OPTO TECH CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2017 AND 2016

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Opto Tech Corporation

Opinion

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

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

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the 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 Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

Key audit matter- Allowance for inventory valuation losses

Description

Please refer to Note 4(12) for accounting policies on inventory valuation, Note 5(2) for accounting estimates and assumption uncertainty on inventory valuation, and Note 6(5) for details of allowance for inventory valuation losses. As of December 31, 2017, the balances of inventories and allowance for inventory valuation losses were NT$ 1,577,527 thousand and NT$ 479,576 thousand, respectively.

As the value of the Group's inventories are effected by market prices and product life cycles, there is a higher risk of obsolescence. For inventories aged over a certain period of time and individually identified as obsolete, the net realisable value is estimated based on historical data of inventory closeout. The net realisable value utilised in evaluating obsolete inventories involves uncertainty of estimation as it is subject to management's judgement. Since inventories and allowance for inventory valuation losses were material to the consolidated financial statements, it was identified as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter: assessed the reasonableness of policies and procedures in the provision of allowance for inventory valuation losses based on our understating the Group's operations and its industry, such as assessing the data source of historical inventory closeout and the reasonableness in the identification of obsolete inventories; validated the appropriateness of system logic of inventory aging report in order to confirm the compliance with respective policies; and assessed the reasonableness of the Group's determination of the provision of allowance for inventory valuation losses through obtaining assessment documents and supporting evidences in relation to individually identified obsolete or damaged inventories from management.

Key audit matter- Estimation of fair values of unlisted securities without active market

<u>Description</u>

Please refer to Note 4(8) for accounting policies on available-for-sale financial assets, Note 5(2) for accounting estimates and assumption uncertainty on estimation of fair value of available-for-sale financial assets, and Notes 6(3) 12(3) for details of fair value of available-for-sale financial assets. As of December 31, 2017, the carrying amount of unlisted securities without active market was NT$ 812,847 thousand.

For unlisted securities without active market held by the Group, management assesses their fair values through market approach and takes into account the discount for liquidity. Since the valuation method is subject to management's judgement and involves uncertainty, which would affect fair value, it was identified as a key audit matter.

<u>How our audit addressed the matter</u>

We performed the following audit procedures in respect of the above key audit matter: assessed the comparability and market liquidity of comparable companies referred to by the external appraiser engaged by the Group; and assessed the reasonableness of price multipliers and discounts for liquidity in the market.

Other matter－Parent company only financial reports

We have audited and expressed an unmodified opinion on the parent company only financial statements of Opto Tech Corporation as at and for the years ended December 31, 2017 and 2016.

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

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

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

Those charged with governance, including audit committee, are responsible for overseeing the Group’s financial reporting process.

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 ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

Lin, Yu-Kuan

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 28, 2018

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

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2017 AMOUNT	%	December 31, 2016 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 2,544,575	26	$ 3,143,617	29
1110	Financial assets at fair value through profit or loss - current	6(2)	300,265	3	491,089	5
1150	Notes receivable, net		24,988	-	25,712	-
1170	Accounts receivable - net	6(4)	1,446,882	15	1,494,723	14
1180	Accounts receivable - related parties - net	7	94,934	1	128,348	1
1200	Other receivables		11,133	-	11,383	-
130X	Inventories - net	6(5)	1,097,951	11	1,361,514	13
1410	Prepayments		55,327	1	34,056	-
1470	Other current assets	8	25,320	-	26,123	-
11XX	**Current Assets**		5,601,375	57	6,716,565	62
	Non-current assets					
1523	Available-for-sale financial assets - non-current	6(3)	1,222,491	12	913,351	8
1550	Investments accounted for using equity method	6(6)	5,235	-	1,202	-
1600	Property, plant and equipment - net	6(7) and 8	2,877,768	29	2,985,178	28
1780	Intangible assets	6(8)	9,051	-	9,313	-
1840	Deferred tax assets	6(26)	103,868	1	107,136	1
1900	Other non-current assets	6(9)	71,245	1	72,711	1
15XX	**Non-current assets**		4,289,658	43	4,088,891	38
1XXX	**Total assets**		$ 9,891,033	100	$ 10,805,456	100

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OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2017 AMOUNT	%	December 31, 2016 AMOUNT	%
	Current liabilities					
2100	Short-term loans	6(11)	$ 899,677	9	$ 563,683	5
2120	Financial liabilities at fair value through profit or loss - current	6(2)	-	-	1,912	-
2150	Notes payable		2,158	-	1,541	-
2170	Accounts payable		631,573	6	670,212	6
2180	Accounts payable - related parties	7	160,535	2	196,483	2
2200	Other payables	6(12)	536,586	5	541,159	5
2230	Current income tax liabilities		86,294	1	58,427	1
2250	Provisions for liabilities - current	6(16)	13,105	-	8,705	-
2300	Other current liabilities	6(13)(29)	60,194	1	558,579	5
21XX	**Current Liabilities**		2,390,122	24	2,600,701	24
	Non-current liabilities					
2550	Provisions for liabilities - non-current	6(16)	35,120	-	45,163	1
2570	Deferred tax liabilities	6(26)	42,550	1	8,434	-
2600	Other non-current liabilities	6(14)	199,368	2	237,385	2
25XX	**Non-current liabilities**		277,038	3	290,982	3
2XXX	**Total Liabilities**		2,667,160	27	2,891,683	27
	Equity attributable to owners of parent					
	Capital	6(17)				
3110	Common stock		4,454,386	45	5,456,621	50
	Capital Reserve	6(18)				
3200	Capital surplus		701,323	7	639,351	6
	Retained Earnings	6(19)				
3310	Legal reserve		536,773	5	451,300	4
3320	Special reserve		59,227	1	-	-
3350	Unappropriated earnings		1,269,714	13	1,437,596	13
	Other Equity Adjustments					
3400	Other equity interest	6(20)	223,345	2	(47,974)	-
3500	Treasury stocks	6(17)	(24,503)	-	(26,699)	-
31XX	**Equity attributable to owners of parent**		7,220,265	73	7,910,195	73
36XX	**Non-controlling interest**		3,608	-	3,578	-
3XXX	**Total equity**		7,223,873	73	7,913,773	73
3X2X	**Total liabilities and equity**		$ 9,891,033	100	$ 10,805,456	100

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

/ OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

			Year ended December 31			
			2017		2016	
	Items	Notes	AMOUNT	%	AMOUNT	%
4000	**Operating revenue**	7	$ 5,589,853	100	$ 5,488,496	100
5000	**Operating costs**	6(5)(24)(25) and 7	(3,935,755)	(70)	(3,893,949)	(71)
5900	**Gross profit, net**		1,654,098	30	1,594,547	29
	Operating Expenses	6(24)(25)				
6100	Selling expenses		(115,252)	(2)	(174,850)	(3)
6200	General and administrative expenses		(455,160)	(8)	(434,304)	(8)
6300	Research and development expenses		(300,111)	(6)	(303,677)	(6)
6000	**Total operating expenses**		(870,523)	(16)	(912,831)	(17)
6900	**Operating income**		783,575	14	681,716	12
	Non-operating income and expenses					
7010	Other income	6(21)	92,676	2	51,151	1
7020	Other gains and losses	6(22)	(40,966)	(1)	270,088	5
7050	Finance costs	6(23)	(26,176)	-	(34,789)	-
7060	Share of profit of associates and joint ventures accounted for using equity method	6(6)	3,722	-	13,352	-
7000	**Total non-operating income and expenses**		29,256	1	299,802	6
7900	**Profit before income tax**		812,831	15	981,518	18
7950	Income tax expense	6(26)	(140,518)	(3)	(126,760)	(2)
8200	**Net income**		$ 672,313	12	$ 854,758	16

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/ OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

	Items	Notes	Year ended December 31 2017 AMOUNT	2017 %	2016 AMOUNT	2016 %
	Other comprehensive income (loss)					
	Items that will not be reclassified to profit or loss					
8311	Other comprehensive income, before tax, actuarial losses on defined benefit plans	6(14)	($ 48,999)	(1)	($ 39,683)	(1)
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(26)	8,329	-	6,746	-
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**		(40,670)	(1)	(32,937)	(1)
	Items that may be reclassified subsequently to profit or loss					
8361	Currency translation differences of foreign operations	6(20)	(1,449)	-	(1,223)	-
8362	Unrealized gain (loss) on valuation of available-for-sale financial assets	6(3)(20)	309,140	6	(67,603)	(1)
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method - items that may be reclassified to profit or loss	6(20)	311	-	(494)	-
8399	Aggregated income tax relating to components of other comprehensive income	6(26)	(36,683)	(1)	(6,309)	-
8360	**Components of other comprehensive income that will be reclassified to profit or loss**		271,319	5	(75,629)	(1)
8300	**Other comprehensive income (loss) for the year, net of income tax**		$ 230,649	4	($ 108,566)	(2)
8500	**Total comprehensive income for the year**		$ 902,962	16	$ 746,192	14
	Profit attributable to:					
8610	Owners of the parent		$ 672,283	12	$ 854,727	16
8620	Non-controlling interest		30	-	31	-
			$ 672,313	12	$ 854,758	16
	Total comprehensive income attributable to:					
8710	Owners of the parent		$ 902,932	16	$ 746,164	14
8720	Non-controlling interest		30	-	28	-
			$ 902,962	16	$ 746,192	14
	Earnings per share	6(27)				
9750	**Profit for the year**		$	1.33	$	1.57
	Diluted earnings per share	6(27)				
9850	**Profit for the year**		$	1.29	$	1.54

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

OPTO TECH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent										
				Retained Earnings			Other equity interest					
	Note	Common stock	Capital reserve	Legal reserve	Special reserve	Unappropriated earnings	Currency translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total	Non-controlling interest	Total equity
2016												
Balance at January 1, 2016		$ 5,456,621	$ 641,656	$ 393,962	$ -	$ 1,218,806	$ 4,813	$ 22,839	($ 26,699)	$ 7,711,998	$ 3,550	$ 7,715,548
Distribution of 2015 earnings:	6(18)											
Legal reserve		-	-	57,338	-	(57,338)	-	-	-	-	-	-
Cash dividends		-	-	-	-	(545,662)	-	-	-	(545,662)	-	(545,662)
Changes in other capital reserve:												
Changes in capital reserve for dividends paid to subsidiaries		-	1,108	-	-	-	-	-	-	1,108	-	1,108
Disposal of affiliated companies		-	(3,269)	-	-	-	-	-	-	(3,269)	-	(3,269)
Adjustments to net difference of subsidiary book value		-	(144)	-	-	-	-	-	-	(144)	-	(144)
Other comprehensive loss for the year	6(19)	-	-	-	-	(32,937)	(1,714)	(73,912)	-	(108,563)	(3)	(108,566)
Net income for the year		-	-	-	-	854,727	-	-	-	854,727	31	854,758
Balance at December 31, 2016		$ 5,456,621	$ 639,351	$ 451,300	$ -	$ 1,437,596	$ 3,099	($ 51,073)	($ 26,699)	$ 7,910,195	$ 3,578	$ 7,913,773
2017												
Balance at January 1, 2017		$ 5,456,621	$ 639,351	$ 451,300	$ -	$ 1,437,596	$ 3,099	($ 51,073)	($ 26,699)	$ 7,910,195	$ 3,578	$ 7,913,773
Capital reduction by cash		(1,091,563)	-	-	-	-	-	-	2,196	(1,089,367)	-	(1,089,367)
Distribution of 2016 earnings:	6(18)											
Legal reserve		-	-	85,473	-	(85,473)	-	-	-	-	-	-
Special reserve		-	-	-	59,227	(59,227)	-	-	-	-	-	-
Cash dividends		-	-	-	-	(654,795)	-	-	-	(654,795)	-	(654,795)
Changes in other capital reserve:												
Adjustments to net difference of subsidiary book value		-	1,319	-	-	-	-	-	-	1,319	-	1,319
Employee options exercised		89,328	60,653	-	-	-	-	-	-	149,981	-	149,981
Other comprehensive income (loss) for the year	6(19)	-	-	-	-	(40,670)	(1,138)	272,457	-	230,649	-	230,649
Net income for the year		-	-	-	-	672,283	-	-	-	672,283	30	672,313
Balance at December 31, 2017		$ 4,454,386	$ 701,323	$ 536,773	$ 59,227	$ 1,269,714	$ 1,961	$ 221,384	($ 24,503)	$ 7,220,265	$ 3,608	$ 7,223,873

