

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese.)

**NISHOKU TECHNOLOGY INC.
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2017 and 2016
(With Independent Auditors' Report Thereon)**

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The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of NISHOKU TECHNOLOGY INC. as of and for the year ended December 31, 2017 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, NISHOKU TECHNOLOGY INC. and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: NISHOKU TECHNOLOGY INC.
Chairman: B. F. Chen
Date: February 26, 2018



安侯建業聯合會計師事務所
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Independent Auditors' Report

To the Board of Directors of Nishoku Technology Inc.:

Opinion

We have audited the consolidated financial statements of balance sheets Nishoku Technology Inc. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the 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 a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

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

1. Impairment assessment of accounts receivable

Please refer to Note 4(g) "Financial instruments" and Note 5(a) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty" of the consolidated financial statements.

Description of key audit matter

The Group do business primarily with customers who are involved in the manufacture of mold and electronic parts with credit term, which make the Group vulnerable to credit risk. The default of the client may lead to impairment loss of the receivables. The assessment of impairment loss involves subjective judgments of the management, which is the major source of estimation uncertainty. Therefore, this whole matter needed to be taken into serious consideration.

How the matter was addressed in our audit

Our principal audit procedures included: assessing whether the Group's impairment of accounts receivable has been set aside in accordance with the Group's policy, including inquiring from the management if they had identified the debtors who have financial difficulties ; selecting a moderate number of samples from the account aging statements to ensure the accuracy of the statements, and understanding the reason on overdue accounts; assessing the uncollectable accounts receivable for the appropriateness of impairment assessment of accounts receivable; assessing the appropriateness and adequacy for doubtful accounts made by the management based on the subsequent collection of accounts receivable.

2. Evaluation of inventory

Please refer to Note 4(h) "Inventory" and Note 5(b) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty" of the consolidated financial statements.

Description of key audit matter

Evaluation of inventory is one of the key judgmental areas for our audit, the Group is primarily involved in the design, manufacture, and sale of mold and electronic parts. As different series or models of electronic products are rapidly being replaced by new ones, it may impact the inventory of the older ones to be slow-moving, or worse yet, stagnant; thus, may result the cost of inventory to be higher than the net realized value. The assessment of impairment loss requires subjective judgments of the management, which is the major source of estimation uncertainty. Therefore, this whole matter needed to be taken into serious consideration.

How the matter was addressed in our audit

Our principal audit procedures included: understanding the inventories valuation of the Group; inspecting whether those policies are applied; examine the accuracy of the aging of inventories by sampling and analyse the changes of the aging of inventories by comparison; retroactively inspecting the reasonability for allowance provided on inventory valuation in the past and compare it to the current year to ensure that the measurements and assumptions are reasonable; sampling the inventories sold in the subsequent period to assess whether the allowance for inventories are reasonable.

Other Matter

The Group has additionally prepared its parent-company-only financial statement as of and for the years ended December 31, 2017 and 2016, on which we have issued an unmodified opinion.

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Cheng-Chien Chen and Yung-Hua Huang.

KPMG

Taipei, Taiwan (Republic of China)
February 26, 2018

Notes to Readers

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

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese.)
NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2017		December 31, 2016			December 31, 2017		December 31, 2016	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets									
Current assets:									
1100 Cash and cash equivalents (note 6(a))	\$ 3,606,496	46	3,696,294	49	2100 Short-term borrowings (note 6(f))	\$ 437,560	5	343,500	5
1110 Financial assets at fair value through profit or loss (note 6(b))	620,298	8	352,562	5	2111 Short-term notes and bills payable (note 6(g))	49,982	1	-	-
1170 Accounts receivable, net (note 6(c))	1,342,527	17	1,444,595	19	2170 Notes and Accounts payable	566,714	7	539,861	7
130X Inventories (note 6(d))	480,862	6	403,391	5	Other current liabilities	373,947	5	416,654	6
1470 Other current assets	88,298	1	45,949	2	Long-term liabilities, current portion (note 6(h))	200,000	3	150,000	2
1476 Other current financial assets (notes 6(c) and 8)	14,798	-	7,706	-		1,628,203	21	1,450,015	20
	6,153,279	78	5,950,497	80	Non-Current liabilities:				
Non-current assets:					Long-term borrowings (note 6(h))	1,200,000	15	600,000	8
1600 Property, plant and equipment (note 6(e))	1,495,836	19	1,417,562	19	Deferred tax liabilities and others (note 6(k))	605,569	8	679,648	9
1840 Deferred tax assets (note 6(k))	78,027	1	37,044	-		1,805,569	23	1,279,648	17
1915 Prepayments for equipment	55,031	1	-	-	Total liabilities	3,433,772	44	2,729,663	37
1985 Long-term prepaid rents	75,595	1	81,878	1	Equity attributable to owners of parent (note 6(l)):				
1990 Other non-current assets	19,302	-	26,048	-	Ordinary share	793,033	10	793,033	11
	1,723,791	22	1,562,532	20	Capital surplus	1,207,154	15	1,363,943	18
					Retained earnings:				
					Legal reserve	436,603	6	376,396	5
					Special reserve	38,354	-	-	-
					Unappropriated retained earnings	2,149,862	27	2,288,348	30
						2,624,819	33	2,664,744	35
					Other equity interest	(181,708)	(2)	(38,354)	(1)
					Treasury shares	-	-	-	-
					Total equity	4,443,298	56	4,783,366	63
Total assets	\$ 7,877,070	100	7,513,029	100	Total liabilities and equity	\$ 7,877,070	100	7,513,029	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese.)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES**Consolidated Statements of Comprehensive Income****For the years ended December 31, 2017 and 2016****(Expressed in thousands of new taiwan dollars , Except Earnings Per Share)**

		2017		2016	
		Amount	%	Amount	%
4110	Operation Revenues	\$ 4,092,690	102	4,213,054	102
4170	Less: Sales returns and allowance	<u>73,182</u>	<u>2</u>	<u>76,109</u>	<u>2</u>
	Net Operating revenues	4,019,508	100	4,136,945	100
5000	Operating costs (notes 6(d), (i), (j) and 12)	<u>3,025,468</u>	<u>75</u>	<u>3,059,644</u>	<u>74</u>
	Gross profit from operations	<u>994,040</u>	<u>25</u>	<u>1,077,301</u>	<u>26</u>
6000	Operating expenses: (notes 6(c), (i), (j), (m) and 12)				
6100	Selling expenses	62,440	2	75,664	2
6200	Administrative expenses	249,625	6	282,167	7
6300	Research and development expenses	<u>85,059</u>	<u>2</u>	<u>101,573</u>	<u>2</u>
		<u>397,124</u>	<u>10</u>	<u>459,404</u>	<u>11</u>
	Net operating income	<u>596,916</u>	<u>15</u>	<u>617,897</u>	<u>15</u>
	Non-operating income and expenses:				
7010	Other income (notes 6(p) and (r))	68,213	2	53,183	1
7020	Other gains and losses, net (notes 6(q) and (r))	(149,166)	(4)	109,293	3
7050	Finance costs, net	<u>(17,405)</u>	<u>-</u>	<u>(15,117)</u>	<u>-</u>
	Total non-operating income and expenses	<u>(98,358)</u>	<u>(2)</u>	<u>147,359</u>	<u>4</u>
7900	Profit from continuing operations before tax	498,558	13	765,256	19
7950	Less: Tax expense (note 6(k))	<u>62,664</u>	<u>2</u>	<u>163,180</u>	<u>4</u>
	Profit	<u>435,894</u>	<u>11</u>	<u>602,076</u>	<u>15</u>
8300	Other comprehensive income (loss):				
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign operations	(172,716)	(4)	(373,486)	(9)
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(k))	<u>29,362</u>	<u>1</u>	<u>63,493</u>	<u>2</u>
8300	Other comprehensive income (after tax)	<u>(143,354)</u>	<u>(3)</u>	<u>(309,993)</u>	<u>(7)</u>
8500	Total comprehensive income	<u>\$ 292,540</u>	<u>8</u>	<u>292,083</u>	<u>8</u>
	Profit, attributable to:				
8610	Profit, attributable to owners of parent	<u>\$ 435,894</u>	<u>11</u>	<u>602,076</u>	<u>15</u>
	Comprehensive income attributable to:				
8710	Comprehensive income, attributable to owners of parent	<u>\$ 292,540</u>	<u>8</u>	<u>292,083</u>	<u>8</u>
	Basic earnings per share				
9750	Basic earnings per share (NT dollars) (note 6(n))	<u>\$ 5.50</u>		<u>7.59</u>	
9850	Diluted earnings per share (NT dollars) (note 6(n))	<u>\$ 5.47</u>		<u>7.54</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated and Report Originally Issued in Chinese.)
NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in thousands of new taiwan dollars)

