Stock Code:3596

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)

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Representation Letter

The entities that are required to be included in the combined financial statements of Arcadyan Technology Corporation as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Arcadyan Technology Corporation and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: ARCADYAN TECHNOLOGY CORPORATION
Chairman: Jui-Tsung Chen (Ray Chen)
Date: February 23, 2017

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Independent Auditors' Report

To the Board of Directors of Arcadyan Technology Corporation:

Opinion

We have audited the consolidated financial statements of Arcadyan Technology Corporation and its subsidiaries (" the Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the consolidated statement of comprehensive income, changes in equity and cash flows for the year ended December 31, 2016 and 2015, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in 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 of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we judged shall be presented in the financial report as follows:

1. Inventory valuation

   Please refer to Note (4)(h) and Note (5) for the accounting policy of inventory valuation, as well as the estimation and assumption uncertainly of the valuation of inventory, respectively. Information regarding the inventory is shown in Note (6)(f) of the consolidated financial statements.

Description of key audit matters:

Inventory is measured at the lower of cost and net realizable value. The Group is primarily engaged in the research, development, manufacture and sale of wireless networking products, integrated access devices, and digital home and mobile office multimedia gateway products. The significant change in supply and competitive market of demand may cause fluctuation in product price. Consequently, the book value of inventory may exceed its net realizable value. Therefore, the valuation of inventory is one of the key audit matters.

Audit procedure:

Our principal audit procedure included : assessing the rationality of the Group's accounting policies, such as the policy of provision for inventory loss due to price decline, obsolete, and slow moving inventories; inspecting the Group' s inventory aging reports' accuracy and analyzing the changes of inventory aging which are in accordance with the Group' s accounting policies; sampling and inspecting the Group' s sales price, as well as verifying the calculation of the lower of cost or net realizable value; and assessing the disclosure of provision for inventory valuation and obsolescence was appropriate.

2. Provisions

Please refer to Note (4)(n) and Note (5) for the accounting policy of provisions, as well as the estimation and assumption uncertainly of provisions, respectively. Information regarding the provisions is shown in Note (6)(k) of the consolidated financial statements.

Description of key audit matters:

Assessment of provisions is subject to significant judgment and estimation from management. Accounting estimate and assumption are included in the estimate of provision expenses as a percentage of sales.

Audit procedure:

Our principal audit procedure included : understing the method of estimation of provision, the sources of the data; confirming the policy of Group whether it is in accordance with the accounting principles; confirming whether the accounting estimates were conducted and the disclosure of provision was appropriate; performing retrospective testing for the amount of provision, testing the method of estimation, and recalculating the rationality of amount of provision.

Other Matter

Arcadyan Technology Corporation has prepared its parent-company-only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Kuan-Ying Kuo and Hsin-Fu Yen.

KPMG

KPMG

Taipei, Taiwan (Republic of China)
February 23, 2017

Notes to Readers

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

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current assets:				
1100	Cash and cash equivalents (note (6)(a))	$ 2,530,846	17	1,312,268	10
1110	Current financial assets at fair value through profit or loss (note (6)(b))	61,312	-	14,312	-
1135	Current derivative financial assets for hedging (note (6)(c))	-	-	21,360	-
1170	Notes and accounts receivable, net (note (6)(e))	5,578,518	37	5,662,868	43
1200	Other receivables (note (6)(e))	108,953	1	120,368	2
1310	Inventories, net (note (6)(f))	3,793,392	25	3,238,390	24
1410	Prepayments	233,622	1	193,400	1
1470	Other current assets (note (8))	43,553	-	68,050	1
		12,350,196	81	10,631,016	81
	Non-current assets:				
1550	Investments accounted for using equity method (note (6)(g))	619,130	4	366,985	2
1543	Non-current financial assets at cost (note (6)(d))	66,547	-	81,698	1
1600	Property, plant and equipment (note (6)(h) and (8))	1,916,931	13	1,912,137	14
1780	Intangible assets (note (6)(i))	91,776	1	98,641	1
1840	Deferred tax assets (note (6)(n))	111,527	1	82,705	1
1900	Other non-current assets	61,030	-	45,211	-
		2,866,941	19	2,587,377	19
	Total assets	**$ 15,217,137**	**100**	**13,218,393**	**100**

	Liabilities and Equity	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current liabilities:				
2100	Short-term borrowings (note (6)(j))	$ 11,865	-	-	-
2120	Current financial liabilities at fair value through profit or loss (note (6)(b))	2,108	-	28,318	-
2170	Notes and accounts payable (including related parties) (note (7))	4,121,194	27	3,641,185	28
2230	Current tax liabilities	315,860	2	151,619	1
2250	Current provisions (note (6)(k))	234,820	2	222,827	2
2200	Other payables (note (7))	1,039,654	7	864,886	6
2300	Other current liabilities	261,790	2	93,654	1
		5,987,291	40	5,002,489	38
	Non-Current liabilities:				
2640	Non-current net defined benefit liabilities (note (6)(m))	90,128	-	75,614	1
2570	Deferred tax liabilities(note (6)(n))	42,515	-	31,005	-
2670	Other non-current liabilities	2,040	-	2,292	-
		134,683	-	108,911	1
	Total liabilities	6,121,974	40	5,111,400	39
	Equity attributable to owners of parent (note (6)(o) and (p)):				
3110	Ordinary shares	1,891,190	12	1,891,438	14
3200	Capital surplus	2,655,927	18	2,656,430	20
3300	Retained earnings	4,169,403	27	3,128,030	24
3430	Gains (losses) from effective hedge investments of cash flow hedges	-	-	21,360	-
3410	Exchange differences on translation of foreign financial statements	(15,242)	-	26,454	-
3400	Unearned employee benefit	-	-	(4,578)	-
		8,701,278	57	7,719,134	58
3600	**Non-controlling interests**	393,885	3	387,859	3
	Total equity	9,095,163	60	8,106,993	61
	Total liabilities and equity	**$ 15,217,137**	**100**	**13,218,393**	**100**

See accompanying notes to financial statements.

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars, except net income per share amounts)

		2016		2015	
		Amount	**%**	**Amount**	**%**
4000	**Operating Revenues, net (note (7)):**				
4100	Sales revenue, net	$ 23,808,262	100	19,838,290	99
4800	Other operating revenue, net	102,217	-	136,711	1
		23,910,479	100	19,975,001	100
5000	**Operating costs (note (6)(f), (7) and (12))**	20,044,635	84	17,598,514	88
	Gross profit	3,865,844	16	2,376,487	12
	Operating expenses (notes (7) and (12)):				
6100	Selling expenses	693,708	3	537,817	3
6200	Administrative expenses	370,714	2	369,882	2
6300	Research and development expenses	1,007,239	4	933,012	4
	Total operating expenses	2,071,661	9	1,840,711	9
	Net operating income	1,794,183	7	535,776	3
	Non-operating income and expenses:				
7100	Interest income	7,256	-	11,269	-
7210	Gains on disposals of property, plant and equipment	3,008	-	4,058	-
7230	Foreign exchange gains (losses), net	(441,024)	(2)	34,995	-
7235	Gains on financial assets (liabilities) at fair value through profit or loss (note (6)(c))	316,756	1	80,271	1
7271	Impairment loss recognized on financial assets (note (6)(d))	(64,860)	-	-	-
7370	Share of profit of associates and joint ventures accounted for using equity method (note (6)(g))	59,996	-	46,933	-
7101	Other income	31,527	-	29,102	-
7510	Interest expense	(8,897)	-	(17,232)	-
		(96,238)	(1)	189,396	1
7900	**Profit before tax**	1,697,945	6	725,172	4
7950	**Less: Tax expense (note (6)(n))**	324,943	1	145,982	1
	Profit	1,373,002	5	579,190	3
8300	**Other comprehensive income:**				
8310	**Items that will not be reclassified subsequently to profit or loss**				
8311	Remeasurements of the defined benefit plan	(15,718)	-	(14,025)	-
8349	Less: income tax relating to components that will not be reclassified subsequently to profit or loss	(2,672)	-	(2,383)	-
		(13,046)	-	(11,642)	-
8360	**Items that may be reclassified subsequently to profit or loss**				
8361	Exchange differences on translating foreign operations	(52,721)	-	44,665	-
8363	Gains (losses) on the hedging instrument relating to the effective portion of cash flow hedges (note (6)(c))	(21,360)	-	21,360	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified subsequently to profit or loss	(12)	-	22	-
8399	Less: income tax relating to components that will be reclassified subsequently to profit or loss (note (6)(n))	(8,807)	-	7,924	-
		(65,286)	-	58,123	-
8300	**Other comprehensive income, net**	(78,332)	-	46,481	-
	Total comprehensive income	**$ 1,294,670**	**5**	**625,671**	**3**
	Profit, attributable to:				
	Owners of parent	$ 1,357,473	5	574,451	3
	Non-controlling interests	15,529	-	4,739	-
		$ 1,373,002	**5**	**579,190**	**3**
	Comprehensive income attributable to:				
	Owners of parent	$ 1,281,371	5	622,064	3
	Non-controlling interests	13,299	-	3,607	-
		$ 1,294,670	**5**	**625,671**	**3**
	Earnings per share (note (6)(q))				
9750	Basic earnings per share	**$**	**7.19**		**3.06**
9850	Diluted earnings per share	**$**	**7.06**		**3.00**

See accompanying notes to financial statements.

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent												
			Retained earnings				Total equity interest						
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unearned employee benefit and others	Gains (losses) from affective hedge instruments of cash flow hedge	Total other equity interest	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2015	$ 1,641,828	2,013,014	440,250	59,671	2,481,502	2,981,423	(11,441)	(25,511)	-	(36,952)	6,599,313	422,174	7,021,487
Profit for the year ended December 31, 2015	-	-	-	-	574,451	574,451	-	-	-	-	574,451	4,739	579,190
Other comprehensive income	-	-	-	-	(11,642)	(11,642)	37,895	-	21,360	59,255	47,613	(1,132)	46,481
Comprehensive income	-	-	-	-	562,809	562,809	37,895	-	21,360	59,255	622,064	3,607	625,671
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	69,225	-	(69,225)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	(48,230)	48,230	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(416,202)	(416,202)	-	-	-	-	(416,202)	(26,200)	(442,402)
Cash injection	250,000	640,500	-	-	-	-	-	-	-	-	890,500	-	890,500
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	(6)	-	-	-	-	-	-	-	-	(6)	-	(6)
Changes in equity of associates and joint ventures accounted for using equity method	-	(341)	-	-	-	-	-	-	-	-	(341)	-	(341)
Share-based payments transactions	(390)	3,263	-	-	-	-	-	20,933	-	20,933	23,806	-	23,806
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(11,722)	(11,722)
Balance at December 31, 2015	1,891,438	2,656,430	509,475	11,441	2,607,114	3,128,030	26,454	(4,578)	21,360	43,236	7,719,134	387,859	8,106,993
Profit for the year ended December 31, 2016	-	-	-	-	1,357,473	1,357,473	-	-	-	-	1,357,473	15,529	1,373,002
Other comprehensive income	-	-	-	-	(13,046)	(13,046)	(41,696)	-	(21,360)	(63,056)	(76,102)	(2,230)	(78,332)
Comprehensive income	-	-	-	-	1,344,427	1,344,427	(41,696)	-	(21,360)	(63,056)	1,281,371	13,299	1,294,670
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	57,446	-	(57,446)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	(11,441)	11,441	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(302,630)	(302,630)	-	-	-	-	(302,630)	-	(302,630)
Changes in equity of associates and joint ventures accounted for using equity method	-	279	-	-	-	-	-	-	-	-	279	-	279
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	(81)	-	-	(424)	(424)	-	-	-	-	(505)	-	(505)
Share-based payments transactions	(248)	(701)	-	-	-	-	-	4,578	-	4,578	3,629	-	3,629
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(7,273)	(7,273)
Balance at December 31, 2016	**$ 1,891,190**	**2,655,927**	**566,921**	**-**	**3,602,482**	**4,169,403**	**(15,242)**	**-**	**-**	**(15,242)**	**8,701,278**	**393,885**	**9,095,163**

See accompanying notes to financial statements.