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

OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 812,831	$ 981,518
Adjustments			
Income and expenses having no effect on cash flows			
(Recovery of) bad debts expense	6(4) and 7	(14,911)	27,138
Depreciation	6(7)(24)	404,688	387,446
Amortization	6(8)(24)	12,899	12,318
Amortization of land use right	6(9)	105	159
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	6(2)(22)	(1,088)	1,285
Interest expense	6(23)	25,231	33,144
Interest income	6(21)	(13,487)	(16,902)
Dividend income	6(21)	(21,024)	(14,230)
Share of profit of associates and joint ventures accounted for using equity method	6(6)	(3,722)	(13,352)
Gain on disposal of non-current assets held for sale	6(22)	-	(151,637)
Gain on sale of investments	6(22)	(2,518)	(147,199)
Loss on disposal of property, plant and equipment	6(7)(22)	400	2,330
Reversal of impairment loss on non-financial assets	6(7)(22)	(28)	(2,906)
Changes in assets/liabilities relating to operating activities			
Changes in operating assets			
Acquisition of financial assets at fair value through profit or loss		192,518	136,232
Notes receivable - net		724	(12,306)
Accounts receivable - net		66,192	(81,407)
Accounts receivable - related parties - net		30,444	(20,587)
Other receivables		279	19,650
Inventories - net		263,563	(217,310)
Prepayments		(21,278)	16,515
Other current assets		803	475
Other non-current assets		(3,949)	(4,459)
Net changes in liabilities relating to operating activities			
Notes payable		617	1,322
Accounts payable		(38,639)	58,473
Accounts payable - related parties		(35,948)	(73,977)
Other payables		(5,759)	(9,442)
Other current liabilities		(78,486)	64,430
Provisions for liabilities		(5,499)	(4,422)
Net defined benefit liability		(88,548)	(64,255)
Cash inflow generated from operations		1,476,410	908,044
Interest received		13,465	17,632
Dividend received		21,024	51,951
Interest paid		(24,045)	(34,729)
Income tax paid		(103,621)	(112,906)
Net cash flows from operating activities		1,383,233	829,992

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OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31 2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of available-for-sale financial assets		$ -	$ 63,049
Proceeds from disposal of non-current assets held for sale	6(10)	-	361,990
Acquisition of property, plant and equipment	6(7)	(300,581)	(302,686)
Proceeds from disposal of property, plant and equipment		347	2,908
Acquisition of intangible assets	6(8)	(12,637)	(11,699)
Decrease (increase) in deposits-out		5,267	(11,431)
Net cash flows (used in) from investing activities		(307,604)	102,131
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in short-term loans		2,488,236	2,272,667
Decrease in short-term loans		(2,150,542)	(2,600,597)
Increase in long-term loans		-	2,986,890
Decrease in long-term loans		(419,900)	(3,805,732)
Increase in guarantee deposits		1,530	1,470
Employee options exercise	6(15)	149,981	-
Payment of cash dividends	6(19)	(653,476)	(544,554)
Payment of capital reduction	6(17)	(1,089,367)	-
Net cash flows used in financing activities		(1,673,538)	(1,689,856)
Effect of change in exchange rate		(1,133)	(18,512)
Net decrease in cash and cash equivalents		(599,042)	(776,245)
Cash and cash equivalents at beginning of year		3,143,617	3,919,862
Cash and cash equivalents at end of year		$ 2,544,575	$ 3,143,617

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

OPTO TECH CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Opto Tech Corporation (the "Company") was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.). The shares of the Company have been traded on the Taiwan Stock Exchange since May 2, 1995. The Company and its subsidiaries (collectively referred herein as the "Group") are primarily engaged in the manufacture and sales of semiconductor components as well as research and development, design, manufacture and sales of systems products.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 28, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 10, IFRS 12 and IAS 28, 'Investment entities: applying the consolidation exception'	January 1, 2016
Amendments to IFRS 11, 'Accounting for acquisition of interests in joint operations'	January 1, 2016
IFRS 14,'Regulatory deferral accounts'	January 1, 2016
Amendments to IAS 1, 'Disclosure initiative'	January 1, 2016
Amendments to IAS 16 and IAS 38, 'Clarification of acceptable methods of depreciation and amortisation'	January 1, 2016
Amendments to IAS 16 and IAS 41, 'Agriculture: bearer plants'	January 1, 2016
Amendments to IAS 19, 'Defined benefit plans: employee contributions'	July 1, 2014
Amendments to IAS 27, 'Equity method in separate financial statements'	January 1, 2016
Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets'	January 1, 2014

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting'	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016

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

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

When adopting the new standards endorsed by FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the new standards as of January 1, 2018 are summarised below:

A. In accordance with IFRS 9, the Group expects to reclassify available-for-sale financial assets in the amounts of $1,131,652, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, increasing retained earnings and decreasing other equity interest in the amounts of $1,131,652, $33,000 and $33,000, respectively.

B. In accordance with IFRS 9, the Group expects to reclassify available-for-sale financial assets in the amount of $90,839, by increasing financial assets at fair value through profit or loss and decreasing retained earnings and increasing other equity interest in the amounts of $90,839, $36,209 and $36,209, respectively.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its association or joint venture'	To be determined by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtail or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interest in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

IFRS 16, 'Leases'

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b) Available-for-sale financial assets measured at fair value.

(c) Defined benefit liabilities recognised based on present value of defined benefit obligation less the net amount of pension fund assets.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

			Ownership (%)		
Name of Investor	Name of Subsidiary	Main Business Activities	December 31, 2017	December 31, 2016	Description
Opto Tech Corp.	Ho Chung Investment Co., Ltd. (Ho Chung Investment)	Investment business	100.00	100.00	Note 1
Opto Tech Corp.	Opto Technology International Group Co., Ltd. (Opto)	Investment business	100.00	100.00	Notes 2 and 4
Opto Tech Corp.	Jyu Shin Investment Co., Ltd. (Jyu Shin Investment)	Investment business	100.00	100.00	
Opto Tech Corp.	Source Ever Limited (Source)	International trading	100.00	100.00	Note 4
Opto Tech Corp.	Opto Tech (Macao) Co., Ltd. (Opto Macao)	International trading	100.00	100.00	
Opto	Opto Tech (Cayman) Co., Ltd. (Cayman)	Investment business	100.00	100.00	Note 4
Opto	Everyung Investment Ltd. (Everyung)	Investment business	50.00	50.00	
Jyu Shin Investment	CS Bright Corporation (CSB)	Manufacture and sales of LED and electronic products	99.87	99.87	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%) December 31, 2017	Ownership (%) December 31, 2016	Description
Cayman	Opto Tech (Suzhou) Co., Ltd. (Opto Tech Suzhou)	Research, design and manufacture of LED display, wireless communication equipment and related parts with related techniques and after-sale service	100.00	100.00	Note 3
CSB	Bright Investment International Ltd. (Bright)	Investment business	100.00	100.00	
Bright	Everyung Investment Ltd. (Everyung)	Investment business	50.00	50.00	
Everyung	Opto Plus Technology Co., Ltd. (Opto Plus)	Manufacture and sales of LED and electronic products	100.00	100.00	

Note 1: Ho Chung Investment has been continuously acquiring the Company's common stock amounting to 888 thousand shares from 1998 to 2000. It holds about 0.2% of the Company's outstanding common stock.

Note 2: Opto Grand (Cayman) Co., Ltd. (Opto Grand) was dissolved on May, 2016, and the remaining funds were repatriated to Opto Tech Corp. through Opto Technology International Group Co., Ltd. (Opto).

Note 3: On August 11, 2016, the Board of Directors has resolved to liquidate the Company's Mainland China subsidiary, Opto Tech (Suzhou) Co., Ltd. (Opto Tech Suzhou). As of December 31, 2017, the liquidation is still under process.

Note 4: On August 14, 2017, the Board of Directors has resolved to liquidate the Company's offshore company, Opto Technology International Group Co.,Ltd. (Opto), Opto Tech (Cayman) Co., Ltd. and Source Ever Limited. As of December 31, 2017, the liquidation is still under process.

C. Subsidiaries not included in the consolidated financial statements：None.

D. Adjustments for subsidiaries with different balance sheet dates：None.

E. Nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities of the Group：None.

F. Subsidiaries that have non-controlling interests that are material to the Group：None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollar, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

B. Translation of foreign operations

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

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

iii. All resulting exchange differences are recognised in other comprehensive income.

(b) When the foreign operation partially disposed of or sold is an associate, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even when the Group retains partial interest in the former foreign associate or joint arrangement after losing significant influence over the former foreign associate, or losing joint control of the former joint arrangement, such transactions should be accounted for as disposal of all interest in these foreign operations.

(c) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(5) Classification of current and non-current items

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

(a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

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

(8) <u>Available-for-sale financial assets</u>

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(9) <u>Loans and receivables</u>

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) <u>Impairment of financial assets</u>

A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

(a) Significant financial difficulty of the issuer or debtor;

(b) A breach of contract, such as a default or delinquency in interest or principal payments;

(c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) The disappearance of an active market for that financial asset because of financial difficulties;

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

(a) Financial assets measured at amortised cost

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

(b) Available-for-sale financial assets

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

(11) <u>Derecognition of financial assets</u>

The Group derecognises a financial asset when one of the following conditions is met:

A. The contractual rights to receive the cash flows from the financial asset expire.

B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.

C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(12) Inventories

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

(13) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(14) Investments accounted for using equity method / associates

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.

B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.

D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss.

G. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

H. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss. If it retains significant influence over this associate, the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(15) <u>Property, plant and equipment</u>

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	10 ~ 50 years
Machinery and equipment	8 ~ 10 years
Utility equipment	6 ~ 25 years
Pollution prevention facilities	8 ~ 20 years
Transportation equipment	3 ~ 5 years
Office equipment	3 ~ 7 years
Other equipment	3 ~ 25 years

(16) Leased assets/ operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(17) Intangible assets

Intangible assets, mainly computer software, is stated at cost and amortised on a straight-line basis over its estimated useful life of 2 to 10 years.

