

GCS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2016 AND 2015

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR1600200

To the Board of Directors and Shareholders of GCS Holdings, Inc.

Opinion

We have audited the accompanying consolidated balance sheets of GCS Holdings, Inc. and its subsidiaries (the “Group”) as at December 31, 2016 and 2015, 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 GCS Holdings, Inc. and its subsidiaries as at December 31, 2016 and 2015, 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key Audit Matter – Sales revenue recognition

Description

The Group engages in the manufacturing of high-end radio frequency ICs, optoelectronic device compound semiconductor wafer and foundry related services as well as granting royalty rights for intellectual property. The Group also engages in manufacturing and selling of advanced optoelectronics technology products.

Among the operating revenue of NT\$1,819,706 thousands for the year ended December 31, 2016, sales revenue generated from manufacturing of radio frequency ICs and optoelectronic device compound semiconductors wafers amounted to NT\$1,719,821 thousands, representing 95% of total operating revenue for the year 2016 ended December 31, 2016. The Group's customers include wireless devices and fiber-optic communication providers in the U.S.A., China and Taiwan, etc. Sales terms vary on market conditions and customer needs in different areas. Considering that sales revenue is the main transaction of the Group, has significant effect on the consolidated financial statements and requires substantial amount of time and resources for performing audit procedures, we identified the audit of sales revenue as a key audit matter.

How our audit addressed the matter

The major audit procedures regarding revenue recognition are as follows:

1. Assessed and tested the implementation effectiveness of design of sales revenue recognition controls.
2. Tested sales revenue transactions in support of the assertions of existence and accuracy. The substantive testing included sampling sales revenue transactions, which we traced to customers' purchase orders, documents regarding title transfer, invoices and subsequent collection of accounts receivable.
3. Performed cut-off test of sales transactions around the fiscal year-end date in order to check whether sales revenue are recorded in the proper period.
4. Sent accounts receivable confirmation letters.

Key Audit Matter – Assessment of allowance for valuation of inventory loss

Description

Please refer to Note 4(11) for description of accounting policy on allowance for inventory valuation losses. Please also refer to Note 5(2) for accounting estimates and assumption uncertainty on inventory fair value measurement. Please refer to Note 6(4) for description of allowance for inventory valuation losses.



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The Group primarily engages in the manufacturing of GaAs wafer and provide GaAs foundry related services. Due to the short life cycle of electronic products and the highly competitive nature of the market, there is a high risk of incurring inventory valuation losses or having obsolete inventory. As management's judgement on determining net realizable value for obsolete inventory is relatively subjective, thus accounting estimates are highly uncertain. Considering the Group's inventory and the allowance for inventory valuation losses are significantly material to the financial statement; therefore, we identified the estimates of the allowance for inventory valuation loss as a key audit matter.

How our audit addressed the matter

The major audit procedures to assess the Group's assessment on the allowance for inventory losses are as follows:

1. Understood the Group's operation and industry characteristics and assessed the adequacy of the policy and valuation method of inventory.
2. Observed year-end physical inventory count and verified whether the physical count reconciles with the quantity on books in support of the existence and completeness of the inventory. While observing year-end physical inventory count, observed inventory conditions simultaneously and determined whether inventory valuation loss is adequately recognized for obsolete inventories.
3. Tested the accuracy of inventory aging report by checking whether aging classification is correct and net realizable value is reasonable.
4. Obtained net realizable value calculation report prepared by management and checked whether the logic of net realizable value report is reasonable. Sampled inventory items and checked whether purchases or sales documents corresponded to records and recalculated the net realizable value calculation for accuracy. Performed the aforementioned audit procedures to assess the reasonableness of recognized inventory valuation losses.

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.



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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 judgment and maintain professional skepticism throughout the audit. We also:

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



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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.

Andy Chang

Andy Chang

Tien-Yi Li

Tien-Yi Li

for and on behalf of PricewaterhouseCoopers, Taiwan

February 23, 2017

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

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

Assets	Notes	December 31, 2016		December 31, 2015		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 1,381,894	48	\$ 1,237,513	47
1170	Accounts receivable, net	6(3)	197,245	7	205,006	8
1200	Other receivables		19,869	1	15,271	1
130X	Inventories, net	6(4)	348,402	12	331,800	12
1410	Prepayments		6,210	-	5,111	-
1470	Other current assets		-	-	4,924	-
11XX	Total current assets		<u>1,953,620</u>	<u>68</u>	<u>1,799,625</u>	<u>68</u>
Non-current assets						
1523	Available-for-sale financial assets, net	6(2)	31,605	1	52,479	2
1600	Property, plant and equipment, net	6(5) and 8	487,303	17	473,634	18
1780	Intangible assets		14,671	1	20,496	1
1840	Deferred income tax assets	6(22)	212,819	7	203,951	7
1900	Other non-current assets	8	<u>186,789</u>	<u>6</u>	<u>103,182</u>	<u>4</u>
15XX	Total non-current assets		<u>933,187</u>	<u>32</u>	<u>853,742</u>	<u>32</u>
1XXX	Total assets		<u>\$ 2,886,807</u>	<u>100</u>	<u>\$ 2,653,367</u>	<u>100</u>

(Continued)

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

Liabilities and Equity	Notes	December 31, 2016		December 31, 2015		
		AMOUNT	%	AMOUNT	%	
Current liabilities						
2120	Financial liabilities at fair value through profit or loss	6(6)	\$ 69,504	2	\$ 120,164	4
2170	Accounts payable		4,979	-	41,390	2
2200	Other payables	6(9)	159,919	6	133,075	5
2230	Current income tax liabilities	6(22)	15,266	1	5,671	-
2320	Long-term borrowings, current portion	6(7)(8)	346,029	12	19,616	1
2399	Other current liabilities	6(10)	33,300	1	15,946	1
21XX	Total current liabilities		<u>628,997</u>	<u>22</u>	<u>335,862</u>	<u>13</u>
Non-current liabilities						
2530	Bonds payable	6(7)	-	-	457,386	17
2540	Long-term borrowings	6(8)	103,126	4	127,142	5
2570	Deferred income tax liabilities	6(22)	70,547	2	62,303	2
2600	Other non-current liabilities	6(10)	15,032	-	27,111	1
25XX	Total non-current liabilities		<u>188,705</u>	<u>6</u>	<u>673,942</u>	<u>25</u>
2XXX	Total Liabilities		<u>817,702</u>	<u>28</u>	<u>1,009,804</u>	<u>38</u>
Equity						
Equity attributable to owners of parent						
Share capital						
3110	Common stock	6(13)	744,023	26	577,999	22
Capital surplus						
3200	Capital surplus	6(14)	644,626	23	468,688	18
Retained earnings						
3320	Special reserve	6(15)	6,821	-	6,821	-
3350	Unappropriated retained earnings		618,930	21	473,560	18
Other equity interest						
3400	Other equity interest	6(16)	132,620	5	116,495	4
3500	Treasury stocks	6(13)	(77,915)	(3)	-	-
31XX	Equity attributable to owners of the parent		<u>2,069,105</u>	<u>72</u>	<u>1,643,563</u>	<u>62</u>
3XXX	Total equity		<u>2,069,105</u>	<u>72</u>	<u>1,643,563</u>	<u>62</u>
Significant contingent liabilities and unrecognised contract commitments						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		<u>\$ 2,886,807</u>	<u>100</u>	<u>\$ 2,653,367</u>	<u>100</u>

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

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

Years ended December 31,

Items	Notes	2016		2015	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(17)	\$ 1,819,706	100	\$ 1,659,943	100
5000 Cost of goods sold	6(4)(20)	(1,002,470)	(55)	(955,764)	(58)
5900 Net operating margin		<u>817,236</u>	<u>45</u>	<u>704,179</u>	<u>42</u>
Operating expenses	6(20)(21)				
6100 Selling expenses		(43,871)	(2)	(28,311)	(2)
6200 General and administrative expenses		(300,445)	(17)	(227,299)	(13)
6300 Research and development expenses		(167,747)	(9)	(145,832)	(9)
6000 Total operating expenses		(512,063)	(28)	(401,442)	(24)
6900 Operating profit		<u>305,173</u>	<u>17</u>	<u>302,737</u>	<u>18</u>
Non-operating income and expenses					
7010 Other income		3,466	-	2,062	-
7020 Other gains and losses	6(18)	35,900	2	10,701	1
7050 Finance costs	6(19)	(31,484)	(2)	(23,408)	(1)
7000 Total non-operating income and expenses		<u>7,882</u>	<u>-</u>	<u>(10,645)</u>	<u>-</u>
7900 Profit before income tax		313,055	17	292,092	18
7950 Income tax expense	6(22)	(23,185)	(1)	(15,837)	(1)
8200 Profit for the year		<u>\$ 289,870</u>	<u>16</u>	<u>\$ 276,255</u>	<u>17</u>
Other comprehensive income					
Components of other comprehensive income that will not be reclassified to profit or loss					
8361 Financial statements translation differences of foreign operations	6(16)	(\$ 6,880)	-	\$ 54,886	3
Components of other comprehensive income that will be reclassified to profit or loss					
8362 Unrealized gain on valuation of available-for-sale financial assets	6(16)	22,409	1	1,133	-
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(16)(22)	(8,925)	(1)	(451)	-
8300 Total other comprehensive income, net		<u>\$ 6,604</u>	<u>-</u>	<u>\$ 55,568</u>	<u>3</u>
8500 Total comprehensive income for the year		<u>\$ 296,474</u>	<u>16</u>	<u>\$ 331,823</u>	<u>20</u>
Profit attributable to:					
8610 Owners of the parent		<u>\$ 289,870</u>	<u>16</u>	<u>\$ 276,255</u>	<u>17</u>
Comprehensive income attributable to:					
8710 Owners of the parent		<u>\$ 296,474</u>	<u>16</u>	<u>\$ 331,823</u>	<u>20</u>
9750 Basic earnings per share (In dollars)	6(23)		<u>4.01</u>		<u>4.08</u>
9850 Diluted earnings per share (In dollars)	6(23)		<u>3.62</u>		<u>3.69</u>