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from (used in) operating activities:		
Profit before tax	$ 1,697,945	725,172
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	208,176	209,198
Amortization expense	33,346	27,148
Provision (reversal of provision) for bad debt expense	9,527	2,639
Interest expense	8,897	17,232
Interest income	(7,256)	(11,269)
Share of loss (profit) of associates accounted for using equity method	(59,996)	(46,933)
Acquisition of cash dividends accounted for using equity method	31,299	36,115
Gain on disposal of property, plant and equipment	(3,008)	(4,058)
Impairment loss on financial assets	64,860	-
Compensation cost of restricted employee share	4,918	23,806
Total adjustments to reconcile profit (loss)	290,763	253,878
Changes in operating assets and liabilities:		
Changes in operating assets:		
Change in financial assets at fair value through profit or loss	(73,210)	16,152
Decrease (increase) in notes and accounts receivable	74,823	(1,496,745)
Decrease (increase) in inventories	(555,002)	(51,524)
Decrease (increase) in other receivable	11,448	55,834
Decrease (increase) in other current assets	(15,725)	10,855
	(557,666)	(1,465,428)
Changes in operating liabilities:		
Increase (decrease) in notes and accounts payable	480,009	542,707
Increase (decrease) in other payable and other current liabilities	363,280	(51,575)
Other	(1,204)	(1,290)
	842,085	489,842
Total changes in operating assets and liabilities	284,419	(975,586)
Total adjustments	575,182	(721,708)
Cash inflow generated from operations	2,273,127	3,464
Interest received	7,223	11,377
Interest paid	(9,963)	(17,408)
Income taxes paid	(166,533)	(150,817)
Net cash flows from (used in) operating activities	2,103,854	(153,384)
Cash flows from (used in) investing activities:		
Increase in pledged assets	(15,819)	(7,910)
Acquisition of financial assets at cost	(49,709)	(17,838)
Acquisition of intangible assets	(26,565)	(34,933)
Acquisition of investments accounted for using equity method	(223,606)	-
Acquisition of property, plant and equipment	(229,834)	(486,813)
Proceeds from disposal of property, plant and equipment	5,430	18,389
Capitalized interest paid	-	(872)
Decrease (increase) in other non-current assets	-	(569)
Other	-	214
Net cash flows from (used in) investing activities	(540,103)	(530,332)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term loans	11,865	(475,650)
Repayments of long-term debt	-	(200,000)
Cash dividends paid	(302,630)	(416,202)
Cash injection	-	870,000
Changes in non-controlling interests	-	(26,200)
Proceeds from issuance of stock from employee share options exercised	-	20,500
Acquisition of shareholding from subsidiaries	(8,643)	(11,942)
Increase (decrease) in other non-current liabilities	(252)	(4,280)
Net cash flows from (used in) financing activities	(299,660)	(243,774)
Effect of exchange rate changes on cash and cash equivalents	(45,513)	29,892
Net increase (decrease) in cash and cash equivalents	1,218,578	(897,598)
Cash and cash equivalents at beginning of period	1,312,268	2,209,866
Cash and cash equivalents at end of period	**$ 2,530,846**	**1,312,268**

See accompanying notes to financial statements.

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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

(1) Company history

Arcadyan Technology Corporation (the "Company") was incorporated in May 9, 2003 and merged with BroadNet Technology, Inc. on May 1, 2006.

The consolidated financial statements of the Company as of and for the year ended December 31, 2016 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group's parent company is Compal Electronics Inc.. The Company is primarily engaged in the research, development, manufacture and sale of wireless networking products, integrated access devices, and digital home and mobile office multimedia gateway products. Please refer to note (4) (c) (ii) for related information of the Group primarily business activities.

(2) Approval date and procedures of the consolidated financial statements:

These consolidated financial statements were authorized for issuance by the board of directors on February 23, 2017.

(3) New standards, amendments and interpretations adopted:

(a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect.

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per 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 Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014

(Continued)

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment 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
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Group assessed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Group’s financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs. As of the end of reporting date is as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts" (Applicable for IFRS 9 "Financial Instruments" and IFRS 4 "Insurance Contracts")	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018

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New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 Investment Property	January 1, 2018

The Group is still currently determining the potential impact of the standards listed below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.

(Continued)

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

The Group is evaluating the impact on its financial position and financial performance of the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those specifically mentioned, the following accounting policies were applied consistently throughout the presented periods in the consolidated financial statements.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and IFRSs, IASs, IFRIC interpretations and SIC Interpretations endorsed by the FSC (“IFRSs endorsed by the FSC”).

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on the historical cost basis:

1) Financial instruments (including derivative financial instruments) measured at fair value through profit or loss are measured at fair value;

2) Available-for-sale financial assets are measured at fair value;

3) The defined benefit liability (or assets) is recognized as the present value of the defined benefit obligation less the fair value of plan assets and the effect of the asset ceiling (please refer to note 4(p)).

(ii) Functional and presentation currencies

The functional currency of each Group entities is determined based on the primary economic environment in which the entities operate. The consolidated financial statements are presented in New Taiwan Dollars, which is the Company' s functional currency. All financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Total comprehensive income (loss) applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

If an entity of the group uses accounting policies other than those adopted in the consolidated financial statement, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent.

(ii) List of subsidiaries in the consolidated financial statements

			Percentage ownership		
Investor	**Name of Subsidiary**	**Nature of operation**	**December 31, 2016**	**December 31, 2015**	**Description**
The Company	Arcadyan Technology N.A. Corp. ("Arcadyan USA")	Sale of wireless networking products	100 %	100 %	
〃	Arcadyan Germany Technology GmbH ("Arcadyan Germany")	Sale and technical support of wireless networking products	100 %	100 %	
〃	Arcadyan Technology Corporation Korea ("Arcadyan Korea")	Sale of wireless networking products	100 %	100 %	

(Continued)

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Investor	Name of Subsidiary	Nature of operation	Percentage ownership December 31, 2016	Percentage ownership December 31, 2015	Description
The Company	Arcadyan Holding (BVI) Corp. ("Arcadyan Holding")	Investment	100 %	100 %	
The Company and ZHI-PAL	Arcadyan do Brasil Ltda	Sale of wireless networking products	100 %	100 %	Note 1
The Company	ZHI-PAL Technology Inc. (“ZHI-PAL”)	Investment	100 %	100 %	
〃	Tatung Technology Inc. (“TTI”)	Research and sale of digital home products	60 %	59 %	
〃	AcBel Telecom Inc. (“AcBel Telecom”)	Investment	51 %	51 %	
〃	Arcadyan Technology (Arcadyan UK)	Technical support of wireless networking products	100 %	- %	Note 2
Arcadyan Holding	Sinoprime Global Inc. (“Sinoprime”)	Sale of wireless networking products	100 %	100 %	
Arcadyan Holding	Arcadyan Technology (Shanghai) Corp. (“SVA”)	Research and sale of wireless networking products	100 %	100 %	
〃	Arch Holding (BVI) Corp. (“Arch Holding”)	Investment	100 %	100 %	
Arch Holding	Compal Networking (Kunshan) Co., Ltd. (“CNC”)	Manufacturing of wireless networking products	100 %	100 %	
TTI	Quest International Group Co., Ltd. (“Quest”)	Investment	100 %	100 %	
Quest	Exquisite Electronic Co., Ltd. (“Exquisite”)	〃	100 %	100 %	
Exquisite	Tatung Home Appliances (Wujiang) Co., Ltd. (“THAC”)	Manufacturing of household electronics products	100 %	100 %	
AcBel Telecom	Leading Images Ltd. (“Leading Images”)	Investment	100 %	100 %	
〃	Great Arch Group Ltd. (“Great Arch”)	Sale of wireless networking products	100 %	100 %	
Leading Images	Astoria Networks GmbH ("Astoria GmbH")	Sale of wireless networking products	100 %	100 %	

Note 1: The subsidiaries were incorporated and acquired on September 17 2015.

Note 2: The subsidiaries were incorporated and acquired on December 2, 2016.

(d) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and the payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income arising on the retranslation:

- available-for-sale financial assets;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent the hedge is effective

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group’s functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Group’s functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planed nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

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

An entity shall classify an asset as current when:

(i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;

(ii) It holds the asset primarily for the purpose of trading;

(iii) It expects to realize the asset within twelve months after the reporting period; or

(iv) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

An entity shall classify a liability as current when:

(i) It expects to settle the liability in its normal operating cycle;

(ii) It holds the liability primarily for the purpose of trading;

(iii) The liability is due to be settled within twelve months after the reporting period; or

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

An entity shall classify all other liabilities as non-current.

(f) Cash and cash equivalents

Cash comprise cash on hand and demand deposits. Cash equivalents are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

The time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are reclassified as cash equivalents.

Bank overdrafts are part of cash management from the Group and should be repaid immediately. Therefore, the Group recognized them as cash and cash equivalents in its statements of cash flow.

(g) Financial instruments

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

(i) Financial assets

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. This type of financial asset is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Investments in equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured, are measured at their cost less impairment loss, and are included in financial assets at cost.

2) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in non-operating income and expenses.

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprised trade receivables, other receivables, and refundable deposits. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Interest income is recognized in profit or loss, and it is included in non-operating income and expenses.

4) Impairment of financial assets

A financial asset is impaired if, and only if, there is an objective evidence of impairment 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 that can be estimated reliably.

The objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management’s judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate.

(Continued)

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment was recognized at the reversal date.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables is included in operating expense, others are included in non-operating income and expense.

5) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in non-operating income or expenses.

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss, and is included in non-operating income or expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts.

(Continued)

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

Interest related to the financial liability is recognized in profit or loss, and is included in non-operating income or expenses. On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. This type of financial liability is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, which take into account any interest expense, are recognized in profit or loss, and are included in non-operating income or expenses.

3) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as fair value through profit or loss, which comprise loans and borrowings, and trade and other payable, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method other than significant interest on short-term loans and payables. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income or expenses.

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income or expenses.

5) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(Continued)

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(iii) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and are included in non-operating income and expenses.

When a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

The Group designates its hedging instruments (for a hedge of a foreign currency risk) as fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation. Foreign exchange risk of firm commitments are treated as a fair value hedge. On initial designation of a derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, and whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedged item attributable to the hedged risk.

Changes in the fair value of a hedging instrument designated and qualified as a fair value hedge are recognized in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average-cost principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less, the estimated costs of completion and selling expenses.

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition, less, any accumulated impairment losses.

(Continued)

The consolidated financial statements include the Group’ s share of the profit or loss and other comprehensive income of equity accounted investees after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases. When the associates incur changes in equity arising from non-profit-or-loss items and other comprehensive income, the Group recognizes the changes in equity proportionately to shareholding percentage as capital surplus.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group’ s interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group’ s share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labour, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(Continued)

(iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

1) Buildings: 50 years

2) Machinery and equipment: 3~10 years

3) Research equipment: 3~6 years

4) Modeling equipment: 2~3 years

5) Other equipment: 1~10 years

The main construction of property, plant and equipment are factory buildings and firefighting facilities. All facilities are depreciated by using the useful life depreciation method.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change(s) is accounted for as a change in an accounting estimate.

(k) Leases

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent rent is recognized as expense in the periods in which it is incurred.

(Continued)

(l) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill arising from acquisition of subsidiaries is included in intangible assets.

2) Subsequent measurement

Goodwill is measured at cost, less, any accumulated impairment losses.

Goodwill related to an associate or a joint venture is included in the carrying amount of the investment, and not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or joint venture.

(ii) Research & Development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

2) Its intention to complete the intangible asset and use or sell it.

3) Its ability to use or sell the intangible asset.

4) How the intangible asset will generate probable future economic benefits.

5) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

6) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditure is measured at cost, less, accumulated amortization and any accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost, less, accumulated amortization and any accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(v) Amortization

The amortizable amount is the cost of an asset or other amount substituted for cost, less, its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with all indefinite useful life, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

1) Copyright: 10 years

2) Authorization fee: amortized over the contract period by using the straight-line method.

3) Computer software: 1~10 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(m) Impairment – non-derivative financial assets

The Group assesses non-derivative financial assets (other than inventories, deferred tax assets, assets arising from employee benefits and non-current assets classified as held for sale) for impairment for and estimates the recoverable amounts for any impaired assets at the end of each reporting period. If it is not possible to determine the recoverable amount (fair value, less, cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less, costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss.

