

## **Independent Auditors' Report (Translated from Chinese)**

The Board of Directors and Shareholders  
Orange Electronic Co., Ltd.

### **Opinion**

We have audited the accompanying consolidated balance sheets of Orange Electronic Co., Ltd. and its subsidiaries (the "Company") as of December 31, 2017, and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2017 and 2016, and their consolidated financial performance and cash flows for the years ended December 31, 2017 and 2016, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditor(s), 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 2017 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Liabilities of Products Warranty**

As of December 31, 2107, the Group's liabilities of products warranty amounted to NT\$6,393 thousand which represented 4% of the total consolidated liabilities. The liabilities includes expected customer service cost and sales return in the future, it is calculated based on 0.5% of

the total sales amount in the 24 months prior to the financial report date. The management estimated the liabilities of product warranty based on historical experiences of product defect. The determination of the liabilities of products warranty involved a high level of management judgment, and were subject to uncertainty due to the percentage of product defect. As such, we determined this to be a key audit matter. Our audit procedures included, but not limited to, obtaining the assessment form of liabilities of warranty reviewing the historical experience assessment or contract on which the rating of the warranty policy is based, evaluating the adequacy of accounting policy of product warranty Re-calculating and verifying the correctness of amount of liabilities at the end of year which estimated by management assessing the adequacy of disclose the nature of accounting estimates in change and the amount. We also assessed the adequacy of disclosures of financial assets. Please refer to Notes 5 and 6 to the Group's consolidate financial statements.

### **Valuation for inventories**

As of December 31, 2107, the Group's net inventories amounted to NT\$119,305 thousand which represented 21% of the total consolidated assets. The amount of inventories was significant to the Group's financial statements. Orange Electronic Co., Ltd. and subsidiaries manufacture and sell varies of TPMS (Tire-Pressure Monitoring System).The determination of the provisions for obsolete inventories involved a high level of management judgment, and were subject to uncertainty due to product diversity. As such, we determined this to be a key audit matter. Our audit procedures included, but were not limited to: understanding and testing the design and operating effectiveness of internal control over inventory costing and provision; verifying the existence and completeness by tracing items on the final inventory listing to the physical inventory compilation; verifying that inventories were valued at the lower of cost or net realizable value by comparing the book value of inventories at the balance sheet date with recent sales price on selected samples; obtaining inventory aging schedule to test whether inbound and outbound records are accurate; re-calculating the unit cost of inventories; and evaluating and testing net realized value adopted by management. We also assessed the adequacy of the disclosures related to inventories in Notes 5 and 6.

### **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 requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability to continue as a going concern of the Company and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries 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 financial reporting process of the Company and its subsidiaries.

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
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 ability to continue as a going concern of the Company and its subsidiaries. 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 Company and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, 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 Company and its subsidiaries 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 2017 consolidated financial statements 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.

We have also audited and expressed an unqualified opinion on the parent company only financial statements of the Company as of and for the years ended December 31, 2017 and 2016.

Ernst & Young, Taiwan

March 9, 2018

ORANGE ELECTRONIC CO., LTD AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016  
( Express in Thousand New Taiwan Dollars )

Assets	Notes	December 31, 2017		December 31, 2016	
		Amount	%	Amount	%
Current assets					
Cash and cash equivalents	4,6(1)	\$182,190	32	\$177,131	28
Notes receivable, net	4	46,103	8	17,343	3
Accounts receivable, net	4,6(2)	69,380	12	108,018	17
Receivables from related parties	4,6(2),7	17,451	3	18,305	3
Other receivables		2,221	1	3,759	-
Inventories	4,6(3)	119,305	21	187,186	29
Other current assets		14,716	3	15,337	2
Total current assets		451,366	80	527,079	82
Non-current assets					
Property, plant and equipment	4,6(4)	76,299	13	79,112	12
Other intangible assets	4	2,446	-	3,962	1
Deferred tax assets	4,6(16)	7,489	1	6,322	1
Other non-current assets	4,6(5),8	33,955	6	26,322	4
Total non-current assets		120,189	20	115,718	18
Total assets		\$571,555	100	\$642,797	100

(Continued)

(Disclaimer: Orange's Annual Report has been translated into English from the original Chinese version prepared and used in Taiwan, the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language version shall prevail. Notice to readers.)

ORANGE ELECTRONIC CO., LTD AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS(Continued)

December 31,2017 and 2016  
(Express in Thousand New Taiwan Dollars)

Liabilities and Equity	Notes	December 31,2017		December 31,2016	
		Amount	%	Amount	%
Current liabilities					
Short-term loans	4,6(7)	\$10,000	2	\$15,267	2
Accounts payable		53,532	9	74,456	11
Other payables	4,6(8)	68,394	12	66,796	10
Current tax liabilities	4,6(18)	6,210	1	9,952	2
Provisions-current	4	3,375	1	2,841	1
Other current liabilities	4	2,484	-	3,599	1
Current Portion of Long-term Debt	4,6(9)	10,040	2	-	-
Total current liabilities		154,035	27	172,911	27
Non-current liabilities					
Long-term loans	4,6(9)	8,710	2	10,000	2
Provisions-non current	4	3,018	-	4,060	-
Other non-current liabilities	4	108	-	108	-
Total non-current liabilities		11,836	2	14,168	2
Total liabilities		165,871	29	187,079	29
Equity attributable to the parent company					
Capital					
Common stock	4,6(12)	213,749	37	212,089	33
Capital collected in advance		-	-	410	-
Subtotal		213,749	37	212,499	33
Additional Paid-in Capital	4,6(12)	170,884	30	169,134	26
Retained earnings					
Legal reserve	6(12)	24,461	4	21,400	3
Special reserve	6(12)	3,182	1	358	-
Unappropriated earnings		(2,040)	-	55,510	9
Subtotal		25,603	5	77,268	12
Other components of equity					
Exchange differences on translation of foreign operations		(4,552)	(1)	(3,183)	-
Total equity		405,684	71	455,718	71
Total liabilities and equity		\$571,555	100	\$642,797	100

(The accompanying notes form an integral part of the consolidated financial statements)

(Disclaimer: Orange's Annual Report has been translated into English from the original Chinese version prepared and used in Taiwan, the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language version shall prevail. Notice to readers.)

ORANGE ELECTRONIC CO., LTD AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

( Express in Thousand New Taiwan Dollars )

Items	Notes	2017		2016	
		Amount	%	Amount	%
Operating revenues	4,5,6(13),7	\$483,077	100	\$665,848	100
Operating costs	6(4)	(320,650)	(66)	(417,856)	(63)
Gross profit-net		162,427	34	247,992	37
Operating expenses	6(15)				
Sales and marketing expenses		(81,669)	(17)	(93,206)	(14)
General and administrative expenses		(45,399)	(10)	(43,685)	(7)
Research and development expenses		(69,083)	(14)	(65,459)	(10)
Total operating expenses		(196,151)	(41)	(202,350)	(31)
Operating income		(33,724)	(7)	45,642	6
Non-operating income and expenses	4,6(16)				
Other income		5,088	1	3,723	1
Other gains and losses		(3,823)	(1)	(4,962)	(1)
Finance costs		(1,160)	-	(88)	-
Total non-operating income and expenses		105	-	(1,327)	-
Income before income tax		(33,619)	(7)	44,315	6
Income tax expense	4,5,6(18)	(946)	0	(13,709)	(2)
Net income		(34,565)	(7)	30,606	4
Other comprehensive income (loss)	6(17)				
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		(1,369)	-	(2,825)	-
Total other comprehensive loss, net of tax		(1,369)	-	(2,825)	-
Total comprehensive income		(\$35,934)	(7)	\$27,781	4
Earnings per share (NTD)	6(19)				
Earnings per share-basic		(\$1.62)		\$1.57	
Earnings per share-diluted		(\$1.62)		\$1.54	

(The accompanying notes form an integral part of the consolidated financial statements)

ORANGE ELECTRONIC CO., LTD AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2017 and 2016  
(Expressed in Thousands of New Taiwan Dollars)

