

Stock Code:3679

**NISHOKU TECHNOLOGY INC.
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016
(With Independent Auditors' Review 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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Independent Auditors' Review Report

To the Board of Directors of Nishoku Technology Inc.:

We have reviewed the consolidated financial statements of Nishoku Technology Inc. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the six months ended June 30, 2017 and 2016. These consolidated interim financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

Except as described in paragraphs 3, we conducted our reviews in accordance with Statement on Auditing Standard 36, "Engagements to Review Financial Statements". A review consists principally of inquiries of the Group's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with the generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated interim financial statements taken as a whole. Accordingly, we do not express such an opinion.

Included in the accompanying consolidated interim financial statements are the financial statements of certain consolidated subsidiaries, which were not reviewed by independent accountants. These consolidated subsidiaries had total assets of \$508,947 thousand and \$608,162 thousand constituting 7% and 8% of the Group's consolidated total assets as of June 30, 2017 and 2016; total liabilities of \$232,881 thousand and \$273,352 thousand constituting 7% and 10% of the Group's consolidated total liabilities as of June 30, 2017 and 2016, respectively; comprehensive income of \$17,520 thousand, \$9,119 thousand, \$33,871 thousand and \$39,483 thousand constituting 5%, 4%, 11% and 9% of the Group's consolidated comprehensive income for the three months and six months ended June 30, 2017 and 2016, respectively.

Based on our reviews, except for the effects of the adjustments, if any, as might have been determined to be necessary had the financial statements of some equity method investees as described in paragraphs 3 above been reviewed by independent accountants, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to in the first paragraph in order for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Accounting Standard 34 " Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)
July 28, 2017

Notes to Readers

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

The auditors' review 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' review report and consolidated financial statements, the Chinese version shall prevail.

Reviewed only, not audited in accordance with generally accepted auditing standards
NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Consolidated Statements of Comprehensive Income

For the three months and six months ended June 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
4110 Operation Revenues	\$ 993,619	102	1,012,884	102	1,875,144	102	1,933,508	102
4170 Less: Sales returns and allowance	<u>16,545</u>	<u>2</u>	<u>16,328</u>	<u>2</u>	<u>32,495</u>	<u>2</u>	<u>31,859</u>	<u>2</u>
Net Operating revenues	<u>977,074</u>	<u>100</u>	<u>996,556</u>	<u>100</u>	<u>1,842,649</u>	<u>100</u>	<u>1,901,649</u>	<u>100</u>
5000 Operating costs (notes 6(d), (h), (i) and 12)	<u>737,462</u>	<u>75</u>	<u>731,619</u>	<u>73</u>	<u>1,371,170</u>	<u>74</u>	<u>1,416,987</u>	<u>75</u>
Gross profit from operations	<u>239,612</u>	<u>25</u>	<u>264,937</u>	<u>27</u>	<u>471,479</u>	<u>26</u>	<u>484,662</u>	<u>25</u>
Operating expenses: (notes 6(c), (h), (i) and 12)								
6100 Selling expenses	11,816	1	18,012	2	31,857	2	31,074	2
6200 Administrative expenses	69,444	8	97,565	10	137,174	8	161,991	9
6300 Research and development expenses	<u>21,707</u>	<u>2</u>	<u>23,055</u>	<u>2</u>	<u>40,163</u>	<u>2</u>	<u>43,937</u>	<u>2</u>
	<u>102,967</u>	<u>11</u>	<u>138,632</u>	<u>14</u>	<u>209,194</u>	<u>12</u>	<u>237,002</u>	<u>13</u>
Net operating income	<u>136,645</u>	<u>14</u>	<u>126,305</u>	<u>13</u>	<u>262,285</u>	<u>14</u>	<u>247,660</u>	<u>12</u>
Non-operating income and expenses:								
7010 Other income (notes 6(n) and (p))	9,857	1	23,589	2	29,528	2	29,513	2
7020 Other gains and losses, net (notes 6(o) and (p))	(18,456)	(2)	45,496	5	(59,334)	(3)	20,838	1
7050 Finance costs, net	<u>(3,697)</u>	<u>-</u>	<u>(3,500)</u>	<u>-</u>	<u>(7,195)</u>	<u>-</u>	<u>(7,450)</u>	<u>-</u>
Total non-operating income and expenses	<u>(12,296)</u>	<u>(1)</u>	<u>65,585</u>	<u>7</u>	<u>(37,001)</u>	<u>(1)</u>	<u>42,901</u>	<u>3</u>
7900 Profit from continuing operations before tax	124,349	13	191,890	20	225,284	13	290,561	15
7950 Less: Tax expense (note 6(j))	<u>22,732</u>	<u>2</u>	<u>37,627</u>	<u>4</u>	<u>15,727</u>	<u>1</u>	<u>50,598</u>	<u>3</u>
			<u>7</u>					
Profit	<u>101,617</u>	<u>11</u>	<u>154,263</u>	<u>16</u>	<u>209,557</u>	<u>12</u>	<u>239,963</u>	<u>12</u>
8300 Other comprehensive income:								
8360 Components of other comprehensive income that will be reclassified to profit or loss								
8361 Exchange differences on translation	75,578	8	(116,366)	(12)	(207,504)	(11)	(160,060)	(8)
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(j))	<u>(12,848)</u>	<u>(1)</u>	<u>19,782</u>	<u>2</u>	<u>35,276</u>	<u>2</u>	<u>27,210</u>	<u>1</u>
8300 Other comprehensive income, net	<u>62,730</u>	<u>7</u>	<u>(96,584)</u>	<u>(10)</u>	<u>(172,228)</u>	<u>(9)</u>	<u>(132,850)</u>	<u>(7)</u>
8500 Total comprehensive income	<u>\$ 164,347</u>	<u>18</u>	<u>57,679</u>	<u>6</u>	<u>37,329</u>	<u>3</u>	<u>107,113</u>	<u>5</u>
Profit, attributable to:								
8610 Profit, attributable to owners of parent	<u>\$ 101,617</u>	<u>11</u>	<u>154,263</u>	<u>16</u>	<u>209,557</u>	<u>12</u>	<u>239,963</u>	<u>12</u>
Comprehensive income attributable to:								
8710 Comprehensive income, attributable to owners of parent	<u>\$ 164,347</u>	<u>18</u>	<u>57,679</u>	<u>6</u>	<u>37,329</u>	<u>3</u>	<u>107,113</u>	<u>5</u>
Basic earnings per share								
9750 Basic earnings per share (NT dollars) (note 6(l))	<u>\$ 1.28</u>		<u>1.95</u>		<u>2.64</u>		<u>3.03</u>	
9850 Diluted earnings per share (NT dollars) (note 6(l))	<u>\$ 1.28</u>		<u>1.93</u>		<u>2.63</u>		<u>3.00</u>	