The Group assesses goodwill and intangible assets, which have indefinite useful lives and are not available for use, on an annual basis and recognizes an impairment loss on excess of carrying value over the recoverable amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer' s cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or group of units. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

(n) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(o) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(Continued)

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by the employees is recognized in profit or loss. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period. Net interest expense and other expenses related to the defined benefit plans are recognized in retained earnings.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation.

(iii) Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed when related service are provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(Continued)

(q) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of award that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and settlement date. Any changes in the fair value of the liability are recognized as personnel expenses in profit or loss.

(r) Income Taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations, or those recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate; they also include tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the following exceptions:

(i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.

(ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

(iii) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to be applied to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

(i) The entity has the legal right to settle tax assets and liabilities on a net basis; and

(ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:

1) levied by the same taxing authority; or

2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and they shall be adjusted based on the probability that the future taxable profit that will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

The 10% surtax on unappropriated earnings is recoded as current tax expense in the following year after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

(s) Business combination

Goodwill is measured as an aggregation of the consideration transferred (which generally is measured at fair value at the acquisition date) and as an amount of any non-controlling interest in the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value). If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

All the transaction costs incurred for business combination are recognized immediately as the Group's expenses when incurred, except for the issuance of debt or equity instruments.

If the business combination is achieved in stages, the Group shall measure any non-controlling equity interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the Group shall re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Group may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the Group had disposed directly of the previously held equity interest. If the disposal of the equity interest required a reclassification to profit or loss, such an amount shall be reclassified to profit or loss.

(Continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group shall retrospectively adjust the provisional amounts recognized at the acquisition date, or recognize additional assets or liabilities to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

The Group should recognized all the business combination cost as current expense except for issuance bond or equity instruments.

(t) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee stock options, restricted employee shares and employee compensation and remuneration not yet approved by the board of directors.

(u) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

There are no critical judgments in applying the accounting policies that have significant effects on the amounts recognized in the consolidated financial statements.

Information about assumptions and estimation uncertainties made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(Continued)

(a) Inventory valuation

As inventories are supposed to be measured based on the lower of cost or net realizable value, which is based on the estimated sales price; therefore, the value of inventories may vary due to the nature of the industry. Please refer to note (6)(f) of the consolidated financial statement for inventory valuation.

(b) Recognition and measurement of provisions

Provision for warranty is estimated when product revenue is recognized. The estimate has been made based on the estimate of provision expenses as a percentage of sales. The Group reviews regularly the basis of the estimate, and if necessary, amends it as appropriate. There could be a significant impact on the provision for warranty for any changes in the basis of the estimate.

(6) Explanation of significant accounts:

(a) Cash and cash Equivalents

	December 31, 2016	December 31, 2015
Cash on hand	$ 2,769	2,653
Checking accounts and demand deposits	1,661,374	970,527
Time deposits	866,703	339,088
	$ 2,530,846	**1,312,268**

Please refer to note 6(t) for the interest rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

(b) Financial assets and liabilities at fair value through profit or loss

(i) Details are as follows:

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss:		
Fnancial assets held for trading:		
Derivative instruments not used for hedging	**$ 61,312**	**14,312**
Financial liabilities at fair value through profit or loss:		
Financial liabilities held for trading:		
Derivative instruments not used for hedging	**$ 2,108**	**28,318**

Please refer to note 6(t) for the exposure to credit risk of the financial instruments.

(Continued)

(ii) The Group uses derivative financial instruments to hedge foreign exchange risk the Group is exposed to arising from its operating activities. The Group held the following derivative financial instruments not designated as hedging instruments presented as held-for-trading financial assets as of December 31, 2016 and 2015:

	December 31, 2016		
	Contract amount (in thousands)	**Currency**	**Maturity date**
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange sold	EUR 31,000	EUR to USD	January 13, 2017~ April 13, 2017
Forward exchange sold	GBP 3,000	GBP to USD	January 13, 2017~ March 14, 2017
Forward exchange purchased	USD 13,000	USD to MXN	February 24, 2017~ March 14, 2017
Derivative financial liabilities:			
Foreign exchange contracts:			
Forward exchange sold	EUR 9,000	EUR to USD	March 14, 2017~ April 7, 2017
Forward exchange purchased	USD 500	EUR to BRL	March 30, 2017

	December 31, 2015		
	Contract amount (in thousands)	**Currency**	**Maturity date**
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange sold	EUR 23,390	EUR to USD	January 8, 2016~ May 13, 2016
Forward exchange sold	GBP 1,000	GBP to USD	January 28, 2016
Derivative financial liabilities:			
Foreign exchange contracts:			
Forward exchange sold	EUR 21,750	EUR to USD	January 28, 2016~ April 28, 2016
Swap contracts:			
Currency swap	USD 44,000	USD to TWD	January 14, 2016~ March 14, 2016

(c) Derivative financial instruments used for hedging

(i) The summary of derivative financial instruments used for hedging in 2016 and 2015 was as follows:

	December 31, 2016	December 31, 2015
Cash flow hedge:		
Derivative assets used for hedging:		
Forward exchange contracts	$ -	21,360

(ii) Cash flow hedge

The Group's strategy is to enter into forward exchange contracts to hedge its foreign currency exposure risk in relation to the forecast sales. As of December 31, 2016, the Group did not enter into any hedge contract. As of December 31, 2015, the forward exchange contracts held by the Group are as follows (foreign currencies were expressed in thousands):

	December 31, 2015		
	Contract amount (in thousands)	Currency	Maturity date
Derivative financial assets used for hedging			
Foreign exchange contracts:			
Forward exchange sold	EUR 21,000	EUR to USD	January 28, 2016~ June 28, 2016

(iii) Adjustments on reclassification from other comprehensive income

As of December 31, 2016 and 2015, the details of adjustments on reclassification from other comprehensive income were as flollows:

	2016	2015
Cash flow hedge		
Profit (loss) in current year	$ 107,945	8,154
Less: Net income (loss) of adjustments on reclassification from other comprehensive income which belongs to net income (loss)	129,305	(13,206)
	$ (21,360)	21,360

(iv) For the years ended December 31, 2016 and 2015, gain or loss of adjustments from reclassification of other equity, deriving from the changes of fair-value hedge instruments, were recognized under sales in income statement.

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(v) For the year ended in 2016, the ineffective portion of cash flow hedge recognized in profit amounted of $1,049, based on the "Financial Assets (Liabilities) at Fair Value through Profit". For the year ended in 2015, there was no in effective portion of cash flow hedge recognized in profit or loss.

(d) Financial assets carried at cost – noncurrent

	December 31, 2016	December 31, 2015
Common stock unlisted on domestic markets	$ -	1,000
Fund unlisted in domestic markets	48,709	-
Preferred stock unlisted in foreign markets	17,838	80,698
	$ 66,547	**81,698**

(i) The aforementioned stock unlisted on domestic and foreign markets held by the Group are measured at cost, less, accumulated impairment losses on the reporting date. The fair values of these investments cannot be measured reliably because the range of reasonable fair value estimates is large and the probabilities for each estimate cannot be reasonably determined.

(ii) Parts of the value of the Group's financial assets carried at cost had indications of impairment losses; therefore, the Group recognized the impairment loss of $64,860, which was recorded under "Non-operating income and Expenses".

(iii) As of December 31, 2016 and 2015, the Group did not provide any financial assets carried at cost– noncurrent as collaterals for its loans.

(e) Notes and accounts receivable and other receivables

	December 31, 2016	December 31, 2015
Notes receivable	$ 63,137	244,684
Accounts receivable	5,548,128	5,472,570
Other receivables	108,953	120,368
	5,720,218	5,837,622
Less: allowance for uncollectible accounts	(27,036)	(17,509)
allowance for sales return	(5,711)	(36,877)
	$ 5,687,471	**5,783,236**

The ageing analysis of notes and accounts receivable and other receivables which were past due but not impaired was as follows:

	December 31, 2016	December 31, 2015
Past due 1~30 days	$ 850,969	838,640
Past due 31~60 days	183,484	78,197
Past due 61~90 days	171,541	488
Past due 91~180 days	47,430	182
Past due over 181 days	3,714	5,598
	$ 1,257,138	**923,105**

The change of allowance for receivable and other receivable for the years ended December 31, 2016 and 2015 were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2016	$ -	17,509	17,509
Impairment loss reversed	7,827	1,700	9,527
Balance at December 31, 2016	**$ 7,827**	**19,209**	**27,036**

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2015	$ -	14,870	14,870
Impairment loss recognized	-	2,639	2,639
Balance at December 31, 2015	**$ -**	**17,509**	**17,509**

Impairment allowance results from economic environment, and the Group expects several customers will not be able to pay off the receivables. Based on the historic payment and broad analysis of the customers' credit rating, the Group believes that the trade receivables past due but not yet recognized as impairment allowance are collectible.

As of December 31, 2016 and 2015, the Group did not provide any aforementioned notes and accounts receivable and other receivables as collateral for its loans.

The Group entered into accounts receivable factoring agreements with banks. Based on the agreements, the Group is not responsible for guaranteeing the ability of the account receivable obligor to make payment when it is affected by credit risk. Thus, this is non-recourse accounts receivable factoring. After the transfer of the accounts receivable, the Group can request partial proceeds, while the interest calculated at an agreed rate is paid to the bank until the account receivable is paid. The remaining amounts are received when the accounts receivable are paid by the customers. As of December 31, 2016 and 2015 the proceeds not yet received amounted to $36,488, and $98,067, respectively, and they are accounted for as other receivables.

The details of the factored accounts receivable were as follows:

		December 31, 2016				
Purchaser	**Object**	**Accounts receivable factored (gross)**	**Proceed received**	**Collateral**	**Significant transfer of conditions**	**Amount derecognized**
Non-related parties	Financial Institutions	$ 411,379	374,891	–	–	374,891

		December 31, 2015				
Purchaser	**Object**	**Accounts receivable factored (gross)**	**Proceed received**	**Collateral**	**Significant transfer of conditions**	**Amount derecognized**
Non-related parties	Financial Institutions	$ 1,038,966	940,899	–	–	940,899

During the years ended December 31, 2016 and 2015, the agreed interest rate is 0.8%~1.80% and 0.8%~2.2%, respectively, in the contract mentioned above.

(f) Inventories

(i) A summary of the Group's financial information for inventions at the reporting date were as follows:

	December 31, 2016	December 31, 2015
Raw materials	$ 1,629,733	1,286,072
Work in progress	285,778	382,859
Finished goods	1,877,881	1,569,459
	$ 3,793,392	**3,238,390**

(ii) Inventory cost recognized as cost of sales for the years ended December 31, 2016 and 2015were as follows:

	2016	2015
Cost of sales	$ 20,066,088	17,602,265
Inventory valuation loss (gain) and obsolescence	(21,453)	(3,751)
	$ 20,044,635	**17,598,514**

In 2016 and 2015, the reversal of write-downs amounted to $21,453 and $3,751, respectively, due to sales or obsolescence.

(iii) As of December 31, 2016 and 2015, the Group did not provide any inventories as collaterals for its loans.

(g) Investments accounted for using equity method

(i) A summary of the Group' s financial information for equity-accounted investees at the reporting date were as follows:

		December 31, 2016	December 31, 2015
Associates	$	619,130	366,985

(ii) The following is the related information of significant associate

Name	Nature of the relationship	Principal place of business/ Country of incorporation	Effective ownership interest and voting right December 31, 2016	Effective ownership interest and voting right December 31, 2015
Compal Broadband Network Inc. (" CBN")	Manufacturing and sale of broadband networking product	Taiwan	46%(Note)	47 %

Note: At December 28, 2016, the capital increase by cash for Compal Broadband Network Inc. amounted to $214,875.

The following table summarizes the information of the Group's material associate adjusted for any differences in accounting policies and reconciles the information to the carrying amount of the Group's interest in the associate.

1) Summarized financial information of Compal Broadband Network Inc.