Items	Notes	Equity Attributable to the Parent Company									Total Equity
		Capital		Additional Paid-in Capital		Retained earnings			Other components of equity	Treasury stock	
		Common stock	Collected in Advance	Common stock	Employee stock option	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations		
Balance as of January 1, 2016		\$183,939	\$-	\$47,225	\$3,736	\$17,140	\$-	\$62,632	\$(358)	\$-	\$314,314
Capital Increased by Cash	6(12)	25,200		112,920							138,120
Appropriation and distribution of 2015 retained	6(12)										
Legal reserve						4,260		(4,260)			-
Special reserve							358	(358)			-
Cash dividends								(33,110)			(33,110)
Net income in 2016								30,606			30,606
Other comprehensive income (loss), net of tax in	6(17)								(2,825)		(2,825)
Total comprehensive income (loss)		-	-	-	-	-	-	30,606	(2,825)	-	27,781
Share-based payment transaction	4,5,6(11)	2,950	410	7,463	(2,210)						8,613
Balance as of December 31, 2016		\$212,089	\$410	\$167,608	\$1,526	\$21,400	\$358	\$55,510	\$(3,183)	\$-	\$455,718
Balance as of January 1, 2017		\$212,089	\$410	\$167,608	\$1,526	\$21,400	\$358	\$55,510	\$(3,183)	\$-	\$455,718
Appropriation and distribution of 2016 retained	6(12)										
Legal reserve						3,061		(3,061)			-
Special reserve							2,824	(2,824)			-
Cash dividends								(17,100)			(17,100)
Net loss in 2017								(34,565)			(34,565)
Other comprehensive income (loss), net of tax in	6(17)								(1,369)		(1,369)
2017											
Total comprehensive income (loss)	6(17)	-	-	-	-	-	-	(34,565)	(1,369)	-	(35,934)
Share-based payment transaction (Note2)	4,5,6(11)	1,660	(410)	2,937	(1,187)						3,000
Balance as of December 31, 2017	6(11)	\$213,749	\$-	\$170,545	\$339	\$24,461	\$3,182	\$(2,040)	\$(4,552)	\$-	\$405,684

(The accompanying notes form an integral part of the consolidated financial statements)

(Disclaimer: Orange's Annual Report has been translated into English from the original Chinese version prepared and used in Taiwan, the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language version shall prevail. Notice to readers.)



ORANGE ELECTRONIC CO., LTD AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016  
(Expressed in Thousands of New Taiwan Dollars)

Items	Notes	2017	2016
Cash flows from operating activities:			
Net income before tax		\$(33,619)	\$44,315
Adjustments to reconcile net income before tax to net cash provided by operating activities:			
Income and expense adjustments:			
Depreciation		20,969	14,348
Amortization		1,571	1,591
Bad debt expenses (reversal)		(1,675)	63
Share-based payment		-	549
Interest expense		1,160	88
Interest revenue		(305)	(225)
Provision (Reversal of allowance) for inventory market price decline		7,632	4,952
Gain (loss) on disposal of property, plant and equipment		(78)	411
Changes in operating assets and liabilities:			
Notes receivable and accounts receivable		11,553	(50,914)
Receivables from related parties		854	1,370
Other receivables		1,538	6,375
Inventories		60,249	(59,445)
Other current assets		621	(5,102)
Other noncurrent assets		(3,376)	2,425
Accounts payable		(16,740)	(2,060)
Other payables		1,573	(24,406)
Provisions-current		534	(8,434)
Other current liabilities		(5,299)	(4,606)
Provisions-non current		(1,042)	1,456
Cash generated from operations		46,120	(77,249)
Interest received		305	225
Income tax paid		(5,870)	(16,659)
Interest paid		(1,135)	(78)
Net cash provided by (used in) operating activities		39,420	(93,761)

(Continued)

ORANGE ELECTRONIC CO., LTD AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS(Continued)

For the years ended December 31, 2017 and 2016  
(Expressed in Thousands of New Taiwan Dollars)

Items	Notes	2017	2016
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(13,522)	(14,484)
Proceeds from disposal of property, plant and equipment		1,391	582
Increase in other intangible assets		(55)	(1,703)
Prepayments for equipment		(11,366)	(38,532)
Increase in refundable deposits		629	(694)
Net cash used in investing activities		<u>(22,923)</u>	<u>(54,831)</u>
Cash flows from financing activities:			
Increase in short-term loans		(5,267)	15,267
Increase in long-term loans		8,750	10,000
Cash dividends		(17,100)	(33,110)
Employee stock option		3,000	8,064
Capital Increased by Cash		-	138,120
Net cash (used in) provided by financing activities		<u>(10,617)</u>	<u>138,341</u>
Effect of exchange rate changes on cash and cash equivalents		<u>(821)</u>	<u>(1,246)</u>
Net increase (decrease) in cash and cash equivalents		5,059	(11,497)
Cash and cash equivalents at beginning of period		177,131	188,628
Cash and cash equivalents at end of period	6(1)	<u>\$182,190</u>	<u>\$177,131</u>

(The accompanying notes form an integral part of the consolidated financial statements)

# ORANGE ELECTRONIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the Years Ended 31 December 2017 and 2016

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

### 1. HISTORY AND ORGANIZATION

ORANGE ELECTRONIC CO., LTD. (“the Company”) was incorporated on January 2005. Main operating is manufacturing and sales telecommunication equipment and apparatus, restrained telecom radio frequency equipments and materials and parts of automobiles.

The Company was approved public offering by Securities and Futures Bureau in June 2014, and it's shares have been traded on the Taipei Exchange (for over-the-counter trading in Taiwan) on August 5, 2017. The Company's registered office and the main business location is at 5F, No.29 Keya Rd. Central Taiwan Science Park, Taichung 42881, Taiwan.

### 2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The consolidated financial statements of the Company and its subsidiaries (“the Group”) for the years ended December 31, 2017 and 2016 were authorized for issue by the Company's board of directors (the Board) on March 9, 2018.

### 3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2017. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

#### IAS 36 “Impairment of Assets” (Amendment)

This amendment relates to the amendment issued in May 2011 and require entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value fewer costs of disposal have been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in the measurement.

- (2) Standards or interpretations issued, revised or amended, which are endorsed by FSC, but not yet adopted by the Group as of the end of the reporting period are listed below.

① IFRS 15 “Revenue from Contracts with Customers”

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after January 1, 2018.

② IFRS 9 “Financial Instruments”

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 Financial Instruments (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that 'own credit risk' adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after January 1, 2018. Consequential amendments on the related disclosures also become effective for the annual periods.

③ IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”— Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

④ IAS 12 “Income Taxes”—Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017.

⑤ Disclosure Initiative —Amendment to IAS 7 “Statement of Cash Flows”:

The amendments relate to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendments are effective for annual periods beginning on or after January 1, 2017.

⑥ IFRS 15 “Revenue from Contracts with Customers”—Clarifications to IFRS 15

The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a license should be recognized at a point in time or over time. The amendments are effective for annual periods beginning on or after January 1, 2018.

⑦ IFRS 2 “Shared-Based Payment” — Amendments to IFRS 2

The amendments contain (a) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (b) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and (c) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognized in equity, on the modification date, to the

extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as of the modification date is derecognized on that date. Any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2018.

#### ⑧ Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts—Amendments to IFRS 4

The amendments help to resolve issues arising from the different effective dates for IFRS 9 “Financial Instruments”(January 1, 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before January 1, 2020). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 “Financial Instruments” before the IASB’s new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

#### ⑨ Transfers of Investment Property —Amendments to IAS 40

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018.

#### ⑩ Improvements to International Financial Reporting Standards (2014-2016 cycle):

##### IFRS 1 “First-time Adoption of International Financial Reporting Standards”.

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after January 1, 2018.

##### IFRS 12 “Disclosure of Interests in Other Entities”

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity’s interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after January 1, 2017.

##### IAS 28 “Investments in Associates and Joint Ventures”

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value

measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after January 1, 2018.

⑪ IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after January 1, 2018.

The above mentioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2018. Apart from the potential impact of the standards and interpretations listed under ①, ⑤, and ⑥ which is described below, all other standards and interpretations have no material impact on the Group:

① IFRS 15 “Revenue from Contracts with Customers” and ⑥ IFRS 15 “Revenue from Contracts with Customers”—Clarifications

The Group elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Group’s principal activities consist of the sale of goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Group are summarized as follows:

- a. Revenue from sale of goods is currently recognized when goods have been delivered to the buyer. Starting from the date of initial application, in accordance with the requirements of IFRS 15, the Group shall recognize revenue when (or as) the Group satisfies a performance obligation by transferring a promised good to a customer. IFRS 15 has no impact on the Group’s revenue recognition from sale of goods.
- b. In accordance with the requirements of IFRS 15, more extensive disclosure would have to be made.