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

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

	Equity attributable to owners of the parent							Treasury Stocks	Total
	Retained Earnings				Other equity interest				
	Common Stock	Capital Surplus	Special Reserve	Unappropriated Retained Earnings	Currency Translation Differences of Foreign Operation	Unrealized Gains on Available- for-Sale Financial Assets	Other Equity -Others		
2015									
Balance at January 1, 2015	\$ 453,042	\$ 371,002	\$ 6,821	\$ 310,565	\$ 73,996	\$ -	(\$ 1,577)	\$ -	\$ 1,213,849
Appropriations of 2014 earnings	-	-	-	(11,326)	-	-	-	-	(11,326)
Cash dividends	101,934	-	-	(101,934)	-	-	-	-	-
Stock dividends	-	12,503	-	-	-	-	-	-	-
Compensation cost of share-based payment	-	-	-	276,255	-	-	7,346	-	19,849
Consolidated net income for 2015	3,193	15,796	-	-	-	-	-	-	276,255
Issuance of restricted stocks to employees	(30)	(142)	-	-	-	-	(19,010)	-	(21)
Retirement of restricted stocks to employees	-	-	-	-	-	-	172	-	-
Issuance of stock from exercise of employee stock options	10,366	13,023	-	-	-	-	-	-	23,389
Conversion of convertible bonds	9,494	56,506	-	-	-	-	-	-	66,000
Other comprehensive income for 2015	-	-	-	-	54,886	682	-	-	55,568
Balance at December 31, 2015	<u>\$ 577,999</u>	<u>\$ 468,688</u>	<u>\$ 6,821</u>	<u>\$ 473,560</u>	<u>\$ 128,882</u>	<u>\$ 682</u>	<u>(\$ 13,069)</u>	<u>\$ -</u>	<u>\$ 1,643,563</u>
2016									
Balance at January 1, 2016	\$ 577,999	\$ 468,688	\$ 6,821	\$ 473,560	\$ 128,882	\$ 682	(\$ 13,069)	\$ -	\$ 1,643,563
Appropriations of 2015 earnings	-	-	-	(14,450)	-	-	-	-	(14,450)
Cash dividends	130,050	-	-	(130,050)	-	-	-	-	-
Stock dividends	-	15,494	-	-	-	-	15,649	-	31,143
Compensation cost of share-based payment	-	-	-	289,870	-	-	-	-	289,870
Consolidated net income for 2016	1,017	6,221	-	-	-	-	(7,230)	-	8
Issuance of restricted stocks to employees	(160)	(942)	-	-	-	-	1,102	-	-
Retirement of restricted stocks to employees	-	-	-	-	-	-	-	-	-
Issuance of stock from exercise of employee stock options	7,483	6,199	-	-	-	-	-	-	13,682
Conversion of convertible bonds	27,634	148,966	-	-	-	-	-	-	176,600
Purchase of treasury shares	-	-	-	-	-	-	-	(77,915)	(77,915)
Other comprehensive income for 2016	-	-	-	-	(6,880)	13,484	-	-	6,604
Balance at December 31, 2016	<u>\$ 744,023</u>	<u>\$ 644,626</u>	<u>\$ 6,821</u>	<u>\$ 618,930</u>	<u>\$ 122,002</u>	<u>\$ 14,166</u>	<u>(\$ 3,548)</u>	<u>(\$ 77,915)</u>	<u>\$ 2,069,105</u>

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

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

	Notes	Years ended December 31,	
		2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 313,055	\$ 292,092
Adjustments			
Adjustments to reconcile profit (loss)			
Bad debt expense	6(3)	20,916	-
Written-off of accounts receivable booked as bad debts expense	6(3)	-	383
Depreciation	6(5)(20)	63,260	46,262
Amortisation	6(20)	8,478	8,484
Interest expense	6(19)	31,484	23,408
Interest income		(3,466)	(1,993)
Compensation cost of share-based payment	6(12)	31,143	19,849
Net (gain) loss on financial liabilities at fair value through profit or loss	6(18)	(5,348)	30,311
Gain on disposal of investments	6(18)	(36,192)	-
Dividend income	6(18)	(913)	-
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable		(16,745)	(7,415)
Other receivables		(4,867)	(7,134)
Inventories		(22,422)	(48,568)
Prepaid expense		(1,186)	(1,338)
Changes in operating liabilities			
Accounts payable		(35,697)	13,094
Other payables		10,785	20,053
Other current liabilities		17,178	2,914
Cash inflow generated from operations		369,463	390,402
Interest received		3,466	1,993
Interest paid		(6,867)	(4,086)
Income tax paid		(19,570)	(3,805)
Net cash flows from operating activities		346,492	384,504
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of available-for-sale financial assets		-	(49,647)
Acquisition of property, plant and equipment	6(25)	(164,402)	(327,708)
Acquisition of intangible assets		(2,994)	(1,096)
Decrease (increase) in other non-current assets		873	(62,414)
Proceeds from disposal of available-for-sale financial assets		78,611	-
Decrease (increase) in refundable deposits		4,839	(3,141)
Net cash flows used in investing activities		(83,073)	(444,006)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings	6(8)	-	153,457
Repayments of long-term borrowings		(19,280)	(6,477)
Proceeds from issuance of convertible bonds	6(7)	-	600,000
Payment of cash dividends		(14,450)	(11,326)
Proceeds from exercise of employee stock options		13,682	23,389
Payments to acquire treasury shares		(77,915)	-
Net cash flows (used in) from financing activities		(97,963)	759,043
Effect of changes in exchange rates		(21,075)	10,587
Net increase in cash and cash equivalents		144,381	710,128
Cash and cash equivalents at beginning of year	6(1)	1,237,513	527,385
Cash and cash equivalents at end of year	6(1)	\$ 1,381,894	\$ 1,237,513

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

GCS HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

GCS Holdings Inc. (the “Company”) was incorporated in the Cayman Islands on November 30, 2010, as a holding company for the purpose of registering its shares with the Taipei Exchange (formerly GreTai Securities Market). The Company issued new shares in exchange for 100% of Global Communication Semiconductors, Inc.’s outstanding shares at the exchange ratio of 1:5 on December 28, 2010. After the reorganization, the Company became the parent company of Global Communication Semiconductors, LLC (GCS LLC). The name of Global Communication Semiconductors, Inc. was changed to Global Communication Semiconductors, LLC. in January 2011. The Company was approved by the Financial Supervisory Commission to be listed on the Taipei Exchange. The Company's common shares have been traded on the Taipei Exchange since September 15, 2014.

The Company and its subsidiaries (collectively referred herein as the “Group”) are engaged in the manufacturing of high-end radio frequency ICs, optoelectronic device compound semiconductor wafer and foundry related services as well as granting royalty rights for intellectual property. The Company and its subsidiaries are also engaged in the manufacturing and selling of advanced optoelectronics technology 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 February 23, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

(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 FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

A. Amendments to IAS 1, 'Disclosure initiative'

This amendment clarifies the presentation of materiality, aggregation and subtotals, the framework of financial report, and the guide for accounting disclosure.

B. Annual improvements to IFRSs 2010-2012 cycle

(a) IFRS 2, 'Share-based payment'

The amendment clarifies the definition of a 'vesting condition' includes only service condition and performance condition. The amendment revises the definition of 'service condition', 'performance condition' and 'market condition'.

(b) IFRS 13, 'Fair value measurement'

When issuing IFRS 13, 'fair value measurement', the IASB removed the guidance that an entity could measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. The amendment clarifies the deletion was made by IASB noting that paragraph 8 of IAS 8 already permits entities not to apply accounting policies set out in accordance with IFRSs when the effect of applying them is immaterial. The IASB did not intend to change the aforementioned measurement requirements, thus, entities can still apply above standard.

(c) IAS 24, 'Related party disclosures'

The standard is amended to include, as a related party, an entity (or any member of a group of which it is a part) that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

C. Annual improvements to IFRSs 2011-2013 cycle

IFRS 13, 'Fair value measurement'

The amendment clarifies that the exception of measuring the fair value of a group of financial assets and financial liabilities (portfolio exception) applies to all financial assets, financial liabilities and other contracts within the scope of IFRS 9 or IAS 39.