		December 31, 2016	December 31, 2015
Current assets	$	4,718,683	1,520,228
Non current assets		249,854	204,785
Current liabilities		(3,590,840)	(935,911)
Non current liabilities		(4,296)	(24)
	$	1,373,401	789,078
Net assets belongs to non-controlling interest	$	-	-
Net assets belongs to investee company	$	1,373,401	789,078

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		2016	2015
Revenue	$	5,221,031	2,805,291
Profit (loss) from continuing operations		133,949	104,811
Other comprehensive income		(26)	48
Total comprehensive income	$	**133,923**	**104,859**
Other comprehensive income belongs to non-controlling interest	$	**-**	**-**
Other comprehensive income belongs to investee company	$	**133,923**	**104,859**

		2016	2015
Beginning balance of net assets owned by the Group	$	366,730	353,192
Capital increase by cash		214,875	-
Comprehensive income attributable to the Group		63,169	49,994
Dividends receivable		(31,299)	(36,115)
Changes on net value from investment in associates by equity method		(83)	(341)
Share of net assets of affiliates (the carrying amount of the Group's interests)	$	**613,392**	**366,730**

(iii) The Group’s equity-accounted investment in all individually immaterial associates and the Group’s share of the operating results are summarized below:

		December 31, 2016	December 31, 2015
The carrying amount of the Group’s interests in all individually immaterial associates	$	**5,738**	**255**

The Group’s share of the net income (loss) of associates:

		2016	2015
Profit from continuing operations	$	(3,185)	(3,039)
Other comprehensive income		-	-
Total comprehensive income	$	**(3,185)**	**(3,039)**

(iv) As of December 31, 2016 and 2015, the Group did not provide any investment accounted for using equity method as collateral for its loans.

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(h) Property, plant and equipment

The cost, depreciation, of the property, plant and equipment and of the Group for the years ended December 31, 2016 and 2015 were as follows:

	Land	Buildings and construction	Machinery and equipment	Research and development equipment	Molding equipment	Leasehold improvement and other equipment	Under construction and prepayment for purchase of equipment	Total
Cost or deemed cost:								
Balance at January 1, 2016	$ 465,370	673,712	1,725,650	333,652	189,083	589,117	96,522	4,073,106
Additions	-	-	67,262	12,431	17,868	26,865	100,197	224,623
Reclassifications	(2,108)	152,357	15,076	-	295	20,380	(188,108)	(2,108)
Disposals and derecognitions	-	-	(49,593)	(2,743)	(898)	(239,939)	-	(293,173)
Capitalized interest	-	-	-	-	-	-	-	-
Effect of movements in exchange rates	-	-	(27,856)	(423)	-	(7,432)	231	(35,480)
Balance at December 31,2016	**$ 463,262**	**826,069**	**1,730,539**	**342,917**	**206,348**	**388,991**	**8,842**	**3,966,968**
Balance at January 1, 2015	$ 466,103	-	1,547,446	286,811	162,207	456,810	731,613	3,650,990
Additions	1,512	-	168,897	30,969	30,934	23,982	234,927	491,221
Reclassifications	-	673,712	9,609	16,707	(620)	168,755	(870,898)	(2,735)
Disposals and derecognitions	(2,245)	-	(52,642)	(1,631)	(3,438)	(73,202)	-	(133,158)
Capitalized interest	-	-	-	-	-	-	872	872
Effect of movements in exchange rates	-	-	52,340	796	-	12,772	8	65,916
Balance at December 31, 2015	**$ 465,370**	**673,712**	**1,725,650**	**333,652**	**189,083**	**589,117**	**96,522**	**4,073,106**
Depreciation and impairment loss:								
Balance at January 1, 2016	$ -	10,776	1,420,821	221,833	140,355	367,184	-	2,160,969
Additions	-	16,951	89,146	33,538	24,286	44,255	-	208,176
Reclassifications	-	-	-	-	-	-	-	-
Disposals and derecognitions	-	-	(49,480)	(2,566)	(898)	(237,680)	-	(290,624)
Effect of movements in exchange rates	-	-	(22,265)	(325)	(2)	(5,892)	-	(28,484)
Balance at December 31, 2016	**$ -**	**27,727**	**1,438,222**	**252,480**	**163,741**	**167,867**	**-**	**2,050,037**
Balance at January 1, 2015	$ -	-	1,352,854	190,622	121,547	354,398	-	2,019,421
Depreciation for the period	-	10,776	78,403	32,030	22,246	65,743	-	209,198
Disposals andderecognitions	-	-	-	-	-	-	-	-
Disposals andderecognitions	-	-	(52,346)	(1,430)	(3,438)	(64,241)	-	(121,455)
Effect of movements in exchange rates	-	-	41,910	611	-	11,284	-	53,805
Balance at December 31, 2015	**$ -**	**10,776**	**1,420,821**	**221,833**	**140,355**	**367,184**	**-**	**2,160,969**
Carrying amounts:								
Balance at December 31, 2016	**$ 463,262**	**798,342**	**292,317**	**90,437**	**42,607**	**221,124**	**8,842**	**1,916,931**
Balance at December 31, 2015	**$ 465,370**	**662,936**	**304,829**	**111,819**	**48,728**	**221,933**	**96,522**	**1,912,137**
Balance at January 1, 2015	**$ 466,103**	**-**	**194,592**	**96,189**	**40,660**	**102,412**	**731,613**	**1,631,569**

As of December 31, 2016 and 2015, part of the Group's property, plant and equipment are provided as collateral for long-term borrowings. Please see note 8.

In order to build a research and development center and operational headquarters, the Group entered into an agreement with its non-related parties for $941,900 to construct an office building during March 2012 to September 2014. As of December 31, 2016 and 2015, the payments amounted to $941,900 and $893,835, respectively, and the total capitalized borrowing costs amounted to $15,591.

(i) Intangible Assets

Changes in cost and accumulated amortization of intangible assets for the years ended December 31, 2016 and 2015, were as follows:

	Goodwill	Authorization fee	Copyright	Computer software and others	Total
Cost:					
Balance at January 1, 2016	$ 6,556	139,906	18,496	83,031	247,989
Additions	-	323	-	26,242	26,565
Reclassifications	-	(15,552)	-	(5,573)	(21,125)
Balance at December 31, 2016	**$ 6,556**	**124,677**	**18,496**	**103,700**	**253,429**
Balance at January 1, 2015	$ 6,556	131,119	18,496	64,039	220,210
Additions	-	13,430	-	21,503	34,933
Disposals	-	-	-	2,115	2,115
Reclassifications	-	(4,643)	-	(4,626)	(9,269)
Balance at December 31, 2015	**$ 6,556**	**139,906**	**18,496**	**83,031**	**247,989**
Accumulated amortization:					
Balance at January 1, 2016	$ -	90,250	12,328	46,770	149,348
Amortization for the period	-	10,334	2,741	20,271	33,346
Disposals	-	(15,553)	-	(5,573)	(21,126)
Effects of movement in exchange rate	-	-	-	85	85
Balance at December 31, 2016	**$ -**	**85,031**	**15,069**	**61,553**	**161,653**
Balance at January 1, 2015	$ -	82,363	9,587	39,553	131,503
Amortization for the period	-	12,530	2,741	11,877	27,148
Disposals	-	(4,643)	-	(4,626)	(9,269)
Effects of movement in exchange rate	-	-	-	(34)	(34)
Balance at December 31, 2015	**$ -**	**90,250**	**12,328**	**46,770**	**149,348**
Book value:					
Balance at December 31, 2016	**$ 6,556**	**39,646**	**3,427**	**42,147**	**91,776**
Balance at December 31, 2015	**$ 6,556**	**49,656**	**6,168**	**36,261**	**98,641**
Balance at January 1, 2015	**$ 6,556**	**48,756**	**8,909**	**24,486**	**88,707**

Amortization expenses amounting to $33,346 and $27,148 were recognized as operating costs and expenses for the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the Group did not provide any intangible assets as collaterals for its loans.

(j) Short-term borrowings

	December 31, 2016	December 31, 2015
Credit loans	$ 11,865	-
Unused credit line for short-term borrowings	$ 5,767,964	5,704,680
Annual interest rates	0.69%~1.4%	-

For the information on the Group's interest risk, foreign currency risk and liquidity risk, please see note 6(t).

(k) Provisions

	Warranties
Balance at January 1, 2016	$ 222,827
Provisions made during the period	250,761
Provisions used during the period	(228,568)
Provisions reversed during the year	(10,200)
Balance at December 31, 2016	$ 234,820
Balance at January 1, 2015	$ 209,752
Provisions made during the period	170,140
Provisions used during the period	(157,065)
Balance at December 31, 2015	$ 222,827

Provisions related to sales of products are assessed based on the historical experience.

(l) The Group as lessee

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2016	December 31, 2015
Less than one year	$ 100,883	49,790
Between two and five years	229,645	128,599
	$ 330,528	178,389

The Group leased office places, warehouse and plants under operating leases. The leases typically run for a period of 1 to 2 years, with an option to renew the leases after that date. For the years ended December 31, 2016 and 2015, expenses recognized in profit or loss under operating leases amounted to $90,645 and $83,111, respectively.

The aforementioned leases were entered into many years ago as combined leases of land and buildings. The Group determined that the land and building elements of the leases are operating leases. The rent paid to the landlord is increased to market rent at regular intervals, and the Group does not participate in the residual value of the land and buildings. As a result, it was determined that substantially, all the risks and rewards of the land and buildings are with the landlord.

(m) Employee benefits

(i) Defined benefit plans

The present value of the defined benefit obligations and the fair value adjustments of plan assets for the Company were as follows:

	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	$ 189,401	170,151
Fair value of plan assets	(99,273)	(94,537)
	$ 90,128	**75,614**

The Company makes defined benefit plan contributions to the pension fund account at the Bank of Taiwan that provides pensions for employees upon retirement. The plans (cover by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The Company’ s Bank of Taiwan labor pension reserve account balance amounted to $99,273 at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

(Continued)

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2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Company were as follows:

		2016	2015
Balance at January 1	$	170,151	150,971
Current service costs and interest		4,658	4,527
Actuarial gains (losses)		14,592	14,653
Balance at December 31	$	**189,401**	**170,151**

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company were as follows:

		2016	2015
Fair value of plan assets at January 1	$	94,537	88,092
Contributions made		4,052	4,014
Expected return on plan assets		1,810	1,803
Actuarial gains (losses)		(1,126)	628
Fair value of plan assets at December 31	$	**99,273**	**94,537**
Actual return on plan assets	$	**684**	**2,431**

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows:

		2016	2015
Service cost	$	1,596	1,508
Actuarial gains (losses)		3,062	3,019
Expected return on plan assets		(1,810)	(1,803)
	$	**2,848**	**2,724**
Cost of sales	$	351	334
Selling expenses		320	321
Administrative expenses		375	340
Research and development expenses		1,802	1,729
	$	**2,848**	**2,724**

(Continued)

5) Actuarial gains and losses recognized in other comprehensive income

The Company's actuarial gains and losses recognized in other comprehensive income, before tax for the years ended December 31, 2016 and 2015, were as follows:

		2016	2015
Cumulative amount at January 1	$	40,943	26,918
Recognized during the period		15,718	14,025
Cumulative amount at December 31	$	**56,661**	**40,943**

6) Actuarial assumptions

a) The following are the Company's principal actuarial assumptions:

i) Present value of defined benefit obligations

	December 31, 2016	December 31, 2015
Discount rate as of December 31	1.375 %	1.875 %
Future salary increasing rate	3.000 %	3.000 %

ii) Defined benefit plan cost

	2016	2015
Discount rate as of December 31	1.875 %	2.000 %
Future salary increasing rate	3.000 %	3.000 %

The expected allocation payment made by the Company to the defined benefit plans for the one year period after the reporting date was $4,097.

The weighted-average duration of the defined benefit obligation is 16.73 years.

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	Increased 0.25%	Decreased 0.25%
December 31, 2016		
Discount rate	(5,860)	6,133
Future salary increasing rate	5,925	(5,688)
December 31, 2015		
Discount rate	(5,561)	5,825
Future salary increasing rate	5,653	(5,430)

(Continued)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2016 and 2015.

8) There were no payment for pension made by the Company for the years ended December 31, 2016 and 2015.

(ii) Defined contribution plans

The Company and all subsidiaries in domestic allocate 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

The Company and all subsidiaries in domestic recognized the pension costs under the defined contribution method amounting to $33,540 and $31,513 for the years ended December 31, 2016 and 2015, respectively. Payment was made to the Bureau of Labor Insurance.