(18) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(19) Borrowings

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

B. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(20) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. Financial liabilities are classified in this category of held for trading and are initially recognised at fair value. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(22) Derecognition of financial liabilities

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

(23) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(24) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognised in profit or loss.

(25) Provisions

Provisions, mainly warranties, are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(26) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(27) Employee share-based payment

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

Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(28) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(29) Share capital

A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(30) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities.

(31) Revenue recognition

A. Sales of goods

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

B. Sales of services

Revenue from delivering services is recognised under the percentage-of-completion method when the outcome of services provided can be estimated reliably. The stage of completion of a service contract is measured by the percentage of the actual services performed as of the financial reporting date to the total services to be performed. If the outcome of a service contract cannot be estimated reliably, contract revenue should be recognised only to the extent that contract costs incurred are likely to be recoverable.

C. A sale agreement comprising of multiple components

A sale agreement offered by the Group might comprise of multiple components, including sale of goods and subsequent repair services, etc. If a sale agreement comprises of multiple identifiable components, the fair value of the consideration received or receivable in respect of the sale agreement shall be allocated between those components based on the relative fair value of each component. The amount of proceeds allocated to each component is recognised as revenue in profit or loss following the revenue recognition criteria applied to each component. The fair value of each component is determined by its market value when it is sold separately.

(32) Operating segments

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

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

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

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

None.

(2) Critical accounting estimates and assumptions

A. Allowance for inventory valuation losses

As the value of the Group's inventories are effected by market prices and product life cycles, there is a higher risk of obsolescence. For inventories aged over a certain period of time and individually identified as obsolete, the net realisable value is estimated based on historical data of inventory closeout. The net realisable value utilised in evaluating obsolete inventories involves uncertainty of estimation as it is subject to management's judgement. Inventories and allowance for inventory voluation losses were material to the consolidated financial statements.

As of December 31, 2017, the carrying amount of inventories was $1,097,951.

B. Financial assets - fair value measurement of unlisted stocks without active market

For unlisted securities without active market held by the Group, management assesses their fair values through market approach and takes into account the discount for liquidity. The valuation method is subject to management's judgement and involves uncertainty, which would effect fair value. Please refer to Note 12(c).

As of December 31, 2017, the carrying amount of unlisted stocks without active market was $812,847.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	$ 510	$ 532
Checking demand deposits	567,641	838,458
Time deposits	1,556,424	1,603,621
Cash equivalents - Resale bonds	420,000	701,006
Total	$ 2,544,575	$ 3,143,617

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. Cash and cash equivalents amounting to $20,860 were pledged to others as collateral, and were classified as other financial assets. Please refer to Note 8.

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

Items	December 31, 2017	December 31, 2016
Current items:		
Financial assets held for trading		
Funds	$ 295,000	$ 485,000
Valuation adjustment of financial assets held for trading		
Funds	5,138	6,089
Forward exchange contracts	127	-
Total	$ 300,265	$ 491,089
Current items:		
Financial liabilities held for trading		
Valuation adjustment of financial liabilities held for trading		
Forward exchange contracts	$ -	$ 1,912

A. The Group recognised net gain(loss) of $1,088 and ($1,285) on financial assets and financial liabilities held for trading for the years ended December 31, 2017 and 2016, respectively.

B. The non-hedging derivative instrument transactions and contract information are as follows:

	December 31, 2017	
Derivative Instruments	Contract Amount (Nominal Principal)	Contract period
Assets - Current items:		
Forward exchange contracts	USD $ 1,000 (thousands)	December 13, 2017~ Janunary 16, 2018

Derivative Instruments	December 31, 2016 Contract Amount (Nominal Principal)		Contract period
Assets - Current items:			
Forward exchange contracts	USD	$ 7,000 (thousands)	November 6, 2016~ February 21, 2017

The Group entered into forward exchange contracts to sell USD and buy TWD to hedge exchange rate risk of export proceeds. However, these forward exchange contracts are not accounted for under hedge accounting.

C. The Group has no financial assets at fair value through profit or loss pledged to others.

(3) Available-for-sale financial assets

Items	December 31, 2017	December 31, 2016
Non-current items:		
Listed stocks	$ 386,258	$ 386,258
Unlisted stocks	571,857	571,857
Subtotal	958,115	958,115
Valuation adjustment of available-for-sale financial assets	264,376	(44,764)
Total	$ 1,222,491	$ 913,351

A. The Group recognised $309,140 and ($23,088) in other comprehensive income (loss) and reclassified $0 and ($44,515) from equity to profit (loss) for the years ended December 31, 2017 and 2016, respectively.

B. Since July 1, 2016, the Group lost its significant influence over its subsidiary, Viking Tech Corporation. As a result, the Group discontinued accounting the subsidiary using the equity method and reclassified the investment as available-for-sale financial assets. Please refer to Note 6 (6) for details.

(4) Accounts receivable

	December 31, 2017	December 31, 2016
Accounts receivable	$ 1,497,554	$ 1,563,786
Less: Allowance for doubtful accounts	(50,672)	(69,063)
	$ 1,446,882	$ 1,494,723

A. The Group’s accounts receivable that were neither past due nor impaired had good credit quality.

B. The ageing analysis of accounts receivable that were overdue but not impaired is as follows:

	December 31, 2017	December 31, 2016
Up to 180 days	$ 48,209	$ 91,849
181 to 365 days	263	1,948
Over 365 days	7,321	24,066
	$ 55,793	$ 117,863

The above ageing analysis was based on past due date.

C. Movement analysis of financial assets that were impaired are as follows:

(a) As of December 31, 2017 and 2016, accounts receivable that had been individual provision impaired were $8,572 and $1,065, respectively.

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

	2017		
	Individual provision	Group provision	Total
At January 1	$ 1,065	$ 67,998	$ 69,063
Provision for impairment	7,507	-	7,507
Reversal of impairment	-	(25,388)	(25,388)
Write-offs during the period	-	(40)	(40)
Effect of exchange rate	-	(470)	(470)
At December 31	$ 8,572	$ 42,100	$ 50,672

	2016		
	Individual provision	Group provision	Total
At January 1	$ 46,713	$ 54,398	$ 101,111
Provision for impairment	-	29,517	29,517
Reversal of impairment	(1,833)	-	(1,833)
Write-offs during the period	(43,815)	(11,345)	(55,160)
Effect of exchange rate	-	(4,572)	(4,572)
At December 31	$ 1,065	$ 67,998	$ 69,063

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

(5) Inventories

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 457,960	($ 242,605)	$ 215,355
Supplies	257,684	(35,361)	222,323
Work in process	376,123	(58,622)	317,501
Semi-finished goods	132,291	(71,974)	60,317
Finished goods	353,469	(71,014)	282,455
Total	$ 1,577,527	($ 479,576)	$ 1,097,951

	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 429,702	($ 218,083)	$ 211,619
Supplies	239,603	(18,425)	221,178
Work in process	492,396	(45,947)	446,449
Semi-finished goods	206,741	(62,369)	144,372
Finished goods	395,726	(57,830)	337,896
Total	$ 1,764,168	($ 402,654)	$ 1,361,514

The cost of inventories recognised as expense for the year:

	For the years ended December 31,	
	2017	2016
Cost of goods sold	$ 3,858,091	$ 3,958,565
Loss on (gain from reversal of) decline in market value	77,664	(64,616)
	$ 3,935,755	$ 3,893,949

During the year ended December 31, 2017, the Group wrote down inventory from cost to net realisable value accounted for as 'cost of goods sold'.

During the year ended December 31, 2016, the Group reversed a previous inventory write-down and accounted for as reduction of cost of goods sold because prices of products increased and inventory of low-priced stocks declined.

(6) Investments accounted for using equity method

	2017	2016
At January 1	$ 1,202	$ 432,915
Share of profit of investment accounted for using equity method	3,722	13,352
Earnings distribution of investments accounted for using equity method	-	(37,721)
Reclassification to non-current assets held for sale	-	(113,480)
Change in other equity items (Note 6(20))	311	(494)
Change in capital surplus	-	(3,269)
Gain on disposal of investment	-	96,158
Reclassification-available-for-sale financial assets	-	(386,259)
At December 31	$ 5,235	$ 1,202

Associated enterprises	December 31, 2017	December 31, 2016
VML TECHNOLOGIES B.V.	$ 5,235	$ 1,202

A. The Group reclassified stocks that will be settled as non-current assets classified as held for sale after disposal of investment accounted for using equity method, Viking Tech Corporation. The transaction was completed in July 2016, and the amount of proceeds from disposal was $155,178 and the profit was $41,698.

B. The Group invested directly and indirectly through its subsidiaries to Viking Tech Corporation totaling 17.30% of the total ownership, which does not exceed 20%. However, the Group has the highest ownership percentage and is represented by two directors in Viking Tech Corporation. As a result of the significant influence, the Group's investment in Viking Tech Corporation is accounted for using equity method. However, after stock settlement on July 1, 2016, the group's ownership declined to 12.86% and two of the board members resigned on the same day. The investment in the associate was reclassified as available-for-sale financial asset in fair value on July 1, 2016.

C. On September 22, 2015, the Group and GuangDon Fenghua Advanced Technology Holding Co., Ltd. ("Fenghua") have signed a tender offer agreement for Viking Tech Corporation's 20,311 thousand shares held by the Group and Fenghua is expecting to acquire 35%~40% of Viking Tech Corporation's outstanding ordinary shares at a public tender offer price of $29.8 (in dollars) per share.

D. When Fenghua or designated person proceeds with the public tender offer, the Group's shares in Viking Tech Corporation should be sold under conditions and selling price stated in the tender offer agreement, along with limits allowed by regulations. Agreements between the Group and Fenghua are as follows:

(a) If the amount of shareholders' shares to be sold does not reach the expected acquiring amount during the public tender offer period, the Group does not have any obligation to complete settlement in accordance with the agreement.

(b) If the amount of shareholders' shares to be sold reaches the minimum acquiring amount but not reach the expected acquiring amount, Fenghua will acquire all shares for the amount to be sold.

(c) If the amount of shareholders' shares to be sold exceeds the expected acquiring amount, Fenghua will acquire from each shareholder the amount proportionate to the shareholder's shareholding ratio (that is, the Group will not sell all its shares it intends to sell).

Fenghua has obtained approval from the Investment Commission of the Ministry of Economic Affairs on December 29, 2015. And as of June 22, 2016, the expiration day of tender offer, the number of shares to be sold had exceeded the projected number of shares to be acquired. As a result, the Group sold the shares pro rata to all the offerors amounting to 5,223 thousand shares. The transaction has been completed.