⑤ Disclosure Initiative —Amendment to IAS 7 “Statement of Cash Flows”

Additional disclosure of a reconciliation of the Group’s carrying amount of liabilities arising from financing activities at the beginning and end of the period would be added.

- (3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below:

① IFRS 16 "Leases"

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Less or accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after January 1, 2019.

② IFRIC 23 "Uncertainty Over Income Tax Treatments"

The Interpretation clarifies the application of recognition and measurement requirements in IAS 12 "Income Taxes" when there are uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after January 1, 2019.

③ IFRS 17 "Insurance Contracts"

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfillment cash flows and the contractual service margin. The fulfillment cash flows comprise of the following:

- a. Estimates of future cash flows;
- b. Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
- c. A risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts. IFRS 17 is effective for annual periods beginning on or after January 1, 2021.

④ IAS 28 "Investment in Associates and Joint Ventures"—Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28. The amendment is effective for annual reporting periods beginning on or after January 1, 2019.



#### ⑤ Prepayment Features with Negative Compensation (Amendments to IFRS9)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after January 1, 2019.

#### ⑥ Improvements to International Financial Reporting Standards (2015-2017 cycle):

##### IFRS 3 “Business Combinations”

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business. The amendments are effective for annual periods beginning on or after January 1, 2019.

##### IFRS 11 “Joint Arrangements”

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. The amendments are effective for annual periods beginning on or after January 1, 2019.

##### IAS 12 “Income Taxes”

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendments are effective for annual periods beginning on or after January 1, 2019.

##### IAS 23 “Borrowing Costs”

The amendments clarify that an entity should treat as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale. The amendments are effective for annual periods beginning on or after January 1, 2019.

#### ⑦ Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset. The amendments are effective for annual periods beginning on or after January 1, 2019.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Group is still currently determining the potential impact of the ①, ④ standards and interpretations, it is not practicable to estimate their impact on the Group at this point in time.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Statement of Compliance

The consolidated financial statements of the Group for the years ended December 31, 2017 and 2016 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”), IFRSs, IASs, IFRIC and SIC, which are endorsed by the FSC. (collectively referred to as “TIFRSs”).

### (2) Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars (“\$”) unless otherwise stated.

### (3) Basis of consolidation

#### Preparation principle of consolidated financial statements

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- ①. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- ②. Exposure, or rights, to variable returns from its involvement with the investee, and
- ③. The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ①. The contractual arrangement with the other vote holders of the investee
- ②. Rights arising from other contractual arrangements
- ③. The Group’s voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non controlling interests having a deficit balance.

If the Company loses control of a subsidiary, it:

- ①. Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- ②. Derecognizes the carrying amount of any non-controlling interest;
- ③. Recognizes the fair value of the consideration received;
- ④. Recognizes the fair value of any investment retained;
- ⑤. Recognizes any surplus or deficit in profit or loss; and
- ⑥. Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are as follows:

Investor	Subsidiary	Main Business	Percentage of ownership (%)	
			Dec. 31, 2017	Dec. 31, 2016
The Company	Orange Electronic Inc.	After sales services of telecommunication equipment and apparatus, restrained telecom radio frequency equipments and materials and automobiles and parts	100.00%	100.00%
The Company	Orange Enterprise Corporation	Holding company	100.00%	100.00%
The Company	Orange Electronic Europe Cooperatief U.A.	Holding company	99.00%	99.00%
Orange Electronic Inc.	Orange Electronic Europe Cooperatief U.A.	Holding company	1.00%	1.00%
Orange Enterprise Corporation	OEC International Corporation	Holding company	100.00%	100.00%
Orange Electronic Europe Cooperatief U.A.	Orange Electronic Netherlands B.V.	Holding company	100.00%	100.00%
OEC International Corporation	Orange Electronic Trading (Shanghai) Co., Ltd.	Entrepot Trade and trade agency	100.00%	100.00%
OEC International Corporation	Suzhou Orange Electronic Co., Ltd	Wholesale of electronic equipment, motor vehicles and motorcycles and related parts and accessories	100.00%	100.00%
Orange Electronic Netherlands B.V.	Orange Electronic Italy S.R.L	After sales services	100.00%	100.00%

#### (4) Foreign Currency Transactions

The Group's consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency rates prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate of exchange ruling at the reporting date. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- ①. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- ②. Foreign currency items within the scope of IAS 39 Financial Instruments: Recognition and Measurement are accounted for based on the accounting policy for financial instruments.
- ③. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a nonmonetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

#### (5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of

the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following partial disposals are accounted for as disposals:

When the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and When the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation. On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reattributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

#### (6) Current and non-current distinction

An asset is classified as current when:

- ①. The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- ②. The Group holds the asset primarily for the purpose of trading
- ③. The Group expects to realize the asset within twelve months after the reporting period
- ④. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other asset are classified as non-current.

A liability is classified as current when:

- ①. The Group expects to settle the liability in its normal operating cycle
- ②. The Group holds the liability primarily for the purpose of trading
- ③. The liability is due to be settled within twelve months after the reporting period
- ④. The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

#### (7) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short term, highly liquid time deposits (including ones that have maturity within 3 months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## (8) Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

### ①. Financial Assets

The Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

A financial asset is classified as held for trading if:

- a. It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term
- b. On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- c. It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- a. It eliminates or significantly reduces a measurement or recognition inconsistency
- b. A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as of the reporting date.

### Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as of the reporting date.

### Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held- to- maturity when the Group has positive intention and ability to hold it to maturity, other than those that are designated as available- for- sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held- to- maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet receivables or bond investments for which no active market exists. After initial measurement, such financial assets are subsequently measured amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

## Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- a. Significant financial difficulty of the issuer or obligor
- b. A breach of contract, such as a default or delinquency in interest or principal payments
- c. It becoming probable that the borrower will enter bankruptcy or other financial reorganization
- d. The disappearance of an active market for that financial asset because of financial difficulties

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss- is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and



the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

### Derecognition of financial assets

A financial asset is derecognized when:

- a. The rights to receive cash flows from the asset have expired
- b. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- c. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

## ②. Financial liabilities and equity

### Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

### Financial liabilities

Financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. A financial liability is classified as held for trading if:

- a. It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term
- b. On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- c. It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- a. It eliminates or significantly reduces a measurement or recognition inconsistency
- b. A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as of the reporting date.

#### Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

#### Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

### ③. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

#### (9) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ①. In the principal market for the asset or liability, or
- ②. In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

#### (10) Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials — Weighted average of actual procurements

Work in process and finished goods— Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Finished goods and work in process are accounted under the weighted average method

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## (11) Non-current Assets Held for Sale Discontinued Operations

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The income and expenses of the Discontinued Operation are reported in the consolidated income statement for the reporting period and for the comparable period of the previous year, based on the revenue and expense of the after-tax basis and the Continuing Operation, even if the group retains a non-control after merging the affiliates. The post-tax related profits and losses of the ceased business unit are separately presented in the consolidated profit and loss account.

Property, plant and equipment and Intangible assets are classified as held for sale. Recognition of depreciation of those assets would cease.

## (12) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 Property, plant and equipment. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Items	Useful Lives
Buildings	5 years
Machinery and equipment	2 years
Transportation equipment	8 years
Furniture, fixtures and equipment	5~10 years
Other Equipment	5~10 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

### (13) Leases

#### Group as a lessee

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

### (14) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

A summary of the policies applied to the Group's intangible assets is as follows:

	<u>Computer software</u>
Useful lives	2~5 years
Amortization method used	Amortized on a straight- line basis
Internally generated or acquired	Acquired

## (15) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. Impairment tests were conducted on 30 September and 31 December this year. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

## (16) Provisions-For warranty

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### Provisions for warranty

The Group is based on the customer's past repair warranty experience and is estimated based on the estimated cost of customer complaints and returns in the future. The accounting estimate is based on 0.5% of the total net sales for the 24 months before the end date of each reporting period. The liability expected to be settled within 12 months after the reporting period is classified as current liabilities, otherwise, are classified as non-current liabilities.