Other subsidiaries recognized the pension expense, basic endowment insurance expense, and social welfare expenses amounting to $67,971 and $60,418 for the years ended December 31, 2016 and 2015, respectively.

(n) Income taxes

(i) Income tax expense (benefit)

1) The amount of income tax for the years ended December 31, 2016 and 2015 were as follows:

		2016	2015
Current tax expense			
Recognized during the period	$	317,803	99,522
10% surtax on unappropriated earnings		22,259	37,264
Adjustment for prior periods		(9,286)	(12,052)
		330,776	124,734
Deferred tax expense			
Origination and reversal of temporary differences		(5,833)	21,248
		(5,833)	21,248
Income tax expense	**$**	**324,943**	**145,982**

(Continued)

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2) The amount of income tax recognized in other comprehensive income for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Foreign currency translation differences for foreign operations	$ 8,807	(7,924)
Defined benefit plan actuarial gains (losses)	2,672	2,383
	$ 11,479	**(5,541)**

3) Reconciliation of income tax and profit before tax for the years ended December 31, 2016 and 2015 were as follows:

	2016		2015	
	Tax rate	**Amount**	**Tax rate**	**Amount**
Income tax using the Company's domestic tax rate		$ 322,782		123,279
Effect of tax rates in foreign jurisdiction		17,471		14,266
Tax-exempt income		(35,499)		(14,503)
Changes in unrecognized temporary differences		(1,838)		(29,947)
Under (over) provision in prior periods		(9,286)		(12,052)
10% surtax on unappropriated earnings		22,259		37,264
Other		9,054		27,675
		$ 324,943		**145,982**

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities: None.

2) Unrecognized deferred tax assets:

Details of unrecognized under deferred tax assets are as follows:

	December 31, 2016	December 31, 2015
Tax effect of deductible temporary differences	$ 24,848	26,686
Tax effect of loss carryforward	25,666	55,048
	$ 50,514	**81,734**

(Continued)

The tax losses mentioned above could be used to offset future taxable income. Because of the uncertainty of future taxable income, the Company did not recognize the deferred tax assets arising from the tax losses. The ROC Income tax Act allows losses for tax purposes, as assessed by the tax authorities, to be offset against taxable income in the following ten years. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

3) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2016 and 2015 were as follows:

	Investment income recognized under the equity method (overseas)	Foreign currency translation adjustment	Defined benefit plans	Reserve for loss on outward investment	Others	Total
Deferred Tax Liabilities:						
Balance at January 1,2016	$ 25,576	5,412	-	-	17	31,005
Recognized in profit or loss	16,927	-	-	-	(5)	16,922
Recognized in other comprehensive income	-	(5,412)	-	-	-	(5,412)
Balance at December 31, 2016	**42,503**	**-**	**-**	**-**	**12**	**42,515**
Balance at January 1,2015	$ 13,387	-	-	-	-	13,387
Recognized in profit or loss	12,189	-	-	-	17	12,206
Recognized in other comprehensive income	-	5,412	-	-	-	5,412
Balance at December 31, 2015	**$ 25,576**	**5,412**	**-**	**-**	**17**	**31,005**

	Defined benefit plans	Foreign currency translation adjustment	Loss on inventory valuation	Unrealized exchange losses, net	Loss carryforward	Others	Total
Deferred Tax Assets:							
Balance at January 1,2016	$ 6,957	-	19,112	6,134	12,224	38,278	82,705
Recognized in profit or loss	-	-	1,126	14,867	2,577	4,185	22,755
Recognized in other comprehensive income	2,672	3,395	-	-	-	-	6,067
Balance at December 31, 2016	**9,629**	**3,395**	**20,238**	**21,001**	**14,801**	**42,463**	**111,527**
Balance at January 1,2015	$ 4,574	2,512	16,720	2,323	11,615	11,636	49,380
Recognized in profit or loss	-	-	2,392	3,811	609	26,642	33,454
Recognized in other comprehensive income	2,383	(2,512)	-	-	-	-	(129)
Balance at December 31, 2015	**6,957**	**-**	**19,112**	**6,134**	**12,224**	**38,278**	**82,705**

(iii) The ROC tax authorities have examined the income tax expenses of the Company, TTI, Acbel Telecom and ZHI-PAL through 2014.

(iv) The ROC Income Tax Act allows losses for tax purposes, as assessed by the tax authorities, to offset taxable income over a period of ten years. Acbel Telecom estimated tax losses which can be used to offset future taxable income as of December 31, 2016, were as follows:

Year of loss	Unused amount	Expiry year
2007	$ 127,682	2017
2008	23,294	2018
	$ 150,976	

(v) Information related to the ICA is summarized follows:

	December 31, 2016	December 31, 2015
Unappropriated earnings retained after January 1, 1998	**$ 3,602,482**	**2,607,114**
Balance of imputation credit account	**$ 520,937**	**481,205**

	2016(Estimated)	2015(actual)
Creditable ratio for earnings distribution to ROC resident	**21.59 %**	**20.59 %**

The above stated information was prepared in accordance with the information letter No. 10204562810 announced by the Ministry of Finance of R.O.C. on October 17, 2013.

(o) Capital and other equities

As of December 31, 2016 and 2015, the authorized common stocks were both $2,500,000, of which $189,119 and $189,144 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

(i) Ordinary shares

Reconciliation of shares outstanding for 2016 and 2015 were as follows:

	Ordinary shares	
(in thousands of shares)	**2016**	**2015**
Balance on January 1	$ 189,144	164,183
Cash injection	-	25,000
Retirement of new restricted employee share	(25)	(39)
Balance on December 31	**$ 189,119**	**189,144**

Based on the resolution of the board of directors' meeting held on June 24, 2014, the Company increased its common stock through a cash injection of 25,000 thousand shares with a par value of 10 New Taiwan dollars per share, and amounted to $250,000, it had already been approved by the authorities on August 11, 2014. The shares were issued at $34.8 premium per share. The effective date of share issuance was January 21, 2015, and the registration procedure related to this issuance had been completed.

25 shares and 39 shares of employee restricted shares were cancelled in 2016 and 2015 because certain employees of the Company did not meet the vested requirements.

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2016	December 31, 2015
Additional paid-in capital	$ 2,651,544	2,633,081
Difference between consideration and carry amount of subsidiaries disposed	3,459	3,540
Restricted employee shares of stock	-	19,163
Changes in equity of associates and joint ventures accounted for using equity method	924	646
	$ 2,655,927	**2,656,430**

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

The Company's article of incorporation stipulate that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve. The legal reserve can be exempted if it equals the paid-in capital, besides, special reserves are supposed to be set aside or reversed in accordance with the relevant regulations or as required by the government. And then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

(Continued)

According to the Company' s stable dividend policy, the type of dividends should be determined after considering the business environment, operating performance, financial structure, etc. Cash dividends to stockholders shall not be lower than 10% of total cash and stock dividends.

1) Legal reverse

In accordance with the Company Act as amended, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

2) Special reverse

A portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the total net current-period reduction of other shareholders' equity resulting from the carrying amount of special earnings reserve as stated above. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(iv) Earnings distributed

Earnings distribution for 2015 and 2014 was approved by the shareholders during their annual meeting held on June 28, 2016 and June 23, 2015, respectively. The relevant dividend distribution to shareholders, employee bonus and the directors' remuneration were as follows:

	2015		2014	
	Amount per share	**Total amount**	**Amount per share**	**Total amount**
Cash dividends distributed to common shareholders	1.06	$ **302,630**	2.2	**416,202**

The actual earnings distribution had no difference from the estimated distribution in the financial reporting for 2014. Related information on dividend distributions to shareholders, employee bonuses and directors' remuneration would be available on the Market Observation Post System after the convening of the meeting of shareholders.

(p) Share-based payment

(i) The Company－Employee restricted stock

At the meeting held on June 25, 2013, the Company’s board of directors decided to issue 2,800,000 shares of employee restricted shares to those the Company’s full-time employees who meet certain requirements. The restricted shares have been registered with and approved by the Securities and Futures Bureau of FSC. The board of directors decided to issue all the restricted shares on August 8, 2013, which is also the effective date of the share issuance.

2,100,000 shares of the aforementioned restricted shares are issued without consideration. 40%, 30% and 30% of the 2,100,000 restricted shares are vested respectively when the employees continue to provide service for at least 1 year, 2 years and 3 years from the registration and the effective date, and at the same time, meet the performance requirement. In addition, when earnings per share in two continuous and complete fiscal years from the registration and effective date are no less than 4 New Taiwan dollars and at the same time, the employees with the restricted shares meet the performance requirement, the other 70,000 shares of the restricted shares are vested 100% at the date the shareholders approved the financial statements for the second fiscal year. The earnings per share mentioned above is calculated based on the profit approved by the shareholders, and the weighted average number of ordinary shares outstanding at the date of the restricted shares have been approved by the authority.

After the issuance, the restricted shares are kept by a trust, which is appointed by the Company, before they are vested. These restricted shares shall not be sold, pledged, transferred, gifted or by any other means of disposal to third parties during the custody period. The voting rights of these shares are executed by the custodian, and the custodian shall act based on the law and regulations. If the shares remain unvested after the vesting period, the Company will purchase all the unvested shares without consideration and cancel the shares thereafter. Restricted shares could receive cash and stock dividends, and could join cash injection. The aforementioned new shares are not considered as restricted shares.

The information of the Company’s restricted stock is as follows:

Unit: in thousands of shares

	2016	**2015**
Outstanding unit at January 1	619	1,958
Vested during the period	(594)	(1,300)
Canceled during the period	(25)	(39)
Outstanding unit at December 31	**-**	**619**

As of December 31, 2016 and 2015, the unearned employee benefit were $0 and $4,578, respectively.

The compensation cost related to the restricted stock amounted to $3,629 and $23,806 for the years ended December 31, 2016 and 2015.

(ii) The Company implemented cash injection in January 2015, and the information about share-based payment caused from shares reserved for employees was as follows:

	Equity-settlement－Cash injection reserved for employees
Grant date	2015.1.21
Number of shares granted	2,500 thousands
Recipients	Employees of the Company
Vested conditions	Vest immediately

The compensation cost related to the share-based payment derived from shares reserved for employees amounted to $20,500 for the year ended December 31, 2015.

(iii) TTI－employee stock options

The information about share-based payment of TTI in 2016 and 2015 was as follows:

	Employee stock options
Grant date	2015.10.29
Granted amount	1,000,000
Contract period	7 years
Granted object	Employees of TTI
Vested condition	Please refer to the issuance terms of the stock options.

The issuance terms of the stock options are as follows:

1) Exercise price: NT$13.5 per share.

2) Exercisable duration: The employees who received stock options that exceed two years and meet the performance requirements can exercise a specific percentage in each period as below. The exercisable duration of the options is seven years. No transfer is allowed except for inheritance.

Exercisable percentage	Period and performance requirements to exercise options
40 %	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 2 years after the issuance of the right. (2) Upon vesting, the average earnings per share of the Company for the past 2 years must exceed NT$ 3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to 3 years; under this extension, the average of the earnings per share of any 2 years within the 3 year period must exceed NT$ 3.

Exercisable percentage	Period and performance requirements to exercise options
30 %	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 3 years after the issuance of the right. (2) Upon vesting, the performance requirements need to be met, otherwise, the earnings per share of the Company for the following year must exceed NT$ 3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to another 1 year; the earnings per share must exceed NT$ 3 during the extension period.
30 %	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 4 years after the issuance of the right. (2) Upon vesting, the performance requirements need to be met, otherwise, the earnings per share of the Company for the following year must exceed NT$ 3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to another 1 year; the earnings per share must exceed NT$ 3 during the extension period.
	The total measurement periods mentioned above may not exceed 6 years. ◦

The earnings per share mentioned above are based on the financial statements that had been audited and certified by a certified public accountant.

3) Exercise method: TTI would issue new shares as the options is exercised.

4) Exercise procedure: In accordance with TTI's issuance and exercise rules. After receiving the payment for share options, the entitlement certification of share options exercised is registered as ordinary shares.