D. Annual improvements to IFRSs 2012-2014 cycle

IAS 34, 'Interim financial reporting'

The amendment clarifies what is meant by the reference in the standard to "information disclosed elsewhere in the interim financial report". The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information.

(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 effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9, 'Financial instruments' with IFRS 4, 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 operating result based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e., net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a Group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

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

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

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

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

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

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

C. Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from Contracts with Customers'

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

D. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize 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.

E. Amendments to IAS 7, 'Disclosure initiative'

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

- A. Except for the financial liabilities at fair value through profit or loss and available-for-sale financial assets measured at fair value, the consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

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

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)	
			December 31, 2016	December 31, 2015
The Company	Global Communication Semiconductors, LLC	1. Manufacturing of high-end radio frequency ICs, optoelectronic device compound semiconductor wafer and foundry related services as well as granting royalty rights for intellectual property. 2. Manufacturing and selling of advanced optoelectronics technology products	100%	100%
The Company	Global Device Technologies, Co., Ltd.	Product design and research development services	100%	100%

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

(4) Foreign currency translation

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

country where the consolidated financial statements are reported to the regulatory authorities.

A. Foreign currency transactions and balances

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

B. Translation of foreign operations

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

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

(5) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realized, 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 pay off liabilities more than twelve months after the balance sheet date.

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

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than

twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

(7) Available-for-sale financial assets

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

(8) Accounts receivable

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

(9) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor; and
 - (b) It becomes probable that the borrower will enter bankruptcy or other financial reorganization.
- 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 recognized 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 recognized, the previously recognized 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 recognized previously. Impairment loss is recognized 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 recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

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

(11) Inventories

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

(12) Property, plant and equipment

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

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

Buildings	35 years
Machinery and equipment	7 years
Computer and communication equipment	5 years
Research equipment	7 years
Office equipment	7 ~10 years
Leased assets	7 years
Leasehold improvements	6 years

(13) Leased assets/leases (lessee)

A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset.

- (a) A finance lease is recognised as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.
- (b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
- (c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

B. An operating lease is a lease other than a finance lease. Payments made under an operating lease are recognized in profit or loss on a straight-line basis over the lease term.

(14) Intangible assets

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

(15) 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, the impairment loss shall be reversed to the extent of the loss previously recognised in profit or loss.

(16) 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 amortized cost using the effective interest method. However, since the short-term accounts payable bear no interest, considering the discounting effects would not be significant, the Group subsequently measures those payables at the invoice amount.

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

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

(a) Hybrid (combined) contracts; or

(b) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

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

(18) Derecognition of financial liabilities

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

(19) 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 recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(20) Financial liabilities

Bonds payable

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

(a) Call options and put options embedded in convertible corporate bonds are recognised initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.

(b) Bonds payable of convertible corporate bonds is initially recognised at fair value and subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.

(c) Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.

(d) When bondholders exercise conversion options, the liability component of the bonds (including 'bonds payable and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The book value of common shares issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component.

(21) 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 expenses in that period when the employees render service.

B. Pensions

Defined contribution plans

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

C. Termination benefits

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

D. Employees' and directors' remuneration

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

(22) Employee share-based payment

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

B. Restricted stocks

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

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

(23) 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.
- 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 realized 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 utilized. 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.

(24) 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.

(25) Dividends

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

(26) Revenue recognition

A. Sales of goods

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

B. Service revenue

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

C. Royalty income

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

(27) 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 JUDGMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgments 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 judgments in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

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

A. Realizability of deferred tax assets

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

As of December 31, 2016, the Group recognised deferred tax assets amounting to \$212,819.

B. Evaluation of inventories

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

As of December 31, 2016, the carrying amount of inventories was \$348,402.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash on hand and petty cash	\$ 115	\$ 116
Checking accounts and demand deposits	1,180,266	1,024,784
Cash equivalents - money market fund	201,513	212,613
Total	<u>\$ 1,381,894</u>	<u>\$ 1,237,513</u>

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

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

(2) Available-for-sale financial assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Non-current items:		
Listed stocks	\$ 8,063	\$ 8,206
Emerging stocks	-	43,140
Subtotal	<u>8,063</u>	<u>51,346</u>
Valuation adjustment	<u>23,542</u>	<u>1,133</u>
	<u>\$ 31,605</u>	<u>\$ 52,479</u>

A. The Group recognised \$56,283 and \$1,133 in other comprehensive income for fair value change for the years ended December 31, 2016 and 2015, respectively.

B. The Group reclassified \$33,874 from equity to profit or loss and recognised \$36,192 in gain on disposal of available-for-sale financial assets for the year ended December 31, 2016.

(3) Accounts receivable, net

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accounts receivable - third parties	\$ 219,659	\$ 207,645
Less: Allowance for bad debts	(20,910)	-
Allowance for sales returns and discounts	(1,504)	(2,639)
	<u>\$ 197,245</u>	<u>\$ 205,006</u>

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Group 1	\$ 92,546	\$ 78,121
Group 2	66,851	85,715
Group 3	<u>5,910</u>	<u>7,153</u>
	<u>\$ 165,307</u>	<u>\$ 170,989</u>

Group 1: Annual sales transactions exceed US\$ 2.5 millions.

Group 2: Annual sales transactions exceed US\$ 100 thousands, but less than US\$ 2.5 millions.

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

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Up to 30 days	\$ 29,498	\$ 31,530
31 to 60 days	1,193	1,109
61 to 90 days	<u>1,247</u>	<u>-</u>
	<u>\$ 31,938</u>	<u>\$ 32,639</u>

C. Analysis of movement of impaired accounts receivable:

(a) As of December 31, 2016 and 2015, the Group's accounts receivable that were impaired amounted to \$20,910 and \$0, respectively.

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

	2016		
	Individual provision	Group provision	Total
At January 1	\$ 20,916	\$ -	\$ 20,916
Provision for impairment	-	-	-
Effects of foreign exchange	(6)	-	(6)
December 31,	<u>\$ 20,910</u>	<u>-</u>	<u>\$ 20,910</u>
	2015		
	Individual provision	Group provision	Total
At January 1	\$ -	\$ -	\$ -
Provision for impairment	1,407	-	1,407
Write-offs during the year	(383)	-	(383)
Unwinding of discount and premium	(1,024)	-	(1,024)
December 31,	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

(4) Inventories

	December 31, 2016		
	Cost	Allowance	Book Value
Raw materials	\$ 134,925	(\$ 24,733)	\$ 110,192
Work in process	234,570	(42,685)	191,885
Finished goods	57,321	(10,996)	46,325
	<u>\$ 426,816</u>	<u>(78,414)</u>	<u>\$ 348,402</u>
	December 31, 2015		
	Cost	Allowance	Book Value
Raw materials	\$ 158,274	(\$ 28,020)	\$ 130,254
Work in process	201,389	(57,225)	144,164
Finished goods	62,701	(5,319)	57,382
	<u>\$ 422,364</u>	<u>(\$ 90,564)</u>	<u>\$ 331,800</u>

Expense and cost incurred on inventories for the years ended December 31, 2016 and 2015 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Cost of inventories sold	\$ 1,054,837	\$ 939,134
(Recovery of) loss on market price decline	(10,567)	59,736
Revenue from sale of scraps	<u>(41,800)</u>	<u>(43,106)</u>
	<u>\$ 1,002,470</u>	<u>\$ 955,764</u>

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

(5) Property, plant and equipment

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

	Land	Buildings	Machinery and equipment	Computer and communication equipment	Research equipment	Office equipment	Leased assets	Leasehold improvements	Total
At January 1, 2015									
Cost	\$ -	\$ -	\$ 652,560	\$ 7,813	\$ 26,250	\$ 4,976	\$ 32,817	\$ 211,715	\$ 936,131
Accumulated depreciation and impairment	-	-	(556,000)	(4,753)	(24,602)	(2,512)	(5,818)	(162,776)	(756,461)
	\$ -	\$ -	\$ 96,560	\$ 3,060	\$ 1,648	\$ 2,464	\$ 26,999	\$ 48,939	\$ 179,670
<u>2015</u>									
Opening net book amount	\$ -	\$ -	\$ 96,560	\$ 3,060	\$ 1,648	\$ 2,464	\$ 26,999	\$ 48,939	\$ 179,670
Additions	146,158	97,439	48,123	2,098	16,099	323	11,698	2,277	324,215
Disposals	-	-	-	(105)	(90)	-	-	-	-
Depreciation charge	-	(1,160)	(22,676)	(1,352)	(525)	(465)	(6,233)	(13,851)	(46,262)
Net exchange differences	5,001	3,294	4,437	216	585	77	1,189	1,407	16,206
Closing net book amount	\$ 151,159	\$ 99,573	\$ 126,444	\$ 3,917	\$ 17,717	\$ 2,399	\$ 33,653	\$ 38,772	\$ 473,634
At December 31, 2015									
Cost	\$ 151,159	\$ 100,773	\$ 726,535	\$ 10,134	\$ 43,678	\$ 5,484	\$ 46,133	\$ 221,910	\$ 1,305,806
Accumulated depreciation and impairment	-	(1,200)	(600,091)	(6,217)	(25,961)	(3,085)	(12,480)	(183,138)	(832,172)
	\$ 151,159	\$ 99,573	\$ 126,444	\$ 3,917	\$ 17,717	\$ 2,399	\$ 33,653	\$ 38,772	\$ 473,634

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

Item	December 31, 2016	December 31, 2015
Current items:		
Financial liabilities held for trading		
Call options, put options and conversion options embedded in convertible bonds	\$ 60,321	\$ 81,320
Valuation adjustment	<u>9,183</u>	<u>38,844</u>
Total	<u>\$ 69,504</u>	<u>\$ 120,164</u>

The Group recognised net (profit) loss of (\$5,348) and \$30,311, respectively, on financial liabilities at fair value through profit or loss for the years ended December 31, 2016 and 2015.