	Equity attributable to owners of parent						
	Share capital	Retained earnings			Total other equity interest	Total equity attributable to owners of parent	Total equity
		Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings		
	Ordinary shares					Treasury shares	
Balance at January 1, 2016	\$ 802,653	1,396,350	342,453	-	2,052,035	(56,634)	4,808,496
Profit for the year ended December 31, 2016	-	-	-	-	602,076	-	602,076
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	-	-	(309,993)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	602,076	-	292,083
Appropriation and distribution of retained earnings:							
Legal reserve appropriated	-	-	33,943	-	(33,943)	-	-
Cash dividends of ordinary share	-	-	-	-	(301,352)	-	(301,352)
Capital surplus at cash dividends	-	(15,861)	-	-	-	-	(15,861)
Retirement of treasury share	(9,620)	(16,546)	-	-	(30,468)	56,634	-
Balance at December 31, 2016	793,033	1,363,943	376,396	-	2,288,348	-	4,783,366
Profit for the year ended December 31, 2017	-	-	-	-	435,894	-	435,894
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	-	-
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	-	-	-
Appropriation and distribution of retained earnings:							
Legal reserve appropriated	-	-	60,207	-	(60,207)	-	-
Special reserve appropriated	-	-	-	38,354	(38,354)	-	-
Cash dividends of ordinary share	-	-	-	-	(475,819)	-	(475,819)
Capital surplus at cash dividends	-	(158,606)	-	-	-	-	(158,606)
Stock option compensation cost	-	1,817	-	-	-	-	1,817
Balance at December 31, 2017	\$ 793,033	1,207,154	436,603	38,354	2,149,862	(181,708)	4,443,298

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese.)
NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed in thousands of new taiwan dollars)

	2017	2016
Cash flows from (used in) operating activities:		
Profit before tax	\$ 498,558	765,256
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization	235,648	257,372
Provision for bad debt expense	993	10,149
Recognition losses on inventory valuation and obsolescence	1,526	11,886
Interest expense	17,405	15,117
Gain on disposal of property, plant and equipment	(1,113)	(3,590)
Net gain on financial assets at fair value through profit	(3,485)	(9,137)
Interest income	(53,056)	(33,385)
Stock option compensation cost	1,817	-
	<u>199,735</u>	<u>248,412</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets at fair value through profit or loss	(264,251)	69,224
Accounts receivable	101,076	39,762
Inventories	(78,997)	11,457
Other current assets and other financial assets	(29,873)	8,463
	<u>(272,045)</u>	<u>128,906</u>
Changes in operating liabilities:		
Accounts payable	26,853	7,382
Other current liabilities	(25,618)	(484)
	<u>1,235</u>	<u>6,898</u>
Total changes in operating assets and liabilities	<u>(270,810)</u>	<u>135,804</u>
Total adjustments	<u>(71,075)</u>	<u>384,216</u>
Cash inflow generated from operations	427,483	1,149,472
Interest received	53,056	33,385
Interest paid	(17,326)	(15,440)
Income taxes paid	(166,724)	(69,871)
Net cash flows from operating activities	<u>296,489</u>	<u>1,097,546</u>
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(385,932)	(135,464)
Proceeds from disposal of property, plant and equipment	5,291	19,365
Increase in refundable deposits	(4,864)	(1,188)
Increase in other non-current assets	(15,128)	(10,373)
Net cash flows used in investing activities	<u>(400,633)</u>	<u>(127,660)</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term loans	94,060	(100,363)
Increase in short-term notes and bills payable	49,982	-
Increase in long-term debt	650,000	100,000
Decrease in guarantee deposits received	(463)	(144)
Cash dividends paid	(634,425)	(317,213)
Net cash flows from (used in) financing activities	<u>159,154</u>	<u>(317,720)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(144,808)</u>	<u>(291,632)</u>
Net increase (decrease) in cash and cash equivalents	<u>(89,798)</u>	<u>360,534</u>
Cash and cash equivalents at beginning of period	<u>3,696,294</u>	<u>3,335,760</u>
Cash and cash equivalents at end of period	<u>\$ 3,606,496</u>	<u>3,696,294</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese.)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(expressed in thousands of new taiwan dollars, unless otherwise specified)

(1) Company history

NISHOKU TECHNOLOGY INC. (the "Company") was incorporated in year 1980, as a company limited by shares and registered under the Ministry of Economic Affairs, ROC. The Company conducted an IPO on the Taiwan Stock Exchange (TWSE) on October 5, 2011. The Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") primarily are involved in the manufacture and sale of plastic injection mold, tooling manufacturing and general import and export trade, please refer to note 14.

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

These consolidated financial statements were authorized for issuance by the board of directors on February 26, 2018.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Presentation of Financial Statements-Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014

(Continued)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments and impairment.

(Continued)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliably. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

2) Impairment-Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Based on its assessment, the Group does not expect that application of IFRS 9's impairment requirements to have a significant impact on its consolidated financial statements.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

1) Sales of goods

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

The Group for the sale of products, revenue is currently recognized when the goods are delivered to the customers according to transaction terms, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. Based on the Group's assessment, the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer are similar to the point in time at which a customer obtains control of the goods. Therefore, the Group does not expect significant differences in the timing of revenue recognition for these services.

2) Transition

The Group plans to adopt IFRS 15 in its consolidated financial statements using the retrospective approach. As a result, the Group will apply all of the requirements of IFRS 15 to each comparative period presented and adjust its consolidated financial statements.

The Group plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the same comparative reporting period, as well as the contracts that are completed contracts at the beginning of the earliest period presented, are not restated.

Based on its assessment, the Group does not expect that application of IFRS 15's impairment requirements to have a significant impact on its consolidated financial statements.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Those which may be relevant to The Group are set out below:

Issuance / Release		
Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

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

(4) Summary of significant accounting policies:

The accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language consolidated financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies are applied consistently throughout the periods presented in the consolidated financial statements.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter, referred to as "the Regulations") and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission, ROC.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Basis of preparation

(i) Basis of measurement

Except for the financial instruments measured at fair value through profit or loss are measured at fair value, the consolidated financial statements have been prepared on a historical cost basis.

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change and any consideration received or paid are adjusted to equity attributable to stockholders of the Company.

(ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal Activities	Percentage of shareholding (%)	
			December 31, 2017	December 31, 2016
The Company	NISHOKU BOUEKI CO., LTD. (NISHOKU BOUEKI)	Trading Company	100 %	100 %
"	NISHOKU TECHNOLOGY VIETNAM CO., LTD. (NISHOKU VIETNAM)	Manufacture and Sale of tooling and plastic products	100 %	100 %
"	SUN NICE LIMITED (SAMOA) (SUN NICE (SAMOA))	Holding Company	100 %	100 %
SUN NICE (SAMOA)	SAME START LIMITED (Anguilla) (SAME START Anguilla)	Trading Company	100 %	100 %

(Continued)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of investor	Name of subsidiary	Principal Activities	Percentage of shareholding (%)	
			December 31, 2017	December 31, 2016
SUN NICE (SAMOA)	NISHOKU HONG KONG HOLDING LIMITED (NISHOKU HK) (Note)	Holding Company	100 %	100 %
"	SUN NICE LIMITED (BVI) (SUN NICE (BVI))	Holding Company	100 %	100 %
NISHOKU (HK)	NISHOKU PLASTIC MOLD (SHENZHEN) CO., LTD. (NISHOKU (SHENZHEN))	Manufacture and Sale of mold and plastic products	100 %	100 %
"	KUNSHAN NISHOKU PLASTIC ELECTRONIC CO., LTD. (NISHOKU KUNSHAN PLASTIC)	Manufacture and Sale of mold and plastic products	71.49 %	71.49 %
SUN NICE (BVI)	KUNSHAN NISHOKU PLASTIC ELECTRONIC CO., LTD. (NISHOKU KUNSHAN)	Manufacture and Sale of mold and plastic products	28.51 %	28.51 %

Note 1: Original name was SUPERIOR GOLDEN BRIGHT HOLDING LIMITED have been renamed to NISHOKU HONG KONG HOLDING LIMITED by the board of directors in September 2016.