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards
NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the six months ended June 30, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent									
	Share capital		Retained earnings				Exchange differences on translation of foreign financial statements	Treasury shares	Total equity attributable to owners of parent	Total equity
	Ordinary shares	Capital surplus	Legal reserve	Special Reserve	Unappropriated retained earnings					
Balance at January 1, 2016	\$ 802,653	1,396,350	342,453	-	2,052,035	271,639	(56,634)	4,808,496	4,808,496	
Profit	-	-	-	-	239,963	-	-	239,963	239,963	
Other comprehensive income (loss)	-	-	-	-	-	(132,850)	-	(132,850)	(132,850)	
Total comprehensive income	-	-	-	-	239,963	(132,850)	-	107,113	107,113	
Appropriation and distribution of retained earnings										
Legal Reserve Appropriated	-	-	33,943	-	(33,943)	-	-	-	-	
Cash Dividends of Common Stock	-	-	-	-	(301,352)	-	-	(301,352)	(301,352)	
Cash Dividend distribution from capital surplus	-	(15,861)	-	-	-	-	-	(15,861)	(15,861)	
Balance at June 30, 2016	\$ 802,653	1,380,489	376,396	-	1,956,703	138,789	(56,634)	4,598,396	4,598,396	
Balance at January 1, 2017	\$ 793,033	1,363,943	376,396	-	2,288,348	(38,354)	-	4,783,366	4,783,366	
Profit	-	-	-	-	209,557	-	-	209,557	209,557	
Other comprehensive income (loss)	-	-	-	-	-	(172,228)	-	(172,228)	(172,228)	
Total comprehensive income	-	-	-	-	209,557	(172,228)	-	37,329	37,329	
Appropriation and distribution of retained earnings										
Legal Reserve Appropriated	-	-	60,207	-	(60,207)	-	-	-	-	
Special Reserve Appropriated	-	-	-	38,354	(38,354)	-	-	-	-	
Cash Dividends of Common Stock	-	-	-	-	(475,819)	-	-	(475,819)	(475,819)	
Cash Dividend distribution from capital surplus	-	(158,606)	-	-	-	-	-	(158,606)	(158,606)	
Balance at June 30, 2017	\$ 793,033	1,205,337	436,603	38,354	1,923,525	(210,582)	-	4,186,270	4,186,270	

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards
NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES
Consolidated Statements of Cash Flows