The information on total options issued were as follow:

	2016		2015	
	Weighted-average exercise price (NT dollars)	**Shares**	**Weighted-average exercise price (NT dollars)**	**Shares**
Balance at January 1, outstanding shares	13.5	1,000,000	13.5	-
Current shares issued	13.5	-	13.5	1,000,000
Current shares for feinted	13.5	-	13.5	-
Current shares exercised	13.5	-	13.5	-
Current shares expired	13.5	-	13.5	-
Balance at December 31, outstanding units	13.5	**1,000,000**	13.5	**1,000,000**
Balance at December 31, exercisable units	13.5	**-**	-	**-**

(Continued)

The exercise price range of TTI's outstanding employee stock options and weighted-average remaining contractual life of the outstanding options are as follows:

	December 31, 2016	December 31, 2015
Range of exercise price	13.5	13.5
Weighted average of remaining contractual period	5.83	6.83

The compensation cost related to the share-based payment amounted to $1,289 and $215 for the years ended December 31, 2016 and 2015, respectively.

(q) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the year 2016 and 2015 were as follows:

1) Profit attributable to ordinary shareholders of the Company

	2016	2015
Profit attributable to ordinary shareholders of the Company	$ **1,357,473**	**574,451**

2) Weighted-average number of ordinary shares (thousands)

	2016	2015
Issued ordinary shares at January 1	188,525	162,213
Effects of restricted employee shares vested	248	600
Effects of cash injection	-	25,000
Weighted-average number of ordinary shares at December 31	**188,773**	**187,813**
Basic earnings per share (dollars)	$ **7.19**	**3.06**

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the year 2016 and 2015 was as follows:

1) Profit attributable to ordinary shareholders of the Company (diluted)

	2016	2015
Profit attributable to ordinary shareholders of the Company(basic) (diluted)	$ **1,357,473**	**574,451**

2) Weighted-average number of ordinary shares (diluted) (thousands)

	2016	2015
Weighted-average number of outstanding ordinary shares (basic)	188,773	187,813
Effect of employee bonuses	258	1,282
Effect of employee compensation	2,859	1,728
Effect of restricted employee shares unvested	361	940
Weighted-average number of ordinary shares (diluted)	**192,251**	**191,763**
Diluted earnings per share (dollars)	**$ 7.06**	**3.00**

(r) Remuneration to employees and directors

Based on the Company's articles of incorporation, if there is any profit in a fiscal year, it shall be distributed to employees as remuneration in an amount of not less than five percent (5%) and to directors as remuneration in an amount of not more than two percent (2%) of such profits. In the event that the Company has accumulated losses, the Company shall reserve an amount to offset its accumulated losses. Employees who are entitled to receive the above mentioned employee remuneration, in share or cash, include the employees of the subsidiaries of the Company who meet certain specific requirement.

For the years ended December 31, 2016 and 2015, the Company accrued and recognized its employee remuneration of $162,947 and $68,237, and directors' remuneration of $9,777 and $6,494, respectively. The estimated amounts mentioned above are based on the net profit before tax without the remuneration to employees and directors of each respective ending period, multiplied by the percentage of remuneration to employees and directors as specified in the Company's articles. The estimations were recorded under operating expenses during 2016 and 2015.

The Company accrued its remuneration to employee and directors amounting to $68,237 and $6,494 in 2015, respectively. There were no differences between the amounts approved in the board of directors' meeting and those recognized in the 2015 financial statements. Related information can be accessed through the Market Observation Post System website.

(s) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

The Company' s customers are mainly from the high-tech industry; therefore, the Company does not concentrate on a specific customer and the sales regions are widely spread, thus, there should be no concern on the significant concentrations of accounts receivable credit risk. And in order to mitigate accounts receivable credit risk, the Company constantly assesses the financial status of its customers, wherein it does not require its customers to provide any collateral.

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payments.

	Carrying Amount	Contractual cash flows	Within a year	1 ~ 2 years	Over 2 years
December 31, 2016					
Non-derivative financial liabilities					
Unsecured bank loans	$ 11,865	(11,865)	(11,865)	-	-
Notes and accounts payable	4,121,694	(4,121,694)	(4,121,694)	-	-
Other payables	581,356	(581,356)	(581,356)	-	-
Derivative financial liabilities					
Forward exchange contracts:	2,108				
Outflow	-	(322,169)	(322,169)	-	-
Inflow	-	321,304	321,304	-	-
	$ 4,717,023	**(4,715,780)**	**(4,715,780)**	**-**	**-**
December 31, 2015					
Non-derivative financial liabilities					
Notes and accounts payable	$ 3,641,185	(3,641,185)	(3,641,185)	-	-
Other payables	528,880	(528,880)	(528,880)	-	-
Derivative financial liabilities					
Forward exchange contracts:	6,945				
Outflow	-	(781,695)	(781,695)	-	-
Inflow	-	774,636	774,636	-	-
Currency swap contracts:	21,373				
Outflow		(1,445,840)	(1,445,840)	-	-
Inflow		1,432,881	1,432,881	-	-
	$ 4,198,383	**(4,190,083)**	**(4,190,083)**	**-**	**-**

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(Continued)

(iii) Currency risk

1) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

	December 31, 2016			December 31, 2015		
	Foreign currency	**Exchange rate**	**TWD**	**Foreign currency**	**Exchange rate**	**TWD**
Financial assets						
Monetary items						
USD	$ 130,013	USD/TWD = 32.25	4,192,919	127,113	USD/TWD = 32.86	4,176,933
GBP	4,437	GBP/TWD = 39.61	175,750	2,247	GBP/TWD = 48.09	109,406
EUR	50,746	EUR/TWD = 33.9	1,720,289	48,413	EUR/TWD = 35.94	1,739,963
CNY	73,130	CNY/USD = 0.143	351,092	199,456	CNY/USD = 0.151	989,673
MXN	275,494	MXN/TWD = 1.558	429,178	-	-	-
Non-monetary items						
USD	13,100	USD/TWD = 32.25	486,975	-	-	-
EUR	30,000	EUR/TWD = 33.90	1,017,000	44,390	EUR/TWD = 35.94	1,595,377
GBP	3,000	GBP/TWD = 39.61	118,830	1,000	GBP/TWD = 48.09	48,090
Financial liabilities						
Monetary items						
USD	147,312	USD/TWD = 32.250	4,750,812	93,601	USD/TWD = 32.860	3,075,729
EUR	5,239	EUR/TWD = 33.90	177,602	661	EUR/TWD = 35.94	23,756
CNY	135,392	CNY/USD = 0.143	624,394	77,217	CNY/USD = 0.151	383,140
Non-monetary items						
USD	500	USD/TWD = 32.25	16,125	44,000	USD/TWD = 32.25	1,419,000
ERU	9,000	EUR/TWD = 33.9	305,100	21,750	EUR/TWD = 35.94	781,695

(Continued)

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables (including related parties), loans and borrowings, notes and accounts payable and other payables (including related parties) that are denominated in foreign currency. The analysis assumes that all other variables remain constant. A strengthening (weakening) 5% of each foreign currency against the functional currency on December 31, 2016 and 2015 would have affected the net profit before tax as follows. The analysis is performed on the same basis for both periods:

		December 31, 2016	December 31, 2015
USD (against the TWD)			
Strengthening 5%	$	(27,895)	55,060
Weakening 5%		27,895	(55,060)
GBP (against the TWD)			
Strengthening 5%	$	8,788	5,470
Weakening 5%		(8,788)	(5,470)
EUR (against the TWD)			
Strengthening 5%	$	77,134	85,810
Weakening 5%		(77,134)	(85,810)
CNY (against the USD)			
Strengthening 5%	$	(13,665)	30,327
Weakening 5%		13,665	(30,327)
MXN (against the TWD)			
Strengthening 5%	$	21,459	(36)
Weakening 5%		(21,459)	36

3) Exchange gains and losses of monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. In 2016 and 2015, the foreign exchange gain or loss, including both realized and unrealized, amounted to $(441,024) and $34,995, respectively.

(iv) Interest rate analysis

The following sensitivity analysis is based on the risk exposure to interest rate on the non-derivative financial instruments on the reporting date. Regarding the assets and liabilities with variable interest rates, the analysis is on the basis of the assumption that the amount of assets and liabilities outstanding at the reporting date were outstanding throughout the year. The rate of change is expressed as the interest rate increase or decrease by 0.25% when reporting to management internally, which also represents management of the Group's assessment on the reasonably possible interval of interest rate change.

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decreased by $4,153 and $2,426 for the years ended December 31, 2016 and 2015, respectively, which would be mainly resulted from the bank savings and borrowings with variable interest rates.

(v) Fair value

1) The kinds of financial instruments and fair value

The carrying amount and fair value of the Group’ s financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

	December 31, 2016				
		Fair Value			
	Book value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss					
Derivative financial assets	$ 61,312	-	61,312	-	61,312
Financial asset at cost	66,547	-	-	-	-
Loans and receivables					
Cash and cash equivalents	2,530,846	-	-	-	-
Notes and Accounts receivable, net	5,578,518	-	-	-	-
Other receivables	108,953	-	-	-	-
Subtotal	8,218,317				
Total	**$ 8,346,176**				
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	$ 2,108	-	2,108	-	2,108
Financial liabilities at amortized cost through profit or loss					
Short-term borrowings	11,865	-	-	-	-
Notes and Accounts payable	4,121,194	-	-	-	-
Other payables	581,356	-	-	-	-
Subtotal	4,714,415				
Total	**$ 4,716,523**				

	December 31, 2015				
		Fair Value			
	Book value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss					
Derivative financial assets	$ 14,312	-	14,312	-	14,312
Derivative financial assets for hedging	21,360	-	21,360	-	21,360
Available-for-sale financial assets					
Financial asset at cost	81,698	-	-	-	-
Loans and receivables					
Cash and cash equivalents	1,312,268	-	-	-	-
Notes and Accounts receivable, net	5,662,868	-	-	-	-
Other receivables	120,368	-	-	-	-
Subtotal	7,095,504				
Total	**$ 7,212,874**				
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	$ 28,318	-	28,318	-	28,318
Financial liabilities at amortized cost through profit or loss					
Notes and Accounts payable	3,641,185	-	-	-	-
Other payables	528,880	-	-	-	-
Subtotal	4,170,065				
Total	**$ 4,198,383**				

2) Fair value valuation techniques of financial instruments not measured at fair value

The Group’s estimates financial instruments that not measured at fair value by methods and assumptions as follows:

a) Debt instrument Investment without on active market and financial liabilities measured at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

3) Fair value valuation technique of financial instruments measured at fair value

a) Non-derivative financial instruments

Financial instruments trade in active markets are based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a basis to determine the fair value of the listed companies' equity instrument and debt instrument of the quoted price in an active market.

b) Derivative financial instruments

Measurement of fair value of derivative instruments is based on the valuation techniques that are generally accepted by the market participants. For instance, discount method or option pricing models. Fair value of forward currency exchange is usually determined by using the forward currency rate.

There were no transfers from one level to another in 2016 and 2015.

(t) Financial risk management

(i) Briefings

The Group is exposed to the following risks arising from financial instruments:

1) Credit risk

2) Liquidity risk

3) Market risk

In this note expressed the information on risk exposure and objectives, policies and procedures of risk measurement and management. For detailed information, please refer to the related notes of each risk.

(ii) Structure of risk management

The Group's risk management policies are set for identifying and analyzing the risk that the Group confronts for setting the appropriate amount of the risk and complying with the policies. The Group continually reviews the risk management policies to reflect the market condition and the changes of the Group's operation. The Group develops a disciplined and constructive environment and makes employees understand their rules and obligations through training, management guidelines, and operating procedures.

Audit Committee ensures that the monitoring of the management is in compliance with the Group's risk management policies and procedures, and reviews the appropriateness of the related risk management framework. The Group's internal auditors assist the Audit Committee to supervise and review the control and procedures of the risk management periodically and aperiodically, and report the findings to the Audit Committee and the board of directors.

(iii) Credit risk

Credit risk is the risk on the financial loss of the Group if a customer or a counterparty fails to meet its contractual obligations. It rises principally from the Group' s receivables from customers and investment securities.

1) Accounts receivable and other receivables

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group' s standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and these limits are reviewed periodically.