(7) Bonds payable

Item	December 31, 2016	December 31, 2015
Convertible bonds		
First secured convertible bonds	\$ 300,000	\$ 300,000
Second unsecured convertible bonds	<u>300,000</u>	<u>300,000</u>
	600,000	600,000
Less: conversion of convertible bonds	(243,500)	(66,900)
Less: discount on bonds payable	<u>(30,625)</u>	<u>(75,714)</u>
	325,875	457,386
Less: current portion (Note)	<u>(325,875)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 457,386</u>

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

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

- (a) Issue amount: \$300,000
- (b) Issue price: Issued at 100% of par value; \$100
- (c) Issue period: Three years; from May 13, 2015 to May 13, 2018
- (d) Coupon rate: 0% per annum
- (e) Repayment date and method: The bonds will be redeemed at par at maturity if the bonds are not converted into common stocks at maturity, or redeemed early by the Company, or resold early to the Company by the bondholders, or redeemed and cancelled by the Company’s underwriter.

- (f) Conversion period: The conversion right can be exercised at any time from June 14, 2015 through May 13, 2018 except that the bonds are in the lock-up period, or redeemed early by the Company in accordance with the terms of the bonds and relevant regulations.
 - (g) Conversion price and price reset: The conversion price was set at NT\$79.3 (in dollars) per share on the issue date. The conversion price is subject to adjustments on the ex-right date of new shares issuance based on the formula specified in the terms of the bonds, due to changes in the number of the Company's common shares. The conversion price was subsequently adjusted to NT\$53.6 (in dollars) per share due to the distribution of stock dividends.
 - (h) The converted shares have the same rights as common shares.
 - (i) Call options of the Company: The bonds may be called, in whole or in part, at the option of the Company after one month from the issue date (June 15, 2015) to forty days before the maturity date (April 3, 2018) at 100% of their principal amount, provided the closing price of the Company's common shares on the Taipei Exchange exceeds 130% (inclusive) of the then-current conversion price of the bonds over 30 (inclusive) trading days during 30 consecutive trading days, when over 90% (inclusive) of the bonds have been redeemed, converted, called and retired, the Company may call outstanding bonds at 100% of their principal amount.
 - (j) Put options of the holders: The bondholders may request the Company to redeem the bonds, in whole or in part, with an added interest rate on the carrying amount as the premium, which is equivalent to 102.516% of their principal amount, after two years from the issue date. The non-equity conversion options, call options, put options embedded in bonds payable were separated from their host contracts and were recognized in "financial assets or liabilities at fair value through profit or loss" in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 7.2%.
 - (k) As of December 31, 2016, convertible bonds amounting to \$87,800 was converted to ordinary shares of 1,385,917 shares.
 - (l) Please refer to Note 8 for the information of the Group's assets pledged to secured domestic convertible bonds.
- B. On May 14, 2015, the Company issued the second unsecured domestic convertible bonds. Key terms and conditions of bonds are as follows:
- (a) Issue amount: \$300,000
 - (b) Issue price: Issued at 100% of par value; \$100
 - (c) Issue period: Three years; from May 14, 2015 to May 14, 2018
 - (d) Coupon rate: 0% per annum
 - (e) Repayment date and method: The bonds will be redeemed at par at maturity if the bonds are not converted into common stocks at maturity, or redeemed early by the Company, or resold early to the Company by the bondholders, or redeemed and cancelled by the Company's underwriter.
 - (f) Conversion period: The conversion right can be exercised at any time from June 15, 2015 through May 14, 2018 except that the bonds are in the lock-up period, or redeemed early by the Company in accordance with the terms of the bonds and relevant regulations.

- (g) Conversion price and price reset: The conversion price was set at NT\$81.2 (in dollars) per share on the issue date. The conversion price is subject to adjustments on the ex-right date of new shares issuance based on the formula specified in the terms of the bonds, due to changes in the number of the Company's common shares. The conversion price was subsequently adjusted to NT\$54.9 (in dollars) per share due to the distribution of stock dividends.
- (h) The converted shares have the same rights as common shares.
- (i) Call options of the Company: The bonds may be called, in whole or in part, at the option of the Company after one month from the issue date (June 15, 2015) to forty days before the maturity date (April 4, 2018) at 100% of their principal amount, provided the closing price of the Company's common shares on the Taiwan Exchange exceeds 130% (inclusive) of the then-current conversion price of the bonds over 30 (inclusive) trading days during 30 consecutive trading days, when over 90% (inclusive) of the bonds have been redeemed, converted, called and retired, the Company may call outstanding bonds at 100% of their principal amount.
- (j) Put options of the holders: The bondholders may request the Company to redeem the bonds, in whole or in part, with an added interest rate on the carrying amount as the premium, which is equivalent to 103.023% of their principal amount, after two years from the issue date. The non-equity conversion options, call options, put options embedded in bonds payable were separated from their host contracts and were recognized in "financial assets or liabilities at fair value through profit or loss" in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 5.66%.
- (k) As of December 31, 2016, convertible bonds amounting to \$155,700 was converted to ordinary shares of 2,326,963 shares.

(8) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	December 31, 2016	December 31, 2015
Long-term bank borrowings Secured borrowings (Note 1)	(Note 2)	4%	Land and buildings (Note 3)	\$ 123,280	\$ 146,758
Less: current portion				(20,154)	(19,616)
				<u>\$ 103,126</u>	<u>\$ 127,142</u>

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

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

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

(9) Other payables

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accrued salaries and bonuses	\$ 36,603	\$ 33,280
Accrued payable for equipment	29,272	11,008
Accrued employees' compensation and directors' remuneration	21,914	21,983
Accrued unused compensated absences	21,207	15,788
Accrued service fee	3,967	9,433
Accrued miscellaneous expenses	3,455	5,248
Accrued utilities	1,926	2,109
Accrued rental expenses	99	54
Other accrued expenses	41,476	34,172
	<u>\$ 159,919</u>	<u>\$ 133,075</u>

(10) Finance lease liabilities

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

	<u>December 31, 2016</u>		
	<u>Total finance lease liabilities</u>	<u>Future finance charges</u>	<u>Present value of finance lease liabilities</u>
<u>Current</u>			
No later than one year (shown as 'other current liabilities')	\$ 12,456	(\$ 852)	\$ 11,604
<u>Non-current</u>			
Later than one year but not later than five years (shown as 'other non-current liabilities')	15,525	(493)	15,032
	<u>\$ 27,981</u>	<u>(\$ 1,345)</u>	<u>\$ 26,636</u>

	December 31, 2015		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
No later than one year (shown as 'other current liabilities')	\$ 12,679	(\$ 1,337)	\$ 11,342
<u>Non-current</u>			
Later than one year but not later than five years (shown as 'other non-current liabilities')	28,485	(1,374)	27,111
	<u>\$ 41,164</u>	<u>(\$ 2,711)</u>	<u>\$ 38,453</u>

(11) Pension plan

- A. The Company's US subsidiary has established a 401(K) pension plan (the "Plan") covering substantially all employees. The Plan provides voluntary salary reduction contributions by eligible participants in accordance with Section 401(K) of the Internal Revenue Code (IRC), as well as discretionary matching contributions below 15% of employees' salary determined annually by its Board of Directors from the Company's subsidiary to its employees' individual pension accounts. The Company's US subsidiary started to adopt the Plan in accordance with IRC 401K from August 2010.
- B. Effective July 1, 2005, the Company's Taiwan subsidiary has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company's Taiwan subsidiary contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- C. The pension costs under the above pension plans of the Group for the years ended December 31, 2016 and 2015 amounted to \$15,510 and \$12,841, respectively.