For the six months ended June 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Six months ended June 30,	
	2017	2016
Cash flows from (used in) operating activities:		
Profit before tax	\$ 225,284	290,561
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization	115,990	134,093
Provision for bad debt expense	3,724	(1,048)
Recognition losses on inventory valuation and obsolescence	(7,744)	8,910
Interest expense	7,195	7,450
Interest income	(21,099)	(19,503)
Net gain on financial assets at fair value through profit or loss	(2,533)	(3,738)
Gain on disposal of property, plant and equipment	(25)	(3,918)
	95,508	122,246
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets at fair value through profit or loss	(303,302)	(189,633)
Accounts receivable	94,428	231,721
Inventories	(37,453)	47,495
Other current assets and other financial assets	(6,872)	(352)
	(253,199)	89,231
Changes in operating liabilities:		
Accounts payable	(36,022)	(110,014)
Other current liabilities	(15,418)	(19,359)
	(51,440)	(129,373)
Total changes in operating assets and liabilities	(304,639)	(40,142)
Total adjustments	(209,131)	82,104
Cash inflow generated from operations	16,153	372,665
Interest received	21,099	19,503
Interest paid	(6,965)	(7,432)
Income taxes paid	(91,448)	(30,080)
Net cash flows from operating activities	(61,161)	354,656
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(141,809)	(51,169)
Proceeds from disposal of property, plant and equipment	51	9,476
Decrease (Increase) in refundable deposits	145	(3,807)
Increase in other non-current assets	(7,643)	(7,803)
Net cash flows used in investing activities	(149,256)	(53,303)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term loans	(110,980)	(53,575)
Increase (decrease) in short-term notes and bills payable	129,860	-
Increase (decrease) in long-term debt	-	(100,000)
Increase (decrease) in guarantee deposits received	(465)	(118)
Net cash flows used in financing activities	18,415	(153,693)
Effect of exchange rate changes on cash and cash equivalents	(168,079)	(125,520)
Net decrease in cash and cash equivalents	(360,081)	22,140
Cash and cash equivalents at beginning of period	3,696,294	3,335,760
Cash and cash equivalents at end of period	\$ 3,336,213	3,357,900

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 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.

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

These consolidated interim financial statements were authorized for issuance by the board of directors on July 28, 2017.

(3) New standards, amendments and interpretations adopted:

(a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already taken effect.

The Group is conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their consolidated interim financial statements. The related new standards, interpretations and amendments are as follows:

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

(Continued)

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Insurance Contracts" (Applicable for IFRS 9 "Financial Instruments" and 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 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, impairment and hedge accounting. The actual impact of adopting IFRS 9 on the Group’s consolidated financial statements in 2018 can only be determined and reliably estimated depending on the financial instruments that the Group holds and economic conditions at that time, as well as the accounting elections and judgments that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments. However, the Group has performed a preliminary assessment of the potential impact of the adoption of IFRS 9 based on its positions at June 30, 2017 and hedging relationships designated under during the first half of 2017 under IAS 39.

- 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 reliable. 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 preliminary assessment, the Group believes that the new classification

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

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requirements, if applied at June 30, 2017, would not have had a material impact on its accounting for trade receivables, loans and investments in debt securities.

- **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.

- **Disclosures**

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group’s preliminary 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.

(ii) **IFRS 15 Revenue from Contracts with Customers**

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”.

For the sale of products, revenue is currently recognized when the goods are delivered to the

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

customers' premises, 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. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

Based on its preliminary assessment, the Group believes that the adoption of the above IFRSs would not have any material impact because the timing of transferring the goods and the related risks and rewards of ownership is close to a customer obtains control of the goods.

- (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

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

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term.

- A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

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

(4) Summary of significant accounting policies:

(a) Statement of compliance

The consolidated interim 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 interim financial statements, the Chinese version shall prevail.

These consolidated interim financial statements have been prepared in accordance with the preparation and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed by FSC and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to IFRS endorsed by the FSC) for full annual consolidated financial statements.

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated interim financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2016. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2016.

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Notes to the Consolidated Financial Statements

(b) Basis of consolidation

Principles of preparation of the consolidated interim financial statements are the same as those of the consolidated financial statements for the year ended December 31, 2016. For the related information, please refer to note 4(c) of the consolidated financial statements for the year ended December 31, 2016.

(c) Income taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of International Financial Reporting Standards 34, Interim Reporting.

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period (and allocated to current and deferred taxes based on its proportionate size).

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

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

The preparation of the consolidated interim financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and 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 preparation of the consolidated interim financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2016. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2016.

(6) Explanation of significant accounts:

In addition to the following, there is no significant difference between the notes on the significant accounting items of the consolidated interim financial statements and the consolidated financial statements for the year ended December 31, 2016. For the related information, please refer to note 6 of the consolidated financial statements for the year ended December 31, 2016.

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

(a) Cash and cash Equivalents

	June 30, 2017	December 31, 2016	June 30, 2016
Cash, and demand deposits	\$ 1,393,149	2,059,225	2,619,001
Time deposits	1,699,664	1,508,464	738,899
Bond acquired under repurchase agreement	<u>243,400</u>	<u>128,605</u>	<u>-</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u>\$ 3,336,213</u>	<u>3,696,294</u>	<u>3,357,900</u>

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

	June 30, 2017	December 31, 2016	June 30, 2016
Financial assets at fair value through profit or loss			
Money market fund	\$ 44,996	184,728	196,452
Principal guaranteed financial product	607,259	161,637	387,558
Bond of oversea	<u>6,142</u>	<u>6,197</u>	<u>22,010</u>
Total	<u>\$ 658,397</u>	<u>352,562</u>	<u>606,020</u>

The financial assets of the Group had not been pledged as collateral.