## (17) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

### Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- ① the significant risks and rewards of ownership of the goods have transferred to the buyer;
- ② neither continuing managerial involvement nor effective control over the goods sold have been retained;
- ③ the amount of revenue can be measured reliably;
- ④ it is probable that the economic benefits associated with the transaction will flow to the entity; and
- ⑤ the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### Interest income

For all financial assets measured at amortized cost (including loans and receivables), interest income is recorded using the effective interest rate method and recognized in profit or loss.

## (18) Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## (19) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

## (20) Share-based payment transactions

The cost of equity-settled transactions between the Group and its subsidiaries is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share

## (21) Income Tax

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

### Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% surtax on undistributed retained earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.



## Deferred income tax

Deferred income tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- ① Where the deferred tax liability arises from the initial recognition of good will or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nontaxable profit or loss
- ② In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- ① Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ② In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at their reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets

and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

## (1) Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

### ①. Valuation of Inventory

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

These estimates are based on current market conditions and historical sales of similar product. The change in market assessment may have significant impact on the result. Please refer to Note 6.(3) for more details.

### ②. Provisions-For warranty

The product warranty liability is based on the customer's contract for the sale of goods, and the management does the best estimate of the future out of corporate resources (ie, economic efficiency) as a result of product warranty obligations (based on historical warranty experience) as a warranty liability. The product warranty liability policy is set out in Note 4. (16).

## (2). Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### ①. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example the discounted cash flow model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

### ②. Revenue recognition—sales returns and allowance

The Group estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. Please refer to Note 6. (13) for more details.

### ③.Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 6. (11).

### ④.Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the tax able entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6. (18) for more details.

### ⑤.Impairment of accounts receivable

If there is any objective evidence of impairment, the Group takes into consideration the estimation of future cash flows. 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. Please refer to Note 6.(3) for more details.

### ⑥.Valuation of Inventory

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on current market conditions and historical sales of similar product. The change in market assessment may have significant impact on the result. Please refer to Note 6.(4)for more details.

## 6. CONTENTS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	2017.12.31	2016.12.31
Cash on hand	\$713	\$441
Demand deposits	181,477	176,690
Total	<u>\$182,190</u>	<u>\$177,131</u>

Cash and cash equivalents were all generated from operating activities and were not pledged.

### (2) Notes receivable

	2017.12.31	2016.12.31
Notes receivable arising from operating activities	<u>\$46,103</u>	<u>\$17,343</u>

Notes receivables were all generated from operating activities and were not pledged.

### (3) Trade receivables and Trade receivables - related parties

	2017.12.31	2016.12.31
Trade receivables	\$72,013	\$114,315
Less: allowance for sales returns and discounts	(2,384)	(4,373)
Less: allowance for doubtful accounts	(249)	(1,924)
Subtotal	<u>69,380</u>	<u>108,018</u>
Trade receivables - related parties	17,451	24,656
Less: allowance for sales returns and discounts	-	(6,351)
Subtotal	<u>17,451</u>	<u>18,305</u>
Total	<u>\$86,831</u>	<u>\$126,323</u>

Trade receivables are generally on 30-90 day terms. The movements in the provision for impairment of trade receivables are as follows (please refer to Note 12 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of January 1, 2017	\$1,855	\$69	\$1,924
Charge for the current period	-	101	101
Unrecoverable write-offs	(1,776)	-	(1,776)
As of December 31, 2017	<u>\$79</u>	<u>\$170</u>	<u>\$249</u>

As of January 1, 2016	\$1,855	\$6	\$1,861
Charge for the current period	-	63	63
As of December 31, 2016	<u>\$1,855</u>	<u>\$69</u>	<u>\$1,924</u>

The credit quality of trade receivables that are neither past due nor impaired based on the Group's Credit Quality Control Policy is as follows:

	<u>2017/12/31</u>	<u>2016/12/31</u>
Group 1	\$39,626	\$64,527
Group 2	33,245	39,466
Total	<u>\$72,871</u>	<u>\$103,993</u>

Group 1 : Listed company, Over-the-counter company and famous enterprise.

Group 2 : Except Group 1 of client

Ageing analysis of trade receivables and trade receivables-related parties that are past due as of the end of the reporting period but not impaired is as follows:

	Neither past due nor impaired	Past due but not impaired						Total
		1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Upon 366 days	
Dec. 31, 2017	\$72,871	\$3,456	\$10,345	\$-	\$-	\$159	\$-	\$86,831
Dec. 31, 2016	\$103,993	\$9,011	\$12,881	\$429	\$9	\$-	\$-	\$126,323

Trade receivables of the Group were not pledged.

#### (4) Inventories

##### ①. Details as follows

	As of 31 December	
	<u>2017.12.31</u>	<u>2016.12.31</u>
Raw materials	\$42,320	\$70,603
Work in progress	23,195	43,333
Finished goods	24,550	50,529
Merchandise	29,240	22,721
Total	<u>\$119,305</u>	<u>\$187,186</u>

② For the years ended December 31, 2017 and 2016, the Group recognized NT\$ 320,650 thousands and NT\$ 417,856 thousands for costs of inventories in expenses. The profit and loss that related to cost of goods sold are as follows:

	For the years ended	
	31 December	
	2017	2016
losses on obsolete inventory	\$7,632	\$4,952
price recovery		
(Gain) losses on physical inventory	(80)	32
Scraps	6,622	-
Total	\$14,174	\$4,984

(5)Property, plant and equipment

	Machinery and equipment	Transportation equipment	Leasehold improvement	Molding equipment	Other equipment	Total
<b>Cost :</b>						
January 1, 2017	\$43,574	\$1,220	\$25,400	\$9,767	\$43,914	\$123,875
Additions	6,933	-	3,271	2,133	1,185	13,522
Disposals	(1,774)	-	-	(8)	(301)	(2,083)
Transfers	5,063	(63)	7,172	1,178	(6,889)	6,461
Exchange differences	(219)	3	119	-	(343)	(440)
December 31, 2017	\$53,577	\$1,160	\$35,962	\$13,070	\$37,566	\$141,335
<b>Depreciation and impairment:</b>						
January 1, 2017	\$9,773	\$535	\$7,281	\$7,054	\$20,120	\$44,763
Additions	8,740	148	3,725	2,859	5,497	20,969
Disposals	(469)	-	-	-	(301)	(770)
Exchange differences	53	5	8	-	8	74
December 31, 2017	\$18,097	\$688	\$11,014	\$9,913	\$25,324	\$65,036
<b>Cost :</b>						
January 1, 2016	\$13,878	\$1,051	\$20,770	\$6,979	\$28,563	\$71,241
Additions	10,040	272	220	1,414	5,611	17,557
Disposals	(2,015)	(601)	-	(7)	(213)	(2,836)
Transfers	22,530	548	4,452	1,381	10,529	39,440
Exchange differences	(859)	(50)	(42)	-	(576)	(1,527)
December 31, 2016	\$43,574	\$1,220	\$25,400	\$9,767	\$43,914	\$123,875
<b>Depreciation and impairment:</b>						
January 1, 2016	\$6,913	\$501	\$4,651	\$5,190	\$15,100	\$32,355
Additions	4,444	154	2,641	1,865	5,244	14,348
Disposals	(1,536)	(112)	-	(1)	(194)	(1,843)
Exchange differences	(48)	(8)	(11)	-	(30)	(97)
December 31, 2016	\$9,773	\$535	\$7,281	\$7,054	\$20,120	\$44,763

	Machinery and equipment	Transportation equipment	Leasehold improvement	Molding equipment	Other equipment	Total
Net carrying amount :						
December 31, 2017	\$35,480	\$472	\$24,948	\$3,158	\$12,242	\$76,299
December 31, 2016	\$33,801	\$685	\$18,119	\$2,713	\$23,794	\$79,112

Property, plant and equipment were not pledged.

(6) Other non-current assets

	As of 31 December	
	2017	2016
Prepayment for equipment	\$18,292	\$14,130
Pledged restricted deposits	10,300	6,200
Refundable deposite	5,363	5,992
Total	\$33,955	\$26,322

Please refer to Note 8 for details on pledged restricted deposits.