(7) Property, plant and equipment

At January 1, 2017	Buildings and structures	Machinery	Utility facilities	Pollution prevention facilities	Transportation equipment	Office equipment	Other equipment	Construction in progress and prepayment for equipment	Total
Cost	$ 2,019,203	$ 5,008,102	$ 1,044,489	$ 655,617	$ 10,227	$ 67,582	$ 1,786,569	$ 128,924	$ 10,720,713
Accumulated depreciation	(964,073)	(3,818,898)	(901,013)	(567,712)	(7,389)	(58,322)	(1,409,791)	-	(7,727,198)
Accumulated impairment	(59)	(7,866)	-	-	(63)	(205)	(144)	-	(8,337)
	$ 1,055,071	$ 1,181,338	$ 143,476	$ 87,905	$ 2,775	$ 9,055	$ 376,634	$ 128,924	$ 2,985,178
2017									
Opening net book amount	$ 1,055,071	$ 1,181,338	$ 143,476	$ 87,905	$ 2,775	$ 9,055	$ 376,634	$ 128,924	$ 2,985,178
Additions	6,198	63,125	14,950	2,219	396	644	10,790	202,259	300,581
Disposals	-	(206)	-	(308)	(208)	(17)	(8)	-	(747)
Reclassifications	1,420	100,484	4,625	35,867	585	-	50,574	(193,555)	-
Depreciation expense	(61,419)	(256,087)	(19,782)	(10,960)	(943)	(4,056)	(51,441)	-	(404,688)
Reversal of impairment loss	-	3	-	-	-	18	7	-	28
Net exchange differences	(1,868)	(676)	-	-	(13)	(27)	-	-	(2,584)
Closing net book amount	$ 999,402	$ 1,087,981	$ 143,269	$ 114,723	$ 2,592	$ 5,617	$ 386,556	$ 137,628	$ 2,877,768
At December 31, 2017									
Cost	$ 2,023,361	$ 5,123,400	$ 1,064,064	$ 677,355	$ 9,151	$ 65,902	$ 1,846,504	$ 137,628	$ 10,947,365
Accumulated depreciation	(1,023,900)	(4,027,610)	(920,795)	(562,632)	(6,559)	(60,142)	(1,459,826)	-	(8,061,464)
Accumulated impairment	(59)	(7,809)	-	-	-	(143)	(122)	-	(8,133)
	$ 999,402	$ 1,087,981	$ 143,269	$ 114,723	$ 2,592	$ 5,617	$ 386,556	$ 137,628	$ 2,877,768

At January 1, 2016	Buildings and structures	Machinery	Utility facilities	Pollution prevention facilities	Transportation equipment	Office equipment	Other equipment	Construction in progress and prepayment for equipment	Total
Cost	$ 2,143,278	$ 4,744,375	$ 1,046,673	$ 643,988	$ 10,394	$ 79,071	$ 1,774,667	$ 231,135	$ 10,673,581
Accumulated depreciation	(971,351)	(3,608,716)	(905,449)	(559,206)	(6,757)	(64,490)	(1,394,058)	-	(7,510,027)
Accumulated impairment	(59)	(11,495)	(1,510)	-	(63)	(1,480)	(2,188)	-	(16,795)
	$ 1,171,868	$ 1,124,164	$ 139,714	$ 84,782	$ 3,574	$ 13,101	$ 378,421	$ 231,135	$ 3,146,759
2016									
Opening net book amount	$ 1,171,868	$ 1,124,164	$ 139,714	$ 84,782	$ 3,574	$ 13,101	$ 378,421	$ 231,135	$ 3,146,759
Additions	7,054	61,737	15,249	5,976	180	483	18,500	193,507	302,686
Disposals	-	(2,792)	(417)	-	(37)	(154)	(1,838)	-	(5,238)
Reclassifications	8,330	246,953	5,033	5,788	236	207	29,171	(295,718)	-
Reclassification to non-current assets held for sale	(52,092)	-	(1,184)	-	-	-	(199)	-	(53,475)
Depreciation expense	(63,087)	(245,821)	(16,103)	(8,641)	(1,096)	(4,699)	(47,999)	-	(387,446)
Reversal of impairment loss	-	822	1,287	-	-	168	629	-	2,906
Net exchange differences	(17,002)	(3,725)	(103)	-	(82)	(51)	(51)	-	(21,014)
Closing net book amount	$ 1,055,071	$ 1,181,338	$ 143,476	$ 87,905	$ 2,775	$ 9,055	$ 376,634	$ 128,924	$ 2,985,178
At December 31, 2016									
Cost	$ 2,019,203	$ 5,008,102	$ 1,044,489	$ 655,617	$ 10,227	$ 67,582	$ 1,786,569	$ 128,924	$ 10,720,713
Accumulated depreciation	(964,073)	(3,818,898)	(901,013)	(567,712)	(7,389)	(58,322)	(1,409,791)	-	(7,727,198)
Accumulated impairment	(59)	(7,866)	-	-	(63)	(205)	(144)	-	(8,337)
	$ 1,055,071	$ 1,181,338	$ 143,476	$ 87,905	$ 2,775	$ 9,055	$ 376,634	$ 128,924	$ 2,985,178

A. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalization are as follows:

	For the years ended December 31,	
	2017	2016
Amount capitalised	$ 405	$ 759
Interest rate	0.17%~0.92%	0.12%~0.70%

B. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

C. Information about reclassification to non-current assets held for sale is provided in Note 6(10).

(8) Intangible assets

	Software
At January 1, 2017	
Cost	$ 33,543
Accumulated amortisation	(24,230)
	$ 9,313
2017	
Opening net book amount	$ 9,313
Additions	12,637
Amortisation expense	(12,899)
Closing net book amount	$ 9,051
At December 31, 2017	
Cost	$ 32,231
Accumulated amortisation	(23,180)
	$ 9,051

	Software
At January 1, 2016	
Cost	$ 33,799
Accumulated amortisation	(23,417)
Accumulated impairment	(450)
	$ 9,932
2016	
Opening net book amount	$ 9,932
Additions	11,699
Amortisation expense	(12,318)
Closing net book amount	$ 9,313
At December 31, 2016	
Cost	$ 33,543
Accumulated amortisation	(24,230)
	$ 9,313

Details of amortisation on intangible assets are as follows:

	For the years ended December 31, 2017	2016
Operating costs	$ 4,687	$ 3,724
Selling expenses	749	787
General and administration expenses	4,813	5,164
Research and development expenses	2,650	2,643
Total	$ 12,899	$ 12,318

(9) Long-term prepaid rents (shown as "Other non-current assets")

	December 31, 2017	December 31, 2016
Land-use rights	$ 3,764	$ 3,914

The Group signed the land-use rights contract in the People's Republic of China. The expiration date of the contract is in year 2053. The entire lease payment had been prepaid when the contract was signed. The amortised expense recognised was $105 and $159 for the years ended December 31, 2017 and 2016, respectively.

(10) Non-current assets held for sale

A. The Group had resolved to sell the plant and land-use rights of the subsidiary, Opto Tech (Suzhou) Co., Ltd. to a non-related party on February, 2016. The transaction has been completed in June, 2016. Proceeds from disposal is $178,240 with gain on disposal amounting to $109,939.

B. The Group has signed a facility agreement and received the deposits from Raystar Optronics, Inc. in December, 2015. The facilities have been reclassified as disposal group held for sale. The completion date for the transaction was in April, 2016. Proceeds from disposal is $28,572 with no gain or loss on disposal.

(11) Short-term borrowings

Type of borrowings	December 31, 2017	December 31, 2016
Unsecured bank borrowings	$ 899,677	$ 563,683
Interest rate range	0.53%~6.50%	0.54%~7.20%

(12) Other payables

	December 31, 2017	December 31, 2016
Salaries and bonus payable	$ 155,464	$ 141,343
Compensation payable to employee	117,173	122,774
Remuneration payable to directors and supervisors	35,078	40,925
Others	228,871	236,117
Total	$ 536,586	$ 541,159

(13) Long-term borrowings

December 31, 2017: None.

Type of borrowings	Credit line	Period	Interest rate range	December 31, 2016
Syndicated borrowings with 10 financial institutions including Taiwan Cooperative Bank	$ 2,000,000	2012.12.06~ 2017.12.06	1.5082%~ 2.2650%	$ 419,900
Less: Current portion (shown as “Other non-current liabilities”)				(419,900)
				$ -

A. Pursuant to the syndicated borrowings facility agreement entered into by the Company with Taiwan Cooperative Bank and 9 other banks, the Company is required to maintain semi-annual current ratio at 100% or above, debt ratio at 150% or below, interest coverage ratio at 300% or above and net value of tangible assets at $5 billion or above. If the Company breaches the above debt covenants, it is required to adjust interest rates as committed in the agreement. If the Company fails to improve its interest rates before examination days the Company will violate the above debt covenants.

B. Please refer to Note 8 for details of the collateral.

(14) Pensions

A. (a) The Company and CS Bright Corporation have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees’ service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and CS Bright Corporation contribute monthly an amount equal to 3.74% and 2% of the employees’ monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit.

(b) The amounts recognised in the balance sheet are as follows:

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	$ 614,842	$ 611,227
Fair value of plan assets	(418,865)	(375,701)
Net defined benefit liability	$ 195,977	$ 235,526

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2017			
Balance at January 1	$ 611,227	($ 375,701)	$ 235,526
Current service cost	8,689	-	8,689
Interest (expense) income	9,166	(5,635)	3,531
	629,082	(381,336)	247,746
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	2,240	2,240
Change in demographic assumptions	22,348	-	22,348
Change in financial assumptions	(10,416)	-	(10,416)
Experience adjustments	34,827	-	34,827
	46,759	2,240	48,999
Pension fund contribution	-	(100,768)	(100,768)
Paid pension	(60,999)	60,999	-
Balance at December 31	$ 614,842	($ 418,865)	$ 195,977

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2016			
Balance at January 1	$ 583,005	($ 322,908)	$ 260,097
Current service cost	8,112	-	8,112
Interest (expense) income	7,294	(4,042)	3,252
	598,411	(326,950)	271,461
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	1,497	1,497
Change in demographic assumptions	(37,713)	-	(37,713)
Change in financial assumptions	(40,299)	-	(40,299)
Experience adjustments	116,198	-	116,198
	38,186	1,497	39,683
Pension fund contribution	-	(75,618)	(75,618)
Paid pension	(25,370)	25,370	-
Balance at December 31	$ 611,227	($ 375,701)	$ 235,526

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and CS Bright Corporation's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its 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 the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company and CS Bright Corporation have no right to participate in managing and operating that fund and hence the Company and CS Bright Corporation are unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	For the years ended December 31,	
	2017	2016
Discount rate	1.25%~1.60%	1.375%~1.50%
Future salary increases	1.75%~3.00%	2.00%~3.00%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%~0.5%	Decrease 0.25%~0.5%	Increase 0.25%~0.5%	Decrease 0.25%~0.5%
December 31, 2017				
Effect on present value of defined benefit obligation	($ 49,667)	$ 54,975	$ 53,913	($ 49,252)
December 31, 2016				
Effect on present value of defined benefit obligation	($ 49,317)	$ 54,751	$ 53,637	($ 48,859)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(g) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2018 amount to $10,672.

(h) As of December 31, 2017, the Company's and CS Bright Corporation's weighted average duration of the retirement plan is 17 and 13 years, respectively. The analysis of timing of the future pension payment was as follows:

Within 1 year	$	485,416
1-2 year(s)		21,167
2-5 years		29,606
Over 5 years		3,472
	$	539,661

B. (a) Effective July 1, 2005, the Company and its CS Bright Corporation established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and CS Bright Corporation contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The Company's Mainland China subsidiaries, Opto Tech (Suzhou) Co., Ltd. and Opto Plus Technology Co., Ltd., have defined contribution plans. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (P.R.C.) are based on certain percentage of employees' monthly salaries and wages. The above Mainland China subsidiaries' contribution percentage for both the years ended December 31, 2017 and 2016 was 20% and 14%, respectively. Other than the monthly contributions, the Group has no further obligations.