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Notes and accounts receivable, and other receivables

	June 30, 2017	December 31, 2016	June 30, 2016
Notes and accounts receivable	\$ 1,368,318	1,462,746	1,270,787
Other receivables	13,314	7,706	2,711
Less : allowance for impairment	(21,875)	(18,151)	(6,954)
	\$ 1,359,757	1,452,301	1,266,544

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

	June 30, 2017	December 31, 2016	June 30, 2016
Past due 0~120 days	\$ 51,713	59,618	74,049
Past due 121~270 days	13,319	4,038	8,083
	\$ 65,032	63,656	82,132

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:

	Six months ended June 30,	
	2017	2016
Beginning balance	\$ 18,151	8,002
Recognized of impairment loss	3,724	(1,048)
Ending balance	\$ 21,875	6,954

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Inventories

	June 30, 2017	December 31, 2016	June 30, 2016
Raw materials	\$ 133,657	\$ 155,597	139,154
Work in process	201,545	166,280	147,319
Finished goods	113,386	81,514	83,856
	\$ 448,588	\$ 403,391	370,329

For the three months and six months ended June 30, 2017 and 2016, raw material, consumables, and changes in the finished goods and work in progress recognized as cost of sale amounted to \$737,462 thousand, \$731,619 thousand, \$1,371,170 thousand and \$1,416,987 thousand, respectively. For the three months and six months ended June 30, 2017 and 2016, the Group recognized the losses on inventory valuation and obsolescence as cost of goods sold amounting to \$(1,682) thousand, \$(10,630) thousand, \$(7,744) thousand and \$8,910 thousand, respectively.

As of June 30, 2017, December 31, 2016, and June 30, 2016, the Group did not provide any inventories as collateral.

(e) Property, plant and equipment

	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	-	-	10,572	9,683	108,343	128,598
Reclassifications	-	757	19,286	9,956	(28,475)	1,524
Disposals	-	-	(17,716)	(8,331)	-	(26,047)
Effect of movements in exchange rates	-	(18,802)	(60,769)	(13,923)	(2,109)	(95,603)
Balance on June 30, 2017	\$ 179,672	716,231	1,777,642	469,094	153,604	3,296,243

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Balance on January 1, 2016	\$	179,672	763,883	2,116,950	524,235	50,311	3,635,051
Additions	-	540	11,700	9,184	24,359	45,783	
Reclassifications	-	-	14,935	9,119	(24,855)	(801)	
Disposals	-	-	(77,795)	(26,599)	-	(104,394)	
Effect of movements in exchange rates	-	(14,507)	(53,304)	(15,051)	(1,969)	(84,831)	
Balance on June 30, 2016	\$	<u>179,672</u>	<u>749,916</u>	<u>2,012,486</u>	<u>500,888</u>	<u>47,846</u>	<u>3,490,808</u>

Depreciation and impairments loss:

Balance on January 1, 2017	\$	-	272,753	1,220,239	377,217	-	1,870,209
Depreciation	-	21,235	74,329	15,248	-	110,812	
Reclassifications	-	-	-	1,715	-	1,715	
Disposals	-	-	(17,704)	(8,317)	-	(26,021)	
Effect of movements in exchange rates	-	(7,513)	(41,535)	(11,189)	-	(60,237)	
Balance on June 30, 2017	\$	<u>-</u>	<u>286,475</u>	<u>1,235,329</u>	<u>374,674</u>	<u>-</u>	<u>1,896,478</u>
Balance on January 1, 2016	\$	-	244,912	1,356,747	421,919	-	2,023,578
Depreciation	-	22,208	85,326	17,852	-	125,386	
Reclassifications	-	-	172	-	-	172	
Disposals	-	-	(74,293)	(24,543)	-	(98,836)	
Effect of movements in exchange rates	-	(6,273)	(33,893)	(12,156)	-	(52,322)	
Balance on June 30, 2016	\$	<u>-</u>	<u>260,847</u>	<u>1,334,059</u>	<u>403,072</u>	<u>-</u>	<u>1,997,978</u>

Carrying amounts:

Balance on June 30, 2017	\$	<u>179,672</u>	<u>429,756</u>	<u>542,313</u>	<u>94,420</u>	<u>153,604</u>	<u>1,399,765</u>
Balance on January 1, 2017	\$	<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>
Balance on June 30, 2016	\$	<u>179,672</u>	<u>489,069</u>	<u>678,427</u>	<u>97,816</u>	<u>47,846</u>	<u>1,492,830</u>

As of June 30, 2017, December 31, 2016 and June 30, 2016, the property, plant and equipment of the Group had not been pledged as collateral.

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(f) Short-term borrowings

The details were as follows:

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2016</u>
Credit loans, no pledge	<u>\$ 232,520</u>	<u>\$ 343,500</u>	<u>390,288</u>
Interest rate range	<u>1.20%~1.70%</u>	<u>1.20%~2.37%</u>	<u>1.05%~1.78%</u>

(g) Short-term notes and bills payable

The details were as follows:

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2016</u>
Commercial paper payable	\$ 130,000	-	-
Discount on short-term notes and bills payable	(140)	-	-
	<u>\$ 129,860</u>	<u>-</u>	<u>-</u>
Interest rate range	<u>0.602%~0.662%</u>	<u>-</u>	<u>-</u>

(h) Long-term borrowings

The details were as follows:

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2016</u>
Unsecured loans	\$ 750,000	750,000	550,000
Less: current portion	-	(150,000)	(100,000)
Total	<u>\$ 750,000</u>	<u>600,000</u>	<u>450,000</u>
Interest rate range	<u>1.15%~1.43%</u>	<u>1.15%~1.435%</u>	<u>1.4579%~1.61%</u>

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(i) Operating lease

There were no significant changes in operating lease for the three months ended June 30, 2017 and 2016. Please refer to Note 6(n) of the consolidated financial statements for the year ended December 31, 2016 for other related information.