(7) Short-term loans

	Interest Rates (%)	As of 31 December	
		2017	2016
Unsecured bank loans	2.00%	\$10,000	\$15,267

The Group's unused short-term lines of credits amounted to NT\$197,500 thousands and NT\$130,000 thousands as of December 31, 2017 and 2016, respectively.

(8) Other payables

	2017.12.31	2016.12.31
Accrued payroll	\$25,256	\$23,982
Accrued labor	5,509	4,046
Accrued bonus to employee and remuneration to directors	-	3,312
Other payables	37,629	35,456
Total	\$68,394	\$66,796

## (9) Long-term loans

At December 31, 2017 and 2016 details are as follows:

<u>Lenders</u>	<u>As of 31 December 2017</u>	<u>Interest rate</u>	<u>Maturity date and terms of repayment</u>
The Shanghai Commercial & Savings Bank, Ltd.	\$10,000	2.095%	Effective from January 15, 2018 to December 15, 2019, principle is repaid in 24 monthly payments with monthly interest payments.
SinoPac Bank	8,750	1.865%	Effective from October 6, 2017 to September 6, 2019, principle is repaid in 24 monthly payments with monthly interest payments.
Subtotal	<u>18,750</u>		
Less: current portion	<u>(10,040)</u>		
Total	<u>\$8,710</u>		

  

<u>Lenders</u>	<u>As of 31 December 2016</u>	<u>Interest rate</u>	<u>Maturity date and terms of repayment</u>
The Shanghai Commercial & Savings Bank, Ltd.	\$10,000	2.095%	Effective from January 15, 2018 to December 15, 2019, principle is repaid in 24 monthly payments with monthly interest payments.
Subtotal	<u>10,000</u>		
Less: current portion	<u>-</u>		
Total	<u>\$10,000</u>		

The Group's unused long-term lines of credits amounted to NT\$ 101,250 thousands and NT\$ 0 thousands as of December 31, 2017 and 2016, respectively.

## (10) Post-employment benefits

### Defined contribution plan

The Company and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Group will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Group has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Orange Electronic Trading (Shanghai) Co., Ltd. and Suzhou Orange Electronic Co., Ltd have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China are based on certain percentage of employees' monthly salaries and wages. The Company's mainland subsidiaries have made contributions of 20% and 19% respectively. Other than the monthly contributions, the Group has no further obligations.



Expenses under the defined contribution plan for the years ended December 31, 2017 and 2016 were NT\$5,649 thousands and NT\$5,598 thousands respectively.

(11) Share-based payment plans

The Group's employee share-based payment plans

On May 24, 2013, the Group was authorized by Board of Directors, to issue employee share options with a total number of 500 units. Each unit entitles an option to subscribe for 1,000 shares of the Company's common shares. Settlement upon the exercise of the options will be made through the issuance of new shares.

The option may exercise 50% of the options starting 2 years and 3 years from the grant date. The contractual term of each option granted is four years. If there are changes in the common shares of the Company, the exercise price of share options will be recalculated and adjusted in proportion to the number of shares being held by each of the option.

The Group approved the approval by the board of directors on June 17, 2016, cooperating with public underwriting prior to the initial listing for cash increase, issuing 2,520,000 common shares, and retaining 378,000 new shares for employees to subscribe for. The benchmark date for the issuance of common stock was July 29, 2016, and the change registration was completed. As of December 31, 2017, the aforementioned share-based payment plan has been completed.

The following table contains further details on the aforementioned share based payment plan for the year ended December 31, 2017 and 2016:

	As of 31 December			
	2017		2016	
Share options	Number of share options outstanding (thousand unit)	Weighted average exercise price of share options (NT\$)	Number of share options outstanding (thousand unit)	Weighted average exercise price of share options (NT\$)
Outstanding at beginning of period	126	24.00	482	\$24.70
Given	-		378	
Converted	(125)		-	-
Forfeited-issued as of 31 December 2013	(1)		(20)	-
Converted- issued as of 31 December 2013	-		(336)	-
Converted- issued as of 31 December 2016	-		(378)	-
Outstanding at end of period	-		126	24.00
Weighted average fair value of share options (NT\$)	\$-		\$-	

Share-based payment plan outstanding are as follows:

①. As of 31 December 2017

All employee share options already exchanged, there are no outstanding share options.

②. As of 31 December 2016

Share options	Range of Exercise price (NT\$)	Share options outstanding			Share options exercisable		
		Number (thousand unit)	Maturity date	Weighted average remaining contractual life (Years)	Weighted average exercise price of share options (NT\$)	Number (thousand unit)	Weighted average exercise price of share options (NT\$)
2013/7/1 Share options plan	\$24.00	126	2017/6/30	0.5	\$24.00	126	\$-

The compensation cost is accounted for under the fair value method. The fair value of the share options is estimated at the grant date using a Binomial model, taking into account the terms and conditions upon which the share options were granted. The Company recognized compensation expense of NT\$ 0 thousands and NT\$549 thousands in 2017 and 2016. The following table lists the inputs to the model used for the plan:

	Share-based payment plan
Dividend yield (%)	0%
Expected volatility (%)	30.50%
Risk-free interest rate (%)	0.9286%
Expected option life (Years)	4 years

(12)Equities

①.Common stock

As of December 31, 2017 and 2016, the Company's authorized capital was \$300,000 thousands. The issued and outstanding capital stocks were NT\$ 213,749 thousands and NT\$ 212,089 thousands, divided into 21,374,900 and 21,208,900 shares with par value of NT\$ 10 each respectively. Every shares has voting right and right to receive dividends.

The Company resolved at its board of directors meeting held on June 17, 2017, to increase its capital by issuing 2,520,000 shares at NT\$56 per share. The record date of capital increase was on August 3, 2016, and was approved by the competent authority and have completed the registration on August 11, 2016.

Employees have converted their options into 336 thousand shares for the year ended December 31, 2016. As of December 31, 2017, the remaining 41 thousand shares have not and were recorded under advance receipt for share capital in the amount of NT\$ 410 thousands.

As of December 31, 2017, the remaining 41 thousand shares have not converted their options and were recorded under advance receipt for share capital in the amount of NT\$ 410 thousands. As of December 31, 2017, the aforementioned have completed the registration process have

already been converted into common stock.

Employees have converted their options in to 125 thousand shares for the year ended December 31, 2017, As of December 31, 2017, the aforementioned have completed the registration process have already been converted into common stock.

## ②. Capital surplus

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

	Additional paid-in capital			Employee share option		
	Premium on capital increase by cash	Employee share option converted to additional paid-in capital	Subtotal	Recognized	Expired	Subtotal
2016.01.01	\$47,225	\$-	\$47,225	\$3,588	\$148	\$3,736
capital increase by cash						
Additional paid-in capital-Cash	98,532	-	98,532	-	-	-
Issuing cost	(3,000)	-	(3,000)	-	-	-
Employee share option						
compensation cost	-	-	-	549	-	549
Expired	-	-	-	(182)	182	-
Premium-2013	-	7,463	7,463	(2,759)	-	(2,759)
Premium -2016	-	17,388	17,388	-	-	-
2016.12.31	<u>\$142,757</u>	<u>\$24,851</u>	<u>\$167,608</u>	<u>\$1,196</u>	<u>\$330</u>	<u>\$1,526</u>
2017.01.01	\$142,757	\$24,851	\$167,608	\$1,196	\$330	\$1,526
employee share option						
Expired	-	-	-	(9)	9	-
Reclassification	-	156	156	(156)	-	(156)
Premium -2013	-	2,781	2,781	(1,031)	-	(1,031)
2017.12.31	<u>\$142,757</u>	<u>\$27,788</u>	<u>\$170,545</u>	<u>\$-</u>	<u>\$339</u>	<u>\$339</u>

## ③. Retained earnings and dividend policies

According to the Company's Corporate Charter, current year's earnings, if any, shall be distributed in the following order:

- a. Payment of all taxes and dues
- b. Offset prior years' operation losses
- c. Set aside 10% of the remaining amount
- d. Set aside or reverse special reserve in accordance with law and regulations
- e. The board will then draw up a reserve allocation plan according to the Company's dividend policies and present it in the shareholders' meeting.