(12) Share-based payment-employee compensation plan

A. As of December 31, 2016 and 2015, the Company's share-based payment transactions are set forth below:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting condition
Employee stock options	January to October 2011	2,463,498 shares	10 years	(Note 1)
Employee stock options	April 2013	1,538,000 shares	10 years	(Note 2)
Employee stock options	August 2013	7,830 shares	10 years	(Note 2)
Employee stock options	October 2013	538,000 shares	10 years	(Note 2)
Employee stock options	February 2014	60,000 shares	10 years	(Note 2)
Employee stock options	November 2014	75,000 shares	10 years	(Note 2)
Employee stock options	January 2015	30,000 shares	10 years	(Note 2)
Employee stock options	February 2015	652,200 shares	10 years	(Note 2)
Employee stock options	July 2015	40,000 shares	10 years	(Note 2)
Employee stock options	March 2016	5,000 shares	10 years	(Note 2)
Employee stock options	August 2016	895,000 shares	10 years	(Note 2)
Employee stock options	November 2016	34,000 shares	10 years	(Note 2)
Restricted stocks to employees (Note 4)	August 2013	377,000 shares	2 years	(Note 3)
Restricted stocks to employees (Note 4)	October 2013	106,000 shares	2 years	(Note 3)
Restricted stocks to employees (Note 4)	July 2015	297,300 shares	2 years	(Note 3)
Restricted stocks to employees (Note 4)	November 2015	22,000 shares	2 years	(Note 3)
Restricted stocks to employees (Note 4)	January 2016	93,700 shares	2 years	(Note 3)
Restricted stocks to employees (Note 4)	March 2016	8,000 shares	2 years	(Note 3)

Note 1: Some employee stock options shall be vested and become exercisable as to 50% of the shares immediately, and the remaining 50% of such shares to be vested in the following year. Some options shall be vested and become exercisable as to 25% of the shares covered on the first anniversary of the vesting commencement date, and the remaining 75% of such shares ratably in equal installments as of the last day of each of the succeeding 36 months.

Note 2: Some employee stock options shall be vested and become exercisable as to 50% of the shares after fulfilling two years of service, and in accordance with the agreement, the remaining 50% of such options will be ratably in equal installments as of the last day of each of the succeeding 24 months.

Note 3: Some restricted stocks to employees shall be vested and become exercisable as to 50% of the shares after one year of service, and the remaining 50% of such shares to be vested after fulfilling two years of service.

Note 4: The restricted stocks to employees are restricted from transferring within vesting period, but are allowed for voting rights and rights to receive dividends. The Company will recover limited new employee stock options at no consideration and cancel registration if employees resign or die not due to occupational hazards. However, employees do not need to return dividends already received.

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

	For the year ended December 31, 2016		
	No. of options	Currency	Weighted average exercise price (in dollars)
Options outstanding at beginning of the period	2,089,902	NTD	\$ 29.47
Options granted	934,000	NTD	65.71
Options exercised	(748,269)	NTD	15.30
Options forfeited	(97,494)	NTD	32.76
Options outstanding at end of the period	<u>2,178,139</u>	NTD	44.84
Options exercisable at end of the period	<u>492,301</u>	NTD	14.99
	For the year ended December 31, 2015		
	No. of options	Currency	Weighted average exercise price (in dollars)
Options outstanding at beginning of the period	2,453,800	NTD	\$ 22.58
Options granted	722,200	NTD	60.76
Options exercised	(1,036,473)	NTD	22.93
Options forfeited	(49,625)	NTD	31.82
Options outstanding at end of the period	<u>2,089,902</u>	NTD	29.47
Options exercisable at end of the period	<u>799,354</u>	NTD	17.33

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2016 and 2015 was \$80.27 (in dollars) and \$71.94 (in dollars), respectively.

D. As of December 31, 2016 and 2015, the range of exercise prices of stock options outstanding are as follows:

		December 31, 2016		
Grant date	Expiration	No. of Shares	Currency	Stock options exercise price (in dollars)
April 2013	August 2023	317,397	NTD	11.35
August 2013	August 2023	1,957	NTD	17.37
October 2013	October 2023	189,085	NTD	17.63
February 2014	February 2024	22,500	NTD	19.20
November 2014	November 2024	62,000	NTD	32.65
January 2015	January 2025	30,000	NTD	42.09
February 2015	February 2025	621,200	NTD	41.21
March 2016	March 2026	5,000	NTD	71.01
August 2016	August 2026	895,000	NTD	65.73
November 2016	November 2026	34,000		64.40
		<u>2,178,139</u>		
		December 31, 2015		
Grant date	Expiration	No. of Shares	Currency	Stock options exercise price (in dollars)
From January 2011 to October 2011	From January 2021 to October 2021	27,675	USD	\$ 1.17
April 2013	April 2023	703,197	NTD	13.78
August 2013	August 2023	7,830	NTD	21.09
October 2013	October 2023	504,000	NTD	21.40
February 2014	February 2024	60,000	NTD	23.31
November 2014	November 2024	75,000	NTD	39.64
January 2015	January 2025	30,000	NTD	51.10
February 2015	February 2025	642,200	NTD	50.03
July 2015	July 2025	40,000	NTD	47.15
		<u>2,089,902</u>		

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

Employee restricted stock options	For the years ended December 31,	
	2016	2015
	No. of Shares	No. of Shares
Options outstanding at beginning of the period	316,300	241,500
Options granted (Note)	101,700	319,300
Options vested	(157,150)	(241,500)
Options cancelled	(16,000)	(3,000)
Options outstanding at end of the period	<u>244,850</u>	<u>316,300</u>

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

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

Type of arrangement	Grant date	Currency	Fair value	Exercise price	Expected price volatility	Expected option period (Years)	Expected dividend yield rate	Risk-free interest rate	Fair value
			(in dollars)	(in dollars)					(in dollars)
Employee stock options	January 2011	USD	\$ 1.31	\$ 1.17	76.33%	1.48~6.05	-	4.83%	\$ 0.52~0.90
Employee stock options	January 2011	USD	1.31	1.17	76.33%	5.75~6.25	-	4.83%	0.89~0.92
Employee stock options	May 2011	USD	1.22	1.17	63.00%	6.08	-	2.51%	0.74
Employee stock options	July 2011	USD	1.22	1.17	63.00%	6.08	-	1.94%	0.73
Employee stock options	October 2011	USD	1.22	1.17	64.00%	6.08	-	1.16%	0.72
Employee stock options	April 2013	NTD	18.28	18.10	51.47%	6.26	1.16%	1.07%	8.18
Employee stock options	August 2013	NTD	27.40	27.71	51.47%	6.26	1.16%	1.47%	12.29
Employee stock options	October 2013	NTD	27.94	28.11	51.47%	6.26	1.16%	1.44%	12.55
Employee stock options	February 2014	NTD	35.97	30.62	51.47%	6.26	1.16%	1.20%	17.48
Employee stock options	November 2014	NTD	50.22	48.25	47.00%	6.26	1.10%	1.75%	28.00

Type of arrangement	Grant date	Currency	Fair value	Exercise price	Expected price volatility	Expected option period (Years)	Expected dividend yield rate	Risk-free interest rate	Fair value
Employee stock options	January 2015	NTD	55.20	62.20	44.96%	6.26	1.10%	1.67%	28.31
Employee stock options	February 2015	NTD	60.62	60.90	40.89%	6.26	1.00%	1.67%	31.54
Employee stock options	July 2015	NTD	82.15	57.40	50.88%	6.26	1.00%	1.27%	54.67
Employee stock options	March 2016	NTD	87.87	86.20	55.74%	6.26	1.00%	0.94%	53.71
Employee stock options	August 2016	NTD	84.91	79.80	39.67%	6.26	1.00%	0.91%	45.91
Employee stock options	November 2016	NTD	68.36	64.40	48.92%	6.26	1.00%	0.82%	40.15
Restricted stocks to employees	August 2013	NTD	27.55	-	43.40%	1.00	1.16%	0.82%	22.82
Restricted stocks to employees	August 2013	NTD	27.55	-	47.49%	2.00	1.16%	0.99%	20.41
Restricted stocks to employees	October 2013	NTD	28.10	-	43.40%	1.00	1.16%	0.78%	23.27
Restricted stocks to employees	October 2013	NTD	28.10	-	47.49%	2.00	1.16%	0.95%	20.81

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

	For the years ended December 31,	
	2016	2015
Equity-settled	\$ 31,143	\$ 19,849

(13) Common stock

- A. As of December 31, 2016, the Company's paid-in capital was \$744,023, consisting of 74,402,266 shares with a par value of \$10 (in dollars) per share.