(j) Employee benefits

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Operating Costs	\$ 7,213	9,110	14,643	18,653
Operating Expenses	3,202	1,861	4,679	3,487
Total	<u>\$ 10,415</u>	<u>10,971</u>	<u>19,322</u>	<u>22,140</u>

(k) Income tax

(i) The amounts of income tax expense for the three months and six months ended June 30, 2017 and 2016 were \$22,732 thousand, \$37,627 thousand, \$15,727 thousand and \$50,598 thousand respectively.

(ii) The amounts of income tax profit under other comprehensive income or loss for the three months ended June 30, 2017 and 2016 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Foreign currency translation differences for foreign operations	<u>\$ 12,848</u>	<u>(19,782)</u>	<u>(35,276)</u>	<u>(27,210)</u>

(iii) 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.

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	June 30, 2017	December 31, 2016	June 30, 2016
Unappropriated earnings of 1998 and after	<u>\$ 1,923,525</u>	<u>\$ 2,288,348</u>	<u>1,956,703</u>
Balance of imputation credit account	<u>\$ 229,424</u>	<u>\$ 209,967</u>	<u>249,818</u>
	2016 (estimated)	2015 (actual)	
Creditable ratio for earnings distribution to ROC residents stockholders	<u>10.03%</u>	<u>12.17%</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.

(l) Capital and other equity

In addition to the following, there is no material change in capital and other equity of the Group for the six months ended June 30, 2017 and 2016. For the related information, please refer to note 6(xi) of the consolidated financial statements for the year ended December 31, 2016.

(i) Ordinary shares

Reconciliation of shares outstanding were 79,303 thousand shares and 80,265 thousand shares in the six months ended June 30, 2017 and 2016, respectively.

(ii) Capital surplus

The balances of capital surplus as of June 30, 2017 and 2016 were as follows:

	June 30, 2017	December 31, 2016	June 30, 2016
Additional paid-capital	<u>\$ 1,205,337</u>	<u>\$ 1,363,943</u>	<u>1,380,489</u>

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Company's appropriations of 2016 and 2015 capital surplus had been approved by the shareholders' meeting held on June 14, 2017 and June 7, 2016, respectively. The appropriations and dividends per share were as follow:

	2016		2015	
	Dividend per share	Amount	Dividend per share	Amount
Cash Dividend distribution from capital surplus	\$ <u>2.0</u>	<u>158,606</u>	<u>0.2</u>	<u>15,861</u>

(iii) Retained earnings and Earnings distribution

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 dividends shall be no less than 10% of the distributable earnings for the current period, and the distributable earnings will be retained when the dividend is less than \$0.5 per share. However, the distribution of earnings can be made by the way of cash dividend or stock dividend.

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>	3.8	<u>301,352</u>

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iv) Treasury shares

The Company had canceled 962 thousand shares of 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) Earnings per share

The calculation of basic earnings per share for the three months and six months ended June 30, 2017 and 2016 were calculated as follows:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Basic earnings per share:				
Profit attributable to ordinary shareholders of the Company	<u>\$ 101,617</u>	<u>154,263</u>	<u>209,557</u>	<u>239,963</u>
Weighted-average number of ordinary shares (thousand shares)	<u>79,303</u>	<u>79,303</u>	<u>79,303</u>	<u>79,303</u>
Basic earnings per share (NTD)	<u>\$ 1.28</u>	<u>1.95</u>	<u>2.64</u>	<u>3.03</u>
Diluted earnings per share:				
Profit attributable to ordinary shareholders of the Company	<u>\$ 101,617</u>	<u>154,263</u>	<u>209,557</u>	<u>239,963</u>
Weighted-average number of ordinary shares (basic, thousand shares)	79,303	79,303	79,303	79,303
Effect of employee stock bonuses	<u>135</u>	<u>803</u>	<u>265</u>	<u>746</u>
Weighted-average number of ordinary shares (diluted, thousand shares)	<u>79,438</u>	<u>80,106</u>	<u>79,568</u>	<u>80,049</u>
Diluted earnings per share (NTD)	<u>\$ 1.28</u>	<u>1.93</u>	<u>2.63</u>	<u>3.00</u>

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(n) 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.

For the three months and six months ended June 30, 2017 and 2016, the Company estimated its employee remuneration amounting to \$6,255 thousand, \$12,510 thousand, \$12,510 thousand and \$18,765 thousand, directors' and supervisors' remuneration amounting to \$1,650 thousand, \$3,300 thousand, \$3,300 thousand and \$4,950 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. If the actual amount of the annual distribution and the estimated amount of differences, according to the changes in accounting estimates, and the difference recognized as the next year annual profit (loss). Such as the resolution of the board of directors to take the stock of employee compensation, the stock of the number of shares based on the calculation of the basis of the board of directors based on the calculation of the day before the calculation.