The dividend policy of The Company adopts sound and equilibrium principles, and may consider the profit condition, financial structure and the factor of future development of the company, it may aim at no less than 40% of cumulated allocable surplus to distribute as shareholders' bonus, however, it shall appropriate at least 10% from the allocated shareholders' bonus to the distribution of cash bonus. However, The Board of Directors may consider the overall operation condition of that time to adjust the said proportion, and submit to shareholders' meeting for resolution.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Details of the 2017 and 2016 earnings distribution and dividends per share as resolved by the board meeting on March 9, 2018 and the shareholders' meeting on May 26, 2017, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	2017	2016	2017	2016
Legal reserve making good the deficit	\$(2,040)	\$-		
Legal reserve	-	3,061		
Special reserve	-	2,824		
Common stock -cash dividend	-	17,100	\$-	\$0.8

Please refer to Note 6(15) for details on employees' bonus and remuneration to directors and supervisors.

### (13) Operating revenue

	For the years ended 31 December	
	2017	2016
Sale revenue	\$486,801	\$678,695
Other revenue	681	7,455
Less: Sales returns, discounts and allowances	(4,405)	(20,302)
<b>Total</b>	<b>\$483,077</b>	<b>\$665,848</b>

(14) Operating lease commitments – Group as lessee

The Group leases offices and company cars are under non-cancellable operating lease agreements. Due date is at December 2019. The group can renew it before expiration day. As of December 31, 2017 the future aggregate minimum lease payments are as follows:

	For the years ended 31 December	
	2017	2016
Less than 1 year	\$14,532	\$12,703
Between 1 and 5 years	7,999	13,357
	<u>\$22,531</u>	<u>\$26,060</u>

Lease expense are as follows:

	For the years ended 31 December	
	2017	2016
Aggregate minimum lease payments	<u>\$14,779</u>	<u>\$13,396</u>

(15) Summary statement of employee benefits, depreciation and amortization expenses by function for the year ended December 31, 2017 and 2016:

Function	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$30,334	\$89,158	\$119,492	\$37,747	\$91,326	\$129,073
Labor and health insurance	3,131	9,275	12,406	3,616	8,148	11,764
Pension	1,329	4,320	5,649	1,490	4,108	5,598
Other employee benefits expense	2,867	3,012	5,879	3,389	2,996	6,385
Depreciation	16,044	4,925	20,969	9,434	4,914	14,348
Amortization	458	1,113	1,571	483	1,108	1,591

According to the resolution, no less than 5% and no more than 15% of profit of the current year is distributable as employees' bonus and no higher than 2% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' bonus in the form of shares or in cash; and in addition there to a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' bonus and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

As the Company posted losses for the year ended December 31, 2017, the Company did not estimate the amounts of the employees' bonus and remuneration to directors and supervisors. The Company estimated the amounts of the employees' bonus and remuneration to directors for the year ended December 31, 2016 to be NT\$ 2,366 thousands and NT\$ 946 thousands of profit of the current period, recognized as salary expense.

A resolution was passed at a Shareholders' meeting held on May 26, 2017 to distribute NT\$ 2,366 thousands and NT\$ 946 thousands in cash as employees' bonus and remuneration to directors of 2016, respectively. There were no difference between the actual employee bonuses and the estimated amount.

(16) Non-operating income and expenses

① Other income

	For the years ended 31 December	
	2017	2016
Interest income	\$305	\$225
Others	4,783	3,498
Total	<u>\$5,088</u>	<u>\$3,723</u>

② Other gains and losses

	For the years ended 31 December	
	2017	2016
Net currency exchange losses	\$(3,901)	\$(4,551)
Gains(losses) on disposal of property, plant and equipment	78	(411)
Total	<u>\$(3,823)</u>	<u>\$(4,962)</u>

③ Finance costs

	For the years ended 31 December	
	2017	2016
Interest on borrowings from bank	<u>\$1,160</u>	<u>\$88</u>

(17) Components of other comprehensive income

For the year ended December 31, 2017:

To be reclassified to profit or loss in subsequent periods: :	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax effect	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	<u>\$(1,369)</u>	<u>\$-</u>	<u>\$(1,369)</u>	<u>\$-</u>	<u>\$(1,369)</u>

For the year ended December 31, 2016:

To be reclassified to profit or loss in subsequent periods: :	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax effect	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$(2,825)	\$-	\$(2,825)	\$-	\$(2,825)

(18) Income tax

The major components of income tax expense (income) are as follows:

① Income tax expense recognized in profit or loss

	For the years ended 31 December	
	2017	2016
Current income tax expense: :		
Current income tax charge	\$1,221	\$15,294
Adjust the before year's current income tax	892	(200)
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	(1,167)	(1,385)
Total income tax expense	<u>\$946</u>	<u>\$13,709</u>

② Income tax relating to components of other comprehensive income  
None.

③ Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rate is as follows:

	For the years ended 31 December	
	2017	2016
Accounting profit before tax from continuing operations	<u>\$(33,619)</u>	<u>\$44,315</u>
Tax at the domestic rates applicable to profits in the country concerned	\$-	\$7,534
Tax effect of expenses not deductible for tax purposes (Permanent)	-	5,539
Tax effect of deferred tax assets/liabilities	(1,167)	(1,385)
Additional 10% tax on un appropriated earnings	762	487
Adjust the before year's current income tax	892	1,271
Individual tax rate impacts in other tax jurisdictions	459	443
Total income tax expenses recorded in profit or loss	<u>\$946</u>	<u>\$13,709</u>

④ Deferred tax assets (liabilities) relate to the following:

a. For the year ended December 31, 2017:

Items	Beginning balance as of 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance as of 31 December
Temporary difference				
Allowance to reduce inventories to market value	\$1,850	\$1,148	\$-	\$2,998
Unrealized exchange gain or loss	(253)	727	-	474
Accumulated Impairment- At Cost	552	(552)	-	-
Bad debt loss	278	(236)	-	42
Liabilities Abstract	1,173	(86)	-	1,087
Unused tax losses	-	1,576	-	1,576
Others	2,722	(1,410)	-	1,312
Deferred tax expense/ (income)		\$1,167	\$-	
Net deferred tax assets/ (liabilities)	\$6,322			\$7,489
Reflected in balance sheet as follows:				
Deferred tax assets	\$6,322			\$7,489

b. For the year ended December 31, 2016:

Items	Beginning balance as of 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance as of 31 December
Temporary difference				
Allowance to reduce inventories to market value	\$1,008	\$842	\$-	\$1,850
Unrealized exchange gain or loss	(1,317)	1,064	-	(253)
Accumulated Impairment- At Cost	552	-	-	552
Bad debt loss	316	(38)	-	278
Liabilities Abstract	885	288	-	1,173
Others	3,493	(771)	-	2,722
Deferred tax expense/ (income)		\$1,385	\$-	
Net deferred tax assets/ (liabilities)	\$4,937			\$6,322
Reflected in balance sheet as follows:				
Deferred tax assets	\$4,937			\$6,322



⑤ Unrecognized deferred tax assets

None.

⑥ Imputation credit information

	As of 31 December	
	2017	2016
Balance of the imputation credit account	\$20,519	\$21,037

The actual creditable ratio for 2016 was 20.16%. According to Article 66-6 of the Income tax Act, the imputation credit ratio for the earnings of 2016 distributed to individual stockholders residing in ROC is half of the original ratio. On Jan 18, 2018, the Legislative Yuan passed the amendments to the Income Tax Act that abolished the imputation tax scheme under the integrated income tax system.

The Company's earnings generated in the year ended December 31, 1997 and prior years have been fully distributed.