The Group's customers are mainly from the communications industry. And in order to monitor the credit risk of accounts receivable, the Group constantly assesses the financial status of the customers, and requests the customers to provide guarantee or security if necessary. The Group regularly accesses the collectability of accounts receivable and recognizes the allowance for accounts receivable. The impairment losses are always within management's expectation.

The Group set the allowance for bad debt account to reflect the estimated losses for trade and other receivables. The allowance for bad debt account is based on extensive analysis for customers' creditworthiness and historical collection record.

2) Investments

The credit risks exposure in the bank deposits and other financial instruments are measured and monitored by the Group' s finance department. Since the Group' s transaction counterparties and the contractually obligated counterparties are banks, financial institutes and corporate organizations with good credits, there are no compliance issues, and therefore, no significant credit risk.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements. The loans and borrowings from the bank form an important source of liquidity for the Group. As of December 31, 2016 and 2015, for the information of the unused credit lines of short-term, please see note (j).

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

In order to manage market risk, there are some financial liabilities incurred by the Group from its buying and selling of derivatives. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the Group, primarily USD and EUR.

The Group aims to hedge its estimate exchange rate for the next six months sales, and the Group uses its forward foreign exchange contract (within a year) as hedge standard for its currency rate.

As for other monetary assets and liabilities denominated in other foreign currencies, when short-term imbalance takes place, the Group buys or sells foreign currencies at spot rate to ensure that the net exposure is kept on an acceptable level.

2) Interest rate risk

The Group borrows funds with a stable combination of fix and variable interest rates to maintain its interest rate risk. The Group periodicly assess these hedge activities to provide the best cost effect and risk assessment.

(u) Capital management

The Group maintains the capital based on the current operating characteristics of the industry, future development and changes in external environment to assure there is financial resource and operating plan to support working capital, capital expenditures, research & development expense, debt redemption and dividend payment and so on. The management decides the optimized capital structure by using the appropriate debt-to-equity ratio. To maintain a strong capital base, the Group enhances the return on equity by optimizing debt-to-equity ratio. The Company’ s debt-to-equity ratio at the end of the reporting date is as follows:

	December 31, 2016	December 31, 2015
Total liabilities	$ 6,121,974	5,111,400
Total equity	9,095,163	8,106,993
Debt-to-equity ratio	67 %	63 %

As of December 31, 2016, there were no changes in the Group’s approach to capital management.

(7) Related-party transactions:

(a) Parent company and ultimate controlling party

Compal Electronics Inc. is both the parent company of the consolidated entity and the ultimate controlling party of the Group. It has issued the Consolidated Financial Statements Available for Public Use.

(b) Key management personnel compensation

Key management personnel compensation comprised:

	2016	2015
Short-term employee benefits	$ 75,072	50,317
Post-employment benefits	972	950
Share-based payments	1,028	7,879
	$ 77,072	**59,146**

Please refer to note 6(p) for the information of share-based payment.

(c) Significant related party transactions

(i) Purchase of goods from related parties

The amounts of significant purchase transactions between the Group and related parties were as follows:

	For the years ended December 31,	
	2016	**2015**
Associates	**$ -**	**388,244**

Purchase prices from related parties were similar to those from third-party suppliers. The payment period was 2~3 months for related parties.

(ii) Other expenditures

Parent company and other related parties provided technical support, professional services and other services for the Group, and the related expenses for the years ended December 31, 2016 and 2015 were as follows:

	For the years ended December 31,	
	2016	**2015**
Parent company	$ -	5,524
Other related parties	1,132	1,013
	$ 1,132	**6,537**

(iii) Payable to related parties

The payables to related parties were as follows:

Account	Related party categories	December 31, 2016	December 31, 2015
Accounts payable	Associates	$ -	107,295
Other payable	Other related parties	152	213
		$ 152	**107,508**

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Assets	Subject	December 31, 2016	December 31, 2015
Other current asset	Bail for court mandatory execution	$ 26,510	26,510
Property-land	Long-term loans (note)	463,262	463,347
Other non-current asset	Customs Deposit	14,561	15,829
		$ 504,333	**505,686**

Note: Long-term loans had been settled in 2015, but the assets of property-land still were pledged as collaterals.

(9) Commitments and contingencies:None

The details of commitments and contingencies were as follows:

(a) Significant commitments unrecognized:

In March 2012 and September 2014, the Group entered into an agreement with its non-related parties on property, plant equipment and its non-related parties for the decoration and designing of its office building amounting to $941,900. As of December 31, 2016 and 2015, the construction payable not yet due amounted to $ 0 and $48,065, respectively.

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:None

(12) Other:

(a) A followings are the summary statement of current period employee benefits, depreciation and amortization expenses by function:

By function / By item	2016 Cost of sales	2016 Operating expenses	2016 Total	2015 Cost of sales	2015 Operating expenses	2015 Total
Employee benefits						
Salary	916,411	973,380	1,889,791	853,989	859,616	1,713,605
Labor and health insurance	7,585	65,321	72,906	8,193	66,672	74,865
Pension	66,470	37,889	104,359	58,027	36,628	94,655
Others	145,896	69,687	215,583	138,981	64,506	203,487
Depreciation	124,819	83,357	208,176	117,343	91,855	209,198
Amortization	2,668	30,678	33,346	1,961	25,187	27,148

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group for 2016:

(i) Loans to other parties:

Unit: thousand dollars

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (note 1)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral Item	Collateral Value	Individual funding loan limits (note 2)	Maximum limit of fund financing (note 2)
1	Arcadyan Holding	CNC	Other receivables	Yes	567,120 (USD17,000)	-	-	1%	2	-	Operating demand	-		-	873,126	873,126
〃	The Company	Arcadyan do Brasil Ltda	〃	Yes	261,000 (USD8,000)	258,000 (USD8,000)	29,025 (USD900)	1%	1	322,500 (USD10,000)	-	-		-	258,000	3,480,511

Note 1: Number 1 represents the business relationship with the Company; number 2 represents the short-term financing facility, if necessary.

Note 2: According to the policy of the Company on Lending Funds to Other Parties, the amount of loans to others shall not exceed 40% of the net worth of the Company. To borrowers having business relationship with the Company, the total amount of loans to the borrower shall not exceed 80% of the transaction amount in the last fiscal year or the expected amount for the current year, which shall not exceed 20% of the net worth of the Company. Also, the amount shall be combined with the Company's endorsements/guarantees for the borrower upon calculation. When a short-term financing facility is deemed necessary, only the investees of the Company are allowed to borrow. The total amount of loans to the borrower shall not exceed 80% of the its net worth, nor shall it exceed 20% of the net worth of the Company, and it shall be combined with the the Company's endorsements/guarantees for the borrower upon calculation.

Note 3: According to the policy of Arcadyan Holding on Loaning Funds to Others, the amount of loans to others shall not exceed 40% of the net worth of Arcadyan Holding. When a short-term financing facility with Arcadyan Holding is deemed necessary, only the investees of Arcadyan Holding are allowed to borrow. The total amount for lending the borrower shall not exceed its net worth , and it shall be combined with the Company's endorsements/guarantees for the borrower upon calculation.

Note 4: The amounts in New Taiwan Dollars were translated at the exchange rate of $32.25 based on the year-end date.

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(ii) Guarantees and endorsements for other parties:

Unit: thousand dollars

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary (note 2)	Subsidiary endorsements / guarantees to third parties on behalf of parent company (note 2)	Endorsements/ guarantees to third parties on behalf of companies in Mainland China (note 2)
		Name	Relationship with the Company										
0	The Company	Arcadyan do Brasil Ltda	100% Owned subsidiary	1,160,170	261,000 (USD8,000)	258,000 (USD8,000)	-	-	2.97 %	3,480,511	Y	-	-

Note 1: According to the policy of the Company for Endorsements and Guarantee, the total amount shall not exceed 40% of the net worth of the latest financial statements audited or reviewed by Certified Public Accountants, and the amount for a single company shall not exceed 1/3 of the total amount.
Note 2: Fill in "Y" if applicable, or "-" if not applicable.

(iii) Securities held as of (excluding investment in subsidiaries, associates and joint ventures):

Unit: thousand dollars/thousand shares

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares/Units (thousand)	Percentage of ownership (%)	
The Company	Geo Things Inc.	-	Financial assets carried at cost, non current	200	-	8.94 %	-	200	8.94 %	
〃	AirHop Communication, Inc.	-	〃	1,152	-	6.61 %	-	1,152	6.61 %	
〃	Adant Technologies Inc.	-	〃	349	12,960	5.51 %	-	349	5.51 %	
〃	IOT Eye, Inc.	-	〃	60	4,878	6.00 %	-	60	6.00 %	
〃	TIEF Fund, L.P.	-	〃	-	48,709	- %	-	-	- %	

Note 1: The carrying amount included the cumulative impairment.

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock:None

(v) Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock:None

(vi) Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock:None

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

Unit: thousand dollars

Name of company	Related party	Nature of relationship	Transaction details: Purchase/ Sale	Transaction details: Amount	Transaction details: Percentage of total purchases/ sales	Transaction details: Payment terms	Transactions with terms different from others: Unit price	Transactions with terms different from others: Payment terms	Notes/Accounts receivable (payable): Ending balance	Notes/Accounts receivable (payable): Percentage of total notes/accounts receivable (payable)	Note
The Company	Arcadyan Germany	Subsidiary	(Sales)	(1,533,209)	(7) %	Net 120 days from delivery	-	-	415,593	10 %	Note 2
The Company	Arcadyan USA	Subsidiary	(Sales)	(426,175)	(2) %	Net 60 days from the end of the month of delivery	-	-	125,458	3 %	Note 2
Sinoprime	The Company	Parent company	(Sales)	(10,340,227)	(100) %	Net 45 days from the end of the month of delivery	According to cost plus pricing	-	1,515,688	65 %	Note 1、2
CNC	Sinoprime	With the same ultimate parent company	(Sales)	(10,340,227) (USD(306,652))	(100) %	〃	〃	-	1,439,174 (USD44,626)	31 %	Note 1、2
Arcadyan Germany	The Company	Parent company	Purchases	1,533,209	100 %	Net 120 days from delivery	-	-	(415,593)	(100)%	Note 2
The Company	Sinoprime	With the same ultimate parent company	Purchases	10,340,227	39.55 %	Net 45 days from the end of the month of delivery	According to cost plus pricing	-	(1,515,688)	(42)%	Note 1、2
Sinoprime	CNC	With the same ultimate parent company	Purchases	10,340,227 (USD306,652)	100 %	〃	-	-	(1,439,174) (USD(44,626))	(100)%	Note 1、2
Arcadyan USA	The Company	Subsidiary	Purchases	426,175	100 %	Net 60 days from the end of the month of delivery	-	-	(125,458)	(100)%	Note 2
THAC	TTI	With the same ultimate parent company	(Sales)	(438,749)	(77) %	Net 60 days from invoice date	According to cost plus pricing	-	77,193	88 %	Note 2
TTI	THAC	With the same ultimate parent company	Purchases	438,749	14 %	〃	-	-	(77,193)	(8)%	Note 2
THAC	TTI	With the same ultimate parent company	Purchases	127,045	36 %	Net 90 days from the end of the month of delivery	-	-	(13,809)	(12)%	Note 2
TTI	THAC	With the same ultimate parent company	(Sales)	(127,045)	(4) %	〃	According to cost plus pricing	-	13,809	1 %	Note 2

Note 1: The ending balance derived from the transactions on processing and sales of raw material.
Note 2: The transactions had been eliminated in the consolidated financial statements.

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

Unit: In Thousands of TWD and USD

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue Amount	Overdue Action taken	Amounts received in subsequent period (note 1)	Allowance for bad debts
The Company	Arcadyan Germany	Subsidiary	415,593	2.62	-		-	-
The Company	Arcadyan USA	〃	125,458	3.40	-		29,589 (USD917)	-
The Company	TTI	〃	163,745	0.03	-		-	-
Sinoprime	The Company	Parent company	1,515,688	6.97	-		891,527 (USD2,970)	-
CNC	Sinoprime	With the same ultimate parent company	1,439,174 (USD44,626)	7.32	-		891,527 (USD2,970)	-

Note 1: Balance as of February 9, 2017.