(c) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2017 and 2016 were $38,700 and $37,268, respectively.

(15) Share-based payment

On August 9, 2010, as a result of setting up rules for the employee stock options for the year 2010, the Company issued 15,000 thousands units of employee stock options on August 26, 2010. Each unit could buy one share, and the exercise price is based on the closing price of the Company's common stock quoted in the Taiwan Stock Exchange at the issued date. The exercise price under the stock-based employee compensation plan is based on the closing price of the Company's common stock at the grant date and is subject to adjustments due to changes in the number of common shares and issuance of cash dividends. The vesting period of the Company's employee stock option plan is 7 years. The employees may exercise the stock options in installments within a period of 2 years after the stock options are granted. As of December 31, 2017, all the unexercised stock options have been forfeited.

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

	For the years ended December 31,			
	2017		2016	
Stock options	No. of shares (in thousands)	Weighted-average exercise price (in dollars)	No. of shares (in thousands)	Weighted-average exercise price (in dollars)
Options outstanding at beginning of year	10,755	$ 15.70	10,920	$ 17.20
Options exercised	(8,993)	16.79	-	-
Options revoked	(1,822)	-	(165)	-
Options outstanding at end of period	-	-	10,755	-
Options exercisable at end of period	-	-	10,753	15.70

B. The weighted-average stock price of stock options at exercise dates for the year ended December 31, 2017 was $18.03.

C. Details of the employee stock options outstanding as of December 31, 2017 and 2016 are set forth below:

December 31, 2017: None.

Stock options outstanding as at December 31, 2016			Stock options exercisable as at December 31, 2016	
No. of shares (in thousands)	Remaining vesting period (in years)	Exercise price (in dollars)	No. of shares (in thousands)	Exercise price (in dollars)
10,755	1	$ 15.7	10,753	$ 15.7

(a) On August 14, 2017, the Board of Directors of the Company approved the issuance of employee stock options authorized in 2010. The exercise price were adjusted from $14.6 (in dollars) to $18.2 (in dollars).

(b) On July 7, 2017, the Board of Directors of the Company approved the issuance of employee stock options authorized in 2010. The exercise price were adjusted from $15.7 (in dollars) to $14.6 (in dollars).

(c) On June 24, 2016, the Board of Directors of the Company approved the issuance of employee stock options authorized in 2010. The exercised price were adjusted from $17.2 (in dollars) to $15.7 (in dollars).

(16) Provisions

	Warranty
At January 1, 2017	$ 53,868
Additional provisions	8,526
Used during the period	(14,025)
Exchange differences	(144)
At December 31, 2017	$ 48,225

Analysis of total provisions:

	December 31, 2017	December 31, 2016
Current	$ 13,105	$ 8,705
Non-current	$ 35,120	$ 45,163

The Group provides warranties on LED products sold. Provision for warranties is estimated based on historical warranty data of LED products.

(17) Share capital

A. As of December 31, 2017, the Company's authorized capital was $10,000,000, consisting of 1,000,000 thousand shares of common stock, and the paid-in capital was $4,454,386, consisting of 445,439 thousand shares of common stock with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected. Movements in the number of the Company's ordinary shares outstanding are as follows:

(In thousands of shares)

	2017	2016
At January 1	544,555	544,555
Employee stock options exercised (Note)	8,933	-
Cash capital reduction	(108,937)	-
At December 31	444,551	544,555

Note: Amendment process of register was completed on January 24, 2018.

B. The Company resolved a capital reduction of $1,091,563 thousand, representing 109,156 thousand shares of outstanding shares whose ratio is around 20%. This reduction proposal was proposed at the Board of Directors' meeting held on March 24, 2017 and approved by the stockholders' meeting held on June 21, 2017. This proposal was effective after being submited to the FSC. The record date for reverse split is August 14, 2017, and shares return was completed on October 6, 2017.

C. Treasury stock

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

		December 31, 2017	
Name of company holding the shares	Reason for reacquisition	Number of Shares (thousand)	Carrying amount
The Company Subsidiary-Ho Chung Investment Co., Ltd.	The Company's shares held by its subsidiary	888	$ 24,503

		December 31, 2016	
Name of company holding the shares	Reason for reacquisition	Number of Shares (thousand)	Carrying amount
The Company Subsidiary-Ho Chung Investment Co., Ltd.	The Company's shares held by its subsidiary	1,107	$ 26,699

(b) The Company's shares held by its subsidiary had no voting rights before being transferred to the third party.

(18) Capital reserve

Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(19) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be distributed as follows:

(a) Offset prior years' operating losses.

(b) 10% of the remaining amount shall be set aside as legal reserve, unless the accumulated legal reserve equals the total capital of the Company.

(c) Special reserve set aside in accordance with relevant laws or regulations or as required for operations.

(d) After allocation of the above, the Board of Directors proposes a dividend distribution plan for approval by resolution at the shareholders' meeting.

B. The Company operates in the high-tech industry and its business life cycle is in the growth stage. In view of its capital expenditure demand and comprehensive financial plan for continuous development, the Company issues both stock and cash dividends. The proportion of dividends to be distributed in stocks and cash is determined based on the Company's rate of growth and capital expenditures. However, the amount of cash dividends shall not be lower than 50% of the dividends distributed.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve excess 25% of the Company's paid-in capital.

D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

E. The appropriation of 2016 and 2015 earnings had been resolved at the stockholders' meeting on June 21, 2017 and June 24, 2016, respectively. Details are summarized below:

	2016		2015	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 85,473		$ 57,338	
Special reserve	59,227		-	
Cash dividends	654,795	$ 1.20	545,662	$ 1.00
Total	$ 799,495		$ 603,000	

The above-mentioned 2016 earnings appropriation as approved by the stockholders were in agreement with those amount approved by the Board of Directors on March 24, 2017.

Information on the appropriation of the Company's earnings as resolved by the Board of Directors and approved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

F. The appropriation of 2017 earnings had been proposed by the Board of Directors on March 28, 2018. Details are summarized below:

	2017	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 67,228	
Special reserve	(59,227)	
Cash dividends	601,342	$ 1.35
Total	$ 609,343	

The appropriation of 2017 earnings had not been approved by the stockholders.

(20) Other equity items

	Currency translation differences of foreign operations	Unrealized gain (loss) on available-for-sale financial assets	Total
At January 1, 2017	$ 3,099	($ 51,073)	($ 47,974)
Available-for-sale financial assets			
Revaluation - Group	-	309,140	309,140
Tax on revaluation - Group	-	(36,683)	(36,683)
Currency translation differences:			
-Group	(1,449)	-	(1,449)
-Associates	311	-	311
At December 31, 2017	$ 1,961	$ 221,384	$ 223,345

	Currency translation differences of foreign operations	Unrealized gain (loss) on available-for-sale financial assets	Total
At January 1, 2016	$ 4,813	$ 22,839	$ 27,652
Available-for-sale financial assets			
Revaluation - Group	-	(23,088)	(23,088)
Tax on revaluation - Group	-	(6,309)	(6,309)
Revaluation transfer - Group	-	(44,515)	(44,515)
Currency translation differences:			
-Group	(1,220)	-	(1,220)
-Associates	(494)	-	(494)
At December 31, 2016	$ 3,099	($ 51,073)	($ 47,974)

(21) Other income

	For the years ended December 31,	
	2017	2016
Rental revenue	$ 1,347	$ 1,705
Dividend income	21,024	14,230
Interest income:		
Interest income from bank deposits	10,072	13,882
Interest income from resale bonds	1,915	1,483
Other interest income	1,500	1,537
Others	56,818	18,314
Total	$ 92,676	$ 51,151

(22) Other gains and losses

	For the years ended December 31,	
	2017	2016
Net gain (loss) on financial assets at fair value through profit or loss	$ 1,088	($ 1,285)
Net currency exchange loss	(41,068)	(26,732)
Gain on disposal of non-current assets held for sale	-	151,637
Loss on disposal of property, plant and equipment	(400)	(2,330)
Gain on disposal of investments	2,518	147,199
Reversal of impairment loss on non-financial assets	28	2,906
Others	(3,132)	(1,307)
Total	($ 40,966)	$ 270,088

(23) Finance costs

	For the years ended December 31,	
	2017	2016
Interest expense:		
Bank borrowings	$ 25,636	$ 33,903
Less: Capitalisation of qualifying assets	(405)	(759)
	25,231	33,144
Other financial costs	945	1,645
Total	$ 26,176	$ 34,789

(24) Expenses by nature

	For the years ended December 31,	
	2017	2016
Employee benefit expense	$ 1,212,688	$ 1,218,591
Depreciation on property, plant and equipment	404,688	387,446
Amortisation on intangible assets	12,899	12,318
Total	$ 1,630,275	$ 1,618,355

(25) Employee benefit expense

	For the years ended December 31,	
	2017	2016
Wages and salaries	$ 1,052,401	$ 1,064,697
Labor and health insurance fees	84,968	81,374
Pension costs	50,920	48,632
Other personnel expenses	24,399	23,888
	$ 1,212,688	$ 1,218,591

A. According to the Articles of Incorporation of the Company, if the Company has profit during the year, the Company shall distribute bonus to the employees that account for 10%~15% and pay remuneration to the directors and supervisors that shall not be higher than 5%, of the total distributed amount. If the Company has an accumulated deficit, earnings should be used to cover losses. Employees’ compensation can be distributed in the form of shares or in cash. Qualification requirements of employees, including the employees of subsidiaries of the Company meeting certain specific requirements, entitled to receive aforementioned stock or cash may be specified in the Articles of Incorporation.

B. For the years ended December 31, 2017 and 2016, employees’ compensation was accrued at $105,235 and $122,774, respectively; directors’ and supervisors’ remuneration was accrued at $35,078 and $40,925, respectively. The aforementioned amounts were recognised in salary expense. The employees’ compensation and directors’ and supervisors’ remuneration were estimated and accrued based on 11.08% and 3.69% of distributable profit of current year distributable as of the end of reporting period.

C. The Company’s subsidiary, CS Bright Corporation, recognised and estimated 2017 employees’ compensation in the amount of $776.The aforementioned amount was recognised as salaries expense which was estimated based on 10% of profits of the current year.

D. Employees’ compensation and directors’ and supervisors’ remuneration of 2016 as resolved by the stockholders’ meeting are the same as the amount recognised in the consolidated financial statements.