⑦ The assessment of income tax returns

As of December 31, 2017, the assessment of the income tax returns of the Company is as follows:

	<u>The assessment of income tax returns</u>
Orange Electronic CO., Ltd.	Assessed and approved up to 2015
Orange Electronic Trading (Shanghai)Co., Ltd	Declare to 2016
Suzhou Orange Electronic Co., Ltd	Declare to 2016

(19) Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity owners of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity owners of the parent entity by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	For the years ended	
	31 December	
	2017	2016
①. Basic earnings per share		
Profit(loss) attributable to ordinary equity holders of the company (in thousands of NT\$)	<u>\$(34,565)</u>	<u>\$30,606</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	<u>21,309</u>	<u>19,531</u>
Basic earnings(loss) per share (NT\$)	<u>\$(1.62)</u>	<u>\$1.57</u>
	<u>2017</u>	<u>2016</u>
②. Diluted earnings per share		
Profit(loss) attributable to ordinary equity holders of the Company (in thousands of NT\$)	<u>\$(34,565)</u>	<u>\$30,606</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	21,309	19,531
Effect of dilution:		
Capital collected in advance—Stock(in thousands)	-	41
Employee bonus—Stock(in thousands)	-	77
Employee stock options (in thousands)	-	275
Weighted average number of ordinary shares outstanding after dilution (in thousands)	<u>21,309</u>	<u>19,924</u>
Diluted earnings per share (loss) (NT\$)	<u>\$(1.62)</u>	<u>\$1.54</u>

Note: The net loss on 2017, the employee stock options and convertible bonds were antidilutive, and were excluded from the computation of diluted earnings per share.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

## 7. RELATED PARTY TRANSACTIONS

### (1) Name and nature of relationship of the related parties

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
Hsu, Chin-Yao	Chairman
Chang, Feng-Yi	Director
Yu, Hung-Chih	Director
Standard Motor Products Inc. (SMP)	Substantive related party

## (2) Significant transactions with related parties

### ① Sales

	As of 31 December	
	2017	2016
Standard Motor Products Inc. (SMP)	\$130,268	\$155,537

The sales price of the Group sold to related parties is determined by both parties referring to the market price negotiation. The collection condition is received within 30 to 90 days of the customer's monthly, which is the same as the general customer.

In the Republic of China, the foreign exchange payments in 2017 and 2016 were unsecured, non-interest-bearing and required cash settlement. There is no guarantee for the receivables of the related parties.

### ② Accounts Receivable-Related Parties

	As of 31 December	
	2017	2016
Standard Motor Products Inc. (SMP)	\$17,451	\$18,305

### ③ Key management personnel compensation

	For the years ended 31 December	
	2017	2016
Short-term employee benefits	\$13,741	\$17,066
Post-Employment Benefits	337	318
Termination benefits	-	1,145
Total	\$14,078	\$18,529

### ④ Guarantee

The Company's director Chin-Yao, Hsu, Feng-Yi, Chang, and Hung-Chih, Yu provided promissory note to bank to pledge for the Company as of December 31, 2017 and December 31, 2016.

## 8. ASSETS PLEDGED AS SECURITY

The following table lists assets of the Group pledged as security:

	Carrying amount As of 31 December		Secured liabilities
	2017.12.31	2016.12.31	
Time deposit	\$6,800	\$3,400	Security deposit of provisional attachment
Time deposit	2,000	-	Bank deposit quality guarantee deposit of sales
Time deposit	1,500	1,500	
Deposits	-	1,300	R&D subsidy deposit
Total (recorded under other current assets)	<u>\$10,300</u>	<u>\$6,200</u>	

## 9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

None

## 10. SIGNIFICANT DISASTER LOSS

None

## 11. SIGNIFICANT SUBSEQUENT EVENTS

The Legislative Yuan has passed the third reading of the amendments to the Income Tax Act on January 18, 2018. According to the amendments, business income tax rate will increase from 17% to 20% starting 2018. This change will increase NT\$ 1,322 thousands in deferred tax assets.

## 12. OTHERS

(1). Categories of financial instruments

<u>Financial assets</u>	As of 31 December	
	2017	2016
Loans and receivables: :		
Cash and cash equivalents (exclude cash on hand)	\$181,477	\$176,690
Notes and accounts receivable	132,934	143,666
Other receivable	2,221	3,759
Total	<u>\$316,632</u>	<u>\$324,115</u>

<u>Financial liabilities</u>	As of 31 December	
	2017	2016
Financial liabilities at amortized cost:		
Short-term borrowings	\$10,000	\$15,267
Notes and accounts payable	53,532	74,456
Other payables	68,393	66,796
Other current liabilities	2,484	3,599
Long-term borrowings(including current portion with maturity less than 1 year)	18,750	10,000
Other non-current liabilities	108	108
Total	<u>\$153,267</u>	<u>\$170,226</u>

## (2).Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant financial activities, due approval process by the board of directors and audit committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

## (3).Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk.

In practice, it is rarely the case that a single risk variable will change independently from other risk variables, there is usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

### Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for USD.

When NTD strengthens against USD by 1%, for the years ended December 31, 2017 and 2016 to decrease/increase by NT\$ 565 thousands and NT\$ 365 thousands, respectively.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans and receivables at variable interest rates, bank borrowings with fixed interest rates and variable interest rates.

The interest rate sensitivity analysis is performed on borrowings with variable interest rates as of the end of the reporting period. At the reporting date, a change of 10 basis points of interest rate in a reporting period could cause the profit for the years ended December 31, 2017 and 2016 to increase by NT\$ 29 thousands and NT \$ 25 thousands.

#### (4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for trade receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, ratings from credit rating agencies, historical experiences, prevailing economic condition and the Group's internal rating criteria, etc. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment.

As of December 31, 2017 and December 31, 2016, amounts receivables from top ten customers represented 76.48% and 80.59% of the total trade receivables of the Group, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

#### (5).Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents and bank loans. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted

payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
2017.12.31					
Short-term borrowings	\$10,005	\$-	\$-	\$-	\$10,005
Accounts payable	53,532	-	-	-	53,532
Other payables	68,393	-	-	-	68,393
Other current liabilities	2,484	-	-	-	2,484
Long-term borrowings	10,314	8,897	-	-	19,211
Other non-current liabilities	-	-	-	108	108
2016.12.31					
Short-term borrowings	\$15,324	\$-	\$-	\$-	\$15,324
Accounts payable	74,456	-	-	-	74,456
Other payables	66,796	-	-	-	66,796
Other current liabilities	3,599	-	-	-	3,599
Long-term borrowings	210	10,261	-	-	10,471
Other non-current liabilities	-	-	-	108	108

(6). Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

Unit: Thousands

	As of 31 December 2017			As of 31 December 2016		
	Foreign currencies	Foreign exchange rate	NTD	Foreign currencies	Foreign exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items:</u>						
USD	\$3,171	29.71	\$94,210	\$2,622	32.20	\$84,428
 <u>Financial liabilities</u>						
<u>Monetary item:</u>						
USD	\$879	29.71	\$26,115	\$1,256	32.20	\$40,443

## (7).Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize the shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

## (8).Others

For financial statement comparing, the parts of item had been classified.

## 13. OTHER DISCLOSURE

### (1)Information at significant transactions

①Financing provided to others: None.

### ②Endorsement/Guarantee provided to others:

No	Endorser/ Guarantor	Counterparty		Guarantee Limited Amount for Each Counterparty(N ote1)	Maximum balance for the period	Guarantee Amount in the end of2017	Amount drawn	Value of Collaterals Properties	Ratio of Accumulated Amount of Guarantee Provided to Net Equity of the Latest Financial Statements	Guarantee Limited Amount (Note2)	Guarantee from the parent to subsidiary	Guarantee from the subsidiary to parent	Guarantee from Mainland China
		Company Name	Relationship										
0	OrangeElectronic Co.,Ltd	Suzhou Orange Electronic Co.,Ltd.	Investee company	\$121,705	\$30,135	\$30,135	\$-	None	7.43%	\$162,274	Y	N	Y

Note 1: The limited amount of guarantees/endorsements for each counterparty shall not exceed 30% of net equity of the guarantor as of December 31, 2017.

Note 2: The limited amount of guarantees/endorsements shall not exceed 40% of net equity of the guarantor as of December 31, 2017.

③Securities held as of December 31, 2017 (excluding subsidiaries, associates and joint venture):

None

④Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$ 300 million or 20 percent of the paid-in capital for the year ended December 31, 2017: None.

⑤Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2017: None.

⑥Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended December 31, 2017: None.



