%
2	D-Tech Optoelectronics (Taiwan) Corporation	D-Tech Optoelectronics, Inc.	3	Other receivable - related party	11,529	Conducted in the ordinary course of business with terms similar to those with third parties	0.39%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1)Parent company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

(1)Parent company to subsidiary.

(2)Subsidiary to parent company.

(3)Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: The Company may decide to disclose or not to disclose transaction details in this table based on the Materiality Principle.

GCS HOLDINGS, INC.  
Information on investees (not including investees in Mainland China)

For the year ended December 31, 2017

Table 10

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee (Note 1 - 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017		Net profit (loss) of the investee for the year ended December 31, 2017 (Note 2(2))	Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 2(3))	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)			
GCS Holdings, Inc.	Global Communication Semiconductors, LLC	Los Angeles, USA	1. Manufacturing of high-end radio frequency ICs, optoelectronic device compound semiconductor wafer and foundry related services as well as granting royalty rights for intellectual property. 2. Manufacturing and selling of advanced optoelectronics technology products	\$ 403,975	\$ 403,975	-	100%	\$ 2,032,002	\$ 414,000	414,000
GCS Holdings, Inc.	Global Device Technologies, Co., Ltd.	Taiwan	Product design and research development services	12,000	12,000	1,200,000	100%	25,482	3,723	3,723
Global Communication Semiconductors, Inc. LLC	D-Tech Optoelectronics, Inc.	Los Angeles, USA	Development, manufacturing and selling of positive, intrinsic, negative components and avalanche photo diodes for telecommunication systems and data communication networks	393,380	-	360,000	100%	398,399	(18,546)	11,778
D-Tech Optoelectronics, Inc.	D-Tech Optoelectronics (Taiwan) Corporation	Taiwan	Manufacturing and selling of optical chips	89,840	-	5,800,000	100%	87,974	(27,102)	(1,866)

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

- (1) The columns of 'Investee', 'Location', 'Main business activities', 'Initial investment amount' and 'Shares held as at December 31, 2017' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.
- (2) The 'Net profit (loss)' of the investee for the year ended December 31, 2017' column should fill in amount of net profit (loss) of the investee for this period.
- (3) The 'Investment income (loss) recognised by the Company for the year ended December 31, 2017' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.



GCS HOLDINGS, INC.  
Information on investments in Mainland China  
For the year ended December 31, 2017

Table 11

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 2)	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
Xiamen Global Advanced Semiconductor Co., Ltd.	Developing, manufacturing and selling of mobile phone radio frequency, filter, optical communication chip, power management and optical fiber	\$ 30,663	2	\$ -	\$ -	\$ -	(\$ 1,522)	49%	(\$ 746)	\$ 14,520	\$ -	(Note 4)

Company name	31, 2017	Investment amount approved by the Investment Commission of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Ministry of Investment Commission of MOEA
Xiamen Global Advanced Semiconductor Co., Ltd.	\$ -	\$ -	\$ -

Note 1: Investment methods are classified into the following three categories, fill in the number of category each case belongs to:

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
- (3) Others

Note 2: In the 'Investment income (loss) recognised by the Company for the year ended December 31, 2017' column:

- (1) It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- (2) Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:

- A. The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
- B. The financial statements that are audited and attested by R.O.C. parent company's CPA.
- C. Others.

Note 3: The numbers in this table are expressed in New Taiwan Dollars.

Note 4: The Company was incorporated in Cayman Islands and investment amount of \$14,906 was transferred from the Company's U.S. bank account to Mainland China on June 23, 2017.