(d) Foreign currencies

(i) Foreign currency transaction

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

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

(ii) Foreign operations

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

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

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

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a 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.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash in bank, and short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Financial instruments

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

(i) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss and loans and receivables.

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held for trading or is designated as such on initial recognition. Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. The Group designates financial assets, other than those classified as held for trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- b) Performance of the financial asset is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and included in non-operating income and expenses. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade-date accounting.

2) Loans and receivables

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

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****3) Impairment of financial assets**

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

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

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

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

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

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

Impairment losses and recoveries of accounts receivable are recognized in profit or loss; impairment losses and recoveries of other financial assets are recognized in non-operating income and expense.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

4) Derecognition of financial assets

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

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

2) Other financial liabilities

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

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in other gains and losses under non-operating income and expenses. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

(h) Inventories

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

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

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Depreciation

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

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

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

- 1) Buildings: 20~50 years
- 2) Accessory equipment of buildings: 5~10 years
- 3) Machinery and equipment: 3~8 years
- 4) Office and other equipment: 2~8 years

The depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from previous estimates, the change are accounted for as changes in accounting estimates.

(j) Lease

Leases are operating leases and are not recognized in the Group's statement of financial position.

Payments made under operating leases (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

(k) Research & development

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

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

- (i) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (ii) The intention to complete the intangible asset and use or sell it.
- (iii) The ability to use or sell the intangible asset.
- (iv) How the intangible asset will generate probable future economic benefits.
- (v) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.

(Continued)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (vi) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

(l) Impairment – non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is determined. If it is not possible to determine the recoverable amount for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell or its value in use. If the recoverable amount of an individual asset or a CGU is less than its carrying amount, the carrying amount of the individual asset or a CGU shall be reduced to its recoverable amount; and that reduction will be accounted as an impairment loss, which shall be recognized immediately in profit or loss.

If this is the case, the carrying amount of the asset shall be increased to its recoverable amount but should not exceed the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(m) Treasury stock

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares should be recognized under "capital reserve – treasury share transactions". Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted average of different types of repurchase.

During the cancellation of treasury shares, "capital reserve – share premiums" and "share capital" should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; losses on cancellation of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

(n) Revenue

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

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For international shipments, transfer occurs upon loading the goods onto the relevant carrier at the client's designated location. Generally for such products, the customer has no right of return.

(o) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term employee benefits

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

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

(p) Share-based payment

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

Regarding to non-vesting conditions, the measurement on the fair value of share-based payment on grant date has been considered to reflect such conditions, and there is no need for any adjustment for differences between expected and actual outcomes.

(q) Income taxes

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

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

Deferred taxes arise due to the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (i) Assets and liabilities that are initially recognized but are not related to a business combination and have no effect on net income or taxable gains (losses) arising from the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, which are normally the tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) The taxing of deferred tax assets and liabilities fulfills one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of the expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

- (r) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary shareholders of the Company. The calculation of basic earnings per share is the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is the profit attributable to ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise convertible bonds, employee stock options, and employee bonuses not yet resolved by the shareholders.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(s) Operating segments

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

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

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

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

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

Information assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment with the next financial year is as follows:

(a) Impairment assessment of accounts receivable

When there is objective evidence of impairment loss, 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 possible future credit losses) discounted at the financial asset's original effective interest rate. When the actual future cash flows are less than expected, a impairment loss may arise.

(b) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be changes in the net realizable value of inventories.

The Group's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group's financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value. The Group strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

- (a) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- (c) Level 3: inputs for the assets or liability that are not based on observable market data.

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to note (q) for assumptions used in measuring fair value.

(6) Explanation of significant accounts:

- (a) Cash and cash Equivalents

	December 31, 2017	December 31, 2016
Cash, and demand deposits	\$ 1,994,474	2,059,225
Time deposits	1,447,114	1,508,464
Bond acquired under repurchase agreement	<u>164,908</u>	<u>128,605</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u>\$ 3,606,496</u>	<u>3,696,294</u>

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

- (b) Financial assets

	December 31, 2017	December 31, 2016
Financial assets designated as at fair value through profit or loss		
Money market fund	\$ -	184,728
Principal guaranteed financial product	614,276	161,637
Bond of oversea	<u>6,022</u>	<u>6,197</u>
Total	<u>\$ 620,298</u>	<u>352,562</u>

As of December 31, 2017 and 2016, the financial assets of the Group had not been pledged as collateral.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Notes and accounts receivable, and other receivables

	December 31, 2017	December 31, 2016
Notes and accounts receivable	\$ 1,361,230	1,462,746
Other receivables	3,047	1,700
Less : allowance for impairment	<u>(18,703)</u>	<u>(18,151)</u>
	<u><u>\$ 1,345,574</u></u>	<u><u>1,446,295</u></u>

- (i) The aging analysis of accounts receivable and other receivables which were past due but not impaired was as follows:

	December 31, 2017	December 31, 2016
Past due 0~120 days	\$ 110,896	59,618
Past due 121~270 days	6,725	4,038
Past due 271~365 days	<u>49</u>	<u>-</u>
	<u><u>\$ 117,670</u></u>	<u><u>63,656</u></u>

Based on the historical payment behavior, the Group believed that the overdue receivables, for which no allowances for uncollectible amounts were provided, are still collectible.

- (ii) The Group recognized impairment loss on notes and accounts receivable using individual and collective assessment methods. The movement in the allowance for notes and accounts receivable and other receivables was as follows:

	December 31, 2017	December 31, 2016
Beginning Balance	\$ 18,151	8,002
Recognized of impairment loss	993	10,149
Amounts written off	<u>(441)</u>	<u>-</u>
Ending Balance	<u><u>\$ 18,703</u></u>	<u><u>18,151</u></u>

(d) Inventories

	December 31, 2017	December 31, 2016
Raw materials	\$ 150,930	155,597
Work in process	188,535	166,280
Finished goods	<u>141,397</u>	<u>81,514</u>
	<u><u>\$ 480,862</u></u>	<u><u>403,391</u></u>

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016, raw material, consumables, and changes in the finished goods and work in progress recognized as cost of sale amounted to \$3,025,468 thousand and \$3,059,644 thousand, respectively. For the years ended December 31, 2017 and 2016, the Group recognized the losses on inventory valuation and obsolescence as cost of goods sold amounting to \$1,526 thousand and \$11,886 thousand, respectively.

As of December 31, 2017 and 2016, the Group did not provide any inventories as collateral for its loans.