E. Information about employees’ compensation and directors’ and supervisors’ remuneration of the Company as resolved at the Board of Directors’ meeting will be posted in the “Market

Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the years ended December 31,	
	2017	2016
Current tax:		
Current tax on profits for the year	$ 128,559	$ 93,230
Tax on undistributed surplus earnings	2,230	-
Prior year income tax underestimation	699	5,458
Prepaid and withholding taxes from foreign income which will not be realized	-	487
Total current tax	131,488	99,175
Deferred tax:		
Origination and reversal of temporary differences	5,241	29,734
Impact of tax lossess	3,789	(2,149)
Total deferred tax	9,030	27,585
Income tax expense	$ 140,518	$ 126,760

(b) The income tax charge relating to components of other comprehensive income are as follows:

	For the years ended December 31,	
	2017	2016
Remeasurement of defined benefit obligations	$ 8,329	$ 6,746
Changes in unrealized gains on available-for-sale financial assets	(36,683)	(6,309)
Total	($ 28,354)	$ 437

B. Reconciliation between income tax expense and accounting profit.

	For the years ended December 31, 2017	For the years ended December 31, 2016
Tax calculated based on profit before tax and statutory tax rate	$ 148,927	$ 197,815
Expenses disallowed by tax regulation	1,988	(14,139)
Tax exempt income by tax regulation	(1,887)	(16,121)
Temporary differences not recognised as deferred tax assets	(11,428)	(50,043)
Changes in assessment of realisation of deferred tax assets	6	(4,739)
Understatement of income tax payable	699	5,458
Prepaid withholding taxes from foreign income which will not be realized	-	487
Tax on undistributed earnings	2,230	-
Effect from income below the tax threshold	(17)	-
Effect from Alternative Minimum Tax	-	8,042
Income tax expense	$ 140,518	$ 126,760

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

C. Amounts of deferred tax assets or liabilities as a result of temporary difference and tax losses are as follows:

	For the year ended December 31, 2017			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets (liabilities):				
Loss on inventory value decline	$ 26,151	$ 8,862	$ -	$ 35,013
Over provision of allowance for bad debts	7,441	5	-	7,446
Service warranty expense	7,064	(649)	-	6,415
Impairment loss	7,300	(1,039)	-	6,261
Net pension costs	26,483	(14,944)	-	11,539
Remeasurement of defined benefit obligations	12,363	-	8,329	20,692
Unrealized gain on valuation of available-for-sale financial assets	(6,309)	-	(36,683)	(42,992)
Others	6,003	2,545	-	8,548
Tax losses	12,206	(3,810)	-	8,396
Total	$ 98,702	($ 9,030)	($ 28,354)	$ 61,318

	For the year ended December 31, 2016			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets (liabilities):				
Loss on inventory value decline	$ 29,363	($ 3,212)	$ -	$ 26,151
Over provision of allowance for bad debts	10,008	(2,567)	-	7,441
Service warranty expense	7,536	(472)	-	7,064
Impairment loss	19,034	(11,734)	-	7,300
Net pension costs	37,494	(11,011)	-	26,483
Remeasurement of defined benefit obligations	5,617	-	6,746	12,363
Unrealized gain on valuation of available-for-sale financial assets	-	-	(6,309)	(6,309)
Others	6,741	(738)	-	6,003
Tax losses	10,057	2,149	-	12,206
Total	$125,850	($ 27,585)	$ 437	$ 98,702

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

December 31, 2017			
Year incurred	Amount filed/ assessed	Unused amount	Amount of unrecognised deferred tax assets
2008	$ 12,202	$ 3,862	$ -
2009	38,634	38,634	23,401
2010	123,142	123,142	107,790
2011	7,266	7,266	-
2012	10,332	10,332	2,656
	$ 191,576	$ 183,236	$ 133,847

December 31, 2016			
Year incurred	Amount filed/ assessed	Unused amount	Amount of unrecognised deferred tax assets
2007	$ 54,255	$ 54,255	$ 39,302
2008	12,202	12,202	-
2009	38,634	38,634	23,682
2010	123,142	123,142	108,190
2011	7,266	7,266	-
2012	10,332	10,332	2,856
	$ 245,831	$ 245,831	$ 174,030

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

	December 31, 2017	December 31, 2016
Deductible temporary differences	$ 361,268	$ 365,514

F. As of December 31, 2017, the Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

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

H. Unappropriated retained earnings on December 31, 2016:

	December 31, 2016
Earnings generated in andafter 1998	$ 1,437,596

I. As of December 31, 2016, the balance of the imputation tax credit account was $99,728, respectively. The actual creditable tax rate was 10.53% for 2016.

(27) Earnings per share

	For the year ended December 31, 2017		
	Profit after tax	Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to owners of the parent	$ 672,283	507,345	$ 1.33
Dilutive effect of common stock equivalents:			
Employees' stock option	-	5,291	
Employees' compensation	-	6,570	
Diluted earnings per share			
Profit attributable to owners of the parent plus dilutive effect of common stock equivalents	$ 672,283	519,206	$ 1.29

	For the year ended December 31, 2016		
	Profit after tax	Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to owners of the parent	$ 854,727	544,555	$ 1.57
Dilutive effect of common stock equivalents:			
Employees' compensation	-	10,943	
Diluted earnings per share			
Profit attributable to owners of the parent plus dilutive effect of common stock equivalents	$ 854,727	555,498	$ 1.54

For the year ended December 31, 2016, the employee stock options had anti-dilutive effect and were not included in the calculation.

(28) Operating leases

The Company had entered into an agreement to lease land from Hsinchu Science Park for the period from 1997 to 2037, and CS Bright Corporation had entered into an agreement to lease office from a non-related party. For both the years ended December 31, 2017 and 2016, the Company and CS Bright Corporation together recognised rental expenses of $18,601 and $19,169, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2017	December 31, 2016
Not later than 1 year	$ 20,347	$ 18,188
Later than 1 year but not later than 5 years	79,486	71,425
Later than 5 years	161,957	178,510
	$ 261,790	$ 268,123

(29) Supplemental cash flow information

Non-cash flows from investing and financing activities:

	For the years ended December 31,	
	2017	2016
Long-term liabilities maturing within one year	$ -	$ 419,000
Property, plant and equipment reclassified as non-current assets	$ -	$ 53,475

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Company
Shin-Etsu Opto Electronic Co., Ltd.	The Company is the director of this company; this company is the director of the Company.
Giga Epitaxy Technology Corp.	The Company is the director of this company.
Nichia Taiwan Corp.	This company is the director of the Company.
Nichia Corp.	This company's subsidiary is the director of the Company.
VML Technologies B.V.	This company is an investment of Ho Chung Investment Co., Ltd. accounted for using equity method.

(2) Significant transactions and balances with related parties

A. Operating revenue:

	For the years ended December 31,			
	2017		2016	
Sales of goods:				
Associates	$	36,415	$	45,059
Other related parties		401,487		414,036
Total	$	437,902	$	459,095

The selling prices charged to the above related parties are not materially different from those charged to non-related parties. For the years ended December 31, 2017 and 2016, the credit term was 45 ~ 136 days and 66 ~ 136 days for the related parties, respectively, and 90 ~ 150 days for the non-related parties for both periods.

B. Purchases:

	For the years ended December 31,			
	2017		2016	
Purchases of goods:				
Associates	$	-	$	224
Other related parties				
Nichia Taiwan corp.		194,402		278,469
Other		294,417		190,023
Total	$	488,819	$	468,716

The purchase prices charged by the above related parties were not materially different from those charged by non-related parties. For the years ended December 31, 2017 and 2016, the credit term was 60 ~ 120 days and 30 ~ 130 days for the related parties, respectively, and 90 ~ 120 days for the non-related parties for both periods.

C. Accounts receivable:

	December 31, 2017	December 31, 2016
Receivables from related parties:		
Associates	$ -	$ 11,799
Other related parties	98,722	117,367
Less:Allowance for doubtful accounts	(3,788)	(818)
Total	$ 94,934	$ 128,348

D. Accounts payable:

	December 31, 2017	December 31, 2016
Payables to related parties:		
Other related parties		
Nichia Taiwan Corp.	$ 85,367	$ 147,166
Others	75,168	49,317
Total	$ 160,535	$ 196,483

(3) Key management compensation

	For the years ended December 31,	
	2017	2016
Salaries and other short-term employee benefits	$ 73,445	$ 83,324
Post-employment benefits	481	665
Total	$ 73,926	$ 83,989

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

	Book value		Purpose of pledge	
Pledged assets	December 31, 2017	December 31, 2016	Creditor Bank	Type
Restricted assets-Time deposits, (shown as "other current assets)	$ 20,860	$ 20,860	Chang Hwa Commercial Bank	Land lease and dormitory lease deposits
Property, plant and equipment	-	782,443	10 financial institutions including Taiwan Cooperative Bank	Long-term borrowings
	$ 20,860	$ 803,303		

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) As of December 31, 2017, the guarantees provided by the Group through banks were as follows:

Guarantor	Nature of Guarantee	Amount	
Chang Hwa Commercial Bank	Customs duty	$	14,000
Chang Hwa Commercial Bank	Warranty		20,860
Mega International Commercial Bank	〃		4,814
Taipei Fubon Commercial Bank	〃		9,143
Taiwan Cooperative Bank	〃		1,768
Taishin International Bank	Borrowing		178,740
		$	229,325

(2) As of December 31, 2017, the outstanding letters of credit issued for the importation of raw materials and machinery were as follows:

Amount (thousands)	
TWD	26,619
JPY	23,391
USD	662

(3) Operating lease commitments:
See Note 6(28).

(4) As of December 31, 2017 and 2016, the promissory notes issued by the Company and CS Bright Corporation for loans, performance guarantee for purchases and loans granted for subsidiaries amounted to $4,118,202 and $5,999,016, respectively.

(5) As of December 31, 2017, the capital expenditure contracted but not yet incurred is $63,348 and $33,691, respectively.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1) See Note 6(19).

(2) Under the amendents to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company’s applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company’s deferred tax assets and deferred tax liabilities by $18,330 and 7,509 respectively, which will be adjusted in the first quarter of 2018.

12. OTHERS

(1) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

As of December 31, 2017 and 2016, the gearing ratios were (29.48%) and (37.54%), respectively.

(2) Financial instruments

A. Fair value information of financial instruments

The Group used the book value of financial instruments measured at cost (including notes receivable, accounts receivable, other receivables, short-term borrowings, notes receivable, accounts payable and other payables) as its reasonable fair value. The fair value of long-term borrowings is based on the present value of expected future cash flows. Since long-term borrowings have floating interest rates, the carrying value is equivalent to the fair value. For information of financial instruments measured at fair value, please refer to Note 12(C).

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.

(b) The plans for material treasury activities are reviewed by Board of Directors in accordance with procedures required by relevant regulations or internal controls. During the implementation of such plans, Corporate Treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with regards to the USD and JPY. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

- To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward foreign exchange contracts, transacted with Group treasury. The expired dates of these forward foreign exchange contracts are shorter than 6 months and are not accounted for under hedge accounting. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

- As the foreign operations are strategic investments, the Company does not hedge for them.

- The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: TWD; other subsidiaries' functional currency: CNY). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2017			For the year ended December 31, 2017 Sensitivity Analysis			
	Foreign currency amount (in thousands)	Exchange rate	Book value (TWD)	Extent of variation	Effect on profit or loss	Effect on other comprehensive income	Unrealized exchange gain or (loss)
(Foreign currency: functional currency)							
Financial assets							
Monetary items							
USD : TWD	$ 49,197	29.710	$ 1,461,643	1%	$ 14,616	$ -	($ 16,908)
JPY : TWD	411,206	0.2622	107,818	1%	1,078	-	(1,803)
CNY : TWD	22,160	4.5400	100,606	1%	1,006	-	165
USD : CNY (Note)	712	6.5192	21,189	1%	212	-	209
Non-monetary items: None.							
Financial liabilities							
Monetary items							
USD : TWD	$ 29,024	29.810	$ 865,205	1%	($ 8,652)	$ -	$ 13,763
JPY : TWD	675,234	0.2662	179,747	1%	(1,797)	-	1,226
USD : CNY (Note)	28	6.5192	833	1%	(8)	-	12
Non-monetary items: None.							