For the year ended December 31, 2016, the Company estimated its employee remuneration amounting to \$32,710 thousand, and directors' and supervisors' remuneration amounting to \$8,720 thousand. There is no difference in the actual distribution situation. Information can be found at the public information station.

(o) Other revenue

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Interest income	\$ 9,320	14,653	21,099	19,503
Others	537	8,936	8,429	10,010
	\$ 9,857	23,589	29,528	29,513

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(o) Non-operating gains and losses

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Foreign currency exchange (loss) gain, net	\$ (18,964)	41,679	(59,760)	14,268
Gain on valuation of financial assets	1,258	1,460	2,533	3,738
Gain on disposal of property, plant and equipment	38	2,516	25	3,918
Others	(788)	(159)	(2,132)	(1,086)
	\$ (18,456)	45,496	(59,334)	20,838

(p) Financial Instruments

In addition to the following, there is no material change in financial instruments of the Group for the three months ended June 30, 2017 and 2016. For the related information, please refer to note 6(p) of the consolidated financial statements for the year ended December 31, 2016.

(i) Credit risk

Sales to individual customers constituting over 10% of net revenue for the six months ended June 30, 2017 and 2016, totaled 33% and 36%, respectively. As of June 30, 2017 and 2016, 37% and 32%, respectively, of the Consolidated Company's accounts receivable (including related parties) 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	Contractual	within 1		
	amount	cash flows	year	1-2 years	2-5 years
June 30, 2017					
Non-derivative financial liabilities					
Short-term borrowings	\$ 232,520	232,806	232,806	-	-
Short-term notes and bills payable	129,860	130,000	130,000	-	-
Long-term borrowings	750,000	765,906	9,795	555,868	200,243

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Notes and accounts payable	503,839	503,839	503,839	-	-
Other financial liabilities	<u>662,731</u>	<u>662,731</u>	<u>662,731</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,278,950</u>	<u>2,295,282</u>	<u>1,539,171</u>	<u>555,868</u>	<u>200,243</u>

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	<u>47,431</u>	<u>47,431</u>	<u>47,431</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,680,792</u>	<u>1,698,958</u>	<u>1,090,362</u>	<u>407,203</u>	<u>201,393</u>

June 30, 2016

Non-derivative financial liabilities

Short-term borrowings	\$ 390,288	391,048	391,048	-	-
Long-term liabilities, current portion	100,000	101,082	101,082	-	-
Long-term borrowings	450,000	462,413	6,883	254,457	201,073
Notes and accounts payable	422,465	422,465	422,465	-	-
Other financial liabilities	<u>343,847</u>	<u>343,847</u>	<u>343,847</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,706,600</u>	<u>1,720,855</u>	<u>1,265,325</u>	<u>254,457</u>	<u>201,073</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:

	June 30, 2017			December 31, 2016			June 30, 2016		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>									
<u>Monetary Items</u>									
USD	\$ 82,427	30.42	2,507,433	71,069	32.250	2,291,603	67,022	32,275	2,163,122
CNY	17,602	4.486	78,963	17,142	4.617	79,143	16,546	4.845	80,167

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Financial liabilities

Monetary Items

USD	1,253	30.42	38,117	1,601	32,250	51,636	897	32,275	28,952
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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 June 30, 2017 and 2016, would have increased or decreased the net profit before tax by \$25,483 thousand and \$22,143 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 the six months ended June 30, 2017 and 2016, foreign exchange gain (including realized and unrealized portions) amounted to \$(59,760) thousand and \$14,268 thousand, respectively.

2) Interest rate analysis

The Group's financial liabilities at fixed interest rates are measured using the amortized cost method. Since the change in market interest rate at the end of each reporting period had no impact on profit and loss, disclosure of the sensitivity to changes in fair value is not necessary.

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 \$2,773 thousand and \$3,174 thousand for the six months ended June 30, 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:

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

	June 30, 2017				
	Carrying amounts	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Held-for-trading financial assets	<u>\$ 658,397</u>	<u>44,996</u>	<u>6,142</u>	<u>607,259</u>	<u>658,397</u>
Loans and receivables					
Cash and cash equivalents	\$ 3,336,213				
Accounts receivable, net	1,346,443				
Other receivables	<u>13,314</u>				
	<u>\$ 4,695,970</u>				
Financial liabilities carried at amortized cost					
Long and short term borrowings	\$ 982,520				
Short-term notes and bills payable	129,860				
Accounts payable	503,839				
Other payables	<u>839,576</u>				
	<u>\$ 2,455,795</u>				

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

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>\$ 352,562</u>	<u>184,728</u>	<u>6,197</u>	<u>161,637</u>	<u>352,562</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>\$ 5,148,595</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>\$ 2,002,772</u>				
June 30, 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>\$ 606,020</u>	<u>202,572</u>	<u>15,890</u>	<u>387,558</u>	<u>606,020</u>

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Loans and receivables

Cash and cash equivalents	\$ 3,357,900
Accounts receivable, net	1,263,833
Other receivables	<u>2,711</u>
	<u>\$ 4,624,444</u>

Financial liabilities carried at

amortized cost	
Long and short term borrowings	\$ 940,288
Accounts payable	422,465
Other payables	<u>632,288</u>
	<u>\$ 1,995,041</u>

2) Valuation techniques for financial instruments measured at fair value

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.

a) Derivative financial instruments

Measurement of the fair value of the Group's investment in listed beneficiary certificates is based on the quoted market price.

b) Non-derivative financial instruments

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.