(e) Property, plant and equipment

The cost, depreciation and impairment loss of the property, plant and equipment of the Group for the years ended December 31, 2017 and 2016, were as follows:

	Land	Building	Machinery and equipment	Office and other equipment	Construction in progress and testing equipment	Total
Cost or deemed cost:						
Balance on January 1, 2017	\$ 179,672	734,276	1,826,269	471,709	75,845	3,287,771
Additions	-	195	108,014	24,234	200,453	332,896
Reclassifications	-	3,524	38,289	26,390	(55,104)	13,099
Disposals	-	-	(85,313)	(54,891)	-	(140,204)
Effect of movements in exchange rates	-	(15,505)	(38,784)	(7,253)	314	(61,228)
Balance on December 31, 2017	<u>\$ 179,672</u>	<u>722,490</u>	<u>1,848,475</u>	<u>460,189</u>	<u>221,508</u>	<u>3,432,334</u>
Balance on January 1, 2016	\$ 179,672	763,883	2,116,950	524,235	50,311	3,635,051
Additions	-	3,931	27,017	19,917	94,029	144,894
Reclassifications	-	1,658	42,336	22,347	(63,358)	2,983
Disposals	-	(2,502)	(218,264)	(57,938)	-	(278,704)
Effect of movements in exchange rates	-	(32,694)	(141,770)	(36,852)	(5,137)	(216,453)
Balance on December 31, 2016	<u>\$ 179,672</u>	<u>734,276</u>	<u>1,826,269</u>	<u>471,709</u>	<u>75,845</u>	<u>3,287,771</u>
Depreciation and impairments loss:						
Balance on January 1, 2017	\$ -	272,753	1,220,239	377,217	-	1,870,209
Depreciation	-	42,686	151,801	31,012	-	225,499
Reclassifications	-	-	-	14,853	-	14,853
Disposals	-	-	(82,190)	(53,836)	-	(136,026)
Effect of movements in exchange rates	-	(5,129)	(27,070)	(5,838)	-	(38,037)
Balance on January 1, 2017	<u>\$ -</u>	<u>310,310</u>	<u>1,262,780</u>	<u>363,408</u>	<u>-</u>	<u>1,936,498</u>
Balance on January 1, 2016	\$ -	244,912	1,356,747	421,919	-	2,023,578
Depreciation	-	43,992	165,445	33,648	-	243,085
Reclassifications	-	-	167	5,833	-	6,000
Disposals	-	(1,350)	(207,032)	(54,547)	-	(262,929)
Effect of movements in exchange rates	-	(14,801)	(95,088)	(29,636)	-	(139,525)
Balance on December 31, 2016	<u>\$ -</u>	<u>272,753</u>	<u>1,220,239</u>	<u>377,217</u>	<u>-</u>	<u>1,870,209</u>
Carrying amounts:						
Balance on December 31, 2017	<u>\$ 179,672</u>	<u>412,180</u>	<u>585,695</u>	<u>96,781</u>	<u>221,508</u>	<u>1,495,836</u>
Balance on December 31, 2016	<u>\$ 179,672</u>	<u>461,523</u>	<u>606,030</u>	<u>94,492</u>	<u>75,845</u>	<u>1,417,562</u>

As of December 31, 2017 and 2016, the property, plant and equipment of the Group had not been pledged as collateral.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(f) Short-term borrowings

The detail were as follows:

	December 31, 2017	December 31, 2016
Credit loans, no pledge	\$ <u>437,560</u>	<u>343,500</u>
Interest rate range	<u>0.92%~2.08%</u>	<u>1.20%~2.37%</u>

(g) Short-term notes and bills payable

The short-term notes and bills payable were summarized as follows:

	December 31, 2017		
	Guarantee or acceptance institution	Range of interest rates (%)	Amount
Commercial paper payable	Mega Bills	0.662%	\$ 50,000
Less: Discount on short-term notes and bills payable			<u>(18)</u>
Total			\$ <u>49,982</u>

(h) Long-term borrowings

The detail were as follows:

	December 31, 2017			
	Currency	Interest rate range	Maturity year	Amount
Unsecured loans	NTD	1.19%~1.41%	2018~2020	\$ 1,400,000
Less: current portion				<u>(200,000)</u>
Total				\$ <u>1,200,000</u>

	December 31, 2016			
	Currency	Interest rate range	Maturity year	Amount
Unsecured loans	NTD	1.15%~1.435%	2017~2019	\$ 750,000
Less: current portion				<u>(150,000)</u>
Total				\$ <u>600,000</u>

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

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Operating lease

Non-cancellable operating lease rentals payable were as follows:

	December 31, 2017	December 31, 2016
Less than on year	\$ 37,847	42,196
Between one and five years	<u>34,451</u>	<u>75,523</u>
	<u><u>\$ 72,298</u></u>	<u><u>117,719</u></u>

- (i) The Group leases factories and dormitories under operating leases. The lease terms are between one and three years. There was no provision for contingent rent under the operating lease agreement. During years 2017 and 2016, operating lease expenses recorded under comprehensive income or loss amounted \$37,983 thousand and \$31,369 thousand, respectively.
- (ii) The Group does not participate in the residual value of the land and buildings. As a result, it was determined that substantially all the risks and rewards of the land and buildings are with the landlord.

(j) Employee benefits

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The consolidated entities set up overseas have defined contribution plans. These plans are funded in accordance with the regulations of their respective countries, and recognized as the contribution in the current period.

The pension costs incurred from the contributions to the Labor Insurance amounted to \$38,604 thousand and \$41,280 thousand for the years ended December 31, 2017 and 2016, respectively.

(k) Income tax

- (i) The components of income tax in years 2017 and 2016 were as follows:

	2017	2016
Current tax expense	\$ 147,901	79,970
Deferred tax expense (income)	<u>(85,237)</u>	<u>83,210</u>
	<u><u>\$ 62,664</u></u>	<u><u>163,180</u></u>

(Continued)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (ii) The amounts of income tax profit under other comprehensive income or loss in years 2017 and 2016 were as follows:

	2017	2016
Foreign currency translation differences for foreign operations	\$ <u>(29,362)</u>	<u>(63,493)</u>

- (iii) Reconciliation of income tax and profit before tax for 2017 and 2016 were as follows:

	2017	2016
Profit excluding income tax	\$ 498,558	765,256
Income tax using the Company's domestic tax rate	121,099	202,578
Effect of tax rates in foreign jurisdiction	(1,814)	(6,889)
Effect of exchange rate changes on overseas investment gain	(51,089)	(10,634)
10% surtax on unappropriated earnings	2,769	413
Prior year's income tax adjustment and others	(8,301)	(22,288)
	\$ <u>62,664</u>	<u>163,180</u>

- (iv) Deferred tax assets and liabilities

- 1) Unrecognized deferred tax assets

The Group unrecognized deferred tax assets were all temporary differences in respect of the following items:

	December 31, 2017	December 31, 2016
Depreciation period difference	\$ 52,525	53,084
Loss on inventory valuation	32,395	31,316
The carryforward of unused tax losses	12,225	11,199
Other	14,578	15,443
	\$ <u>111,723</u>	<u>111,042</u>

As of December 31, 2017, the unused prior-year tax loss carry-forward of the consolidated entities set up overseas amounted to \$163,006 thousand, and the deductible taxes calculated by the local tax authorities amounted to \$12,225 thousand.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Recognized deferred tax liabilities

The Group recognized deferred tax liabilities for 2017 and 2016 was as follows:

	Investment income recognized under the equity method	Foreign currency translation differences for foreign operations	Others	Total
Deferred tax liabilities:				
Balance on January 1, 2017	\$ 678,344	606	143	679,093
Recognized in profit or loss	(72,867)	-	(143)	(73,010)
Recognized in other comprehensive income or loss	-	(606)	-	(606)
Balance on December 31, 2017	<u>\$ 605,477</u>	<u>-</u>	<u>-</u>	<u>605,477</u>
Balance on January 1, 2016	\$ 589,755	55,905	221	645,881
Recognized in profit or loss	88,589	-	(78)	88,511
Recognized in other comprehensive income or loss	-	(55,299)	-	(55,299)
Balance on December 31, 2016	<u>\$ 678,344</u>	<u>606</u>	<u>143</u>	<u>679,093</u>

3) Recognized deferred tax assets

The Group recognized deferred tax assets for 2017 and 2016 was as follows:

	Investment income recognized under the equity method	Loss on inventory valuation	Foreign currency translation differences for foreign operations	Unused tax losses carry forwards	Bed debt in excess of tax limit and others	Total
Deferred tax assets:						
Balance on January 1, 2017	\$ (25,573)	(530)	(8,194)	-	(2,747)	(37,044)
Recognized in profit or loss	(4,344)	81	-	(6,711)	(1,253)	(12,227)
Recognized in other comprehensive income or loss	-	-	(28,756)	-	-	(28,756)
Balance on December 31, 2017	<u>\$ (29,917)</u>	<u>(449)</u>	<u>(36,950)</u>	<u>(6,711)</u>	<u>(4,000)</u>	<u>(78,027)</u>
Balance on January 1, 2016	\$ (21,472)	(623)	-	-	(1,454)	(23,549)
Recognized in profit or loss	(4,101)	93	-	-	(1,293)	(5,301)
Recognized in other comprehensive income	-	-	(8,194)	-	-	(8,194)
Balance on December 31, 2016	<u>\$ (25,573)</u>	<u>(530)</u>	<u>(8,194)</u>	<u>-</u>	<u>(2,747)</u>	<u>(37,044)</u>

- (v) The Company and NISHOKU BOUEKI income tax returns have been examined by the tax authority through the years up to 2015. However, the Company's 2013 income tax return is still reviewed by the tax authority.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (vi) Information related to the unappropriated earnings and tax deduction ratio is summarized as follow:

	December 31, 2017	December 31, 2016
Unappropriated earnings of 1998 and after	\$ <u>2,149,862</u>	<u>2,288,348</u>
Balance of imputation credit account	\$ <u>183,229</u>	<u>209,967</u>
	<u>2017 (estimated)</u>	<u>2016 (actual)</u>
Creditable ratio for earnings distribution to ROC residents stockholders	<u>10.24 %</u>	<u>10.03 %</u>

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the ROC on October 17, 2013.

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system. The information presented above is for reference only.

(l) Capital and other equity

As of December 31, 2017 and 2016, the nominal common stock amounted to \$1,500,000 thousand. Face value of each share is \$10. The number of shares includes employee stock options for 20,000 thousand shares. There were all 79,303 thousand shares issued. All issued shares' capital was received.

(i) Ordinary shares

Reconciliation of shares outstanding for the years ended December 31, 2017 and 2016, were as follows (in thousands of shares):

	Ordinary shares	
	2017	2016
Balance on January 1	79,303	80,265
Retirement of treasury stock	-	(962)
Balance on December 31	<u>79,303</u>	<u>79,303</u>

The Company had canceled treasury stock \$9,620 (962 thousand shares) in 2016. The related registration procedure were also completed.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Capital surplus

The balances of capital surplus as of December 31, 2017 and 2016, were as follows:

	December 31, 2017	December 31, 2016
Additional paid-capital	\$ 1,205,337	1,363,943
Employee share options	1,817	-
	<u>\$ 1,207,154</u>	<u>1,363,943</u>

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

The change of the Company's capital surplus, except for retirement of treasury stock that in proportion to write off capital surplus \$16,546; in addition, the Company's appropriations of capital surplus had been approved in the shareholders' meeting held on June 14, 2017 and June 7, 2016, respectively. The appropriations were as follows:

	2016		2015	
	Amount per share	Total amount	Amount per share	Total amount
Capital surplus cash dividends	<u>\$ 2.0</u>	<u>158,606</u>	<u>0.2</u>	<u>15,861</u>

(iii) Retained earnings

According to the Company's article of incorporation stipulate that Company's net profit should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

Before the distribution of dividends, the Company shall first take into consideration its operating environment, industry developments, and the long-term interests of stockholders, as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals in determining the stock or cash dividends to be paid. After the above appropriations, current and prior-period earnings that remain undistributed will be proposed for distribution by the board of directors, and a meeting of shareholders will be held to decide on this matter. The cash dividends shall not be less than 10% of total dividends.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

1) Legal reserve

According to the amendment of the ROC Company Act in January 2012, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be set aside as special earnings reserve during earnings distribution. The amount to be set aside should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be set aside as special earnings reserve (and can not be distributed) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions. As of December 2017, special reserve amounted to \$38,354 thousand.

3) Earnings distribution

Earnings distribution for 2016 and 2015 were decided via the general meeting of shareholders held on June 14, 2017, and June 7, 2016, respectively. The relevant dividend distributions to shareholders were as follow:

	2016		2015	
	Payout per share	Amount	Payout per share	Amount
Dividend to shareholders				
Cash	\$ 6.0	<u>475,819</u>	3.80	<u>301,352</u>

(iv) Treasury shares

By applying section 28(2) of the Securities and Exchange Act, the Company had been implemented treasury stock policy, the change of treasury stock were as follows:

	2016	
	Transfer shares to employees	Total (thousand shares)
Purchase shares at beginning	962	962
Retirement of treasury stock	(962)	(962)
Purchase shares at end	-	-

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

In accordance with Securities and Exchange Act, treasury shares held by the Company should not be pledged, and do not hold any shareholder rights before their transfer.

The Company had canceled the Company's shares that for the purpose of transfer to employees in 2013, was decided by the board of directors on July 4, 2016, and decided the canceled dated was on July 15, 2016.

(m) Share-based payment

- (i) The Company issued 600 units of employee stock options, at 1,000 shares per unit, to its employees and its subsidiaries' who met certain requirements on July 28, 2017. The duration of the employee stock options is five year. 50%, 75%, and 25% of the stock options are exercisable 2 years, 4 years, and 3 years, respectively, after the grant date. Those qualified employees are entitled to purchase the shares at the closing price of ordinary shares of the Company on the same day. After the grant of the stock options, any changes in the ordinary shares of the Company, the exercise price of the share options will be adjusted according to the prescribed formula.

- (ii) Details of the employee stock options are as follows:

	2017	
	Weighted average exercise price	Number of options
Outstanding at 1 January	\$ -	-
Granted during the year	81.80	600
Forfeited during the year	-	-
Exercised during the year	-	-
Outstanding at December 31	81.80	<u>600</u>
Exercisable at December 31	-	<u>-</u>
The weighted average price of the stock options		<u>\$ 18.15</u>

The informations of the share options of the Company as at December 31, 2017 were as follows:

	December 31, 2017
Weighted average of remaining contractual period (years)	4.57

- (iii) The Company used the Black-Scholes pricing model in measuring the fair value of the share-based payment at the grant date. The measurement inputs were as follows:

	2017
Exercise price (NT dollars)	81.80
Share price at grant date (NT dollars)	81.80
Expected dividend	- %
Expected volatility (%)	26.78%~27.89%
Risk-free interest rate (%)	0.67%~0.73%
Expected life (years)	5

(Continued)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (iv) For the years ended December 31, 2017, the expenses attributable to share-based payment amounted to \$1,817 thousand.

(n) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the years ended December 31, 2017 and 2016, was based on the profit attributable to ordinary shareholders of the Company and the weighted-average number of ordinary shares outstanding, calculated as follows:

	<u>2017</u>	<u>2016</u>
Profit attributable to ordinary shareholders of the Company	\$ <u>435,894</u>	<u>602,076</u>
Weighted-average number of ordinary shares (thousand shares)	<u>79,303</u>	<u>79,303</u>
Basic earnings per share	\$ <u>5.50</u>	<u>7.59</u>

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the year ended December 31, 2017 and 2016, were based on the profit attributable to the ordinary shareholders of the Company and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

	<u>2017</u>	<u>2016</u>
Profit attributable to ordinary shareholders of the Company (diluted)	\$ <u>435,894</u>	<u>602,076</u>
Weighted-average number of ordinary shares (diluted) (thousand shares)		
	<u>2017</u>	<u>2016</u>
Weighted-average number of ordinary shares (basic)	79,303	79,303
Effect of employee stock bonuses	<u>380</u>	<u>574</u>
Weighted-average number of ordinary shares (diluted)	<u>79,683</u>	<u>79,877</u>
Diluted earnings per share	<u>5.47</u>	<u>7.54</u>

(o) Employee, board of directors', and supervisors' compensation

In accordance with the Articles of incorporation the Company should contribute no less than 1% of the profit as employee compensation and not exceed 5% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The amount of remuneration of each director and supervisor and of compensation for employees entitled to receive the abovementioned employee compensation is approved by the board of directors. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 and 2016, the Company estimated its employee remuneration amounting to \$23,620 thousand and \$32,710 thousand, and directors' and supervisors' remuneration amounting to \$7,000 thousand and \$8,720 thousand, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating. Related information would be available at the Market Observation Post System website. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2017 and 2016.