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

Unit: Numbers of shares

	<u>2016</u>	<u>2015</u>
At January 1,	57,799,943	45,304,209
Stock dividends	13,004,988	10,193,447
Exercise of employee stock options	748,269	1,036,473
Conversion of convertible bonds	2,763,366	949,514
Issuance of restricted stocks to employees	101,700	319,300
Retirement of restricted stocks to employees	(16,000)	(3,000)
At December 31,	<u>74,402,266</u>	<u>57,799,943</u>

- B. On May 15, 2015, the stockholders adopted a resolution to appropriate \$101,934 of Year 2014 retained earnings as stock dividends by issuing 10,193,447 shares. Pursuant to the resolution adopted at the Board of Directors' meeting on July 27, 2015, the record date for stock dividend distribution was set on September 5, 2015. The capital increase has been completed.
- C. On June 3, 2016, the stockholders adopted a resolution to appropriate \$130,050 of year 2015 retained earnings as stock dividends by issuing 13,004,988 shares. Pursuant to resolution adopted at the Board of Directors' meeting on August 1, 2016, the record date for stock dividend distribution was set on September 26, 2016. The capital increase has been completed.
- D. On May 15, 2015, the stockholders adopted a resolution to issue 600,000 employee restricted ordinary shares with par value of \$10 (in dollars) per share, with the effective date set on July 13, 2015. The subscription price is \$0 (in dollar) per share. The employee restricted ordinary shares issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On July 27, 2015, November 5, 2015, January 14, 2016 and March 2, 2016, the Board of Directors adopted a resolution to grant 297,300, 22,000, 93,700 and 8,000 employee restricted ordinary shares, respectively. As of December 31, 2016 and 2015, the Company retrieved 16,000 and 3,000 employee restricted ordinary shares due to the employees' resignation and the retrieved shares have been retired.

E. Treasury shares

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

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

December 31, 2015: None.

- (b) Pursuant to the R.O.C. Securities and Exchange Law, the number of shares bought back as treasury shares should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

(14) Capital surplus

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

	2016				
	Share premium	Employee stock options	Employee restricted shares	Others	Total
At January 1,	\$ 368,914	\$ 50,655	\$ 21,309	\$ 27,810	\$ 468,688
Issuance of restricted stocks to employees	-	-	6,221	-	6,221
Retirement of restricted stocks to employees	-	-	(942)	-	(942)
Compensation cost of share-based payment	-	15,494	-	-	15,494
Exercise of employee stock options	23,596	(17,397)	-	-	6,199
Conversion of convertible bonds	148,966	-	-	-	148,966
Cancellation of employee stock options	-	(1,902)	-	1,902	-
At December 31,	<u>\$ 541,476</u>	<u>\$ 46,850</u>	<u>\$ 26,588</u>	<u>\$ 29,712</u>	<u>\$ 644,626</u>
	2015				
	Share premium	Employee stock options	Employee restricted shares	Others	Total
At January 1,	\$ 298,663	\$ 39,695	\$ 5,655	\$ 26,989	\$ 371,002
Issuance of restricted stocks to employees	-	-	15,796	-	15,796
Retirement of restricted stocks to employees	-	-	(142)	-	(142)
Compensation cost of share-based payment	-	12,503	-	-	12,503
Exercise of employee stock options	13,745	(722)	-	-	13,023
Conversion of convertible bonds	56,506	-	-	-	56,506
Cancellation of employee stock options	-	(821)	-	821	-
At December 31,	<u>\$ 368,914</u>	<u>\$ 50,655</u>	<u>\$ 21,309</u>	<u>\$ 27,810</u>	<u>\$ 468,688</u>

(15) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset losses incurred in previous years and then a special surplus reserve as required by the applicable securities authority under the applicable public company rules in Taiwan. After combining accumulated undistributed earnings in the previous years and setting aside a certain amount of remaining profits of such financial year as a reserve or reserves for development purposes as the Board of Directors may from time to time deem appropriate, subject to the compliance with the Law, the Company shall distribute no less than 10% of the remaining profit as dividends to the stockholders.
- B. The Company's dividends policy is as follows: As the Company operates in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's operation scale, cash flow demand and future expansion plans, and cash dividends shall account for at least 10% of the total dividends distributed. Dividends are distributed by stock and by cash. The individuals who are entitled to employee stock dividends may include the employees of the Company's affiliates who meet certain criteria.
- C. The appropriations of 2016 earnings had been resolved by the Board of Directors on February 23, 2017 and the appropriations of 2015 earnings had been resolved by the shareholders at the annual shareholders' meeting on June 3, 2016. Details are summarized below:

	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Cash dividends	\$ 73,275	\$ 0.25	\$ 14,450	\$ 0.25
Stock dividends	-	2.25	130,050	2.25
	<u>\$ 73,275</u>	<u>\$ 2.50</u>	<u>\$ 144,500</u>	<u>\$ 2.50</u>

- D. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(21).

(16) Other equity items

	2016			
	Currency translation differences	Unearned employee compensaion	Available-for-sale financial assets	Total
At January 1,	\$ 128,882	(\$ 13,069)	\$ 682	\$ 116,495
Currency translation differences	(6,880)	-	-	(6,880)
Compensation cost of share-based payment	-	9,521	-	9,521
Changes of fair value in financial instruments				
- Revaluation transfer - goss	-	-	(33,874)	(33,874)
- Revaluation transfer - tax	-	-	13,322	13,322
- Revaluation - gross	-	-	56,283	56,283
- Revaluation - tax	-	-	(22,247)	(22,247)
At December 31,	<u>\$ 122,002</u>	<u>(\$ 3,548)</u>	<u>\$ 14,166</u>	<u>\$ 132,620</u>
	2015			
	Currency translation differences	Unearned employee compensaion	Available-for-sale financial assets	Total
At January 1	\$ 73,996	(\$ 1,577)	\$ -	\$ 72,419
Currency translation differences	54,886	-	-	54,886
Compensation cost of share-based payment	-	(11,492)	-	(11,492)
Changes of fair value in financial instruments				
- Revaluation - gross	-	-	1,133	1,133
- Revaluation - tax	-	-	(451)	(451)
At December 31,	<u>\$ 128,882</u>	<u>(\$ 13,069)</u>	<u>\$ 682</u>	<u>\$ 116,495</u>

(17) Operating revenue

	For the years ended December 31,	
	2016	2015
Sales revenue	\$ 1,719,821	\$ 1,617,635
Service revenue	75,005	22,217
Royalty revenue	24,880	20,091
	<u>\$ 1,819,706</u>	<u>\$ 1,659,943</u>

(18) Other gains and losses

	For the years ended December 31,	
	2016	2015
Net gains (losses) on financial liabilities at fair value through profit or loss	\$ 5,348	(\$ 30,311)
Net currency exchange (losses) gains	(6,553)	41,012
Gain on disposal of investments	36,192	-
Dividend income	913	-
	<u>\$ 35,900</u>	<u>\$ 10,701</u>

(19) Finance costs

	For the years ended December 31,	
	2016	2015
Interest expense:		
Convertible bonds	\$ 24,617	\$ 19,322
Other interest expense	6,867	4,086
Finance costs	<u>\$ 31,484</u>	<u>\$ 23,408</u>

(20) Expenses by nature

	For the years ended December 31,	
	2016	2015
Employee benefit expense	\$ 634,148	\$ 566,768
Depreciation charges on property, plant and equipment	63,260	46,262
Amortisation charges on intangible assets (recognised as cost of goods sold and operating expenses)	8,478	8,484
	<u>\$ 705,886</u>	<u>\$ 621,514</u>

(21) Employee benefit expense

	For the years ended December 31,	
	2016	2015
Wages and salaries	\$ 532,056	\$ 485,429
Compensation cost of share-based payment	31,143	19,849
Insurance expense	53,733	47,052
Pension costs	15,510	12,841
Other personnel expenses	1,706	1,597
	<u>\$ 634,148</u>	<u>\$ 566,768</u>

- A. According to the Articles of Incorporation of the Company, when distributing earnings, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be higher than 15% and lower than 5% for employees' compensation, and shall not be higher than 2% for directors' remuneration.
- B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at \$15,653 and \$15,702, respectively; directors' remuneration was accrued at \$6,261 and \$6,281, respectively. The aforementioned amounts were recognised in cost of goods sold and salary expenses, respectively. The employees' compensation and directors' remuneration were estimated and accrued based on 5% and 2% of distributable profit of current year for the year ended December 31, 2016. The employees' compensation and directors' remuneration resolved by the Board of Directors were \$16,193 and \$6,477, and the employees' compensation will be distributed in the form of cash. Employees' compensation and directors' remuneration of 2015 as resolved at the meeting of Board of Directors were in agreement with those amounts recognized in the 2015 financial statements.
- C. Information about employees' compensation and directors' remuneration of the Company as proposed by the Board of Directors and resolved by the shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(22) Income tax

A. Income tax expense

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

	For the years ended December 31,	
	2016	2015
Current tax:		
Current tax on profits for the year	\$ 32,684	\$ 5,100
Effect from alternative minimum tax	2,918	11,154
Adjustments in respect of prior years	(2,868)	(739)
Total current tax	<u>32,734</u>	<u>15,515</u>
Deferred tax:		
Origination and reversal of temporary differences	(681)	7,622
Tax effect of loss carry forward	(8,868)	(7,300)
Total deferred tax	<u>(9,549)</u>	<u>322</u>
Income tax expense	<u>\$ 23,185</u>	<u>\$ 15,837</u>