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

	Six months ended June 30,	
	2017	2016
Beginning balance	\$ 161,637	174,859
Recognized in profit or loss	9,550	13,345
Purchase	1,011,085	1,235,342
Disposal	(575,013)	(1,035,988)
Ending balance	<u>\$ 607,259</u>	<u>387,558</u>

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 inputs to measure fair value include “financial assets measured at fair value through profit or loss – debt investments” and “available-for-sale financial assets – equity investments”.

(q) Financial risk management

Structure of risk management

The Group’s risk management policies are no material change in financial instruments of the Group for the six months ended June 30, 2017 and 2016. For the related information, please refer to note 6(q) of the consolidated financial statements for the year ended December 31, 2016.

(r) Capital management

As of June 30, 2017, there were no changes in the Group’s approach to capital management. For the related information, please refer to note 6(r) of the consolidated financial statements for the year ended December 31, 2016.

(7) Related-party transactions:

(a) Key management personnel compensation

Key management personnel compensation comprised:

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 11,998	12,077	23,952	23,423
Post-employment benefits	54	70	108	124
Termination benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Share-based payments	-	-	-	-
	<u>\$ 12,052</u>	<u>12,147</u>	<u>24,060</u>	<u>23,547</u>

(8) **Pledged assets: None**

(9) **Commitments and contingencies:**

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

	<u>June 30,</u>	<u>December 31,</u>	<u>June 30,</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>
Acquisition of property, plant and equipment	<u>\$ 161,523</u>	<u>199,252</u>	<u>269,053</u>

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

	<u>June 30,</u>	<u>December 31,</u>	<u>June 30,</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>
Guarantee notes issued	<u>\$ 2,077,686</u>	<u>1,961,125</u>	<u>1,975,500</u>
Actual usage amount	<u>\$ 197,730</u>	<u>209,625</u>	<u>209,788</u>

(10) **Losses Due to Major Disasters: None**

(11) **Subsequent Events: None**

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Notes to the Consolidated Financial Statements

(12) Other:

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

By item	Three months ended June 30,					
	2017			2016		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit expenses						
Salaries	182,112	60,389	242,501	190,514	57,065	247,579
Labor and health insurance	4,648	1,749	6,397	5,020	1,625	6,645
Pension	7,213	3,202	10,415	9,110	1,861	10,971
Others	4,615	3,264	7,879	5,609	1,303	6,912
Depreciation	47,812	6,864	54,676	54,159	7,457	61,616
Amortization	1,735	1,088	2,823	799	3,362	4,161

By item	Six months ended June 30,					
	2017			2016		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit expenses						
Salaries	349,119	104,514	453,633	361,181	102,842	464,023
Labor and health insurance	9,465	4,022	13,487	10,602	3,808	14,410
Pension	14,643	4,679	19,322	18,653	3,487	22,140
Others	9,874	6,160	16,034	11,508	2,316	13,824
Depreciation	96,912	13,900	110,812	110,417	14,969	125,386
Amortization	2,906	2,272	5,178	3,499	5,208	8,707

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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:

(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	152,100	76,050	1.86	Necessary to loan other parties	-	Operating capital	-	-	-	1,209,887 (Note 1)	1,209,887 (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	1255,881 (Note 1)	950,150	943,020	-	-	22.53%	4,186,270	Y	N	N
"	"	NISHOKU VIETNAM	2	"	1,127,920	1,058,616	182,520	-	25.29%	-	"	"	"
"	"	NISHOKU BOUEKI	2	"	61,300	60,840	-	-	1.45%	-	"	"	"
1	NISHOKU KUNSHAN PLASTIC	SAME START (Anguilla)	1	780,847	15,673	15,210	15,210	-	0.58%	2,602,823	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 hold over 50% of investees’ shares

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

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (iii) Securities held as of June 30, 2017 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Nature and name of securities	Relationship with the securities issuer	Account name	Ending balance				Note
				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	-	6,142	- %	6,142	
"	Principal guaranteed financial product	"	"	-	91,260	- %	91,260	
NISHOKU KUNSHAN PLASTIC	"	"	"	-	224,347	- %	224,347	
NISHOKU SHENZHEN	Money market fund	"	"	-	44,996	- %	44,996	
"	Principal guaranteed financial product	"	"	-	291,652	- %	291,652	

- (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	-	-	-	448,695	-	226,381	224,348	2,033	-	224,347
"	"	"	Agricultural Bank of China	"	-	-	-	179,478	-	180,623	179,478	1,145	-	-
NISHOKU SHENZHEN	"	"	GF Asset Management (Guangdong) Co., Ltd	"	-	161,637	-	291,652	-	168,009	161,637	6,372	-	291,652
"	Money market fund	"	CR Yuanta Fund	"	-	184,728	-	44,996	-	186,947	184,728	2,219	-	44,996

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

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

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)	
SAME START (Anguilla)	NISHOKU KUNSHAN PLASTIC	Associate	Sale	(320,622)	(70)%	Net 90 days	Note 1	Note 1	155,466	67%	Note2
NISHOKU KUNSHAN PLASTIC	SAME START (Anguilla)	"	Purchase	320,622	51%	"	"	"	(155,466)	(36)%	"

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 cannot be compared.