(p) Other revenue

	2017	2016
Interest income	\$ 53,056	33,385
Others	15,157	19,798
	<u>\$ 68,213</u>	<u>53,183</u>

(q) Non-operating gains and losses

The other gains and losses for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Foreign currency exchange (loss) gain, net	\$ (152,437)	99,750
Gain on valuation of financial assets	3,485	9,137
Gain on disposal of property, plant and equipment	1,113	3,590
Others	(1,327)	(3,184)
	<u>\$ (149,166)</u>	<u>109,293</u>

(r) Financial Instruments

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, which arises from the Group's accounts receivable and investments.

1) Accounts receivable and others receivables

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

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Investment

The credit risk exposure in bank deposits, fixed-income investment, and other financial instruments is measured and monitored by the Group's finance department. As the Group deals with banks and other external parties with good credit standing and with financial institutions, corporate organizations, and government agencies which are graded above investment level, the management believes their counterparts do not have significant default risk, therefore, the credit risk is insignificant.

3) Credit risk exposure

As of December 31, 2017 and 2016, the Group's maximum exposure to credit risk was mainly from the carrying amount of financial assets recognized in the consolidated statements of financial position and amounted to \$5,584,119 thousand and \$5,501,157 thousand, respectively. The Groups had deposited these bank deposits in different financial institutions, and the Group believes that there is no significant credit risk from the above mentioned financial institutions.

4) Disclosures of concentration of credit risk

Sales to individual customers constituting over 10% of net revenue for the years ended December 31, 2017 and 2016, totaled 32% and 34%, respectively. As of December 31, 2017 and 2016, 31% and 23%, respectively, of the Consolidated Company's accounts receivable arose from the top 10 customers. Although there is a potential for concentration of credit risk, the Consolidated Company routinely assesses the collectability of the accounts receivable and provides a corresponding allowance for doubtful accounts.

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	with in 1 year	1-2 years	2-5 years
December 31, 2017					
Non-derivative financial liabilities					
Short-term borrowings	\$ 437,560	439,706	439,706	-	-
Short-term notes and bills payable	49,982	50,000	50,000	-	-
Long-term liabilities, current portion	200,000	202,408	202,408	-	-
Long-term borrowings	1,200,000	1,229,350	15,060	760,806	453,484
Notes and accounts payable	566,714	566,714	566,714	-	-
Other financial liabilities	50,666	50,666	50,666	-	-
	<u>\$ 2,504,922</u>	<u>2,538,844</u>	<u>1,324,554</u>	<u>760,806</u>	<u>453,484</u>

(Continued)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Carrying amount	Contractual cash flows	with in 1 year	1-2 years	2-5 years
December 31, 2016					
Non-derivative financial liabilities					
Short-term borrowings	\$ 343,500	344,363	344,363	-	-
Long-term liabilities, current portion	150,000	150,927	150,927	-	-
Long-term borrowings	600,000	616,376	7,780	407,203	201,393
Notes and accounts payable	539,861	539,861	539,861	-	-
Other financial liabilities	47,431	47,431	47,431	-	-
	<u>\$ 1,680,792</u>	<u>1,698,958</u>	<u>1,090,362</u>	<u>407,203</u>	<u>201,393</u>

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

(iii) Currency risk

1) Exchange rate risk

The Group significant exposure to foreign currency risk on financial assets and liabilities was as follows:

	December 31, 2017			December 31, 2016		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary Items</u>						
USD	\$ 94,038	29.760	2,799,809	71,069	32.250	2,291,603
CNY	17,963	4.560	82,000	17,142	4.617	79,143
<u>Financial liabilities</u>						
<u>Monetary Items</u>						
USD	1,629	29.760	48,484	1,601	32.250	51,636

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, and trade and other payables that are denominated in foreign currency.

A weakening (strengthening) of 1% of the NTD against the USD and CNY at December 31, 2017 and 2016, would have increased or decreased the net profit before tax by \$28,333 thousand and \$23,191 thousand, respectively. The analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for both periods.

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years 2017 and 2015, foreign exchange gain (including realized and unrealized portions) amounted to \$(152,437) thousand and \$99,750 thousand, respectively.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Interest rate analysis

The details of financial assets and liabilities exposed to interest rate risk were as follows:

	Carrying amount	
	December 31, 2017	December 31, 2016
Fixed-rate instruments:		
Financial assets	\$ 1,612,022	1,637,069
Financial liabilities	(413,142)	(262,875)
	<u>\$ 1,198,880</u>	<u>1,374,194</u>
Variable-rate instruments:		
Financial assets	\$ 1,993,866	2,058,264
Financial liabilities	(1,474,400)	(830,625)
	<u>\$ 519,466</u>	<u>1,227,639</u>

The following sensitivity analysis is based on the exposure to interest rate risk of the derivative and non-derivative financial instruments on the reporting date. If the interest rate had increased or decreased by 0.25%, the net profit before tax would have decreased or increased by \$1,299 thousand and \$3,069 thousand for the years ended December 31, 2017 and 2016, respectively, assuming all other variable factors were constant. This mainly resulted from borrowings and bank deposits at variable interest rates.

(iv) Fair value of financial instruments

1) Fair value of financial instruments

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

	December 31, 2017				
	Carrying amounts	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Held-for-trading financial assets	<u>\$ 620,298</u>	<u>-</u>	<u>6,022</u>	<u>614,276</u>	<u>620,298</u>

(Continued)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

		December 31, 2017				
		Carrying amounts	Fair Value			
			Level 1	Level 2	Level 3	Total
Loans and receivables						
Cash and cash equivalents	\$	3,606,496				
Accounts receivable, net		1,342,527				
Other financial assets		<u>14,798</u>				
	\$	<u><u>4,963,821</u></u>				
Financial liabilities carried at amortized cost						
Long and short term borrowings	\$	1,837,560				
Short-term notes and bills payable		49,982				
Accounts payable		566,714				
Other payables		<u>307,498</u>				
	\$	<u><u>2,761,754</u></u>				
			December 31, 2016			
		Carrying amounts	Fair Value			
			Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss						
Held-for-trading financial assets	\$	<u><u>352,562</u></u>	<u><u>184,728</u></u>	<u><u>6,197</u></u>	<u><u>161,637</u></u>	<u><u>352,562</u></u>
Loans and receivables						
Cash and cash equivalents	\$	3,696,294				
Accounts receivable, net		1,444,595				
Other financial assets		<u>7,706</u>				
	\$	<u><u>5,148,595</u></u>				
Financial liabilities carried at amortized cost						
Long and short term borrowings	\$	1,093,500				
Accounts payable		539,861				
Other payables		<u>369,411</u>				
	\$	<u><u>2,002,772</u></u>				

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Valuation techniques for financial instruments measured at fair value

a) Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

b) Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques generally accepted by market participants. Fair value of forward currency is usually determined by the forward currency exchange rate.

Measurements of fair value of financial instruments without an active market are based on a valuation technique or quoted price from a competitor. Fair value measured by a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation technique including a model using observable market data at the consolidated balance sheet date.

3) Reconciliation of Level 3 fair values

The following table shows a reconciliation of the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

	<u>At fair value through profit or loss</u>	
		Equity
	Foreign	instruments
	exchange	with no active
		market price
Balance on January 1, 2017	\$ -	161,637
Recognized in profit or loss	-	24,448
Purchase	-	2,050,285
Disposal	-	(1,622,094)
Balance on December 31, 2017	<u>\$ -</u>	<u>614,276</u>
Balance on January 1, 2016	\$ -	174,859
Recognized in profit or loss	2,871	19,155
Purchase	94,026	1,985,826
Disposal	(96,897)	(2,018,203)
Balance on December 31, 2016	<u>\$ -</u>	<u>161,637</u>

(Continued)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

The aforementioned total gains and losses were recognized in “other income” and “other gains and losses”.

- 4) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Group’s financial instruments that use Level 3 inputs to measure fair value include “financial assets measured at fair value through profit or loss – debt investments”.