	December 31, 2016			For the year ended December 31, 2016 Sensitivity Analysis			
	Foreign currency amount (in thousands)	Exchange rate	Book value (TWD)	Extent of variation	Effect on profit or loss	Effect on other compre-hensive income	Unrealized exchange gain or (loss)
(Foreign currency: functional currency)							
Financial assets							
Monetary items							
USD : TWD	$ 50,476	32.20	$ 1,625,327	1%	$ 16,253	$ -	$ 27,137
JPY : TWD	624,071	0.2736	170,746	1%	1,707	-	(12,031)
CNY : TWD	17,919	4.5920	82,284	1%	823	-	(1,079)
USD : CNY (Note)	1,677	6.9851	54,083	1%	541	-	726
Non-monetary items: None.							
Financial liabilities							
Monetary items							
USD : TWD	$ 31,879	32.30	$ 1,029,692	1%	($ 10,297)	$ -	($ 16,605)
JPY : TWD	615,752	0.2776	170,933	1%	(1,709)	-	13,959
USD : CNY (Note)	33	6.9851	1,064	1%	(11)	-	(55)
Non-monetary items: None.							

Note：If the consolidated entities' functional currency is not TWD, the foreign currency denominated assets and liabilities of the consolidated entities should be disclosed. For example, when the functional currency of a subsidiary is CNY, its USD foreign currency positions should also be disclosed.

Price risk

- The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these domestic funds, equity securities of listed company or unlisted company had increased/decreased by 5%, 20% or 10%, respectively, with all other variables held constant, post-tax profit for the years ended December 31, 2017 and 2016 would have increased/decreased by $15,007 and $24,554, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by $163,214 and $122,417 as a result of gains/losses on equity securities classified as available-for-sale.

Interest rate risk

- The Group's interest rate risk arises from long-term borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at floating rates. During the years ended December 31, 2017 and 2016, the Group's borrowings at floating rate were denominated in TWD and USD.
- At December 31, 2017 and 2016, if interest rates on borrowings had been 100 basis point higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2017 and 2016 would have been $0 and $3,485 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors, the utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as operating activities, including outstanding receivables.

ii. As the counterparties of deposits and other financial instruments are creditworthy banks and financial institutions with good rating, there is no significant doubt arising from default and credit risk.

iii As of December 31, 2017 and 2016, the Group's 10 largest customers accounted for 74% and 70% of the balance of the Group's accounts receivable, respectively. The centralized credit risk of other accounts receivable is not relatively significant.

iv. Ageing analysis of financial assets that were overdue but not impaired: Please refer to Note 6(4).

v. The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial asset in Note 6.

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times.

ii. The table below analyses the Group's non-derivative financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities.

Non-derivative financial liabilities：

December 31, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Short-term borrowings	$ 899,677	$ -	$ -	$ -	$ -
Notes payable	2,158	-	-	-	-
Accounts payable (including related parties)	792,108	-	-	-	-
Other payables	536,586	-	-	-	-

Non-derivative financial liabilities：

December 31, 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Short-term borrowings	$ 563,683	$ -	$ -	$ -	$ -
Notes payable	1,541	-	-	-	-
Accounts payable (including related parties)	866,695	-	-	-	-
Other payables	541,159	-	-	-	-
Long-term borrowings (including current portion)	427,279	-	-	-	-

Derivative financial liabilities:

As of December 31, 2016, the periods of derivative financial liabilities are all less than 1 year.

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

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

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

Level 3: Unobservable inputs for the asset or liability.

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

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Domestic funds	$ 300,138	$ -	$ -	$ 300,138
Forward exchange contract	-	127	-	127
Available-for-sale financial assets				
Equity securities	409,644	-	812,847	1,222,491
Total	$ 709,782	$ 127	$ 812,847	$ 1,522,756

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets:				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Domestic funds	$ 491,089	$ -	$ -	$ 491,089
Available-for-sale financial assets				
Equity securities	310,817	-	602,534	913,351
Total	$ 801,906	$ -	$ 602,534	$ 1,404,440
Liabilities:				
Recurring fair value measurements				
Financial liabilities at fair value through profit or loss				
Forward exchange contract	$ -	$ 1,912	$ -	$ 1,912

C. The methods and assumptions the Group used to measure fair value are as follows:

(a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are composed of: listed shares using closing price and open-end fund using net asset value at balance sheet date.

(b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes.

(c) When assessing non-standard and low-complexity financial instruments, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market. Forward exchange contracts are usually valued based on the current forward exchange rate.

(d) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

D. For the years ended December 31, 2017 and 2016, there was no transfer between Level 1 and Level 2.

E. The following chart is the movement of Level 3 financial instruments of equity securities for the years ended December 31, 2017 and 2016.

	2017	2016
At January 1	$ 602,534	$ 562,108
Losses recognised in other comprehensive income (Note)	210,313	40,426
At December 31	$ 812,847	$ 602,534

Note: Recorded as unrealised valuation gain or loss of available-for-sale financial assets.

F. For the years ended December 31, 2017 and 2016, there was no transfer into or out from Level 3.

G. Financial segment is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions and reviewing periodically.

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

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	$ 812,847	Market comparable companies	Price to earnings ratio multiple	0.84~1.24	The higher the multiple, the higher the fair value.
			Discount for lack of volatility	15.6%~29.3%	The higher the discount for lack of marketability, the lower the fair value.

	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	$ 602,534	Market comparable companies	Price to earnings ratio multiple	0.59~0.79	The higher the multiple, the higher the fair value.
			Discount for lack of volatility	27.9%~30.6%	The higher the discount for lack of marketability, the lower the fair value.

I. The Group has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in difference measurements. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

			December 31, 2017			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Discount of lack of volatility	±5%	$ -	$ -	$ 14,855	($ 14,855)

			December 31, 2016			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Discount of lack of volatility	±5%	$ -	$ -	$ 9,307	($ 9,307)

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: Please refer to table 2.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital: None.

E. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 4.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: None.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Note 6(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 6.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 7.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 8.

14. SEGMENT INFORMATION

(1) General information

The Group identifies the entity's operating segments based on the decision of the Chief Operating Decision-Maker and in accordance with IFRS 8 "Operating Segments".

For the years ended December 31, 2017 and 2016, operating segments required to be disclosed are categorized as LED and Silicon Sensor Chips Group, Displays and Lightening Group, Packaging Business Group, and Other Segments.

(2) Measurement of segment information

The Group's segment is measured by Board of Directors with operating profit (loss) before tax, which is used as a basis for the Group in assessing the performance of the operating segments.

The accounting policies of the operating segments are in agreement with the significant accounting policies summarized in Note 4.

(3) Segment information

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

	For the year ended December 31, 2017				
	LED and Silicon Sensor Chips Group	Displays and Lighting Group	Packaging Business Group	Other segments	Total
Revenue from external customers	$ 4,204,220	$ 1,050,643	$ 315,246	$ 19,744	$ 5,589,853
Segment income (loss)	$ 778,850	$ 40,312	$ 31,531	($ 37,862)	$ 812,831

	For the year ended December 31, 2016				
	LED and Silicon Sensor Chips Group	Displays and Lighting Group	Packaging Business Group	Other segments	Total
Revenue from external customers	$ 4,119,579	$ 1,028,990	$ 337,364	$ 2,563	$ 5,488,496
Segment income (loss)	$ 709,419	$ 88,341	($ 25,966)	$ 209,724	$ 981,518

(4) Reconciliation for segment income (loss)

A. The revenue from external customers reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income.

B. A reconciliation of reportable segment income or loss to the income (loss) before tax from continuing operations is measured in a manner consistent with that in the statement of comprehensive income.

(5) Information on products and services

External revenue mainly comes from sales of semiconductor, system and packaging products.

Summary of balance of revenue is as follows:

	For the years ended December 31,	
	2017	2016
LED	$ 1,847,408	$ 1,924,728
Silicon sensor	2,369,900	2,211,820
System product revenues	1,036,269	1,012,496
Packaging product revenues	315,246	313,548
Others	21,030	25,904
	$ 5,589,853	$ 5,488,496

(6) Geographical information

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

	For the years ended December 31,			
	2017		2016	
	Revenues	Non-current assets	Revenues	Non-current assets
Taiwan	$ 1,916,511	$ 2,764,726	$ 1,940,912	$ 2,861,547
Mainland China	1,775,342	193,338	1,799,665	205,655
Other countries	1,898,000	-	1,747,919	-
	$ 5,589,853	$ 2,958,064	$ 5,488,496	$ 3,067,202

(7) Major customer information

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

	For the years ended December 31,	
	2017	2016
Customer A	$ 872,399	$ 767,026

Opto Tech Corporation and subsidiaries

Loans to others

For the year ended December 31, 2017

Table 1

Expressed in thousands of TWD

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2017	Balance at December 31, 2017	Actual amount drawn down	Interest rate	Nature of loan (Note 2)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 3)	Ceiling on total loans granted (Note 4、5)	Remark
													Item	Value			
0	Opto Tech Corp.	Opto Tech (Suzhou) Co., Ltd.	Other receivables-Related Parties	Yes	$ 306,054	$ 74,275	$ 51,993	2.15611%	2	$ -	Pay debt	$ -	None	$ -	$ 722,027	$ 2,888,016	
1	CS Bright Corp.	Opto Plus Technology Co., Ltd.	Other receivables-Related Parties	Yes	38,171	29,436	29,436	-	1	201,543	None	-	None	-	201,543	26,533	

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

(1)The Company is “0”.

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

Note 2: Relationship with the borrower is classified into the following categories:

(1)The borrower having business relationship is numbered as “1”.

(2) The borrower having the needs of short-term financing is numbered as “2”.

Note 3: Limit on loans granted to a single party, which has the needs of short-term financing with the Company should not exceed 10% of the Company’s latest net asset value. Besides, limit on loans granted to a single party, which has business relationship with the subsidiaries should not exceed total amount that the two sides trade in the recent year.

Note 4: Total amount of loans of the Company should not exceed 40% of the net value of the Company’s latest net asset value, and total amount of loans of the subsidiaries should not exceed 20% of the net values of the subsidiaries’ latest net asset values.

Note 5: At first, the amount of loans which CS Bright Corp. (the indirect subsidiary of Opto Tech Corp.) granted to Opto Plus (the indirect subsidiary of Opto Tech Corp.) did not exceed the ceiling on total loans granted. However, due to disadvantageous operating conditions and decreasing net asset value of CS Bright Corp., the loans granted have exceeded the limit.

Opto Tech Corporation and subsidiaries

Provision of endorsements and guarantees to others

For the year ended December 31, 2017

Table 2

Expressed in thousands of TWD

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed: Company name	Party being endorsed/guaranteed: Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2017	Outstanding endorsement/ guarantee amount at December 31, 2017	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Remark
0	Opto Tech Corp.	CS Bright Corp.	3	$ 1,444,053	$ 79,690	$ 58,943	$ 25,000	$ -	0.84%	$ 3,610,133	Y	N	N	-
0	〃	Opto Plus Technology Co., Ltd.	3	1,444,053	193,800	178,860	154,707	-	2.54%	3,610,133	Y	N	Y	-

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

(1)The Company is “0”.

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

Note 2: Relationship with the endorser/guarantor is classified into the following categories:

(1) Having business relationship.