B. Reconciliation between income tax expense and accounting profit:

	For the years ended December 31,	
	2016	2015
Tax calculated based on profit before tax and statutory tax rate	\$ 131,302	\$ 120,213
Expenses disallowed by tax regulation	1,364	38
Temporary difference not recognised as deferred tax assets	(100,663)	(107,529)
Tax effect of loss carryforward	(8,868)	(7,300)
Prior year income tax overestimation	(2,868)	(739)
Effect from alternative minimum tax	<u>2,918</u>	<u>11,154</u>
Income tax expense	<u>\$ 23,185</u>	<u>\$ 15,837</u>

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

	2016			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets:				
Loss carryforwards - federal tax	\$ 203,951	\$ 8,868	\$ -	\$ 212,819
- Deferred tax liabilities:				
Depreciation - federal tax	(\$ 52,793)	\$ 581	\$ -	(\$ 52,212)
Depreciation - state tax	(9,059)	100	-	(8,959)
Fair value gain / loss on available-for-sale financial assets	(451)	-	(8,925)	(9,376)
Subtotal	(\$ 62,303)	\$ 681	(\$ 8,925)	(\$ 70,547)
Total	\$ 141,648	\$ 9,549	(\$ 8,925)	\$ 142,272

	2015			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets:				
Loss carryforwards - federal tax	\$ 196,651	\$ 7,300	\$ -	\$ 203,951
- Deferred tax liabilities:				
Depreciation - federal tax	(\$ 46,287)	(\$ 6,506)	\$ -	(\$ 52,793)
Depreciation - state tax	(7,943)	(1,116)	-	(9,059)
Fair value gain / loss on available-for-sale financial assets	-	-	(451)	(451)
Subtotal	(\$ 54,230)	(\$ 7,622)	(\$ 451)	(\$ 62,303)
Total	\$ 142,421	(\$ 322)	(\$ 451)	\$ 141,648

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

Federal tax:

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

December 31, 2015				
Year incurred (fiscal year end of tax returns)	Amount filed	Unused amount	Unrecognised deferred tax assets	Usable until year (fiscal year end of tax returns)
2002.6.30	\$ 359,453	\$ 245,103	\$ -	2021.12.31
2003.6.30	289,991	289,991	-	2022.12.31
2004.6.30	187,230	187,230	122,468	2023.12.31
2005.6.30	178,321	178,321	178,321	2024.12.31
2006.6.30	165,030	165,030	165,030	2025.12.31
2007.6.30	120,572	120,572	120,572	2026.12.31
2008.6.30	71,623	71,623	71,623	2027.12.31
2011.12.31	6,460	6,460	6,460	2031.12.31
2012.12.31	57,904	57,904	57,904	2032.12.31
	<u>\$ 1,436,584</u>	<u>\$ 1,322,234</u>	<u>\$ 722,378</u>	

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

	December 31, 2016	December 31, 2015
Deductible temporary differences	<u>\$ 275,126</u>	<u>\$ 210,351</u>

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

	For the years ended December 31,	
	2016	2015
Unrealised valuation gain / loss of available-for-sale financial assets	(\$ 9,376)	(\$ 451)

(23) Earnings per share (EPS)

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

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

	<u>For the year ended December 31, 2015</u>		
	<u>Amount</u>	<u>Weighted</u>	<u>Earnings</u>
	<u>after tax</u>	<u>average</u>	<u>per share</u>
		<u>outstanding</u>	<u>(in dollars)</u>
		<u>common shares</u>	
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 276,255	67,752	\$ 4.08
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 276,255	67,752	
Assumed conversion of all dilutive potential ordinary shares			
Convertible bonds	1,939	6,236	
Employees' bonus	-	259	
Employee stock options	-	71	
Employee restricted shares	-	1,154	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 278,194	75,472	\$ 3.69

(24) Operating lease commitments

The Company's subsidiary, GCS LLC, entered into operating lease contracts with Hamazawa Investment Company and JMI Management, LLC for its office and plant located in Los Angeles, California, USA. The lease periods were from January 1, 2013 to April 2022 and from April 1, 2015 to May 31, 2020, respectively. The Group purchased the above-mentioned office and plant from Hamazawa Investment Company (Note) on August 12, 2015 and the operating lease contracts were terminated.

The Company's subsidiary, Global Device Technologies, Co., Ltd., entered into an operating lease contract for its office located in New Taipei City. The lease period is from March 16, 2015 to March 15, 2017.

As of each balance sheet date, the future minimum rental payments based on the above lease agreements are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Not later than one year	\$ 1,333	\$ 2,113
Later than one year but not later than five years	2,807	4,077
	<u>\$ 4,140</u>	<u>\$ 6,190</u>

Note: Hamazawa Investment Company was deregistered and engaged in management by The Hattori Foundation.

(25) Non-cash transaction

Investing activities with partial cash payments:

	For the years ended December 31,	
	2016	2015
Purchase of property, plant and equipment	\$ 85,145	\$ 324,215
Add: Ending balance of prepayments for equipment	118,721	33,017
Less: Beginning balance of prepayments for equipment	(33,017)	(27,641)
Less: Ending balance of accrued lease liability	(26,636)	(38,453)
Add: Beginning balance of accrued lease liability	38,453	47,578
Less: Ending balance of payables for equipment	(29,272)	(11,008)
Add: Beginning balance of payables for equipment	11,008	-
Cash paid during the period	<u>\$ 164,402</u>	<u>\$ 327,708</u>

7. RELATED PARTY TRANSACTIONS

Key management compensation

	For the years ended December 31,	
	2016	2015
Salaries and other short-term employee benefits	\$ 65,560	\$ 74,161
Post-employment benefits	2,387	2,602
Share-based payments	12,448	8,704
	<u>\$ 80,395</u>	<u>\$ 85,467</u>

8. PLEDGED ASSETS

As of December 31, 2016 and 2015, the Group's assets pledged as collateral were as follows:

Assets	December 31, 2016	December 31, 2015	Purpose
Land	\$ 148,511	\$ 151,159	Long-term borrowings
Buildings	95,000	99,573	Long-term borrowings
Time deposits (recognized as other non-current assets)	64,500	65,650	Secured convertible bonds
Other financial assets, non-current	1,290	8,993	Deposits for office rental and waste water treatment

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Please refer to Note 6(24) for the operating lease commitments.

(2) Capital commitments

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Property, plant and equipment	\$ 98,483	\$ 14,761

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The appropriations of 2016 earnings had been resolved by the Board of Directors on February 23, 2017. Please refer to Note 6(15).

12. OTHERS

(1) Capital risk management

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

(2) Financial instruments

A. (a) The carrying amounts measured at amortized cost are approximate to the fair values of the Group's financial instruments, including cash and cash equivalents, accounts receivable, other receivables, other current assets, accounts payable, other payables and accrued rent expense (accounted for under 'Other current liabilities' and 'Other non-current liabilities'). The fair value information of financial instruments measured at fair value is provided in Note 12(3).

		<u>December 31, 2016</u>		
		<u>Fair value</u>		
	<u>Book value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Bonds payable	\$ 325,875	\$ -	\$ 325,875	\$ -

		<u>December 31, 2015</u>		
		<u>Fair value</u>		
	<u>book vaue</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Bonds payable	\$ 457,386	\$ -	\$ 457,386	\$ -

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

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

B. Financial risk management policies

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

C. Significant financial risks and degrees of financial risks

a) Market risk

Foreign exchange risk

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

Price risk

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

Interest rate risk

The Group is not exposed to interest rate risk since it has no borrowings issued at variable rates.

b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.
- ii. As of December 31, 2016 and 2015, the Group's maximum credit risk exposure is mainly from the carrying amount of financial assets recognized in the consolidated balance sheet.
- iii. The major financial assets that are neither past due nor impaired are accounts receivable. Please refer to Note 6(3).
- iv. The major financial assets that were past due but not impaired are accounts receivable. Please refer to Note 6(3).
- v. The major financial assets with impairment are accounts receivable. Please refer to Note 6(3).

c) Liquidity risk

- i. Cash flow forecasting is performed by the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure the Group has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements.
- ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury chooses instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above mentioned forecasts.
- iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Over 1 year
<u>Non-derivative financial liabilities:</u>		
December 31, 2016		
Accounts payable	\$ 4,979	\$ -
Other payables	159,919	-
Other current liabilities	11,604	-
Other non-current liabilities	-	15,525
Long-term borrowings (including current portion)	20,154	103,126

	Less than 1 year	Over 1 year
<u>Non-derivative financial liabilities:</u>		
December 31, 2015		
Accounts payable	\$ 41,390	\$ -
Other payables	133,075	-
Other current liabilities	11,342	-
Other non-current liabilities	-	28,485
Long-term borrowings (including current portion)	19,616	127,142

(3) Fair value information

- A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A.
- B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:
- Level 1: Quoted prices (unadjusted in active markets for identical assets or liabilities that the entity can access at the measurement date.) A market is regarded as active where a market in which transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2016 and 2015, is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2016				
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	<u>\$ 31,605</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,605</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,504</u>	<u>\$ 69,504</u>
December 31, 2015				
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	<u>\$ 52,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,479</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120,164</u>	<u>\$ 120,164</u>

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

(a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Emerging shares</u>
Market quoted price	Closing price	Average trading price

(b) When assessing non-standard and low-complexity financial instruments, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.