(s) Financial risk management

(i) Structure of risk management

The Group’s risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect any changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The board of directors monitors the management to ensure compliance with the Group’s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The board of directors is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the board of directors.

(ii) Overview

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

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

Note 6(q) presents detailed information on exposure to each of the above risks and on the objectives, policies, and processes for measuring and managing risk.

(t) Capital management

The Group manages capital to safeguard the capacity to continue to operate and to safeguard the certainty and stability of its financial resources. The management uses the asset-liability ratio to manage capital. As of December 31, 2017 and 2016, the Group’s asset-liability ratios were 56% and 63%, respectively.

As of December 31, 2017, there were no changes in the Group’s approach to capital management.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (u) Investing and financing activities not affecting current cash flow

The Group's investing and financing activities, which do not affect the current cash flow, in the years ended December 31, 2016 was as follows:

- (i) For retirement of treasury stock, please refer to note 6(l).

(7) Related-party transactions:

- (a) Key management personnel compensation

Key management personnel compensation comprised:

	2017	2016
Short-term employee benefits	\$ 38,791	47,421
Post-employment benefits	216	249
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-
	<u>\$ 39,007</u>	<u>47,670</u>

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2017	December 31, 2016
Demand deposits (classified under other current financial assets)	Guarantee for Project	\$ 1,566	-
//	Guarantee for customs	8,336	309
//	Guarantee for Carbon emission	1,849	5,697
		<u>\$ 11,751</u>	<u>6,006</u>

(9) Commitments and contingencies:

- (a) The aggregate unpaid amounts of contracts pertaining to the purchase of equipment were as follows:

	December 31, 2017	December 31, 2016
Acquisition of property, plant and equipment	\$ <u>79,772</u>	<u>199,252</u>

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (b) The amounts of guarantee notes issued as collateral for bank loans were as follows:

	December 31, 2017	December 31, 2016
Outstanding guarantee notes	\$ 2,186,648	1,945,000
Purchase guarantee	14,880	16,125
	<u>\$ 2,201,528</u>	<u>1,961,125</u>
Actual usage amount	<u>\$ 252,440</u>	<u>209,625</u>

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:

According to the amendments to the “Income Tax Act” enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018. This increase does not affect the amounts of the current or deferred income taxes recognized on December 31, 2017. However, it will increase the Group’s current tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences and tax losses recognized on December 31, 2017, the deferred tax assets and deferred tax liabilities would increase by \$12,460 thousand and \$106,849 thousand, respectively.

(12) Other:

- (a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By item	2017			2016		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit expenses						
Salaries	752,752	182,413	935,165	766,953	204,964	971,917
Labor and health insurance	19,276	8,512	27,788	20,460	7,480	27,940
Pension	30,574	8,030	38,604	34,970	6,310	41,280
Others	19,826	12,618	32,444	21,855	12,388	34,243
Depreciation	196,976	28,523	225,499	213,658	29,427	243,085
Amortization	5,748	4,401	10,149	5,906	8,381	14,287

(13) Other disclosures:

- (a) Information on significant transactions:

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

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Loans to other parties:

No.	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period (Note 3)	Ending balance (Note 3)	Actual usage amount during the period	Interest rate	Nature of financing	Transaction amounts	Reason for short-term financing	Allowance for bad debt	Collateral		Financing limit for each borrowing company	Maximum financing limit for the lender
													Item	Value		
1	SAME START (Anguilla)	NISHOKU VIETNAM	Other accounts receivable	Yes	156,725	148,800	89,280	2.12%	Necessary to loan other parties	-	Operating capital	-	-	-	1,325,674 (Note 1)	1,325,674 (Note 1)

Note 1: The individual amount and the total amount for lending to a company shall not exceed 10% and 40% of the lending company's net worth in the latest financial statement, respectively. The Company for lending to the Company directly or indirectly holds 100% of their shares, with the loan amount not limited and the total amounts not exceeding the lending company's net worth in the last financial statement.

Note 2: Related transaction have been eliminated during the preparation of the consolidated financial statements.

Note 3: Amount actually draw in foreign currencies were translated based on the exchange rate at the reporting date.

(ii) Guarantees and endorsements for other parties:

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period (Note 3)	Balance of guarantees and endorsements as of reporting date (Note 3)	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company (Note 2)										
0	The Company	SAME START (Anguilla)	3	1,332,989 (Note 1)	950,150	922,560	-	-	20.76 %	4,443,298	Y	N	N
"	"	NISHOKU VIETNAM	2	1,332,989	1,185,681	1,169,568	178,560	-	26.32 %	4,443,298	"	"	"
"	"	NISHOKU BOUEKI	2	1,332,989	95,340	94,520	59,000	-	2.13 %	4,443,298	"	"	"
1	NISHOKU KUNSHAN PLASTIC	SAME START (Anguilla)	1	759,108	15,673	14,880	14,880	-	0.59 %	2,530,359	N	"	"

Note 1: The amount and the total amount of the guarantee to a company shall not exceed 30% and 100%, respectively, of the Company net worth in the latest financial statements. The total amount of the guarantee that the Company and its subsidiaries to a company shall not exceed 100%, of the Company's net worth in the latest financial statement. The Company directly or indirectly holds 100% of their shares, the guarantee amounts not limited by the Company's net worth in the latest financial statement.

Note 2: The relationship of guarantor and endorsements to related parties were as follows:

- 1) Business relationship between the Company
- 2) The Company directly or indirectly holds over 50% of subsidiaries' shares;
- 3) The parent company and its subsidiaries holds over 50% of investees' shares
- 4) A subsidiary jointed owned over 50% by the Company and the Company's directly-owned subsidiary.

Note 3: Amount actually draw in foreign currencies were translated based on the exchange rate at the reporting date.

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (iii) Securities held as of December 31, 2017 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Nature and name of securities	Relationship with the securities issuer	Account name	Highest balance during the year		Ending balance				Note
				Shares/Units (thousands)	Percentage of ownership (%)	Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
SAME START (Anguilla)	Bond of oversea	None	Financial assets at fair value through profit or loss	-	-	-	6,022	-	6,022	
"	Principal guaranteed financial product	"	"	-	-	-	89,280	-	89,280	
NISHOKU SHENZHEN	"	"	"	-	-	-	296,737	-	296,737	
NISHOKU KUNSHAN PLASTIC	"	"	"	-	-	-	228,259	-	228,259	

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
NISHOKU KUNSHAN PLASTIC	Principal guaranteed financial product	Financial assets at fair value through profit or loss	China Citic Bank	None	-	-	-	913,037	-	691,155	684,778	6,377	-	228,259
"	"	"	Agricultural Bank of China	"	-	-	-	365,215	-	367,294	365,215	2,079	-	-
NISHOKU SHENZHEN	Money market fund	"	CR Yuanta Fund	"	-	184,728	-	45,652	-	233,540	230,380	3,160	-	-
"	Principal guaranteed financial product	"	GF Asset Management (Guangdong) Co., Ltd	"	-	161,637	-	593,474	-	473,225	458,374	14,851	-	296,737

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

(Continued)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance (Note 1)	Percentage of total notes/accounts receivable (payable)	
The Company	SAME START (Anguilla)	The Company indirectly invest through SUNNICE (SAMOA)	Purchase	239,149	91 %	Note 1	Note 1	Note 1	(97,503)	(88)%	Note 2
SAME START (Anguilla)	The Company	"	Sale	(239,149)	(23) %	Net 90 days	Note 2	Note 2	97,503	28%	"
"	NISHOKU SHENZHEN	Associate	Purchase	205,389	27 %	"	"	"	(60,670)	(27)%	"
"	"	"	Sale	(105,764)	(10) %	"	"	"	32,673	9%	"
"	NISHOKU KUNSHAN PLASTIC	"	Purchase	100,958	13 %	"	"	"	(58,881)	(26)%	"
"	"	"	Sale	(679,252)	(64) %	"	"	"	185,223	53%	"
"	NISHOKU BOUEKI	"	Purchase	116,042	15 %	"	"	"	(30,897)	(14)%	"
NISHOKU SHENZHEN	SAME START (Anguilla)	"	Sale	(205,389)	(22) %	"	"	"	60,670	16%	"
"	"	"	Purchase	105,764	26 %	"	"	"	(32,673)	(18)%	"
NISHOKU KUNSHAN PLASTIC	SAME START (Anguilla)	"	Sale	(100,958)	(4) %	"	"	"	58,881	7%	"
"	"	"	Purchase	679,252	52 %	"	"	"	(185,223)	(33)%	"
NISHOKU BOUEKI	SAME START (Anguilla)	"	Sale	(116,042)	(82) %	"	"	"	30,897	100%	"

Note 1: Payment term given to related parties and third parties were 90 days and 60 to 120 days, respectively. In addition, the Company did not buy same product from third part, so the purchase price can not be compared.