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

- (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)	155,466	3.94	-	-	41,232	-

Note 1: Until July 21, 2017.

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

- (ix) Trading in derivative instruments: None.
- (x) Business relationships and significant intercompany transactions:

The following is the information for the six months ended June 30, 2017.

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions, 2017			Percentage of the consolidated net revenue or total assets
				Account name	Amount	Trading terms	
0	The Company	SAME START (Anguilla)	1	Purchase	82,277	Note 3	4%
"	"	"	1	Account Payable	43,557	"	1%
1	NISHOKU BOUEKI	"	3	Sales	56,347	"	3%
"	"	"	3	Commission revenue	11,451	"	1%
"	"	"	3	Account receivable	33,654	"	-%

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Notes to the Consolidated Financial Statements

2	SAME START (Anguilla)	NISHOKU SHENZHEN	3	Purchase	81,413	"	4%
"	"	"	3	Account Payable	47,005	"	1%
"	"	"	3	Sales	44,486	"	2%
"	"	"	3	Account receivable	26,864	"	-%
"	"	NISHOKU KUNSHAN PLASTIC	3	Purchase	25,875	"	1%
"	"	"	3	Account Payable	11,654	"	-%
"	"	"	3	Sales	320,622	"	17%
"	"	"	3	Account receivable	155,466	"	2%
2	SAME START (Anguilla)	NISHOKU VIETNAM	3	Other receivable	76,949	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 cannot be compared.

(b) Information on investees:

The following is the information on investees for the six months ended June 30, 2017 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of June 30, 2017			Net income (losses) of investee	Share of profits/losses of investee	Note
				June 30, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership	Carrying value			
The Company	SUN NICE (SAMOA)	SAMOA	Holding	1,774,490	1,774,490	56,282	100.00%	5,372,920	247,466	247,466	
"	NISHOKU BOUEKI	Taiwan	Purchase and sales of plastic raws and parts	1,000	1,000	6,300	100.00%	103,703	9,334	8,908	
"	NISHOKU VIETNAM	Vietnam	Manufacture and sale of tooling and plastic products	267,314 (USD 8,500 thousands)	267,314 (USD 8,500 thousands)	-	100.00%	92,199	(24,537)	(24,537)	
SUN NICE (SAMOA)	SAME START (Anguilla)	Anguilla	Purchase and sale of mold and plastic products	634,278	634,278	21,814	100.00%	1,209,887	117,492	117,492	
"	NISHOKU HK	HK	Holding	1,800,361 (USD 57,915)	1,800,361 (USD 57,915)	62,298	100.00%	3,417,149	80,117	80,117	

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"	SUNNICE (BVI)	BVI	"	thousands) 585,292 (USD 17,948 thousands)	thousands) 585,292 (USD 17,948 thousands)	15,697	100.00%	745,807	48,594	48,594
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(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, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of June 30, 2017	Net income (losses) of the investee	Percentage of ownership	Investment income (losses) (Note 1)	Book value (Note 1)	Accumulated remittance of earnings in current period
					Outflow	Inflow						
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)	(41,957)	100.00%	(41,957)	1,526,702	146,203
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)	170,657	100.00%	170,657	2,605,844	270,217

- (ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of June 30, 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" .

NISHOKU TECHNOLOGY INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(14) Segment information:

General information

The Group 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 reportable segments. The Revenue from manufacture and supply electronic parts to clients. Since the strategy of each segment is different, it is necessary to separate them for management.

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

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

Three months ended June 30,

2017	United States	Asia	Europe	Elimination	Total
Revenue from external customers	\$ 431,765	235,886	309,423	-	977,074
Reportable segment profit or loss	\$ 94,899	8,602	33,144	-	136,645

Three months ended June 30,

2016	United States	Asia	Europe	Elimination	Total
Revenue from external customers	\$ 489,212	268,268	239,076	-	996,556
Reportable segment profit or loss	\$ 80,918	32,351	13,036	-	126,305

Six months ended June 30,

2017	United States	Asia	Europe	Elimination	Total
Revenue from external customers	\$ 883,198	474,553	484,898	-	1,842,649
Reportable segment profit or loss	\$ 187,433	27,405	47,447	-	262,285

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Six months ended June 30,

2016	United States	Asia	Europe	Elimination	Total
Revenue from external customers	<u>\$ 925,133</u>	<u>506,157</u>	<u>470,359</u>	<u>-</u>	<u>1,901,649</u>
Reportable segment profit or loss	<u>\$ 159,298</u>	<u>61,904</u>	<u>26,458</u>	<u>-</u>	<u>247,660</u>