(2) The Company owns more than 50% voting shares of the endorsed/guaranteed company.

(3) The Company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.

(4) The endorsed/guaranteed company directly or indirectly owns more than 50% voting shares of the endorser/guarantor.

(5) Mutual guarantees in the same trade due to construction undertaking pursuant to the contracts.

(6) Due to joint venture, each shareholder provides guarantees for the company in proportion to its ownership.

Note 3: Under the Company’s “Procedures for Provision of Endorsements and Guarantees”, the Company’s total guarantees and endorsements to others should not exceed 50% of the Company’s net asset value, and total guarantees and endorsements provided for a single party should not exceed 20% of the Company’s net asset value. The calculation is shown below:

(1) $7,220,265 thousand dollars × 20% ＝ $1,444,053 thousand dollars

(2) $7,220,265 thousand dollars × 50% ＝ $3,610,133 thousand dollars

Opto Tech Corporation and subsidiaries

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2017

Table 3

Expressed in thousands of TWD

Securities held by	Type of marketable securities	Name of marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2017 Number of shares	Book value	Ownership (%)	Fair value	Remark
Opto Tech Corp.	Stock	AXT, Inc.	None.	Available-for-sale financial assets - non-current	124,100	$ -	-	$ -	Note
〃	〃	Nichia Corp.	This company is the parent company of Nichia Taiwan Corp.	〃	10,000	632,144	0.45	632,144	None
〃	〃	Viking Tech Corporation.	None.	〃	6,826,994	185,353	5.82	185,353	None
〃	〃	Lu Zhu Development Co., Ltd.	None.	〃	12,551,625	90,839	6.38	90,839	None
〃	〃	Giga Epitaxy Technology Corp.	The Company is the director of this company.	〃	13,794,000	45,955	19.00	45,955	None
〃	〃	Shin-Etsu Opto Electronic Co., Ltd.	The Company is the director of this company.	〃	2,000,000	43,909	10.00	43,909	None
〃	〃	Top Increasing Technology Co., Ltd.	None.	〃	10,000,000	-	16.67	-	None
Ho Chung Investment Co., Ltd.	〃	Opto Tech Corp.	Parent company	Financial assets at fair value through profit or loss - current	887,698	18,997	0.20	18,997	None
〃	〃	Viking Tech Corporation	None.	Available-for-sale financial assets - non-current	2,392,120	64,946	2.04	64,946	None
Jyu Shin Investment Co., Ltd (Jyu Shin investment)	〃	Viking Tech Corporation	None.	〃	5,869,120	159,346	5.00	159,345	None
Opto Tech (Suzhou) Co., Ltd.	Others	Jin Misa Technology Co., Ltd.	None.	〃	-	-	15.00	-	None
Opto Tech Corp.	Fund	Capital Money Market fund	None.	Financial assets at fair value through profit or loss - current	635,397	10,192	None	10,192	None
〃	〃	FSITC Taiwan Money Market fund	None.	〃	5,355,704	81,445	None	81,445	None
〃	〃	Taishin 1699 Money Market fund	None.	〃	3,788,555	50,945	None	50,945	None
〃	〃	Yuanta Wan Tai Money Market fund	None.	〃	5,398,741	81,313	None	81,313	None
〃	〃	UPAMC James Bond Money Market fund	None.	〃	1,224,826	20,351	None	20,351	None
〃	〃	Franklin Templeton Sinoam Money Market fund	None.	〃	4,448,043	45,696	None	45,696	None
〃	〃	Jih Sun Money Market fund	None.	〃	692,329	10,196	None	10,196	None

Note : The 124,000 shares of AXT, Inc. which are owned by the Company, are preferred stocks.

Opto Tech Corporation and subsidiaries

Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more

For the year ended December 31, 2017

Table 4

Expressed in thousands of TWD

			Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Remark
Opto Tech Corp.	Nichia Taiwan Corp.	The company is the director of this company.	Purchases	$ 194,192	8.81%	120 days	The unit prices are equivalent to third parties.	-	$ (85,367)	(11.30%)	-
〃	Shin-Etsu Opto Electronic Co., Ltd.	The company is the director of this company.	Purchases	188,519	8.55%	60 days	"	-	(47,258)	(6.26%)	-
〃	Shin-Etsu Opto Electronic Co., Ltd.	The company is the director of this company.	Sales	(399,923)	(7.58%)	90 days	"	-	86,902	5.73%	-
Opto Plus Technology Co., Ltd.	CS Bright Corp.	The company is the indirect subsidiary of this company.	Sales	(201,543)	(79.57%)	90 days	"	-	42,707	85.84%	-

Opto Tech Corporation and subsidiaries
Significant inter-company transactions during the reporting periods

For the year ended December 31, 2017

Table 5

Expressed in thousands of TWD

				Transaction			
Number	Company name	Counterparty	Relationship	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets
1	Opto Tech Corporation	Opto Tech (Suzhou) Co. Ltd.	1	Other receivable-related party	$ 51,993	-	0.53%
2	CS Bright Corp.	Opto Plus Technology Co., Ltd.	3	Sales	18,807	Note 4	0.34%
2	CS Bright Corp.	Opto Plus Technology Co., Ltd.	3	Accounts receivable	59,778	Note 4	0.60%
2	CS Bright Corp.	Opto Plus Technology Co., Ltd.	3	Other receivable-related party	29,436	-	0.30%
3	Opto Plus Technology Co., Ltd.	CS Bright Corp.	3	Sales	201,543	Note 4	3.61%
3	Opto Plus Technology Co., Ltd.	CS Bright Corp.	3	Accounts receivable	42,707	Note 4	0.43%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:
(1)Parent company is “0”.
(2)The subsidiaries are numbered in order starting from “1”.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:
(1)Parent company to subsidiary.
(2)Subsidiary to parent company.
(3)Subsidiary to subsidiary.

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

Note 4: The unit sales prices are equivalent to third parties. The credit term was 30~85 days for the related parties.

Note 5: The disclosure standard requires above $10,000 thousand for the transaction amount. Only assets and revenue are disclosed, related transactions are not disclosed.

Opto Tech Corporation and subsidiaries

Information on investees

For the year ended December 31, 2017

Table 6

Expressed in thousands of TWD

Investor	Investee	Location	Main business activities	Initial investment amount: Balance as of December 31, 2017	Initial investment amount: Balance as of December 31, 2016	Shares held as at December 31, 2017: Number of shares	Shares held as at December 31, 2017: Ownership (%)	Shares held as at December 31, 2017: Book value	Net income (loss) of the investee	Investment income (loss) recognized by investor	Remark
Opto Tech Corp.	Opto Technology International Group Co., Ltd.	Cayman Islands	Holding Company	$ 443,110	$ 443,110	14,000,000	100.00	$ 3,639	$ 10,235	$ 10,235	Subsidiary of the Company
Opto Tech Corp.	Ho Chung Investment Co., Ltd.	Taiwan	Investment business	310,300	310,300	6,494,000	100.00	119,984	12,367	5,302	Subsidiary of the Company
Opto Tech Corp.	Jyu Shin Investment Co., Ltd.	Taiwan	Investment business	125,687	125,687	16,868,706	100.00	294,590	26,874	26,874	Subsidiary of the Company
Opto Tech Corp.	Source Ever Limited	B.V. I.	International trading	5,725	5,725	200,001	100.00	1,770	(176)	(176)	Subsidiary of the Company
Opto Tech Corp.	Opto Tech (Macao) Co., Ltd.	Macao	International trading	4,096	4,096	-	100.00	14,239	(2,675)	(2,675)	Subsidiary of the Company
Ho Chung Investment Co., Ltd.	VML TECHNOLOGIES B.V.	Netherlands	Manufacture and Design of system products	37,436	37,436	6,000	25.00	5,235	14,888	3,722	Investment accounted for using equity method
Jyu Shin Investment Co., Ltd.	CS Bright Corporation	Taiwan	Manufacture and Sales of Displays, SMD Lamps and other LED related products	50,170	50,170	4,993,562	99.87	129,057	24,002	23,972	Indirect subsidiary of the Company
CS Bright Corporation	Bright Investment International Ltd.	B.V. I.	Investment business	171,332	171,332	5,100,000	100.00	6,866	3,482	12,217	Indirect subsidairy
Bright Investment International Ltd.	Everyung Investment Ltd.	Samoa	Investment business	168,421	168,421	5,000,000	50.00	35,840	8,223	4,112	Indirect subsidairy
Opto Technology International Group Co., Ltd.	Opto Tech (Cayman) Co., Ltd.	Cayman Islands	Holding Company	294,360	294,360	9,000,000	100.00	(37,189)	6,664	6,664	Indirect subsidairy
Opto Technology International Group Co., Ltd.	Everyung Investment Ltd.	Samoa	Investment business	148,910	148,910	5,000,000	50.00	35,840	8,223	4,111	Indirect subsidairy

Opto Tech Corporation and subsidiaries

Information on investments in Mainland China

For the year ended December 31, 2017

Table 7

Expressed in thousands of TWD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance to Mainland China as of January 1, 2017	Amount remitted to Mainland China during the period	Amount remitted back to Taiwan during the period	Accumulated amount of remittance to Mainland China as of December 31, 2017	Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 2)	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Remark
Opto Tech (Suzhou) Co., Ltd.	Research, Design and Manufacture of LED Display, Wireless Communication Equipment and related parts	$ 294,708	(2)	$ 294,708	$ -	$ -	$ 294,708	$ 7,436	100.00%	$ 7,436	($ 45,546)	$ -	
Opto Plus Technology Co., Ltd.	Manufacture and Sales of LED and Electronic products	317,341	(2)	317,341	-	-	317,341	8,223	99.94%	8,218	71,680	-	

Note 1: The investment methods are classified into three categories as follows:

(1) Directly investing in the investee company in Mainland China.

(2) Through investing in an existing company in the third area, which then invested in the investee company in Mainland China. (Opto Tech (Cayman) Co., Ltd. invests Opto Tech (Suzhou) Co., Ltd. and Everyung Investment Ltd. invests Opto plus Technology Co., Ltd.)

(3) Others.

Note 2: The investment income or loss was recognised by indirect weighted ownership based on the financial statements of these investees which were audited by the independent accountants of the parent company for the corresponding periods.

Investments in Mainland China for the year ended December 31, 2017:

Name of company	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Opto Tech Corp.	$ 612,049	$ 612,557	$ 4,332,159

Opto Tech Corporation and its subsidiaries

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

For the year ended December 31, 2017

Table 8

Expressed in thousands of TWD

	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing				
Investee in Mainland China	Amount	%	Amount	%	Balance at December 31, 2017	%	Balance at December 31, 2017	Purpose	Maximum balance during the year ended Decemebr 31, 2017	Balance at Decemebr 31, 2017	Interest rate	Interest during the year ended December 31, 2017	Others
Opto Tech (Suzhou) Co., Ltd.	$ -	-	$ -	-	$ -	-	$ -	-	$ 306,054	$ 74,275	2.15611%	$ 1,466	None
Opto Plus Technology Co., Ltd.	8,598	0.15	-	-	1,734	0.11	178,860	Guarantee of bank line of credit	-	-	-	-	None
Opto Plus Technology Co., Ltd.	(201,543)	(9.12)	-	-	(42,707)	(5.38)	-	-	38,171	29,436	-	-	None