Note 2: The subsidiaries did not purchase or sale same product from third parties, so the purchase (sale) price can not be compared. In addition, the receipt terms of related parties were not significant different to third parties.

Note 3: Transactions within the Group were eliminated in the consolidated financial statements.

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

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
SAME START (Anguilla)	NISHOKU KUNSHAN PLASTIC	The Company indirectly invest through SUNNICE (SAMOA)	185,223	5.10	-	-	69,125	-

Note 1: Until February 23, 2018.

Note 2: Transactions within the Group were eliminated in the consolidated financial statements

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
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(ix) Trading in derivative instruments: Please refer to notes 6(q).

(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions, 2015			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	SAME START (Anguilla)	1	Purchase	239,149	Note 3	6%
"	"	"	1	Account Payable	97,503	"	1%
1	NISHOKU BOUEKI	"	3	Sales	116,042	"	3%
"	"	"	3	Commission revenue	25,394	"	1%
"	"	"	3	Account receivable	30,897	"	-%
2	SAME START (Anguilla)	NISHOKU SHENZHEN	3	Purchase	205,389	"	5%
"	"	"	3	Account Payable	60,670	"	1%
"	"	"	3	Sales	105,764	"	3%
"	"	"	3	Account receivable	32,673	"	-%
"	"	NISHOKU KUNSHAN PLASTIC	3	Purchase	100,958	"	2%
"	"	"	3	Account Payable	58,881	"	1%
"	"	"	3	Sales	679,252	"	17%
"	"	"	3	Account receivable	185,223	"	2%
2	SAME START (Anguilla)	NISHOKU VIETNAM	3	Sales	31,621	"	1%
"	"	"	3	Account receivable	30,863	"	-%
"	"	"	3	Other receivable	89,254	Loans and interests	1%

Note 1: "0" represents the parent company, and the others represent the subsidiaries.

Note 2: "1" represents the transactions from parent company to subsidiary.

"2" represents the transactions from subsidiary to parent company.

"3" represents the transactions between subsidiaries.

Note 3: The trading price and product that purchase or sale from related parties that did not purchase or sale from third parties, so can not be compared.

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(b) Information on investees:

The following is the information on investees for the years ended December 31, 2017 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Highest balance during the year		Balance as of December 31, 2017			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership	Shares (thousands)	Percentage of ownership	Carrying value			
The Company	SUN NICE (SAMOA)	SAMOA	Holding	1,774,490	1,774,490	56,282	100 %	56,282	100.00 %	5,325,275	492,777	492,777	1
"	NISHOKU BOUEKI	Taiwan	Purchase and sales of plastic raws and parts	1,000	1,000	6,300	100 %	6,300	100.00 %	117,903	23,338	23,108	1
"	NISHOKU VIETNAM	Vietnam	Manufacture and sale of tooling and plastic products	267,314 (USD 8,500 thousands)	267,314 (USD 8,500 thousands)	-	100 %	-	100.00 %	76,838	(38,003)	(38,003)	1
SUN NICE (SAMOA)	SAME START (Anquilla)	Aquilla	Purchase and sale of mold and plastic products	634,278	634,278	21,814	100 %	21,814	100.00 %	1,325,674	261,801	261,801	1
"	NISHOKU HK	HK	Holding	1,800,361 (USD 57,915 thousands)	1,800,361 (USD 57,915 thousands)	62,298	100 %	62,298	100.00 %	3,216,096	155,411	155,411	1
"	SUNNICE (BVI)	BVI	"	585,292 (USD 17,948 thousands)	585,292 (USD 17,948 thousands)	15,697	100 %	15,697	100.00 %	782,364	73,224	73,224	1

Note 1: Transactions within the Group were eliminated in the consolidated financial statements

(c) Information on investment in mainland China:

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

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2017	Net income (losses) of the investee	Percentage of ownership	Investment income (losses) (Note 1)	Book value (Note 1)	Highest balance during the year		Accumulated remittance of earnings in current period
					Outflow	Inflow						Shares/Units (thousands)	Percentage of ownership	
NISHOKU SHENZHEN	Manufacture and sale of mold and plastic products	USD23,288 thousands	Indirect investment through third area	703,870 (USD22,939 thousands)	-	-	703,870 (USD22,939 thousands)	(28,550)	100.00%	(28,550)	1,234,293	-	100.00 %	475,841
NISHOKU KUNSHAN PLASTIC	Manufacture and sale of mold and plastic products	USD53,310 thousands	"	1,674,270 (USD52,524 thousands)	-	-	1,674,270 (USD52,524 thousands)	257,075	100.00%	257,075	2,535,548	-	100.00 %	270,217

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(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
2,378,140	2,378,140	(Note 2)

Note 1: The above investment income (loss) in mainland China were based on financial statements audited by the Company's auditors.

Note 2: The Company has received the certificate issue by the Industrial Development Bureau, Ministry of Economic Affairs, allowing it to start operating of its headquarters.

Note 3: Amount actually draw in foreign currencies were translated based on the exchange rate at the reporting date.

(iii) Significant transactions:

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

(14) Segment information:

(a) General information

- (i) The Group's identifies its operating segments based on decision of the chief operating decision maker (CODM). The Group's operating segments are in United States, Asia and Europe, etc. Those operating segments are be reportable segments. The Revenue from manufacture and supply electronic parts to clients. Since the strategy of each segment is different, its is necessary to separate them for management.

(ii) Information about reportable segments and their measurement and reconciliations

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, but not including any extraordinary activity and foreign exchange gain or losses because taxation, extraordinary activity, and foreign exchange gain or losses are managed on a group basis, and hence they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to those described in note 4 "significant accounting policies".

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NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Geographic information

The Group's product revenues from geographical clients were as follows:

	2017				
	United States	Asia	Europe	Elimination	Total
Revenue from external customers	\$ <u>1,896,525</u>	<u>1,098,439</u>	<u>1,024,544</u>	<u>-</u>	<u>4,019,508</u>
Reportable segment profit or loss	\$ <u>407,689</u>	<u>97,416</u>	<u>91,811</u>	<u>-</u>	<u>596,916</u>

	2016				
	United States	Asia	Europe	Elimination	Total
Revenue from external customers	\$ <u>1,950,626</u>	<u>1,116,096</u>	<u>1,070,223</u>	<u>-</u>	<u>4,136,945</u>
Reportable segment profit or loss	\$ <u>372,538</u>	<u>155,272</u>	<u>90,087</u>	<u>-</u>	<u>617,897</u>

(c) Product and service information

Revenue from external customers of the Group was as follows:

<u>Product and Services</u>	2017	2016
Plastic injection	\$ 3,666,899	3,720,072
Mold	340,119	401,825
Others	12,490	15,048
Total	\$ <u>4,019,508</u>	<u>4,136,945</u>

(d) Major customers

Sales to individual clients constituting over 10% of total revenue in 2017 and 2016 are summarized as follows:

<u>Customer</u>	2017	
	Amount	Percentage of net sales
Company A	\$ 869,640	22
Company B	419,909	10
Total	\$ <u>1,289,549</u>	<u>32</u>

<u>Customer</u>	2016	
	Amount	Percentage of net sales
Company A	\$ 864,007	21
Company B	535,912	13
Total	\$ <u>1,399,919</u>	<u>34</u>