E. For the years ended December 31, 2016 and 2015, there was no transfer between Level 1 and Level 2 financial instruments.

F. The following chart is the movement of Level 3 financial instruments for the years ended December 31, 2016 and 2015:

	Financial liabilities at fair value through profit or loss	
	2016	2015
At January 1,	\$ 120,164	\$ -
Issued in the period	-	99,354
Converted in the period	(45,785)	(9,703)
Exchange effect	473	202
Losses recognised in profit or loss	(5,348)	30,311
At December 31,	<u>\$ 69,504</u>	<u>\$ 120,164</u>

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

	Fair value				
	at December 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of input to fair value
Conversion option, redemption option and put option of convertible bonds	\$ 69,504	Binomial model	Expected volatility	34.99%	The higher the volatility, the higher the fair value
	Fair value				
	at December 31, 2015	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of input to fair value
Conversion option, redemption option and put option of convertible bonds	\$ 120,164	Binomial model	Expected volatility	56.36%	The higher the volatility, the higher the fair value

H. 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 different measurement. A sensitivity analysis shows that a 7% increase in the value of stock price would lead to a decrease in net income by \$15,326. On the other hand, a 7% decrease in the value of stock price would increase net income by \$15,834. A 10% increase in the value of stock price would lead to a decrease in net income by \$23,202. However, a 10% decrease in the value of stock price would increase net income by \$22,053.

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: None.
- (h) Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- (i) Derivative financial instruments undertaken during the year ended December 31, 2016: Please refer to Note 6(6) and 6(7).
- (j) Significant inter-company transactions during the year ended December 31, 2016: Please refer to table 9.

(2) Information on investees

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

(3) Information on investments in Mainland China

None.

14. SEGMENT INFORMATION

(1) General information

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

(2) Segment information

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

	For the year ended December 31, 2016				
	Cayman Islands	America	Taiwan	Adjustments and elimination	Consolidated amount
Revenue from external customers	\$ -	\$ 1,819,086	\$ 20	\$ -	\$ 1,819,706
Inter-segment revenue	-	-	31,222	(31,222)	-
Total segment revenue	<u>\$ -</u>	<u>\$ 1,819,086</u>	<u>\$ 31,242</u>	<u>(\$ 31,222)</u>	<u>\$ 1,819,706</u>
Segment profit (loss) (Note)	<u>\$ 299,861</u>	<u>\$ 393,099</u>	<u>\$ 10,877</u>	<u>(\$ 370,782)</u>	<u>\$ 313,055</u>
Total assets	<u>\$ 2,510,880</u>	<u>\$ 2,309,592</u>	<u>\$ 59,713</u>	<u>(\$ 1,993,378)</u>	<u>\$ 2,886,807</u>
	For the year ended December 31, 2015				
	Cayman Islands	America	Taiwan	Adjustments and elimination	Consolidated amount
Revenue from external customers	\$ -	\$ 1,659,943	\$ -	\$ -	\$ 1,659,943
Inter-segment revenue	-	-	14,848	(14,848)	-
Total segment revenue	<u>\$ -</u>	<u>\$ 1,659,943</u>	<u>\$ 14,848</u>	<u>(\$ 14,848)</u>	<u>\$ 1,659,943</u>
Segment profit (loss) (Note)	<u>\$ 285,077</u>	<u>\$ 322,906</u>	<u>\$ 3,238</u>	<u>(\$ 319,129)</u>	<u>\$ 292,092</u>
Total assets	<u>\$ 2,237,209</u>	<u>\$ 1,942,584</u>	<u>\$ 21,846</u>	<u>(\$ 1,548,272)</u>	<u>\$ 2,653,367</u>

Note: Exclusive of income tax expenditures.

(3) Reconciliation for segment income (loss)

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

(4) Information on products and services

Please refer to Note 6(17) for the related information.

(5) Geographical information

Geographical information for the years ended December 31, 2016 and 2015 is as follows:

Area	For the years ended December 31,			
	2016		2015	
	Revenue	Non-current assets	Revenue	Non-current assets
United States	\$ 775,052	\$ 614,715	\$ 716,995	\$ 520,404
China	773,692	-	607,179	-
Taiwan	243,320	9,548	312,793	11,258
Others	27,642	64,500	22,976	65,650
Total	<u>\$ 1,819,706</u>	<u>\$ 688,763</u>	<u>\$ 1,659,943</u>	<u>\$ 597,312</u>

(6) Major customer information

Major customer information of the Group for the years ended December 31, 2016 and 2015 is as follows:

	For the years ended December 31,			
	2016		2015	
	Amount	% of sales	Amount	% of sales
A	\$ 216,486	12	\$ 217,033	13
F	146,086	8	135,553	8
G	121,084	7	80,807	5
B	113,490	6	127,469	8
	<u>\$ 597,146</u>	<u>33</u>	<u>\$ 560,862</u>	<u>34</u>

GCS HOLDINGS, INC.

Loans to others

For the year ended December 31, 2016

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 1

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance as of December 31, 2016 (Note 3)	Balance at December 31, 2016	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 Item Value	Limit on loans granted to a single party (Note 3)	Ceiling on total loans granted (Note 3)	Footnote
0	GCS Holdings, Inc.	Global Device Technologies, Co., Ltd.	Other receivable-related party	Yes	\$ 50,000	\$ 50,000	\$ 32,250	2%	2	\$ -	Operation	\$ -	None	\$ 206,911	\$ 827,642	

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

(1)The Company is '0'.

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

Note 2: The column of 'Nature of loan' shall fill in 'Business transaction or 'Short-term financing'.

(1)The business transaction is '1'.

(2)The short-term financing is '2'.

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

The total amount for fund-lending between the subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company will not be subject to the limit of forty percent (40%) of the net worth of the lending subsidiary.

GCS HOLDINGS, INC.

Provision of endorsements and guarantees to others
For the year ended December 31, 2016

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	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, 2016	Outstanding endorsement/ guarantee amount at December 31, 2016	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			Footnote
												endorsements/ guarantees by parent company to subsidiary	endorsements/ guarantees by subsidiary to parent company	endorsements/ guarantees to the party in Mainland China	
0	GCS Holdings, Inc.	Global Device Technologies, Co., Ltd.		2	\$ 827,642	\$ 32,250	\$ 32,250	\$ -	\$ -	1.56%	\$ 827,642	Y	N	N	-
1	Global Communication Semiconductors LLC	GCS Holdings, Inc.		4	\$ 827,642	199,440	193,500	-	-	9.36%	827,642	N	Y	N	-

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

(1)The Company is '0'.

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

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following six categories; fill in the number of category each case belongs to:

(1)Having business relationship.

(2)The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.

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

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

(5)Mutual guarantee of the trade as required by the construction contract.

(6)Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

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

The aggregate total amount of endorsement/guarantee provided by the Company and its subsidiaries shall not exceed fifty percent (50%) of the Company's net worth.

GCS HOLDINGS, INC.

Holding of marketable securities at the end of the period
December 31, 2016

Table 3

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2016			Footnote (Note 4)	
				Number of shares	Book value (Note 3)	Ownership (%)		Fair value
GCS Holdings, Inc.	Akoustis Technologies, Inc.	None.	Available-for-sale financial assets	166,667	\$ 31,605	1.22%	\$ 31,605	None

Expressed in thousands of NTD
(Except as otherwise indicated)

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

GCS HOLDINGS, INC.

Significant inter-company transactions during the reporting periods
For the year ended December 31, 2016

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
1	Global Device Technologies, Co., Ltd.	Global Communication Semiconductors LLC	3	Service revenue	\$ 31,222	Conducted in the ordinary course of business with terms similar to those with third parties	1.72%
2	GCS Holdings, Inc.	Global Device Technologies, Co., Ltd.	1	Other receivable - related party	32,250	Based on the agreed interest rate	1.12%

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

(1)Parent company is '0'.

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

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

(1)Parent company to subsidiary.

(2)Subsidiary to parent company.

(3)Subsidiary to subsidiary.

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

GCS HOLDINGS, INC.

Information on investees (not including investees in Mainland China):

For the year ended December 31, 2016

Table 10

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2016		Book value	Net profit (loss) of the investee for the year ended December 31, 2016	Investment income (loss) recognised by the Company for the year ended December 31, 2016	Footnote
				Balance as at December 31, 2016	Balance as at December 31, 2015	Number of shares	Ownership (%)				
GCS Holdings, Inc.	Global Communication Semiconductors LLC	Los Angeles, USA	1. Manufacturing of high-end radio frequency ICs, optoelectronic device compound semiconductor wafer and foundry related services as well as granting royalty rights for intellectual property.	\$ 403,975	\$ 403,975	-	100%	\$ 1,780,068	\$ 362,028	\$ 362,028	-
GCS Holdings, Inc.	Global Device Technologies, Co., Ltd.	Taiwan	2. Manufacturing and selling of advanced optoelectronics technology products Product design and research development services	12,000	12,000	1,200,000	100%	23,731	8,754	8,754	-