⑦ Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended December 31, 2017:

Company Name	Counter-party	Relationship	Transactions				Details of non-arm's length transaction		Notes and accounts receivable (payable)		Note
			Purchases (Sales)	Amount (Note)	Percentage of total purchases (sales)	Term	Unit price	Term	Balance	Percentage of total receivables (payable)	
Orange Electronic Co.,Ltd	Standard Motor Products Inc.	Substantive related party	Sales	\$130,268	26.97%	Within 60 days	normal	normal	\$17,451	13.13%	-

⑧ Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of capital stock as of year ended December 31, 2017: Please refer to Note 13(1). ⑦.

⑨ Financial instruments and derivative transactions: None.

⑩ Significant intercompany transactions between consolidated entities are as follows:

No (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Total Gross Sales or Total Assets (%)
0	Orange Electronic Co.,Ltd	Orange Electronic Trading (Shanghai)Co.,Ltd	1	Accounts receivable	\$105,561	Trading condition is as same as other customers	18.47%
1	Orange Electronic Trading (Shanghai)Co.,Ltd	Orange Electronic Co.,Ltd	2	Accounts payable	105,561	Trading condition is as same as other customers	18.47%

Note 1: The Company and its subsidiaries are coded as follows:

a. The Company is coded "0".

b. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Transactions are categorized as follow:

a. Represents the transactions from the parent company to a subsidiary.

b. Represents the transactions from a subsidiary to the parent company.

Note 3: The total transaction amount is calculated revenues or total assets ratio, the case of those balance sheet items to the way the ending balance of total assets; If the profit and loss items are those to the cumulative amount of total revenue for the period is calculated.

## (2).Information on investees

### ① Investee company having significant influence and control:

Names, locations, main businesses and products, original investment amount, investment as of December 31, 2017, net income (loss) of investee company and investment income (loss) recognized as of December 31, 2017 (excluding investees in Mainland China):

Investor Company	Investee Company	Address	Address Main businesses and products	Initial Investment Amount		Investment As of 31 December 2017			Net income (loss) of investee company	Investment income (loss) recognized	Note
				31 December 2017	31 December 2016	Number of shares (thousands)	Percentage of ownership (%)	Book value			
OrangeElectronic Co.,Ltd	Orange Electronic Inc.	America	After sales services	\$9,361	\$9,361	300,000	100%	538 (Note 3)	(1,098)	(1,098)	The group's subsidiary.
OrangeElectronic Co.,Ltd	Orange Enterprise Corporation	Marshall Islands	Holding company	112,358	80,398	3,500,000	100%	27,054 (Note 3)	(19,813)	(19,813)	The group's subsidiary.
OrangeElectronic Co.,Ltd	Orange Electronic Europe Cooperatief U.A.	Netherlands	Holding company	8,833	8,833	- (Note 1)	99%	9,369	316	313	The group's subsidiary.
Orange Electronic Inc.	Orange Electronic Europe Cooperatief U.A.	Netherlands	Holding company	89	89	- (Note1)	1%	95	316	3	The group's subsidiary.
Orange Enterprise Corporation	OEC International Corporation	Samoa Islands	Holding company	112,358	80,398	3,500,000	100%	27,054 (Note 3)	(19,813)	(19,813)	The group's subsidiary.
Orange Electronic Europe Cooperatief U.A.	Orange Electronic Netherlands B.V.	Netherlands	Holding company	8,922	8,922	250,000	100%	9,983	595	595	The group's subsidiary.
Orange Electronic Netherlands B.V.	Orange Electronic Italy S.R.L.	Italy	After sales services	8,922	8,922	- (Note 2)	100%	10,005	432	432	The group's subsidiary.

Note1: The investee is cooperative type, they don't issue shares.

Note2: The investee is a limited company, they don't issue shares.

Note3: The Company are holding book values including unrealized gains and losses from related party transactions.

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

#### ① Information on investments in mainland China from the Company as of December 31, 2017:

Investee company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan As of 1 January 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan As of 31 December 2017	Net income (loss) of investee company	Percentage of Ownership	Investment income (loss) recognized	Carrying Value As of 31 December 2017	Accumulated Inward Remittance of Earnings As of 31 December 2017
					Outflow	Inflow						
Orange Electronic Trading (Shanghai) Co., Ltd.	Entrepot Trade and trade agency	\$48,168	Investment in Mainland China companies through a company invested and established in a third region	\$48,168	\$-	\$-	\$48,168	\$(14,075)	100%	\$(14,075)	\$(16,632)	\$-
Suzhou Orange Electronic Co., Ltd.	Wholesale of electronic equipment, or vehicles and motorcycles and related parts and accessories	64,190	Investment in Mainland China companies through a company invested and established in a third region	32,230	31,960	\$-	64,190	(5,738)	100%	(5,738)	43,686	\$-

Accumulated Investment in Mainland China As of 31 December 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
		The lender's net accounts value×60%
\$112,358 (USD 3,500 thousand)	\$143,784 (USD 4,500 thousand)	\$243,410

Note 1: According to Investment Commission, MOEA the Company's investment in Mainland China is limited to 60% of net worth.

#### 14. SEGMENT INFORMATION

For the purpose of operation, the Company operates in a single industry segment by different strategic segments, and they are classified into two segments as follows:

- ① Taiwan operating segment: This segment is responsible for manufacturing, selling and services after sales of telecommunication equipment and apparatus, restrained telecom radio frequency equipment, and materials and parts of automobiles.
- ② Other operating segment: This segment are responsible for entrepot trade, trade agency and investment.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer pricing between operating departments is based on regular transactions similar to external third parties.

a. The reportable segments' profit and loss, information are listed as follows:

For the periods ended 31 December 2017

	Taiwan	Others	Elimination	Total
Revenue				
External customer	\$372,849	\$110,228	\$-	\$483,077
Inter-segment	93,223	25,283	\$(118,506)	-
Total revenue	\$466,072	\$135,511	\$(118,506)	\$483,077
Interest expenses	354	806	-	1,160
Depreciation and amortization	16,870	5,670	-	22,540
Investment incomes (losses)	(20,595)	3	20,592	-
Segment profit	<u>\$(34,078)</u>	<u>\$(20,133)</u>	<u>\$20,592</u>	<u>\$(33,619)</u>
Segment assets	<u>\$563,578</u>	<u>\$183,407</u>	<u>\$(175,431)</u>	<u>\$571,555</u>
Segment liabilities	<u>\$157,894</u>	<u>\$142,102</u>	<u>\$(134,125)</u>	<u>\$165,871</u>

For the periods ended 31 December 2016

	Taiwan	Others	Elimination	Total
Revenue				
External customer	\$573,962	\$91,886	\$-	\$665,848
Inter-segment	100,158	24,507	(124,665)	-
Total revenue	\$674,120	\$116,393	\$(124,665)	\$665,848
Interest expenses	30	58	-	88
Depreciation and amortization	13,986	1,953	-	15,939
Investment incomes (losses)	(33,307)	636	32,671	-
Segment profit	<u>\$43,997</u>	<u>\$(32,353)</u>	<u>\$32,671</u>	<u>\$44,315</u>
Segment assets	<u>\$613,748</u>	<u>\$159,229</u>	<u>\$(130,180)</u>	<u>\$642,797</u>
Segment liabilities	<u>\$158,030</u>	<u>\$127,331</u>	<u>\$(98,282)</u>	<u>\$187,079</u>

b. Reconciliation for reportable segment's revenue, profit, and loss, asstes, liabilities, and others.

For the years ended December 31, 2017, and 2016, there is no reconciliation for reportable segment's revenue, profit, and loss, asstes, liabilities, and others.

c. Geographic information

(a). Revenue from external customers

	For the years ended 31 December	
	2017	2016
Taiwan	\$128,870	\$245,768
Americas	163,674	200,483
Europe	62,421	49,655
Others	128,112	169,942
Total	<u>\$483,077</u>	<u>\$665,848</u>

The revenue information above is based on the location of the customer

(b). Non-current assets

	For the years ended 31 December	
	2017	2016
Taiwan	\$83,287	\$78,698
Americas	84	91
Europe	478	372
Others	28,851	30,235
Total	<u>\$112,700</u>	<u>\$109,396</u>

③ Information about major customers

The customer to that the Company's sales exceeded 10% of its net consolidated sales in 2017 and 2016 is as follows:

Client name	2017		2016	
	Sales amount	%	Sales amount	%
Customer A	\$130,268	27%	\$155,537	23%
Customer B	52,951	11%	74,656	11%