(ix) Trading in derivative instruments :Please refer to notes (6)(b) and (6)(c)

(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions: Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	Arcadyan Germany	1	Sales Revenue	1,533,209	There is no significant difference of price between general customers'. The credit period is net 120 days from delivery.	6.40 %
〃	〃	〃	1	Accounts Receivable	415,593	〃	2.73 %
〃	〃	TTI	1	Accounts Receivable	163,745	There is no significant difference of price between general customers'. The credit period is net 90 days from the end of the month of delivery.	1.08 %
〃	〃	Arcadyan USA	1	Sales Revenue	426,175	There is no significant difference of price between general customers'. The credit period is net 60 days from the end of the month of delivery.	1.78 %
〃	〃	〃	1	Accounts Receivable	125,458	〃	0.82 %

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No. (Note 1)	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
1	Sinoprime	The Company	2	Processing Revenue	10,340,227	The price is based on the operating cost. The credit period is net 45 days from the end of the month of delivery and depended on funding demand.	43.25 %
〃	〃	〃	2	Accounts Receivable	1,515,688	〃	9.96 %
2	CNC	Sinoprime	3	Sales Revenue	10,340,227	〃	43.19 %
〃	〃	〃	3	Accounts Receivable	1,439,174	〃	9.52 %
3	SVA	Sinoprime	3	Accounts Receivable	58,784	〃	0.39 %
〃	〃	CNC	3	Other Accounts Receivable	43,099	The receivables depend on funding demand.	0.28 %
4	TTI	TCH (THAC)	3	Sales Revenue	127,045	There is no significant difference of price between general customers'. The credit period is net 90 days from the end of the month of delivery and depended on funding demand.	0.53 %
〃	〃	〃	3	Accounts Receivable	13,809	〃	0.09 %
5	TCH (THAC)	TTI	3	Processing Revenue	438,749	The price is based on the operating cost. The credit period is net 60 days from invoice date	1.83 %
〃	〃	〃	3	Accounts Receivable	77,193	〃	0.51 %

Note 1: The numbers filled in as follows:
1.0 represents the Company.
2. Subsidiaries are sorted in a numerical order starting from 1.

Note 2: Transactions labeled as follows:
1 represents transactions between the parent company and its subsidiaries.
2 represents transactions between the subsidiaries and the parent company.
3 represents transactions between subsidiaries.

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(b) Information on investees:

The following is the information on investees for the year 2016 (excluding information on investees in Mainland China):

Unit: thousand dollars

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2016			The highest holdings in the period		Net Income (Losses) of the Investee	Investment Income (losses)	Note
				December 31, 2016	December 31, 2015	Shares (thousands)	Percentage of ownership	Carrying value	Shares (In Thousands)	Percentage of Ownership)			
The Company	Arcadyan Holding	British Virgin Islands	Investment activities	962,291	1,479,091	23,780	100%	837,009	40,780	100 %	125,946	100,859	Note 2、4
The Company	Arcadyan USA	USA	Selling of wireless networking products	23,055	23,055	1	100%	56,477	1	100 %	5,145	5,145	〃
The Company	Arcadyan Germany	Germany	Selling and technical support of wireless networking products	1,125	1,125	0.5	100%	47,254	0.5	100 %	5,599	5,599	〃
The Company	Arcadyan Korea	Korea	Selling of wireless networking products	2,879	2,879	20	100%	2,225	20	100 %	863	863	〃
The Company	Arcadyan do Brasil Ltda	Brasil	Selling of wireless networking products	81,265	81,265	965	99%	65,710	965	99 %	(29,851)	(29,851)	〃
The Company	Zhi-Bao	Taipei City	Investment activities	48,000	48,000	30,000	100%	399,508	30,000	100 %	63,276	63,276	〃
The Company	TTI	Taipei City	Research and development, and selling digital home appliance	296,429	287,786	24,474	60%	519,049	24,474	60 %	19,242	14,774	〃
The Company	AcBel Telecom	Taipei City	Investment activities	23,000	23,000	3,652	51%	40,281	3,652	51 %	15,822	8,082	〃
The Company	Arcadyan England	UK	Technical support of wireless networking products	1,980	-	50	100%	2,052	50	100 %	73	73	〃
The Company	CBN	Hsinchu City	Manufacturing and selling of broadband network products	214,875	-	8,735	16%	219,723	8,735	16 %	133,949	-	Note 3
The Company	Golden Smart home Technology	Taipei City	Selling of hardware and software integration of high-tech systems products	15,692	6,961	1,229	22%	5,738	1,229	22 %	(14,675)	(3,185)	〃
Arcadyan Holding	Sinoprime	British Virgin Islands	Selling of wireless networking products	1,613 (USD50)	1,613 (USD50)	50	100%	1,547 (USD48)	50	100 %	19 (USD1)	Investment gain(losses) recognized by Arcadyan Holding	Note 2、4
〃	Arch Holding	British Virgin Islands	Investment activities	355,105 (USD11,011)	355,105 (USD11,011)	35	100%	741,934 (USD23,006)	35	100 %	117,466 (USD3,641)	〃	〃
TTI	Quest	Samoa	Investment activities	38,700 (USD1,200)	38,700 (USD1,200)	1,200	100%	49,999	1,200	100 %	1,714	Investment gain(losses) recognized by TTI	〃

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Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2016			The highest holdings in the period		Net Income (Losses) of the Investee	Investment Income (losses)	Note
				December 31, 2016	December 31, 2015	Shares (thousands)	Percentage of ownership	Carrying value	Shares (In Thousands)	Percentage of Ownership)			
Quest	Exquisite	Samoa	Investment activities	37,733 (USD1,170)	37,733 (USD1,170)	1,170	100%	49,149 (USD1,524)	1,170	100 %	1,742 (USD54)	Investment gain(losses) recognized by Quest	Note 2、4
AcBel Telecom	Leading Images	British Virgin Islands	Investment activities	1,613 (USD50)	1,613 (USD50)	50	100%	74,577	50	100 %	15,101	Investment gain(losses) recognized by AcBel Telecom	〃
AcBel Telecom	Great Arch	British Virgin Islands	Selling of wireless networking products	1,613 (USD50)	1,613 (USD50)	50	100%	1,601	50	100 %	66	〃	〃
Leading Images	Astoria GmbH	Germany	Selling of wireless networking products	848 (EUR25)	848 (EUR25)	25	100%	74,219 (USD2,301)	25	100 %	15,101 (USD468)	Investment gain(losses) recognized by Leading Images	〃
Zhi-Bao	CBN	Hsinchu City	Manufacturing and selling of broadband network products	48,000	48,000	15,650	29%	393,669	15,650	29 %	133,949	Investment gain(losses) recognized by Zhi-Bao	Note 3

Note 1: The amounts in New Taiwan Dollars were translated at the exchange rate of $US32.263 based on the yearly average exchange rate for net income(losses) of the investees, others were translated at the exchange rate of US$32.25/EUR$33.9 based on the year-end date.
Note 2: The Group has owner control.
Note 3: The Group has significant influence.
Note 4: The transactions had been eliminated in the consolidated financial statements.

(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(In Thousands of New Taiwan Dollars US Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2015	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2016	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period	Note
					Outflow	Inflow							
SVA	Research and sale of wireless networking products	422,475 (USD13,100)	note 1	(Note 4) 594,045 (USD18,420)	-	-	594,045 (USD18,420)	3,566 (USD111)	100%	3,566 (USD111)	119,185 (USD3,696)	-	Note 3
CNC	Manufacturing of wireless networking products	401,513 (USD12,450)	〃	(Note 5) 355,105 (USD11,011)	-	-	355,105 (USD11,011)	117,466 (USD3,641)	100%	117,466 (USD3,641)	741,928 (USD23,006)	-	〃
THAC	Manufacturing of household electronics products	108,038 (USD3,350)	notes 1 and 7	37,088 (USD1,150)	-	-	37,088 (USD1,150)	1,774 (USD55)	100%	1,774 (USD55)	48,601 (USD1,507)	-	〃

(Continued)

Note 1: Investment in Mainland China through companies registered in a third region.
Note 2: The amounts in New Taiwan Dollars were translated at the exchange rate of $US32.263 based on the yearly average exchange rate for net income(losses) of the investees, others were translated at the exchange rate of US$32.25 based on the year-end date.
Note 3: The amounts are according to the financial statements which have been audited and certified by parent company's independent external CPA.
Note 4: The Company paid US$18,420 thousands and acquired 100% shares of SVA Arcadyan from Accton Asia through Arcadyan Holding in 2010.
Note 5: The Company paid US$8,561 thousands and acquired 100% shares of CNC from Just through Arcadyan Holding in 2007.
Note 6: SVA decreased its capital amounting to US$15,000 to offset its accumulated losses in March 2009.
Note 7: The Company's subsidiary, TTI, obtained control over THAC for US$1,150 on February 28, 2013 (base date of stock transferring).

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
986,237 (USD30,581)	986,237 (USD30,581)	5,220,767

Note : The amounts in New Taiwan Dollars were translated at the exchange rate of $32.25 on December 31, 2016.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China for the year ended December 31, 2016, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".

(14) Segment information:

(a) General information

The Group's reportable segments are the networking product segment and the digital set-top box product segment. The networking product segment is primarily engaged in the research, development, manufacture and sale of wireless networking products, integrated access devices, and digital home and mobile office multimedia gateway products. The digital set-top box product segment is primarily engaged in the research, development, and sale of set-top boxes and related products. The above segments are managed independently, thus they are single operating segments.

(b) Reportable segments and operating segment information

Accounting policies for the operating segments correspond to those stated in note 4.

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The operating segment information was as follows:

	For the years ended December 31, 2016			
	Networking Product Segment	Digital Set Top Box Product Segment	Adjustment & Elimination	Total
Revenue				
Revenue from external customers	$ 20,464,881	3,445,598	-	23,910,479
Revenue from segments	88,282	-	(88,282)	-
Interest revenue	6,832	424	-	7,256
Total revenue	**$ 20,559,995**	**3,446,022**	**(88,282)**	**23,917,735**
Interest expense	8,222	675	-	8,897
Depreciation and amortization	206,562	34,960	-	241,522
Investment gain	59,996	-	-	59,996
Reportable segment profit	**$ 1,676,871**	**27,074**	**-**	

	For the years ended December 31, 2015			
	Networking Product Segment	Set Top Box Product Segment	Adjustment & Elimination	Total
Revenue				
Revenue from external customers	$ 17,737,361	2,237,640	-	19,975,001
Revenue from segments	68,798	-	(68,798)	-
Interest revenue	8,555	2,714	-	11,269
Total revenue	**$ 17,814,714**	**2,240,354**	**(68,798)**	**19,986,270**
Interest expense	16,960	272	-	17,232
Depreciation and amortization	205,170	31,176	-	236,346
Investment gain	46,933	-	-	46,933
Reportable segment profit	**$ 701,871**	**23,301**	**-**	

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(c) Products information

The information of revenue from external customers:

Products and services		2016	2015
Networking products	$	16,203,492	13,992,708
Digital Set-top-box products		7,171,092	5,643,030
Sales of materials and others		535,895	339,263
	$	23,910,479	19,975,001

(d) Geographic information

Stated below are the geographic information on the Group's sales presented by destination of sales and non-current assets presented by location.

(i) Revenue from external customers:

Country		2016	2015
Germany	$	4,367,041	4,101,472
Mexico		3,966,016	905,613
United States		2,734,620	1,971,324
Switzerland		2,468,018	1,464,819
Netherlands		1,358,679	2,080,444
Others		9,016,105	9,451,329
	$	23,910,479	19,975,001

(ii) Non-current assets:

Country		2016	2015
Taiwan	$	1,680,965	1,676,392
Mainland China		388,234	379,038
Others		538	559
	$	2,069,737	2,055,989

Non-current assets include plant, property, and equipment, intangible assets, and other assets, excluding deferred tax assets.

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(e) Major customers information

		2016	2015
Customer:			
B Company from Networking products segments	$	3,706,317	839,324
D Company from Networking products segments		2,602,153	114,337
A Company from Networking products segments		2,443,421	1,438,939
I Company from Networking products segments		2,087,569	2,130,049
F Company from Networking and Digital set-top-box products segments		626,845	2,566,268
	$	**11,466,305**	**7,088,917**